Madrid, February 21, 2017

Translation of the Report, Consolidated Financial Statements and Corporate Governance Report dated December 31, 2017 of Neinor Homes, S.A. and Subsidiaries, attached below, has been originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails.

The Report and Financial Statements dated December 31, 2017 of Neinor Homes, S.A. has not been translated into English, so its publication will be exclusively in Spanish.

Neinor Homes, S.A. and Subsidiaries

Consolidated Financial Statements for the period ended 31 December 2017, prepared in accordance with International Financial Reporting Standards, 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 and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Neinor Homes, S.A.,

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Neinor Homes, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

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

Basis for Opinion

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

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

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

Key Audit Matters

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

Valuation of development property inventories

Description

The Group has a portfolio of land, housing developments in progress and completed housing developments classified as "development property" located throughout Spain, the carrying amount of which at 31 December 2017 was EUR 1,060 million.

The Group measures these inventories at the lower of acquisition cost and market value and uses third parties unrelated to it as experts to determine the market value of its inventories on a half-yearly basis.

The determination of the market value of the property inventories in order to subsequently compare it with cost and measure the inventories at the lower of the two values constitutes a key matter in our audit, since the valuation method generally applied to these assets, i.e. the dynamic residual method, requires estimates with a significant degree of uncertainty to be made, including most notably those of:
* the future selling prices and the pace of sales of the various developments;
* the estimated costs to be incurred to complete the developments in progress;
* the development times of the land in held in the portfolio; and
* the internal discount rate used.

In addition, small percentage changes in the valuations of the property assets could give rise to significant changes in the consolidated financial statements.

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the valuation of property inventories, as well as tests to verify that the aforementioned controls operate effectively. In particular, those controls whereby the directors supervise and approve the work performed by the experts hired for this purpose.

We obtained the valuation reports of the experts hired by the Group to value all of the development property inventories and assessed the competence, ability and objectivity of the experts and the suitability of their work for use as audit evidence.

In this connection, with the cooperation of our internal valuation experts, we:
* Analysed and concluded on the reasonableness of the valuation procedures and methodology used by the experts hired by Group management;
* Performed, for a sample of assets chosen from among those of most significance in the Group's portfolio and those whose change in value might imply an atypical characteristic with respect to the available market information and the other inventories, an independent valuation, taking into account the information available on the industry and transactions with similar assets; and
* Reviewed, for a sample of assets, that the technical inputs used by the appraiser are in accordance with the urban characteristics of the assets appraised

We also analysed and concluded upon the suitability of the disclosures made by the Group in relation to these matters, which are included in Notes 4-f, 6 and 12 to the consolidated financial statements for 2017.

The results of the procedures performed in relation to the inventory valuation enabled the audit objectives for which the procedures were designed to be reasonably achieved.

Occurrence and measurement of the expense associated with the "Management Incentive Plan" incentive plan

Description

At the beginning of 2017, prior to completion of the IPO process, an incentive plan was approved for certain members of the Group's executive team and Board of Directors which includes fixed and variable remuneration payable in cash and in shares of the Parent, as indicated in Note 4-s to the accompanying consolidated financial statements.

Payment of these incentives will be made in full by Neinor Holdings, S.L.U. (the sole shareholder of the Parent, once the Parent's transformation from a private limited liability company to a public limited liability company has been completed).

Both the calculation and the disclosures relating to this remuneration earned by the senior executives represent key matters in our audit because of the qualitative and quantitative importance of the information and of the fact they are associated with a high level of sensitivity in terms of judgements and estimates.

Procedures applied in the audit

Our audit procedures included, among others, the review of the remuneration policies for directors and senior executives, as well as the incentive plan approved.

We performed an analysis of the accounting criteria followed by the Group for the recognition and measurement of the incentive plan, in order to conclude on the reasonableness of the treatment applied in accordance with the regulatory financial reporting framework applicable to the Group.

Specifically, in relation to the fixed remuneration under the incentive plan, we checked the delivery of this remuneration in accordance with the terms and conditions of the plan and the accounting recognition thereof in 2017.

With regard to the variable remuneration, which had not yet been paid at the reporting date of the consolidated financial statements for 2017, we obtained the valuation report prepared by the experts hired by the Group and assessed the competence, ability and objectivity of the experts and the suitability of their work for use as audit evidence.

In this connection, with the cooperation of our internal experts in the valuation of incentive plans, we:

* Analysed and concluded on the reasonableness of the valuation procedures and methodology used by the experts hired by Group management;
* Evaluated the market inputs considered by the expert;
* Performed an independent valuation for the group of beneficiaries as a whole; and
* Assessed the areas of most significant risk.

In addition, we reviewed the Parent's calculations in relation to the amount of variable remuneration earned in 2017 on the basis of the total valuation calculated, and checked the accounting recognition thereof and the tax treatment applied to the incentive plan by the Parent.

We verified that Notes 4-s, 15-f and 22-c to the consolidated financial statements include the disclosures relating to this incentive plan and all the additional information relating to the remuneration of directors and senior executives.

The results of the procedures performed in relation to the occurrence and valuation of the incentive plan enabled the audit objectives for which the procedures were designed to be reasonably achieved.

Occurrence in the recognition of revenue relating to non-standard agreements

Description

Sales under non-standard agreements correspond to transactions in which processes and agreements relate to the specific type of assets to be transferred, unlike the sales transactions carried out with private individuals, in which processes and agreements are highly standardised.

Although the recognition of this revenue, under the Group's habitual terms and conditions, is not complex, since it gives rise to accounts receivable that are realised in a short period of time, it does involve the consideration of specific circumstances associated with the various conditions agreed upon with the buyers. There is an inherent risk associated with occurrence in the recognition of this revenue, which depends on the contractual terms and conditions under which the assets are sold.

For the above reasons, we determined this matter to be a key matter in our audit.

Procedures applied in the audit

Our audit procedures included checking the design and implementation, as well as the operating effectiveness, of the relevant controls supporting the occurrence of sales under non-standard agreements, in addition to the sales accounting and recognition procedure.

In addition, for a representative sample of the non-standard agreements, we analysed, on a selective basis, whether the revenue is properly recognised, taking into account the contractual terms and obligations vis-à-vis buyers, including the effective transfer of ownership, and checked the amounts received by the Group or the reliability of the estimated collection of the deferred amounts.

We also analysed and concluded upon the suitability of the disclosures made by the Group in relation to these matters, which are included in Notes 4.m and 6 to the consolidated financial statements for 2017.

The results of the procedures performed in relation to occurrence in the recognition of revenue from non-standard agreements enabled the audit objectives for which the procedures were designed to be reasonably achieved.

Other Information: Consolidated Directors' Report

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

Our audit opinion on the consolidated financial statements does not cover the other information. Our responsibility relating to the other information 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 Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report and, if this is not the case, reporting this fact.

b) A general level that applies to the remaining other information, which consists of evaluating and reporting on whether the other information is consistent with the consolidated financial statements, based on our knowledge of the Group obtained in the audit of those consolidated financial statements and excluding any information other than that obtained as evidence during the audit. Also, our responsibility relating to the consolidated directors' report consists of 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 in the preceding paragraph, we do not have anything to report with respect to the consolidated directors' report for 2017, and we have checked that the specific information described in section a) above has been provided and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2017 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description, which is on page 7, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 21 February 2018.

Engagement Period

At the General Meeting held on 8 March 2017, the then sole shareholder of the Parent appointed us as auditors for a period of one year from the year ended 31 December 2017, the year in which the Parent became a Public Interest Entity.

Previously, we had been designated pursuant to a resolution of the sole shareholder for the period of three years and have been auditing the consolidated financial statements uninterruptedly since the six-month period ended 30 June 2015.

DELOITTE, S.L.
Registered in R.O.A.C. under no. S0692

Alicia Izaga
Registered in R.O.A.C. under no. 17477

21 February 2018

Appendix I to our auditor's report

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

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

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

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

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

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

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

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

Neinor Homes, S.A. and Subsidiaries

Consolidated Financial Statements for the period ended 31 December 2017, prepared in accordance with International Financial Reporting Standards

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

NEINOR HOMES, S.L.U.
AND SUBSIDIARIES (NEINOR HOMES GROUP)

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016

(Thousands of Euros)

ASSETS	Notes	31.12.17	31.12.16 (*)	EQUITY AND LIABILITIES	Notes	31.12.17	31.12.16 (*)
NON-CURRENT ASSETS:				**EQUITY:**			
Intangible assets	7	1.206	754	Share capital		790.050	729.297
Property, plant and equipment	8	1.878	1.553	Share premium		39.247	-
Investment property	9	1.615	12.893	Legal reserve		2.066	823
Non-current financial assets	11	396	336	Reserves of the Parent		38.385	7.980
Total non-current assets		5.095	15.536	(Own Shares)		(3.459)	-
				Reserves at fully consolidated companies		(117.937)	(108.145)
				Consolidated profit / (loss) for the year		(25.934)	1.057
				Total equity	15	722.418	631.012
				NON-CURRENT LIABILITIES:			
				Bank borrowings	17	17.902	26.623
				Other non-current liabilities	18	18	34
				Deferred tax liabilities	20	172	321
CURRENT ASSETS:				**Total non-current liabilities**		18.092	26.978
Inventories	12	1,143,289	925.366	**CURRENT LIABILITIES:**			
Trade and other receivables	13	22,627	20.553	Provisions	16	5.626	9.059
Current financial assets	11	455	23	Bank borrowings	17 and 23	399.763	277,068
Tax receivables	20	30,662	9.050	Other current financial liabilities	18	37	288
Cash and cash equivalents	14	76,822	45.301	Payables to sole shareholder	23	-	3.071
				Current trade and other payables	19 and 23	41.600	32.698
				Tax payables	20	7.909	4.404
				Other current liabilities	12 and 18	83.505	31,251
Total current assets		1,273,855	1.000.293	**Total current liabilities**		538.440	357.839
TOTAL ASSETS		1,278,950	1.015.829	**TOTAL EQUITY AND LIABILITIES**		1.278.950	1.015.829

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated balance sheet at 31 December 2017.

NEINOR HOMES, S.L.U.
AND SUBSIDIARIES (NEINOR HOMES GROUP)

CONSOLIDATED INCOME STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2017 AND 2016

(Thousands of Euros)

	Notes	Period ended 31 December 2017	Period ended 31 December 2016 (*)
Net revenues	22 and 23	220.388	228.565
Cost of sales	22 and 23	(232.451)	(205.360)
Employee benefits expenses	22	(34.799)	(11.677)
Depreciation and amortisation charges	7, 8 and 9	(716)	(608)
External services	22	(38.443)	(40.198)
Change in trade provisions	22	61.383	34.595
Other operating gains/(losses)	15	5.621	3.704
PROFIT / (LOSS) FROM OPERATIONS		**(19.017)**	**9.021**
Impairment and gains/(losses) on disposals of non-current assets	8	727	(2)
Finance revenue		5	108
Finance costs	17 and 23	(7.683)	(4.999)
PROFIT / (LOSS) BEFORE TAX		**(25.968)**	**4.128**
Income tax	20	34	(3.071)
PROFIT / (LOSS) FOR THE YEAR		**(25.934)**	**10.078**
Earnings/(losses) per share (Euros):			
Basic	5	(0,142)	0,001
Diluted	5	(0,142)	0,001

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated income statement for the period ended 31 December 2017.

NEINOR HOMES, S.L.U.
AND SUBSIDIARIES (NEINOR HOMES GROUP)

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE PERIOD ENDED 31 DECEMBER 2017 AND 2016
(Thousands of Euros)

	Notes	Period ended 31 December 2017	6 months period ended 31 December 2016 (*)
CONSOLIDATED PROFIT / (LOSS) FOR THE YEAR		**(25.934)**	**10.078**
OTHER RECOZNIZED INCOME (EXPENSES)		-	-
ITEMS NOT SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		-	-
ITEMS SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		-	-
TOTAL RECOGNISED INCOME AND EXPENSE		**(25.934)**	**10.078**
a) Attributable to the Parent		(25.934)	10.078
b) Attributable to non-controlling interests		-	-

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statements of recognised income and expense for the period ended 31 December 2017.

NEINOR HOMES, S.L.U.
AND SUBSIDIARIES (NEINOR HOMES GROUP)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2017 AND 2016
(Thousands of Euros)

	Share capital	Share premium	Legal reserve	Reserves of the Parent	Own shares	Reserves at fully consolidated companies	Consolidated profit/(loss) for the year	Total equity
Balance at 31 December 2016 (*)	939.878	-	-	573	-	(28.971)	(70.866)	840.614
Distribution of profit/loss for the year:								
To reserves	-	-	823	7.407	-	(79.096)	70.866	-
Income/expense recognised in the period	-	-	-	-	-	-	1.057	1.057
Reductions of capital (Note 15)	(210.581)	-	-	-	-	-	-	(210.581)
Other	-	-	-	-	-	(78)	-	(78)
Balance at 31 December 2016 (*)	729.297		823	7.980		(108.145)	1.057	631.012
Distribution of profit/loss for the year:								
To reserves	-	-	1.243	11.186	-	(11.372)	(1.057)	-
Income/expense recognised in the period	-	-	-	-	-	-	(25.934)	(25.934)
Increase of capital (Note 15)	60.753	39.247	-	(14)	-	-	-	99.986
Transactions with Treasury Shares	-	-	-	(74)	(4.126)	-	-	(4.200)
Other movements (Notes 4.s y 15.f)	-	-	-	19.307	667	1.580	-	21.554
Balance at 31 December 2017	790.050	39.247	2.066	38.385	(3.459)	(117.937)	(25.934)	722.418

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statements of changes in equity for the period ended 31 December 2017

NEINOR HOMES, S.L.U.
AND SUBSIDIARIES (NEINOR HOMES GROUP)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2017 AND 2016
(Thousands of Euros)

	Notes	Period ended 31 December 2017	Period ended 31 December 2016 (*)
Cash flows from/(used in) operating activities			
Profit/(loss) from operations		(25.968)	4.128
Adjustments-			
Depreciation and amortisation	7, 8 and 9	716	608
Change in provisions	9, 12,15 and 16	4.132	12.377
Impairment and gains/(losses) on disposal of intangible and tangible assets		(727)	2
Finance costs		7.683	4.999
Finance revenue		(5)	(108)
Incentive Plans	15	13.611	-
Debt cancellation with shareholder	17	(2.674)	-
Other proceeds / (payables)	16	-	(7.904)
		(3.232)	14.102
Increase/(Decrease) in current assets and liabilities:			
Inventories	12	(224.892)	(3.108)
Trade and other receivables	11 and 13	(22.581)	40.618
Current trade and other payables	18 and 19	12.025	(37.739)
Other current and non-current assets and liabilities	11 and 23	52.254	17.640
Income tax paid	20	-	(790)
Total net cash flows from operating activities (I)		(186.426)	30.723
Cash flows from/(used in) investing activities:			
Investments in intangible and tangible assets	7 and 8	(1.228)	(1.085)
Disposals of intangible and tangible assets	8	-	59
Disposals of investment property	9	11.752	-
Disposals of other current and non-current financial assets		-	22
Investments in non-current financial assets	11	-	(238)
Total net cash flows from investing activities (II)		10.524	(1.242)
Cash flows from/(used in) financing activities:			
Proceeds from share capital increases	15	99.986	-
Repayments from share capital reductions	15	-	(210.581)
Proceeds from bank borrowings	17	148.752	298.648
Repayment of bank borrowings	17	(34.778)	(53.974)
Repayment of sole shareholder borrowings	17 and 23	-	(99.001)
Interests paid	17 and 23	(7.678)	(8.892)
Transactions with Treasury Shares	17	(4.200)	-
Incentive Plans	15	5.341	-
Other proceeds/payments related to financing activities	17	-	231
Total net cash flows from financing activities (III)		207.423	(73.569)
Net increase/(decrease) in cash and cash equivalents (I+II+III)		31.521	(44.088)
Cash and cash equivalents at beginning of the period		45.301	89.389
Cash and cash equivalents at end of year		76.822	45.301

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statement of cash flow for the period ended 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

Neinor Homes, S.A. and Subsidiaries (Previously Neinor Homes, S.L.U. and Subsidiaries)

Notes to the Consolidated Financial Statements for the period ended 31 December 2017 (hereinafter, 2017 period)

1. Activity of the Neinor Homes Group

Neinor Homes, S.A. was incorporated under the Spanish law. in a deed executed on 4 December 2014. On 1 March 2017, the Parent was registered as a public limited liability company ("S.A.") with a view to its admission to trading on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges. The corporate purpose of Neinor Homes, S.A. is to promote, manage and develop all kind of Real Estate operations. Its registered addess is in Calle Ercilla 24, Bilbao (Vizcaya).The bylaws and other public information on the Company can be consulted in its registered address and on the website: www.neinorhomes.com.

In June 2017, Neinor Homes has entered Ibex Medium Cap, a stock market financial index prepared by Bolsas y Mercados Españoles (BME), which groups together the mid-cap companies of the four Spanish stock exchanges and is made up of the 20 most important companies after IBEX 35.

In addition to the operations carried out directly, Neinor Homes, S.A. is the Parent of a Group of subsidiaries with the same corporate purpose and which, together constitute Neinor Homes Group the Parent´s shares were admitted to trading on the official secondary market. Therefore, the Company is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements and half-yearly financial reports for both the Parent and the consolidated Group in accordance with Royal Decree 1362/2007, of 19 October, implementing Spanish Securities Market Law 24/1988, of 28 July, in relation to the transparency requirements regarding the information on issuers whose securities are admitted to trading on an official secondary market or on another regulated market in the European Union.

The Neinor Homes Group was incorporated in the context of the memorandum of understanding entered into in 2014 by Kutxabank, S.A. and the Lone Star investment fund, through its investee Intertax Business, S.L.U. (now Neinor Holdings, S.L.U.) for the sale and purchase of a portion of the Kutxabank Group's property assets. This transaction was completed on 14 May 2015 through the transfer by Kutxabank, S.A. to Neinor Holdings, S.L.U. of all the shares held by the former in Neinor Homes, S.A., once the conditions precedent established in the purchase and sale agreement entered into by the parties on 18 December 2014 had been met.

In addition, and as part of this transaction, on 1 January 2015, all the employees who had been performing the property group's development and management tasks at the Kutxabank Group, and the technical and other resources required to perform this activity, were transferred to the various Neinor Homes Group companies. In this regard, on 14 May 2015, an asset administration and management agreement was entered into by the various Kutxabank Group companies and Neinor Homes, S.A. in relation to the property assets owned by the former. This agreement has an initial seven-year term and may be extended automatically for further one-year periods. As consideration for these services, the various companies paid remuneration depending on the type and volume of the managed assets, plus additional variable remuneration based on success, applicable to asset sales and for performing certain specific related actions, and accruals. The contract can be terminated early in certain circumstances relating to a change of control at the successful bidder for the contract involving a competitor of Kutxabank, negligence in the provision of the service or interruption thereof for more than seven days, except in the event of fortuitous events or force majeure. In addition, in the event of Kutxabank's loss of control of entities within the scope of this contract, there is an option for early termination, although the corresponding compensation for termination is regulated. At 31 of December 2017 and 2016, there are 25 and 14 people of the Group, respectively, who are adhered to these services in a direct way. In 2017, in accordance with the terms and conditions established in the property asset administration and management agreement, Kutxabank and the Neinor Homes Group entered into an agreement whereby the Neinor Homes Group proceeded to open bank accounts for the sole purpose of enabling the Neinor Homes Group to manage directly the expenses paid under the aforementioned agreement in relation to the companies Kutxabank, S.A. and Cajasur Banco, S.A.U., to which the balances deposited in these cash accounts belong. As a result, the cash balances of these accounts at 31 December 2017, amounting to EUR 7 thousand are not recognised in the accompanying consolidated balance sheet, and nor are any liabilities, income or expenses associated with the balance recognised in the accompanying consolidated financial statements.

On 29 March 2017, the Parent's shares were admitted to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges, for which the Group obtained the related waivers/approvals from the banks from which it had received any kind of financing to avoid such financing being subject to early total payment, and the discharge of the first- and second-ranking security interests granted to the Kutxabank Group on all of the Parent's shares existing at 2016 year-end was approved, once the deferred price set forth in the purchase and sale transaction for the Neinor Homes Group had been paid to Kutxabank by Neinor Holdings, using the funds generated by the flotation

The consolidated financial statements of the Neinor Homes Group for 2016 were prepared by the Parent's directors at the Board of Directors' meeting held on 24 February 2017, on the basis of the accounting records held by the Parent and by the other Neinor Homes Group companies properly adjusted for the conversion to International Financial Reporting Standards (EU-IFRSs), and approved by its sole shareholder on 28 February 2017.

Appendix I includes the detail of the consolidated Group companies and the information related thereto at 31 December 2017 and 2016, prior to the related unifying adjustments thereof and any adjustments made for the conversion to International Financial Reporting Standards (EU-IFRSs). The information in Appendix I was provided by the Group companies and their equity position is reflected in their separate financial statements.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002, every company governed by the laws of a European Union member state, and having its equity shares listed on a regulated market of any of its member states is required to file its consolidated financial statements for the reporting periods starting on or after 1 January 2005, in compliance with such International Financial Reporting Standards (IFRS) as may have been previously adopted by the European Union. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, so that they present fairly the Neinor Homes Group's consolidated equity and financial position at 31 December 2017, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the 12 months period then ended.

The consolidated financial statements of the Neinor Homes Group for 2017 were prepared by the Parent's directors at the Board of Directors' meeting held on 21 February 2018, on the basis of the accounting records held by the Parent and by the other Neinor Homes Group companies properly adjusted for the conversion to International Financial Reporting Standards (EU-IFRSs).

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2017 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with International Financial Reporting Standards.

In order to uniformly present the various items that make up the consolidated financial statements, the accounting policies and measurement bases used by the Parent have been applied to all the companies included in the scope of consolidation.

The 2017 consolidated financial statements of the Group and the financial statements of the Group companies have not yet been approved by their respective sole shareholders. However, the Parent's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of International Financial Reporting Standards

The following mandatory standards and interpretations, already adopted in the European Union, became effective in 2017. Where applicable, the Group has used them in the preparation of these consolidated financial statements:

(1) *New standards, amendments and interpretations mandatorily applicable in the year 2017*

Approved for use in the European Union		**Mandatory application for annual periods beginning on or after:**
Amendments to IAS 12, *Recognition of Deferred Tax Assets for Unrealised Losses* (issued in January 2016)	Clarification in relation to the recognition of deductible temporary differences related to debt instruments.	1 January 2017
Amendments to IAS 7, *Disclosure Initiative* (issued in January 2016)	Various clarifications in relation to disclosures (financial transactions, liquidity, etc.).	1 January 2017

Since its entry into force on 1 January 2017, the Group is applying the above-mentioned rules and interpretations, which have not had a significant impact on their accounting policies. In this regard, the following is a reconciliation of the book value of liabilities arising from financing activities by distinguishing separately the changes that generate cash flows from those who do not.

	01/01/2017	Cash Flow	Without cash flow impact			31/12/2017
			Variation in fair value	Reclassifications	Others	
Long Term Loans	26.623	-	-	(9.000)	279	17.902
Short Term Loans	277.068	113.532	-	9.000	163	399.763
Total Liabilities from financing activities	**303.691**	**113.532**	-	-	**442**	**417.665**

(*) It corresponds to the expenses of formalizing loans from previous years charged to the accompanying consolidated income statements, plus the variation of accrued and unpaid financial interests at the end of 2017 and 2016, minus the expenses for the formalization of new loans for the year.

(2) *New standards, amendments and interpretations of mandatory application for annual periods after the calendar year starting on 1 January 2016:*

At the date of authorization of these annual consolidated financial statements, the following standards and interpretations had been published by the IASB but had not become effective, either because their effective date was subsequent to the date of the consolidated financial statements or because they had yet to be adopted by the European Union:

Approved for use in the European Union		**Mandatory application for annual periods beginning on or after:**
IFRS 15, *Revenue from Contracts with Customers* (issued in May 2014)	New revenue recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	1 January 2018
IFRS 9, Financial Instruments (issued in July 2014)	Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2018
Amendments to IFRS 4, *Applying IFRS 9 Financial Instruments with IFRS 4, Insurance Contracts* (issued in September 2016).	Temporary accounting treatment as a result of the different dates of entry into force of IFRS 9 and the new standard on insurance contracts.	1 January 2018
Clarifications to IFRS 15, *Revenue from Contracts with Customers* (issued in April 2016)	Clarifications to the standard based on the discussions of the TRG (Transition Resource Group for Revenue Recognition).	1 January 2018
*Improvements to the IFRS Cycle 2014-2016 (*issued in December 2016) (*)	Minor amendments in relation to IFRS 1, IAS 28 and IFRS 12.	1 January 2018
IFRS 16 Leases (published January 2016)	Eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases.	1 January 2019

(*) Clarifications regarding the scope of IFRS 12 and its interaction with IFRS 5 takes effect on 1 January 2017.

Not Approved for use in the European Union		Mandatory application for annual periods beginning on or after:
Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions* (issued in June 2016)	Various amendments to the standard on share-based payment transactions in relation to vesting conditions on cash-settled share-based payment transactions, amendments to the terms and conditions of plans, net settlements, etc.	1 January 2018
Amendments to IAS 40, *Transfers of Investment Property* (issued in December 2016)	Guide to investment property transactions when there is a change in use.	1 January 2018
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued in December 2016)	Clarification on the exchange rate to be used in foreign currency transactions that include the receipt or payment of advance consideration in a foreign currency.	1 January 2018
IFRIC 23 *Uncertainty over Income Tax Treatments* (issued in December 2016)	IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation(issued in October 2016)	Permit the measurement at amortised cost of certain financial instruments with prepayment features, which may be put back to the issuer before maturity for an amount lower than the unpaid amounts of the principal and interest on the principal amount outstanding.	1 January 2019
Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*(issued in October 2016)	Clarify that IFRS 9 should be applied to long-term interests in associate or joint venture if the equity method is not applied.	1 January 2019
Amendments to IAS 19 *Amendments in Plan Amendment, Curtailment or Settlement*	If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.	1 January 2019
Improvements to IFRSs, 2015-2017 cycle (issued in December 2017)	Minor amendments in relation to IFRS 3, IAS 12 and IAS 13.	1 January 2019
IFRS 17 *Insurance Contracts* (issued in May 2017)	Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 replaces IFRS 4.	1 January 2021
Amendments of IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	The clarification is extremely significant relating to gains or losses on these transactions, as until now there has been a discrepancy between these standards. When a business is involved, there is full profit and loss recognition; when assets are involved, there is partial profit and loss recognition.	Date of adoption not defined

The Group has performed an assessment in relation to the standards that come into force in 2018 and subsequent years, particularly IFRS 15 and IFRS 9, of the impacts that the future application of these standards might have on the consolidated financial statements once they become effective.

IFRS 15

In relation to IFRS 15, at 2017 year-end the new revenue standard applies to all contracts with customers in the real estate and servicing areas. The new requirements could give rise to changes in the revenue profile. Specifically, the standard establishes a revenue recognition approach based on five steps. Step 1 consists of identifying the contract with the customer; Step 2 involves identifying the separate performance obligations under the contract; Step 3 consists of determining the transaction price; in Step 4 the transaction price is allocated to the performance obligations in the contract; and lastly Step 5 consists of recognising revenue when (or as) the entity satisfies the performance obligations.

The Group has assessed the application of IFRS 15 and does not expect any impact to arise therefrom and, therefore, does not consider it necessary to apply it retrospectively, restating the comparative information. The Group has analysed substantially all of the contracts in force with its customers, which in the case of private sales in the real estate activity involve, for the most part, standard clauses, and identified the delivery of the property asset units sold as the main performance obligation and the transaction price as that set out in the private contract entered into before delivery of the housing unit. Based on this analysis the adoption of this new standard will not have a significant impact in terms of revenue recognition since the transfer of ownership takes place when the keys are delivered which coincides with the execution of the transaction in a deed before a notary and buyer's settlement of or subrogation to the developer loan, as the case may be. The property asset sale transactions which due to their characteristics, do not follow the normal sales pattern because of the size of the transaction or due the characteristics of the asset, will be subject to case-by-case analysis depending on the revenue recognition terms and conditions agreed upon when control over the assets is transferred. Sales warranties cannot be purchased separately and are required by law. Consequently, the Company will continue to recognise warranties and insurance contracts in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. No supplementary warranties are provided in addition to those required by law which, under IFRS 15, are considered to be service warranties and should, therefore, be recognised as a stand-alone performance obligation to which the Group must allocate a portion of the asset's selling price. The incremental costs of obtaining a sales contract, basically the sales commissions of the property development's agents, are recognised as a collection right until each unit being sold is executed in a deed, as they are reimbursable if the sales embodied in private sale and purchase agreements are not fulfilled. Other necessary or incremental contract costs might exists when entering into the private sale and purchase agreements (such as the costs associated with the guarantees provided to secure advances received from customers) which it is not practical to capitalise, but which could be revalued on the basis of changes in borrowing costs in the future, if it were considered that they contribute to improved matching between income and expenses. The uncapitalised expenses associated with costs of this type amounted to EUR 464 thousand in 2017.

With regard to the provision of services within the framework if the servicing contract with various Kutxabank Group companies for the management and sale of the Group's assets, the agreements between the parties define the services and the accrual of the transactions and the price thereof are agreed contractually in such a way that estimating them is not complicated as they are indexed to objective variables that do not require complex calculations (carrying amount of the assets under management and of the sales performed) and hence are estimated at closing. In this case, revenue from the rendering of management services is recognised over time as they are provided on a continuous basis while success fees established contractually are accrued at a point in time.

As well as providing more extensive disclosures on the entity's revenue transactions, no other significant impacts on the entity's financial situation or profit or loss are expected.

IFRS 9

IFRS 9 will supersede IAS 39 for reporting periods beginning on or after 1 January 2018. There are very significant differences with respect to the current standard for the recognition and measurement of financial instruments. However, the only difference applicable to the Group is that in relation to impairment losses on financial assets, since IFRS 9 requires the application of a model based on the expected credit loss, as opposed to the model in IAS 39 which is based on incurred credit losses. Under this model, the entity will update the expected loss and the changes therein at each reporting date to reflect the changes in credit risk since initial recognition; therefore, it is no longer necessary for an impairment event to have occurred before credit losses are recognised. In addition, any future changes in the contractual cash flows of a financial liability not leading to the derecognition of the financial liability must be recognised as a change in estimate of the contractual cash flows of the liability, maintaining the original effective interest rate and adjusting its carrying amount to enable the recognition of a balancing entry in profit or loss.

The Group measures its assets at amortised cost since the objective of the business model is to hold assets in order to collect the contractual cash flows. The Group intends to apply IFRS 9 retrospectively, without restating the comparative information. In this connection, in accordance with the new impairment model based on the expected credit loss over the next twelve months, the Group considers that the financial assets measured at amortised cost will be subject to impairment, taking into consideration the facts and circumstances that existed at that date as indicated below in accordance with a preliminary assessment, since it is still completing its expected credit loss model and this would result in a reduction in the amount of reserves at 1 January 2018 (in thousands of euros):

Concept	31/12/2017	Estimated loss at 12 months (%) (*)	Estimated loss at 12 months at 31/12/2017
Clients – servicing (Note 13)	9.977	0,02%	2
Advances to creditors (Note 13)	10.501	3%	315
Advances to suppliers(Note 12)	3.020	0,02%-3%	36
Cash (Note 14)	76.822	0,02%-0,06%	20
TOTAL	**100.320**		**373**

(*) The estimate was made taking into consideration the credit rating of the counterparties issued by agencies of recognised prestige. In the estimation of the expected loss on advances to suppliers, the Group opted to recognise a provision for 3% of the total amount of advances delivered, since no public individual credit rating is available

IFRS 16

IFRS 16 will come into force on 1 January 2019 and will supersede IAS 17 and the current associated interpretations. The main development of IFRS 16 is that it introduces a single lessee accounting model in which all leases with an impact similar to that of the existing finance leases (depreciation of the right-of-use asset and a finance cost for the amortised cost of the liability) will be recognised. The Group is assessing the total effect that application of IFRS 16 will have on the entity's consolidated financial statements. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments under these leases; however, certain information is disclosed, such as operating lease obligations, in Note 4.e to the consolidated financial statements. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16 and, therefore, the entity will recognise a right-of-use asset and the related liability unless they qualify as low-value or short-term leases under IFRS 16. On the basis of the leases in force at 31 December 2017, it is considered that the new requirements of IFRS 16 will not have a significant impact on the Group's consolidated financial statements. It is not possible to provide a reasonable estimate of the financial effect until this analysis has been completed. Management does not intend to apply this standard early and, at the date of this publication, no decision has yet been made as to the option that will be applied at the date of transition.

c) Changes in accounting policies

In the exercise ended 31 December 2017, there were no significant changes in accounting policies with respect to those applied in the exercise ended 31 December 2016.

d) Functional currency

These financial statements are presented in euros as this is the currency of the primary economic area in which the Group operates. Currently, the Group does not have foreign operations.

e) Responsibility for the information and estimates made

The information contained in these financial statements is the responsibility of the directors of the Group's Parent.

In the Group's consolidated financial statements for the 12 months period ended 31 December 2017 estimates were occasionally made by the senior executives of the Group and of the consolidated companies, and later ratified by the directors, in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

1. The fair value of the Group's Real Estate assets (see Notes 9 and 12). The Group has obtained valuations from independent experts in 2017 for all of its Real Estate assets, describing the valuation method used in Note 4.f.

2. The assessment of possible impairment losses on certain assets.

3. The useful life of intangible assets, property, plant and equipment and investment property (see Notes 7, 8 and 9).

4. The amount of certain provisions (see Note 16).

5. The recoverability of deferred tax assets (see Note 20).

6. The valuation of long-term employee benefits (see Note 15.f).

Although these estimates were made on the basis of the best information available at 31 December 2017, future events may require them to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognized in the corresponding consolidated income statement.

No significant changes were made to the estimates used at 2016 year-end during the period ended on 31 December 2017.

f) Consolidation principles

Subsidiaries are considered to be those companies over which the Parent directly or indirectly exercises control through subsidiaries. The Parent has control over a subsidiary when it is exposed or has rights to variable returns from its involvement with the subsidiary, and when it has the ability to use its power to affect its returns. The Parent has power when the voting rights are sufficient to give it the ability to direct the relevant activities of the subsidiary. The Parent is exposed or has rights to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance. Currently, all of the subsidiaries have been fully consolidated.

Non-controlling interests are measured at the proportionate fair value of the identifiable assets and liabilities recognised. The share of non-controlling interests is as follows:

1. Interest in investees' equity is presented "Non-controlling interests" under equity in the consolidated balance sheet.

2. Share of profit or loss for the year is presented in "Non-controlling interests" in the consolidated income statement.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All material balances and transactions between the fully consolidated companies and the results included in inventories arising from purchases from other Group companies have been eliminated on consolidation.

No timing adjustments have been necessary since the balance sheet date of all the Group companies is the same.

g) First-time consolidation differences

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of the identifiable net assets acquired (i.e. a discount on acquisition) is taken to profit and loss for the period. First consolidated financial statements did not imply recognizing any goodwill or gain.

h) Changes in the scope of consolidation

There were no changes in the scope of consolidation of the Neinor Homes Group (comprising Neinor Homes, S.A. and its subsidiaries) for the exercises ended 31 December 2017 and 31 December 2016.

i) Comparative information

The information relating to the 2017 consolidated financial statements is presented for comparison purposes with that relating to period ended 31 December 2016.

As described in Note 24, in 2016, the Group considered the Chief Executive Officer as Senior Management, as he had simultaneously the status of member of the Board and Senior Management, thus disclosure was performed according to this criterion. During 2017, on the occasion of the beginning of trading (Note 1) and subsequently to the reorganisation of the Board of Directors, it has been considered appropriate to consider the Chief Executive Officer as a member of the Board of Directors. Directors who have direct dependence of the Board and, in any case, the internal auditor, should be classified as Senior Management. The information relating to period ended 31 December 2016 has been modified for comparative purposes, adequately (see Note 24).

In addition, any comparison must take into account the changes in the Group financial structure as per indicated in Notes 15 and 17. Likewise, the effect of the incentive plans approved in 2017 must be taken into account (see Notes 4.f, 4.s and 22.c).

j) Correction of errors

In preparing the accompanying consolidated financial statements no errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for year ended 31 December 2016.

3. Distribution/Application of profits/losses attributable to the Parent

The distribution/application of profits/losses proposed by the Parent's directors for approval by its shareholders at the Annual General Meeting, is as follows:

	Thousands of euros	
	31.12.17	31.12.16
Basis of distribution:		
Profit / (loss) for the year	**1.262**	**12.429**
Application:		
-To legal reserve	126	1.243
-To voluntary reserves	1.136	11.186
	1.262	**12.429**

4. Measurement bases

The accounting principles and policies and measurement bases applied in preparing the Neinor Homes Group's consolidated financial statements for the exercises ended 31 December 2017 and 31 December 2016 were as follows:

a) Intangible assets

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

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

b) Property, plant and equipment

Property, plant and equipment assets are recognised initially at acquisition/contribution or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised as an increase in the cost of corresponding assets.

Maintenance and repair costs that do not lead to a lengthening of the useful lives of the assets are charged to the income statement for the period in which they are incurred.

Interest and other financial charges incurred during the period of construction of property, plant and equipment are recognised as an increase in the cost of the construction in progress (see section n) of this Note).

Depreciation is calculated by applying the straight-line method to the acquisition cost of assets less their residual value. The land on which Group buildings and other structures stand is deemed to have an indefinite useful life and, therefore, is not depreciated.

The periods of which the property, plant and equipment depreciation charges are recognised in the consolidated income statement on the basis of the average years of estimated useful life of the various assets, are as follows:

	Annual rate
Straight-line depreciation method:	
Other installations	15%
Furniture	15%
Data processing equipment	30%
Other items of property, plant and equipment	15%

Assets under construction for production or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment losses. Cost includes professional fees. Depreciation of these assets commences when the assets are ready for their intended use.

Assets other than investment property held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Costs incurred in rented assets (the Group acting as an operating lessee) are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

At the end of each reporting period, consolidated companies assess whether there are any internal or external indications that the carrying amount of an item of property, plant and equipment exceeds its recoverable amount, in which case the carrying amount of the asset is written down to the recoverable amount and the future depreciation charges are adjusted in proportion to the revised carrying amount and the new remaining useful life, should it need to be remeasured.

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

c) Investment property

"Investment Property" in the consolidated balance sheet reflects the values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

These assets are recognised initially at acquisition price or production cost and are subsequently decreased by the corresponding accumulated depreciation and any impairment losses.

A change in the intended use of a property does not provide sufficient evidence for its transfer to, or from, investment property. There is a transfer between inventories and investment property when there is a change in the use of a property evidenced by the commencement of a lease agreement in relation to it, in which case it would be transferred from inventories to investment property, or when a real estate development in relation to the property in question commences with a view to subsequent sale, in which case it would be transferred from investment property to inventories. When the Group decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is disposed of. On the other hand, if the Group decides to redevelop a property for subsequent lease, the property remains an investment property during the redevelopment.

Investment property upkeep and maintenance expenses are recognised in the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Maintenance and repair expenses are recognised with a charge to the consolidated income statement for the year in which they are incurred.

The Group depreciates these assets by the straight-line method at annual rates based on the years of estimated useful life of the assets, the detail being as follows:

	Years of useful life
Buildings	30

At the end of each reporting period or whenever there are indications of impairment, the Company calculates the recoverable amount of these assets as described in Note 4.d. No significant differences are noted between the market value of these assets and their net book value.

d) Impairment of property, plant and equipment, investment property and intangible assets

At the end of each reporting period, the Neinor Homes Group reviews the carrying amounts of its items of property, plant and equipment, investment property and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

Impairment has been calculated in accordance with the criteria described in Note 4.f. Also, in the case of leased real estate assets, the Group uses a mixed criterion. Since they are linked to commercial operations, the most appropriate methodology is considered to be the discounted cash flows model considering the inflows and outflows arising from the operation of the asset determined by its lease status. An exit value is determined when the lease expires or considering the periods, in any case, of mandatory application, calculated by recognising the perpetual return of the last year analysed or a market-based return, once the characteristics and contractual terms and conditions of the assets have been analysed, considering the constant return. The yield used as a discount rate will be determined as the yield demanded by the market when the valuation is made based on the specific features of the assets.

e) Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases

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

When consolidated entities act as lessors, they present the fair value of the leased asset under "Investment property". Lease income is recognised in the income statements on a straight-line basis.

When consolidated entities act as the lessee, lease costs, including any incentives granted by the lessor, are recognised as an expense on a straight-line basis.

Any benefits from incentives received or receivable for arranging an operating lease are also recognised on a straight-line basis over the term of the lease.

At the end of 2017 and 2016, the Group had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum operating lease payments	Nominal value 2017	Nominal value 2016
Within one year	894	515
Between one and five years	1.223	518
After five years	252	-
Total	**2.369**	**1.033**

f) Inventories

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

1. Hold for sale in the ordinary course of business.

2. Hold under production, construction or development for sale in the ordinary course of business.

3. Expect to be consumed in the production process or in the rendering of services.

The Group considers that its inventories do not meet the requirements of IAS 40 for consideration as investment property. Consequently, land and other property held for sale or for inclusion in a property development are treated as inventories.

Land and sites are measured at the lower of acquisition cost, plus site development costs, if any, purchase transaction costs (transfer tax, registration expenses, etc.) and finance costs incurred over the period the urban development work is being carried out (see section n) of this Note), or estimated market value.

The costs incurred in property developments, or in portions thereof, the construction of which had not been completed at year-end, are classified as construction in progress. These costs include costs relating to the site, urban development and construction costs, capitalised finance costs incurred in the construction period, and other allocable direct and indirect costs. Marketing expenses are charged to the consolidated income statement in the year in which they are incurred. Finance costs, which amounted to EUR 1.893 thousand in 2017, were recognised in the consolidated statement of profit or loss as a reduction of the financial profit and related to expenses associated with developments in Progress (552 thousands of euros in 2016)(see Note 4-n).

The Group companies transfer the accumulated costs of completed developments, or a portion thereof, from "Construction work in progress" to "Completed properties".

The inventories transferred to the Neinor Homes Group by virtue of the contributions made in the context of the transaction described in Note 1 are recognised initially at the amount assigned to them in the related transfer agreements. This amount coincides with the carrying amount at which these inventories had been recognised in the accounting records of the contributing companies, considering their acquisition cost or their net recoverable value, the lower.

"Short-Cycle Developments in Progress" are considered to be the accumulated costs of those developments for which the projected construction completion period does not exceed twelve months.

The cost of construction in progress and completed work is reduced to its fair value and, where appropriate, the related allowance for decline in value is recognised. However, if the fair value is greater than the net value of the cost, the value of the cost/contribution is maintained.

The fair value of the Group's inventories is calculated on the basis of appraisals carried out by independent experts not related to the Group (Savills Consultores Inmobiliarios, S.A.) or internal estimates. These appraisals or estimates use mainly the dynamic residual method to calculate the fair value and are carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors (RICS) in the United Kingdom and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

As indicated previously, the dynamic residual method was used to calculate fair value. This method consists of estimating the value of the final product based on the comparison or discounted cash flow method, and subtracting from this value the development costs, including the residential development and construction costs, fees, levies, etc., and the profit of the developer for estimating the residual value. Income and costs are distributed over time in line with the periods of development and sales estimated by the expert. The discount rate used is that which represents the average annual return on the project, without taking into account external financing, which would be obtained by an average developer in a development of the characteristics of that analyzed. This discount rate is calculated by adding the risk premium determined by evaluating the risk of the development (taking into account the type of property asset to be constructed, its location, liquidity, the construction period and the investment volume required) to the risk-free interest rate.

Given the uncertainties inherent to any information based on future expectations, there could be deviations between the projected results considered when performing the aforementioned estimates and the actual ones, what may require them to be modified prospectively (upwards or downwards), as described in Note 2.e.

At 31 December 2017, all its "Development" assets had been appraised by an independent expert (all its assets in 2016), having taken the aforementioned value as a reference when assessing the existence of any impairment losses to be recognised for accounting purposes, adjusted, in certain cases, by tolerances of five percent; the effect thereof was not significant taken as a whole. All its "Legacy" assets had been appraised by an internal analysis to determine the recoverable value.

In this respect, the most significant aspects considered in the appraisals were as follows:

Development assets-

The appraisals were conducted on a case-by-case basis for each asset, taking into consideration the building qualities envisaged for each one, which in turn determine the associated contracting costs and range of sale prices. Also, for each individual asset, the average periods for achieving the various urban planning, management and discipline milestones, as well as the average construction periods for each development depending on the building type and density were taken into account.

Lastly, the discount rate associated with each project was calculated, and a sensitivity analysis performed on the rate depending on the zoning status of the developments at that time. The discount rates vary according to the development stage reached by the asset (plot without development, under construction, with pre-sales or finished), with rates ranging between 6% (for work in progress with pre-sales) and 18% (for certain urban plots) in 2017 (between 8% and 14% in 2016).

Once a preliminary estimate has been made of the value of the assets, a review of the valuation models is performed, verifying the reasonableness of the ratios, such as the percentage of the finished product represented by the plot, the profit on the construction cost or the profit obtained according to sales.

Other parameters are also set in each of the appraisals, the main ones being as follows:

- Advance sales before the start of the construction of the developments were not taken into consideration.
- It was estimated that 70% - 75% of the sales (pre-sales off plan, in a private sale and purchase agreement) will be carried out during the construction of the developments and the remaining sales within nine months following completion thereof.
- Increases in sale prices over the existing market prices were not taken into consideration.
- It is estimated that 33/36 months could elapse between the time necessary for the drafting of the project and the obtainment of the construction permit, construction and delivery of the project, and the end of the marketing and sale of the units.

Legacy assets

This type of asset was analyse basically using the comparison method, except in the case of plots or developments exceeding approximately 30 units, which were valued in accordance with the methodology described above for "development assets".

In addition, the assumptions used to value these assets were as follows:

- They are insured and all the risks relating to possible replacements are covered, and they are in a sufficient physical and functioning state for current use.
- They are not subject to court proceedings, disputes, evictions of tenants with or without agreements or outstanding claims of any kind with significant impact on the consolidated accounts.

g) *Trade receivables*

Trade receivables do not earn interest and are stated at their nominal value, less any allowances for estimated unrecoverable amounts.

h) *Customer advances*

The amount of the advances received from customers prior to recognition of the sales of the properties, according to the criteria indicated in note 4.m, is recognised at year-end under "Other current liabilities- Customer advances" on the liability side of the consolidated balance sheet.

i) *Financial instruments*

Financial assets and liabilities are recognised in the Group's consolidated balance sheet when the Group becomes party to the contractual terms of the instrument.

During the exercises ended 31 December 2017 and 2016 the measurement bases applied by the Group to its financial instruments were as follows:

Financial assets

Financial assets are initially recognised at cost, including attributable transaction costs.

The financial assets held by Group companies are classified as:

1. Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity. The Group has the positive intention and ability to hold them from the date of purchase to the date of maturity. This category does not include loans and accounts receivable originated by the Group.

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

Held-to-maturity financial assets, and loans and receivables are measured at amortised cost.

Financial assets are derecognised from the consolidated balance sheet by the different Group companies when the contractual rights on the cash flows of the financial asset expire or when substantially all the risks and benefits inherent to ownership of the financial asset are transferred.

At each balance-sheet date, the Group assesses whether there is any objective evidence of impairment of financial assets. The Group assesses whether there is any objective evidence of impairment for loans and accounts receivable.

Financial liabilities and equity

Financial liabilities and equity instruments are classified in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of the Group.

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

Equity instruments

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

Bank loans

Interest-bearing bank loans and overdrafts are recognised at the amount received, net of direct issue costs. Finance costs, including premiums payable on settlement or reimbursement 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

Trade payables are not interest bearing and are stated at their nominal value.

In relation to non-recourse confirming, the International Financial Reporting Standards ('IFRS') do not explicitly state the accounting treatment applicable to the aforementioned transactions.

According to the European Securities and Markets Authority (ESMA) these types of transactions (also called "reverse factoring") should be analyzed depending on the economic substance of the agreements, so that issuers can conclude whether the trade debt should be classified as financial debt within the Statements of financial position, or payments made should be classified as financial or operational within the Cash flow statements.

Consequently, provided that there are no material changes to the conditions of the trade debt (for example, to the due date, the amount or the interest rates, if applicable), the fact that due to the use of confirming, the new legal creditor is a financial institution instead of the supplier, does not change the economic character of the debt that arose from the operational activities of the Group company, regardless of whether it originated from an external or a group supplier.

This is the accounting policy chosen by the Group, and an amount of EUR 3.748 thousand was drawn down at 31 December 2017 (EUR 0 at 31 December 2016) (Note 17).

j) Shares of the Parent

All the shares of the Parent held by consolidated companies are deducted from equity.

At 31 December 2017, the Parent Company held 228.798 treasury shares and none of the subsidiaries or associates held additional treasury shares (31 December 2016, neither the Parent nor any of the subsidiaries or associates held treasury shares) (See Note 16.d).

k) Provisions

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled.

Contingent liabilities are not recognised in the consolidated annual financial statements, but are disclosed, as required by IAS 37.

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

At the end of the exercises ended 31 December 2017 and 2016 certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and directors consider that the provisions recorded are sufficient and that the outcome of these proceedings and claims will not have any additional material effect on the financial statements for the years in which they are settled (see Note 21).

Provisions for warranties

Provisions for warranty costs, particularly after-sales expenses, other costs and the ten-year guarantee required under Spanish regulations governing real estate companies, are recognised at the date of sale of the relevant products, in line with the best estimate of the expenditure required to settle the Group's potential liability, according to market experience.

l) Income tax

The Parent files consolidated income tax returns under Income Tax Provincial Regulation 11/2013, of 5 December, and forms part of tax group no. 02115BSC headed by Neinor Holdings, S.L.U. (see Note 20). The Group companies Neinor Península, S.L.U. and Neinor Sur S.L.U. file their tax returns separately, since they do not belong to the aforementioned consolidated tax group.

Due to Neinor Homes, S.A. admission to listing and Neinor Holdings, S.L.U's loss of participation there has been a breakdown of the Tax Group. On November 3 2017, the new Fiscal Group (number 02117BSC) headed by Neinor Homes, S.A. was approved. The Tax Group will pay income on a tax consolidation basis with effect from 1 January 2017 in accordance with Article 99.2 of Bizkaia Corporation Tax Regulation 11/2013, of 5 December.

On 13 December 2017, Neinor Norte, S.L.U., as the sole shareholder of Promociones Neinor 1, S.L., Promociones Neinor 2, S.L., Promociones Neinor 3, S.L., Promociones Neinor 4, S.L., and Promociones Neinor 5, S.L., decided to change the registered office of the aforementioned companies, which will be located in Madrid. As a result, since it does not meet the requirements to file consolidated tax returns in Vizcaya, on 20 December 2017, Neinor Homes, S.A., as the head of the tax group, notified the tax authorities that the legislation applicable to the aforementioned investees of Neinor Norte, S.L. for the tax periods commencing on or after 1 January 2017 will be that of Spain (excluding Navarra and the Basque Country). Therefore, in 2017 the Vizcaya consolidated tax group no. 02117BSC was made up of Neinor Homes, S.A. as the parent and Neinor Norte, S.L.U. as subsidiary.

Neinor Península, S.L.U. and Neinor Sur, S.A.U. file individual tax returns pursuant to Spanish Income Tax Law 27/2014, of 27 November.

The consolidated income tax expense is recognised in the consolidated income statement, unless it arises as a consequence of a transaction the result of which is recorded directly in equity, in which case the income tax expense is also recognised in equity.

The consolidated income tax expense for the year is calculated on the basis of taxable profit for the year. The taxable profit differs from the net profit reported in the income statement because it excludes revenue and expense items which are taxable or deductible in different years and also excludes items that will never be taxable or deductible. The Group's current tax liability is calculated on the basis of tax rates that have been approved or substantially approved at the date of the consolidated balance sheet.

The Group companies file consolidated income tax returns and in this process they apply the following rules: temporary differences arising in the calculation of the consolidated tax base arising from the transactions between companies composing the tax group, provided that such results have not been realised vis-à-vis third parties, are recognised by the company that had recognised the result; permanent differences (e.g. due to the elimination of dividends paid among companies in the tax group) or temporary differences arising in the calculation of the consolidated tax base are recognised as a permanent or temporary difference by the company that had recognised the result, and any tax losses and tax credits and rebates offset or used by the companies composing the tax group are recognised as an account receivable or payable between the reporting company and the companies that offset and/or use them.

Deferred tax assets and liabilities are the amounts expected to be recoverable or payable calculated on differences between the carrying amounts of assets and liabilities in the financial statements and the tax bases used in calculating the taxable profit. They are recognised using the consolidated balance sheet liability method and are quantified by applying to the related temporary difference or tax asset the tax rates at which it is expected that the asset will be realised or the liability settled.

A deferred tax asset or liability is recognised for temporary differences arising from investments in subsidiaries and associates and from interests in joint ventures, except when the Group is in a position to control the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

However:

1. Deferred tax assets are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which the deferred tax asset can be utilized, considering, in any case, market expectations and in a restricted way, so the Deferred tax assets are recognised only once there is a consolidated improvement of the Real Estate sector.

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

Deferred tax assets and liabilities are reviewed at the end of each reporting period to verify that they remain in force, and the appropriate adjustments are made on the basis of the results of the review, considering their temporary and quantitative limits, if there were any, for its application.

m) Revenue and expense

Revenue and expenses are recognised on an accrual basis.

Revenue is measured at the fair value of the consideration received or receivable and represents balances receivable for goods delivered and services rendered in the ordinary course of business, less discounts, VAT and other sales taxes.

Rental revenue is recognised on an accrual basis, with incentive benefits, and the initial lease costs are allocated to income on a straight-line basis.

The Group companies recognise property development sales and the related cost when the properties are handed over and title thereto has been transferred. For these purposes, the sale of a residential finished product is understood to have occurred when the keys are handed over, which coincides with the execution of the public deed and final collection of the price.

The Group recognises land sales when the risks and rewards of ownership have been transferred, which is generally the date the deed of sale is executed, as long as a substantial part has been disbursed (nearly 50%) or the unrealized gain has been granted against the compensation contractually settled. Otherwise, the sell will not be considered as recognized for accounting purposes. If the sale made is subject to fulfilment of a genuine condition precedent, the sale is not recognised until such time as it is fulfilled.

The Group can make purchases of land subject to conditions subsequent and precedent. If there are conditions precedent, the contract comes into force when the condition is fulfilled and, in turn, the contract becomes effective. The amounts paid in the context of contracts subject to conditions precedent are recognised as "Advances to Suppliers" and as such are subject to the measurement standard applicable to trade receivables. If there are conditions subsequent, the fulfilment of the condition marks the extinction of the effects of the contract and, therefore, the Group assesses the probability associated with the condition and the party on which the fulfilment of the condition depends, for the purposes of recognising the rights and obligations associated with the contract over time.

The cost allocated to the units up for sale of a property development is determined by allocating to each unit being sold the portion of the total costs of the development that results from applying to them the same proportion that their selling price represents in relation to the estimated value of the development taken as a whole.

The amounts received from customers on account of future sales of land and/or buildings, both in cash and commercial bills, to the extent that the recognition of the sale does not occur in the terms described above, are recognised, as the case may be, as advances received under "Customer Advances" under current liabilities in the consolidated balance sheet.

Revenue from the rendering of services is recognised by reference to the percentage or stage of completion of the transaction at the end of the reporting period, provided the outcome of the transaction can be estimated reliably. Revenue from the Group's services are those associated with the contract for the administration and management of real estate assets entered into with Kutxabank and described in Note 1 under exclusivity conditions, which also includes urban planning and marketing services. As consideration for these services, the various companies in the real estate area of Kutxabank will pay a fixed remuneration based on the type and volume of the assets (a reference value being established between the parties) for the management and administration thereof, while a variable success remuneration will be received for their marketing as well as other variable revenue accrued annually in the event of achieving the sales objectives established between the parties, which vary according to whether they are less than 70% thereof, equal to 70% or above 70%; to this is added the variable remuneration linked to the request for execution of certain specific actions relating to assets such as work requested in relation to the analysis of the incorporation of new assets under management or services associated with third-party assets at the request of Kutxabank. If over two successive years the degree of achievement of the objectives were below 30%, the right to exclusivity in relation to marketing would be lost. The objective has been achieved at the end of the reporting period 2017, as well as in 2016.

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

Dividend revenue from investments is recognised when shareholders' rights to receive payment have been established.

n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments or property investments are added to the costs of these assets, only during periods when an effective development occurs (idle periods are excluded) and until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

In the years ended 31 December 2017, the Group capitalised borrowing costs amounting to EUR 1.893 thousand to "Inventories" (552 thousand in 2016) (see Note 12).

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

o) Profit from operations

The profit from operations is presented before the share of results of associates (companies accounted for using the equity method) and before investment income and finance costs.

p) Termination benefits

Under current labour legislation, the Group companies are required to pay termination benefits to employees whose contracts are terminated under certain conditions. Neither as of 31 December 2017 nor 31 December 2016 is a provision for termination benefits recognised in the consolidated financial statements.

q) Consolidated cash flow statements

The consolidated cash flow statements have been prepared using the indirect method and the terms used are defined as follows:

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

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

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents, if they have a direct impact on current cash flows.

4. Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities, if they have a direct impact on current cash flows.

Within the consolidated statement of cash flows, the amounts of EUR 9.032 thousand and EUR 1.935 thousand are adjusted to the consolidated profit for the year before taxes cash as cash flows from operating activities, corresponding to the management incentive plan and other equity movements, respectively, as there are no monetary flows. This criterion has been established following the applicable standards. However, the Parent Company understands these operations as an implicit financing flow applied to the flows of operating activities, as it mainly corresponds to a single transaction in cash and shares, and therefore indivisible. The reconciliation between both consolidated statement of cash flows is broken down in the following table:

	Inputs / (Outputs)		
	Monetary flow	**Adjusted flow**	**Variation**
Cash flows from operating activities	(186.426)	(197.393)	10.967
Cash flows from investing activities	10.524	10.524	-
Cash flows from financing activities	207.423	218.390	(10.967)
Increase in cash and cash equivalents	**31.521**	**31.521**	-
Cash and cash equivalents at beginning of the period	45.301	45.301	-
Cash and cash equivalents at end of year	**76.822**	**76.822**	-

r) Current assets and liabilities

The Group has opted to present current assets and liabilities in accordance with its ordinary course of business. The current assets and liabilities with estimated maturities of over twelve months are as follows:

	Thousands of euros	
	31.12.17	31.12.16
Inventories (long term)	864.655	718.513
Total current assets	**864.655**	**718.513**
Bank borrowings	261.489	242.089
Other current liabilities	42.429	15.944
Total current liabilities	**303.918**	**258.033**

s) Share-based payments

During 2017, before its shares went public in the stock market, the Board of Directors of Neinor Holdings, S.L.U. (Previous single shareholder of the group) agreed to an incentive plan for the CEO and five members of the executive team of the Neinor Homes Group, which includes fixed and variable remuneration payable partly in cash and the rest in shares of the Group held by Lone Star through Neinor Holdings, S.L.U. One portion of the incentive will be a fixed amount and will accrue as a result of the admission to listing of the Parent (exit bonus, a fixed amount, for a total of EUR 14 million, approximately, of which EUR 5.1 million are payable in cash on the date of the stock market flotation and the rest in shares at a pre-set fixed price to be delivered in equal parts on each of the two anniversaries of the flotation) and the other portion, variable, for a maximum total amount of EUR 13.5 million, to be delivered in shares, in a number to be determined based on the share price on each of the three anniversaries following the initial takeover bid and the accrual of which is subject to the achievement of annual increases in the share price during the last trimester prior to each of the three anniversaries of the potential stock market flotation (the first reference date being the date of admission to listing on the stock exchanges), subject in certain cases to minimum holding commitments, with the possibility of accrual in proportion to the share price revaluations obtained on certain circumstances. Notwithstanding the above, if at any given time during three years following the potential stock market flotation the shares trading price reaches 152,09% of the initial share price (adjusted), the variable amount not already accrued, will entirely accrue. In any event, it is established that the remuneration will be delivered to them directly by Neinor Holdings, S.L.U. Bearing in mind payment of these bonuses will be made in full by Neinor Holdings, S.L.U. (sole shareholder of the Company until its flotation), the Group will recognise on an accrual basis the corresponding contribution of the shareholder to consolidated equity for the same amount under "Staff Costs" from 2017 amounting to EUR 18.952 thousand, of which EUR 14.373 thousand have been paid in 2017, and EUR 4.579 thousand are remuneration payable at year end). The assistance of an external appraiser was used for the accounting recognition of the variable portion. Applying the Monte Carlo method and, in view of the absence of a reasonable trading period that could be considered as a benchmark by the Parent, taking into consideration the share price volatility of companies in the European real estate industry over a comparable period, the external appraiser estimated that the fair value of the aforementioned variable portion amounted to approximately, EUR 8.1 million.

Also, it has been approved a long-term incentive plan payable in full in shares for 40 key employees, approximately, including members of the Management Committee and the CEO, consisting of three consecutive overlapping three-year periods, i.e. 2017-2019, 2018-2020 and 2019-2021 in which the achievement measurement metrics are, in thirds, EBITDA, the developer margin and shareholder return, with a downward correction coefficient of 10% regarding the achievement of the aforementioned metrics determined by the evolution of the average Loan to Value (LTV) ratio in excess of a target ratio. Minimum amounts below which the incentives do not accrue and the possibility of an extra bonus of up to 150% were established. The sale of the number of shares thus acquired is restricted for periods of between one year and six months for the CEO and the members of the management committee. The shares to be received by each participant will be determined by the incentive attributed to each participant in the plan (in ranges of between EUR 10 thousand and EUR 250 thousand), the price of the shares for each three-year period (average of the share price in the 20 trading sessions prior to the commencement of each cycle) and by the achievement of objectives (range between 0% and 150%). Shares acquired under this plan are subject to lock-up commitments for periods of one year and 6 months for both the CEO and members of the management committee. In the case of the CEO and members of the management committee, this incentive is subject to a repayment clause if certain circumstances arise. The cost of this long-term incentive plan will be assumed by Neinor Homes

Group, and has resulted in the recording of an employee benefits expense of 667 thousand euros in 2017, with a balancing entry in the equity of the accompanying consolidated balance sheet (see Note 22.c). The Directors of the Parent Company have estimated that the fair value of the aforementioned plan amounts to approximately EUR 2 million for the 2017-2019 triennium. Likewise, on 22 January 2018, the Appointments and Remuneration Committee approved the amount of the plan for the 2018-2020 triennium, setting it at EUR 2 million for all the members and the period.

There are no additional share-based incentive plans for employees.

t) Related party transactions

The Group performs all its transactions with related parties on an arm's length basis. Also, the transfer prices are adequately supported and, therefore, the Parent's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future (see Note 23).

In case significant differences arise between the established price and the fair value of a transaction between related companies, this difference would be considered the distribution of results or contribution of funds between the Company and the aforementioned related company and as such, it would be registered in reserves. However, if they correspond to transactions held with the shareholders, these will be recorded in the consolidated income statement in proportion to the shareholder's participation on the date of the transaction.

u) Remuneration of senior executives

The remuneration of senior executives of the Parent and persons who discharged similar duties (see Note 24) is recognised on an accrual basis, and at year-end the related provision is recognised for any amounts not settled.

5. Earnings / (loss) per share

a) Basic earnings /(loss) per share

Basic earnings / (loss) per share are calculated by dividing net profit/ (loss) for the year attributable to the Group (i.e., after tax and non-controlling interests) by the weighted average number of shares outstanding during that year.

Accordingly:

	Thousands of euros	
	31.12.17	31.12.16
Earnings / (loss) for the year (thousands of euros)	(25.934)	1.057
Weighted average number of shares outstanding (thousands of shares) (*) (Note 15)	182.788	853.373
Basic earnings/ (loss) per share (euros)	**(0,142)**	**0,001**

(*) Note: average number of shares adjusted for treasury shares.

b) Diluted earnings/ (loss) per share

Diluted earnings/loss per share is calculated in the same way as basic earnings/loss per share, but the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of share options, warrants and convertible bonds outstanding at year end.

At 31 December 2017 and 2016, the diluted earnings/loss per share of the Neinor Homes Group coincided with the basic earnings/loss per share.

6. Segment reporting

a) Basis of segmentation

Segment reporting is structured based on the Group's various lines of business.

The lines of business described below were established on the basis of the Neinor Homes Group's organisational structure at 2017 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

The Neinor Homes Group engages mainly in developing and selling property developments (see Note 1), and the Group distinguishes the results generated from the assets earmarked for property development (included under "Development") from those assets considered as non-strategic (included under "Legacy"). In addition, in accordance with the asset management and administration agreement described in Note 1, the Group provides services of this nature to various Kutxabank Group companies, and the information relating to this segment is included under "Asset Management - Servicing" in Note 6. Rental property activity is recognised as a residual activity for the Group and, therefore, was not considered as an independent line of business for segmentation purposes. Also, it is considered that the assets are not strategic for the Group and so the related assets, liabilities and results are classified under "Legacy".

Income and expenses that cannot be specifically attributed to any operating line or that are the result of decisions affecting the Group as a whole -and, among them, expenses incurred in projects or activities affecting several lines of business- are attributed to a "Corporate Unit/Other" to which the reconciling items arising from the reconciliation of the result of integrating the financial statements of the various lines of business (prepared using a management approach) to the Group's consolidated financial statements are also allocated.

Group's activities at 31 December 2017 and 2016 have been carried out entirely in Spain.

b) Basis and methodology for segment reporting

The segment information below is based on monthly reports prepared by Group management and is generated through the same computer application as that used to obtain all the Group's accounting information. This information is reviewed by the Finance Management Committee (on which both management and the sole shareholder are represented) to make decisions on the allocation of resources and to evaluate performance.

Segment revenue is revenue that is directly attributable to the segment. The revenue of each segment does not include interest income, dividends or gains on the sale of property assets.

The expenses of each segment are determined on the basis of the expenses arising from the segment's operating activities that are directly attributable to it (as is the case of "Cost of Sales", "Outside Services" and "Change in Operating Provisions, Allowances and Write-Downs"), plus the relevant proportion of the expenses that may be allocated to the segment using reasonable allocation bases (the latter method is applied to staff costs).

The segment result is presented before any adjustments that might relate to non-controlling interests.

Segment assets and liabilities are those directly related to each segment's operations, plus those that can be directly attributed thereto using the aforementioned allocation bases. However, "Accounts Receivable from Public Authorities" and "Cash and Cash Equivalents", regardless of their origin, are allocated to the "Corporate Unit/Other" line. Liabilities do not include income tax payable.

Segment information

	Thousands of Euros									
	Legacy		Development		Assets management – Servicing		Others / Corporate		Total	
	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16
Revenue: Third party sales(*)	114.572	164.293	76.621	36.611	29.195	27.661	-	-	220.388	228.565
Total Revenue:	**114.572**	**164.293**	**76.621**	**36.611**	**29.195**	**27.661**	-	-	**220.388**	**228.565**

(*) Includes an amount of EUR 668 thousand in 2017(EUR 1.109 thousand in 2016) corresponding to rental income of the investment properties (Note 9).

	Miles de euros									
	Legacy		Development		Assets Managemet – Servicing		Others / Corporate		Total	
	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16
Income:										
Third party sales (***)	114.572	164.293	76.621	36.611	29.195	27.661	-	-	220.388	228.565
Cost of sales	(176.792)	(178.322)	(55.659)	(27.038)	-	-	-	-	(232.451)	(205.360)
Change in trade provisions -Application of impairments for sold stocks (**)	68.668	44.077	-	-	-	-	-	-	68.668	44.077
Gross Margin	**6.448**	**30.048**	**20.962**	**9.573**	**29.195**	**27.661**	**-**	**-**	**56.605**	**67.282**
Employee benefits expenses	(1.854)	(2.746)	(9.386)	(6.095)	(4.607)	(2.836)	-	-	(15.847)	(11.677)
Employee benefits expenses – Incentive Plan (Note 15)	-	-	(18.952)	-	-	-	-	-	(18.952)	-
External Services	(14.511)	(23.218)	(17.856)	(9.766)	(6.076)	(7.214)	-	-	(38.443)	(40.198)
Change in trade provisions – Others (**)	(7.293)	(16.286)	8	6.804	-	-	-	-	(7.285)	(9.482)
Other operating gains	2.414	3.704	3.207	-	-	-	-	-	5.621	3.704
Impairment and gains/(losses) on disposals of non-current assets	727	(2)	-	-	-	-	-	-	727	(2)
EBITDA	**(14.069)**	**(8.500)**	**(22.017)**	**516**	**18.512**	**17.611**	**-**	**-**	**(17.574)**	**9.627**
Net interest expense and others	-	-	(7.678)	(4.891)	-	-	-	-	(7.678)	(4.891)
Depreciation and amortization	(250)	(376)	-	-	-	-	(466)	(232)	(716)	(608)
Profit / (Loss) Before Tax	**(14.319)**	**(8.876)**	**(29.695)**	**(4.375)**	**18.512**	**17.611**	**(466)**	**(232)**	**(25.968)**	**4.128**
Employee benefits expenses – Incentive Plan (Note 15)	-	-	18.952	-	-	-	-	-	18.952	-
External Services (Note 13.d)	-	-	2.350	-	-	-	-	-	2.350	-
Change in trade provisions(**)	4.549	16.286	-	(6.804)	-	-	-	-	4.549	9.482
Net interest expense and others	-	-	7.678	4.893	-	-	-	-	7.678	4.893
Depreciation and amortization	250	376	-	-	-	-	466	232	716	608
ADJUSTED EBITDA (*)	**(9.520)**	**7.786**	**(715)**	**(6.286)**	**18.512**	**17.611**	-	-	**8.277**	**19.111**

(*) A financial measure used by Group management which does not take into consideration the impairment losses on the Group's Investment properties and Inventories, the IPO costs (see Note 22.d) and "Employee benefits expense" associated with the incentive plan assumed by Neinor Holdings, S.L.U., mainly.

(**) See Change in trade provisions – Stocks in Note 22.f. To show the results generated on the sales of each segment more accurately, the impairment losses on real estate assets that were sold in both years were separated from the other impairment losses related to assets still recognized on the Group's consolidated balance sheet and the effect relating to the change in other provisions.

(***) Includes an amount of EUR 668 thousand in 2017(EUR 1.109 thousand in 2016) corresponding to rental income of the investment properties (Note 9).

The main magnitudes of the consolidated balance sheet by segment at 31 of December 2017 and 2016 are the following:

	Thousands of Euros									
	Legacy		Development		Management Assets - Servicing		Others / Corporate		Total	
	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16
Balance sheet:										
Non-Current assets	1.615	12.893	-	-	-	-	3.480	2.643	5.095	15.536
Current assets	85.513	211.907	1.101.435	732.541	10.085	10.544	76.882	45.301	1.273.855	1.000.293
Total Assets	**87.128**	**224.800**	**1.101.435**	**732.541**	**10.085**	**10.544**	**80.302**	**47.944**	**1.278.950**	**1.015.829**
Financial Debt (*)	-	-	417.665	303.691	-	-	-	-	417.655	303.691
Other Non-current liabilities	190	355	-	-	-	-	-	-	190	355
Other current liabilities	8.332	9.295	127.085	60.821	1.193	3.045	2.067	7.610	138.677	80.771
Total Liabilities	**8.522**	**9.650**	**544.750**	**364.512**	**1.193**	**3.045**	**2.067**	**7.610**	**556.532**	**384.817**

(*) Non- Current and Current Bank Borrowings

7. Intangible assets

The changes in "Intangible assets" in the exercises ended 31 December 2017 and 2016, by type of asset, were as follows:

Exercise ended 31 December 2017

	Thousands of euros		
	Computer Software	Industrial property	Total
Cost:			
Balance at 31 December 2016	875	14	889
Additions	723	-	723
Balance at 31 December 2017	**1.598**	**14**	**1.612**
Accumulated amortisation:			
Balance at 31 December 2016	(135)	-	(135)
Charges	(271)	-	(271)
Balance at 31 December 2017	**(406)**	**-**	**(406)**
Net Balance at 31 December 2017	**1.192**	**14**	**1.206**

Exercise ended 31 December 2016

	Thousands of euros		
	Computer Software	Industrial property	Total
Cost:			
Balance at 31 December 2015	150	-	150
Additions	763	14	777
Disposals	(38)	-	(38)
Balance at 31 December 2016	**875**	**14**	**889**
Accumulated amortisation:			
Balance at 31 December 2015	(57)	-	(57)
Charges	(116)	-	(116)
Disposals	38	-	38
Balance at 31 December 2016	**(135)**	**-**	**(135)**
Net Balance at 31 December 2016	**740**	**14**	**754**

The main additions in 2017 relate to the development of the management software used by the Group.

The main additions in 2016 related to the development of the management software used by the Group and the acquisition of the Neinor brand from its sole shareholder (see Note 23).

At 31 December 2017 and 2016, there were no intangible assets provided as collateral for any obligation.

At 31 December 2017 and 2016 there are no intangible assets fully amortized.

8. Property, plant and equipment

The changes in this heading in the exercises ended 31 December 2017 and 2016 were as follows:

Exercise ended 31 December 2017

	Thousands of euros		
	Technical items and machinery	Other items of Property, Plant and equipment	Total
Cost:			
Balance at 31 December 2016	499	1.201	1.700
Additions	384	136	520
Balance at 31 December 2017	**883**	**1.337**	**2.220**
Accumulated amortisation:			
Balance at 31 December 2016	(51)	(96)	(147)
Charges	(63)	(132)	(195)
Balance at 31 December 2017	**(114)**	**(228)**	**(342)**
Net Balance at 31 December 2017	**769**	**1.109**	**1.878**

Exercise ended 31 December 2016

	Thousands of euros		
	Technical items and machinery	Other items of Property, Plant and equipment	Total
Cost:			
Balance at 31 December 2015	267	1.249	1.516
Additions	237	71	308
Disposals	(5)	(119)	(124)
Balance at 31 December 2016	**499**	**1.201**	**1.700**
Accumulated amortisation:			
Balance at 31 December 2015	(17)	(77)	(94)
Charges	(39)	(77)	(116)
Disposals	5	58	63
Balance at 31 December 2016	**(51)**	**(96)**	**(147)**
Net Balance at 31 December 2016	**448**	**1.105**	**1.553**

Main additions of the exercise ended 31 December 2017 correspond to acquisitions of purchases of computer equipment, equipment of the videoconference rooms and the new facilities of Valencia and Malaga delegations.

Main additions of the exercise ended 31 December 2016 corresponded to the works made and furniture purchased in the new offices of the Group.

The disposals in 2016 gave rise to a loss of EUR 2 thousand, and this amount was recognised under "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the accompanying 2016 consolidated statement of profit or loss.

The Neinor Homes Group takes out all the insurance policies it considers necessary to cover the risks which might affect its property, plant and equipment.

At 31 December 2017 and 2016, there were no property, plant and equipment items fully amortised.

At 31 December 2017 and 2016, there were no property, plant and equipment items provided as collateral for any obligation.

At 31 December 2017 and 2016, the Group did not have any significant commitments to purchase items of property plant and equipment.

9. Investment properties

The changes in this heading in the exercises ended 31 December 2017 and 2016 were as follows:

Exercise ended 31 December 2017

	Thousands of euros			
	Cost	Amortisation	Provision (see Note 22.f)	Net
Balance at 31 December 2016	**22.648**	**(591)**	**(9.164)**	**12.893**
Additions/Charges	-	(250)	(72)	(322)
Disposals	(19.795)	708	7.953	(11.134)
Transfer from stocks (Note 12)	205	-	(106)	99
Transfer to stocks (Note 12)	-	-	79	79
Balance at 31 December 2017	**3.058**	**(133)**	**(1.310)**	**1.615**

Exercise ended 31 December 2016

	Thousands of euros			
	Cost	Amortisation	Provision (see Note 22.f)	Net
Balance at 31 December 2015	**17.576**	**(328)**	**(6.238)**	**11.010**
Additions/Charges	-	(376)	(1.059)	(1.435)
Transfer from stocks (Note 12)	10.266	-	(3.876)	6.390
Transfer to stocks (Note 12)	(5.194)	113	2.009	(3.072)
Balance at 31 December 2016	**22.648**	**(591)**	**(9.164)**	**12.893**

The gain on sales of investment property amounted to EUR 799 thousand in 2017 that is recorded under the caption "impairment losses and losses/gains on disposal of intangible assets" (1.379 thousand in 2016).

The main asset included in this caption corresponds to some office towers in Cadiz whose net book value amounts to EUR 7.5 million at 31 December 2016. In the period ended 31 December 2016 the Group, an according to the valuations provided by an independent expert, adjusted the accounting value of the investment property referred to above to its fair value, in accordance with the measurement bases described in Note 4.d. The "Change in trade provisions" of the accompanying consolidated income statement for the exercise ended 31 December 2016 includes an amount of EUR 1.059 thousands corresponding to such charges (Note 22). This asset was sold in 2017 for the net book value to which it was recorded at the end of 2016, without obtaining any result.

The fair value of the investment properties does not differ significantly from their net book value (see Note 12).

The Neinor Homes Group takes out the insurance policies it considers necessary to cover the risks which might affect its investment property.

At the end of the exercise ended 31 December 2017, rental income from investment property owned by the consolidated companies amounted to EUR 668 thousand (EUR 1.109 thousand at 31 December 2016).

At 31 December 2017 and December 2016, the Group did not have any firm commitments to purchase or sell items of investment property.

10. Subsidiaries

Appendix I to the notes to these financial statements details the subsidiaries and information thereon (which includes, inter alia, name, registered offices and the percentage of direct and indirect ownership of the Parent).

11. Current and non-current financial assets

Details of these financial assets, by nature, are as follows:

	Thousands of euros			
	31.12.2017		31.12.2016	
	Non-current	Non-current	Non-current	Current
Guarantees and deposits	396	455	336	4
Others	-	-	-	19
Total	**396**	**455**	**336**	**23**

12. Inventories

Details of "Inventories" at 31 December 2017 and 31 December 2016 are as follows:

	Thousands of euros	
	31.12.2017	31.12.2016
Sites and land (Note 19)	748.671	582.585
Construction work in progress	319.438	172.121
Completed buildings	111.751	271.966
Advances to suppliers	3.020	11
Less – Impairment losses (Note 9)	(39.591)	(101.317)
	1.143.289	**925.366**

In the year ended 31 December 2017 borrowing costs amounting to EUR 1.893 thousand were capitalised to inventories (EUR 552 thousand in 2016).

The additions in the period ended 31 December 2017 relate mainly to the purchase of various building lots which amounts to EUR 276,2 million (111 million in 2016), of which EUR 264,8 million are land acquisitions and 11,4 million euros are activated preconstruction costs (licenses, taxes...). In addition, at the end of 2017, there were planned and pending costs related to these assets for an amount of EUR 9,5 million, and consequently, the land purchases for 2017 amount to EUR 285,7 million euros. In this connection, "Trade and Other Payables - Payable to Suppliers" under current liabilities in the consolidated balance sheet as at 31 December 2016 included EUR 11.875 thousand relating to the deferred portion of the price in relation to the purchase of various plots of land and the remaining amount matured in 2017, the full amount of which was settled in the first half of 2017.There are no deferred payments at 31 December 2017.

In addition, in 2017 the Group has handed over 8 properties and has 36 property developments recognised under "Construction work in progress" at year-end. In 2016, the Group handed over a property development in Madrid and another property development in the northern part of Spain and had 23 property developments recognised under "Construction work in progress" at year-end.

At 31 December 2017 there are assets included in "Inventories" caption in the accompanying consolidated balance sheet with a net cost of EUR 1.060 million corresponding to assets classified as "Development" and EUR 83 million relating to "Legacy" assets.

At 31 December 2017, there are assets included under "Inventories" with a gross cost of EUR 584.068 thousand (EUR 355.959 thousand at 31 December 2016) securing a loan the Group has assumed the borrower position as the payment of the price arranged with the seller for the acquisition of a plot of land (see Note 17).

In addition, the Group has a credit line with a limit of EUR 50.000 thousand, against which EUR 48.308 thousand had been drawn down at 31 December 2017(EUR 48.611 thousand in 2016). This credit line is being used to finance acquisition of plots of land. The related agreement does not provide for any specific asset as security, although the drawdowns are assigned to assets following approval by the lender, which reserves the right to demand that the corresponding mortgage be created (see Note 17). Additionally, in 2017, the Group signed a financing agreement with J.P.

Morgan for EUR 150 million for land acquisition. The loan is for an initial term of 12 months and may be renewed for an additional 12 month period. At 31 December 2017, the Group had drawn down EUR 76.962 million through. To guarantee the repayment of this financing, a promise to mortgage property was constituted in favor of the lender up to EUR 470.013 thousand of market value, having agreed with the bank a Loan To Value of 30% (Note 17).

At the end of 2017, the Group has paid advances to suppliers for future purchases of land amounting to 3.020 thousand euros, whose deed is expected to be carried out during the 2018. At the end of 2017, the land purchase commitments amounted to 46.040 thousand euros (as of December 31, 2016, the Group did not maintain significant commitments).

The property development sale commitments entered into with customers at 31 December 2017 and 2016, relating to those units in which a private purchase and sale agreement was signed, have resulted in the collection or reception of notes receivables amounting to EUR 81.695 and 29.695 thousand respectively, which have been recognised under "Current liabilities - Customer advances" in the consolidated balance sheet at 31 December 2017 and 31 December 2016 (see Note 17).

In addition, at 30 December 2017, an undertaking was made to sell a real estate development, consisting of a residential complex classified as "tourist apartments" (property under the condominium system for operation by means of the temporary assignment of use of the furnished units, equipped for immediate use, and managed by a tour operator), for EUR 24.250 thousand and subject to conditions precedent, which were met in January 2017, the reason why the sale was carried out in the current year.

The Group reviews periodically the fair value of its inventories, applying the corresponding provisions for impairment, in accordance with the criteria established in the Note 4.f. The changes in 2017 and 2016 in the write-downs associated with the inventories were as follows:

	2017	2016
Balance at 01/01/17	**101.317**	**138.819**
Write-downs recognised	6.969	18.331
Write-downs reversed	(68.668)	(53.966)
Transfers to "Investment Property" **(Note 9)**	(27)	(1.867)
Balance at 31/12/17	**39.591**	**101.317**

At 31 December 2017, all the Development assets have been evaluated by an independent expert. The net realisable value determined by "Savills Consultoría Inmobiliaria, S.A." for the inventories and investment property (see Note 9) owned by the Group amounted to approximately EUR 1.610 million (EUR 1.110 million at 31 December 2016).

Considering the external appraiser's methodology described in Note 4.f, the key assumptions identified in the appraisals for the development assets (see Note 6) are the discount rate and the sale prices. In the case of the discount rate a sensitivity of +/- 100 basis points was established, based on the different economic scenarios forecast in the short and medium term, as well as the rate of return that would be required by other developers with different characteristics to the Group. In addition, a positive performance of sale prices was envisaged, while the appraisal models involved conservative assumptions on the current economic situation, that explains the reason why a sensitivity of + 1%/ +5% was set.

Assuming the remaining variables to be constant, the appraised values of development projects and the carrying amount thereof would be affected as follows at 31 December 2017, taking into account the change in the key assumptions (in thousand euros):

Assumption	Discount Rate		Sale Price			
	+1%	-1%	+1%	-1%	+5%	-5%
	Increase (Decrease)					
Change in appraised values	(36.224)	19.621	25.811	(26.300)	129.522	(131.087)
Change in carrying amount (*)	(65)	308	273	(21)	1.190	(5.152)

(*) The carrying amount is based on the lower of cost or realisable value. Increases or decreases in the net realisable value are not necessarily accompanied by impacts on the carrying amount of inventories.

The Savills valuation models adopted by the Group are sufficiently conservative and prudent to make it inappropriate to consider sensitivities to a negative price performance. In addition, the directors consider that we are currently undergoing a price growth scenario and the forecasts point towards continuing in that positive direction. However, the Group has performed a sensitivity analysis considering a 1%/ 5% fall in prices in the base scenario without subsequent price growth and the other variables remaining constant. In such an adverse scenario, which is not considered likely at the moment, the effect on the value of the real estate assets would be a reduction of EUR 26.300 thousand and EUR 131.087 thousand, and the recognition of additional impairment losses of EUR 21 thousand and EUR 5.152 thousand, respectively. The Group performed in 2016 sensitivity analysis considering a 1%/ 2% fall in prices, the effect on the value of the real estate assets would be a reduction of EUR 18.343 thousand and EUR 36.574 thousand, and the recognition of additional impairment losses of EUR 533 thousand and EUR 2.207 thousand, respectively. The appraiser did not include any special kind of sensitivity in respect of the property assets located in Catalonia, the net carrying amount of which at 2017 year-end amounted to approximately EUR 226 million (of which EUR 104 million relate to work in progress or finished goods sold in advance above cost), since they refer to assets earmarked for a market with medium to high purchasing power located close to urban centers and, therefore, are less exposed to any kind of risk in terms of changes in valuation.

Lastly, at 31 December 2016 the Group had recognised property assets with a carrying amounted of EUR 8.474 thousand, net of impairment losses of EUR 5,4 million, which it had not been possible to file in the Property Register for various reasons. Within the framework of the purchase and sale agreement described in Note 1, Kutxabank, S.A. guarantees the repurchase of these assets for an amount of EUR 13.9 million if by May 2017 they had not yet been filed. During 2017, entities of Kutxabank Group have carried out the repurchasing of the assets that were pending of inscription at 31 May 2017, for an amount of 8.332 thousands of euros and rising their net value at this date to 6.339 thousands euros.

13. Trade and other receivables

"Trade and other receivables" includes the following items:

	Thousands of euros	
	31.12.2017	31.12.2016
Trade receivables and notes receivables	12.015	16.519
Other receivables – Down Payments	10.501	4.366
Other receivables – Provision of Services	407	1.223
Impairment (Notes 9 and 22.f)	(296)	(1.555)
Total	**22.627**	**20.553**

"Trade Notes Receivable" in the foregoing table mainly includes the amount receivable relating to the asset management and administration agreement entered into between various companies of the Kutxabank Group and Neinor Homes, S.A. (see Note 1), amounting to EUR 9.977 thousand (10.554 thousand euros at 31 December of 2016).

"Other receivables" in the foregoing table includes mainly the amounts receivable from third parties for services rendered (see Notes 22.a and 23) and amounts paid in advance by the Group to service providers amounting to EUR 10.501 thousands an amount that includes 4.772 thousand euros in advances paid to agents who have intervened in the execution of the purchase and sale agreements pending deed.

Trade receivables do not generate interest, in general terms and there are no doubtful assets for which impairment losses additional to those already recognised at year-end must be recognised.

The Group periodically analyses the risk of insolvency of its accounts receivable by updating the related provision for impairment losses. The Group's directors consider that the amount of trade and other receivables approximates their fair value.

14. Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash on hand and in short-term bank deposits with an initial maturity of three months or less. The carrying amount of these assets is similar to their fair value.

There is no restriction for the availability of the cash and cash equivalents of the Group neither as of 31 December 2017 nor 31 December 2016, except for the fact that, as described in Law 20/2015, of July 14, advances received and associated with a development (see Note 18) are deposited in a special account, separate from any other class of funds belonging to the Group, and are only drawn against in connection with the construction of the developments. The balance subject to this restriction amounted to EUR 41.141 thousand at 31 December 2017(EUR 21.373 thousand 2016), which differs from the advances (see Note 18) as a result of the cash used to pay the progress billings of developments to which such advances are allocated. Likewise, the guarantees (Note 21) differ from these advances, on the one hand, because guarantees are issued for the total of the amounts that the clients will deliver on account during the work and not only for the amounts actually received, and on the other hand, due to the fact that the guarantee is issued in a period of up to 30 days after receiving the customer's advance.

15. Capital and reserves

a) Share capital

The Parent was incorporated on 4 December 2014 with share capital of EUR 3.000, represented by 3.000 shares with a par value of EUR 1 each. After several equity transactions, at 1 January 2016, the Parent's share capital was represented by 939.877.930 fully subscribed and paid bearer shares of EUR 1 per value each, owned by Neinor Holdings, S.L.U., owned by the Luxembourg company LSREF3 Lion Investments, S.à.r.l., with registered address in Rue Du Puits Romains 33, Bertrange, Luxemburgo).

On 30 May 2016, the Parent's sole shareholder resolved to reduce capital by EUR 199.331 thousand through the acquisition by the Parent from its sole shareholder (Neinor Holdings, S.L.U.) of 199.330.896 treasury shares of EUR 1 par value each to subsequently retire them pursuant to Articles 338 et seq. of the Spanish Limited Liability Companies Law. The amount was paid in full by the sole shareholder in 2016. Also, this capital reduction was executed in a public deed and registered at the Mercantile Registry on 15 June and 29 July 2016, respectively.

Aditionally, on 15 June 2016 and 21 November 2016, the Parent's sole shareholder also resolved to reduce capital by EUR 5.900 thousand and EUR 5.350 thousand, respectively, through the acquisition by the Parent from its sole shareholder (Neinor Holdings, S.L.U.) of 5.900.034 treasury shares and of 5.350.000 treasury shares of EUR 1 par value each to subsequently retire them pursuant to Articles 338 et seq. of the Spanish Limited Liability Companies Law. These amounts were paid in full by the sole shareholder (Neinor Holdings, S.L.U.) in June 2016 and November 2016, respectively. Also, these capital reductions were executed in public deeds on 19 July and 23 November 2016, respectively, and were registered at the Mercantile Registry on 8 September and 30 December 2016, respectively.

At 31 December 2016, the Company's shares were pledged as security for payment of the deferred amount in the Lion transaction described in Note 1 (see Note 27).

In 2017, the Parent, Neinor Homes, S.A. was registered as a public limited liability company ("S.A.") (a transaction that was formalised by virtue of a public deed executed on 1 March 2017 before the Bilbao notary Raquel Ruiz Torres under number 234 of her protocol) with a view to its admission to trading on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, which took place on 29 March 2017 with the prior authorisation of the Company's sole shareholder on 6 March 2017. Also, in the aforementioned public deed, the number of existing shares of the Company was reduced by a reverse split whereby one new share of EUR 10 par value each was issued for every ten existing shares of EUR 1 par value each. Subsequently, on 6 March 2017 the then sole shareholder of Neinor Homes, S.A. approved a capital increase through monetary contributions for a cash amount of EUR 100 million. This capital increase was performed by issuing new ordinary shares of EUR 10 par value each, of the same class and series as those already in circulation, with a share premium of EUR 6,46 per share, giving a total share premium of EUR 39.247 thousand. Consequently, following the capital increase performed as part of the stock market flotation, the share capital of Neinor Homes, S.A. is represented by 79.005.034 shares of EUR 10 par value each.

The flotation of Neinor Homes, S.A. gave rise to the sale by Neinor Holdings, S.L.U. of 37.018.320 shares at a unit price of EUR 16.46 per share for a total amount of EUR 609.321.547,20.

On the same date as the flotation, a Stock Lending Agreement was entered into for 4.309.365 shares of Neinor Homes, S.A. with Credit Suisse Securities (Europe) Limited as the stabilisation agent, in order to have the shares available for subsequent disposal as part of the instrumentation of the practice of stabilisation permitted by capital market regulations and to meet excess demand (over-allotment).

Before the stabilisation period (30 days from the flotation) had elapsed, on 24 April 2017, the stabilisation agent exercised the greenshoe option on 4.014.687 shares and, accordingly, Neinor Holdings, S.L.U. received:

- 294.678 shares of Neinor Homes, S.A.

- EUR 66.081.748,02, which was the initial listing price of the 4.014.687 shares on which the stabilisation agent exercised the greenshoe option.

At 31 December 2017, the Parent's share capital is represented by 79.005.034 fully subscribed and paid bearer shares of EUR 10 per value each, according to the following breakdown:

	31.12.2017	
	Thousand euros	
	% Ownership Interest Registered	Total Share Capital Amount
Lone Star Capital Investments, S.A.R.L.	12,92%	102.074
Wellington Management Group	8,54%	67.470
Fidelity Investment Trust	6,89%	54.434
Adar Capital Partners LTD	5,20%	41.083
Invesco limited	5,02%	39.661
King Street Capital Management G.P., L.L.C.	4,20%	33.182
Bank of Montreal	3,26%	25.756
Rest (market)	53,97%	426.390
	100,00%	**790.050**

b) Reserves of the Parent

Legal reserve

Under Article 274 of the Consolidated Text of the Spanish Limited Liability Companies Law, 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 may 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 31 December 2017 and 31 December 2016 legal reserve was not fully contributed.

c) Reserves at fully consolidated companies

Details, by company, of reserves at fully consolidated companies at 31 December 2017 and 31 December 2016 are as follows:

Company	Thousands of euros	
	31.12.2017 (**)	31.12.2016
Full consolidation:		
Parent and consolidation adjustments (*)	38.385	7.980
Neinor Norte, S.L.U.	(16.496)	(17.299)
Promociones Neinor 1, S.L.U.	(278)	(269)
Promociones Neinor 2, S.L.U.	(14.961)	(14.964)
Promociones Neinor 3, S.L.U.	(1.007)	(1.056)
Promociones Neinor 4, S.L.U.	(5.393)	(5.362)
Promociones Neinor 5, S.L.U.	(5.468)	(5.441)
Neinor Península, S.L.U.	(54.616)	(48.322)
Neinor Sur, S.L.U.	(19.718)	(15.432)
	(79.552)	**(100.165)**

(*) The Parent has also set up a legal reserve of EUR 2.066 thousand at December 2017 (EUR 823 thousand at December 2016) not included in this detail.

(**) The reserve of fully consolidated companies at 31 December 2016 was reduced by EUR 78 thousand in relation to expenses associated with the capital reductions carried out by the Parent and subsidiaries of the Neinor Homes Group in 2016 (see Note 15-a).

At 31 December 2017 and 2016 the negative reserves contributed by the subsidiaries Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L.U. arose as regards of the difference at the date when the Neinor Homes Group was created between the amounts the financial interests in these subsidiaries were contributed to the Group (specifically to the subsidiary Neinor Norte, S.L.U., its direct shareholder) and their underlying carrying amounts at that date were negative, due to the impairment recognised in connection with all their property assets. When the contribution was made, the Kutxabank Group intended the other investees of Kutxabank to make a direct contribution to restore their equity position so as not to give rise to any loss for Neinor Norte, S.L.U. Lastly, this contribution was made in 2015 by Kutxabank directly through a capital increase at Neinor Homes, S.A. prior to its transfer to Neinor Holdings, S.L.U. This capital increase was performed in steps at Neinor Norte, S.L.U. and its investees including, among others, those which had an equity imbalance, and the situation was remedied prior to the Lion transaction described in Note 1.

At November 2015, Neinor Holdings S.L.U, sole shareholder of Neinor Homes S.A., carried out a shareholder contribution increase to the mentioned entity amounting to EUR 1.346 thousand. The shareholder contribution was related to the arrangement signed at December 2014 between Kutxabank and Neinor Holdings S.L, as explained in the Note 1 of this consolidated financial statement, in the form of a price adjustment to compensate for the expenses paid by the Group to a Development and Apportionment Entity (see Note 16).

d) Treasury shares

The Annual General Meeting held on 6 March 2017 authorised the derivative acquisition of treasury shares for the maximum period permitted by law and subject to the requirements established in Article 146 of the Spanish Limited Liability Companies Law.

On May 4, 2017, the Group began a program of Treasury Stock, and a total of 200,000 treasury shares were acquired until September 20, 2017. On September 22, 2017, the Parent Company signed a contract of liquidity with "Gestión de Patrimonios Mobiliarios, S.V. S.A." for which the Parent contributed 28.000 treasury shares and 500.000 euros. Likewise, on October 5, 2017, the company withdrew 27.046 shares of the account associated with the liquidity contract and contributed an additional amount of EUR 675.871,11. As of December 31, 2017, the total Treasury Stock of the Parent Company amounts to 228.798 securities, representing 0.29% of the share capital, of which 199.406 securities are deposited in a securities account and 29.392 shares are deposited in the account associated with the liquidity contract. The average unit purchase price of the securities was 18,03 euros.

During 2016, the Company carried out operations with treasury shares, although at the end of the year the Parent Company lacked treasury stock.

In 2017, the accruals of the incentive plans described in Note 4.s have been recorded in this section for 40 key employees of the Group. The total amount charged as personnel expense in the consolidated profit and loss account for the year 2017 amounted to EUR 667 thousand (see Notes 22.c and 24).

e) Dividends paid

No dividends were paid in either 2017 or 2016.

Also, there are covenants associated with certain financing agreements entered into by the Group that limit the distribution of dividends if the equity of the Parent is lower than EUR 420 million and if the "Net Financial Debt/Equity" ratio is below 1,6.

f) Other equity holder contributions

The accruals of the incentive plans described in Note 4.s for the CEO and five members of the management team have been recorded in this caption. The amount recognised in the consolidated income statements in 2017 amounted to EUR 18.952 thousand (see Notes 22.c and 24).

Aditionally, at 31 December 2016 the account payable to the Parent's sole shareholder in relation to income tax under the consolidated tax regime under which both the Neinor Homes Group and its sole shareholder were taxed on a consolidated basis (see Note 20), amounted to EUR 3.071 thousand euros. During the second half of 2017, this amount was cancelled by Neinor Holdings, S.L.U., and the Group recorded an amount of EUR 397 thousand under "Parent Company Reserves" caption in the accompanying consolidated balance sheet for 2017 and EUR 2.674 thousand under the heading "Other operating income" in the accompanying consolidated income statement, in proportion to the participation that the previous Sole Shareholder held at the date of the aforementioned cancellation.

16. Provisions

a) Current provisions

Changes in current provisions in 2017 and 2016 are as follows:

At 31 December 2017

Description	Thousands of euros		
	For taxes (see Note 22.d)	Other provisions (see Note 22.d)	Total
Balance at 31 December 2016	**2.036**	**7.023**	**9.059**
Charges	1.405	3.215	4.620
Amounts used	(1.208)	(6.845)	(8.053)
Balance at 31 December 2017	**2.233**	**3.393**	**5.626**

At 31 December 2016

Description	Thousands of euros		
	For taxes (see Note 22.d)	Other provisions (see Note 22.d)	Total
Balance at 31 December 2015	**4.184**	**9.806**	**13.990**
Charges	94	2.801	2.895
Amounts used	(2.242)	(5.584)	(7.826)
Balance at 31 December 2016	**2.036**	**7.023**	**9.059**

"Other provisions" caption includes, mainly, amounts set-aside warranty costs, after-sale expenses, as well as other construction costs not yet incurred. These provisions are recognised at the date of sale of the related products according to the Group's best estimate of the possible consideration required to settle the Group's liability.

Also, "For Taxes" caption in the foregoing table includes, mainly, the provisions recognised in relation to the taxes accrued in the period and which, at the reporting dates, have not been settled (mainly property tax) and the provision relating to non-deductible VAT as a result of applying the deductible proportion rule that has not yet been adjusted.

At each reporting date the Group assesses the estimated amounts required for probable or certain liabilities where payment is still not entirely determinable with regard to their exact amount, or the dates on which they will arise are uncertain since they depend on the fulfilment of certain conditions. Where appropriate, it recognises the related provisions. At 31 December 2017 and December 2016, the Group had not recognised any provisions in this connection since the Parent's directors, and its legal advisors, considered that the possible impacts for the Group arising from these liabilities would not be significant. In this connection, at 31 December 2017 there are legal claims in relation with assets owned by the different companies of the Group for a total amount of EUR 983 million (at 31 December 2016 EUR 4,5 million), mainly referred to the return of retentions to suppliers, construction faults repairs and expropriation appraisals contestations, as well as a legal claim for an undetermined amount regarding the contestation of building licenses, which are possible to result in the negative impact for the Group but that, in any case, and according to the agreements arranged in the context of the transaction described in Note 1, would be covered by Kutxabank Group. The directors of the various companies comprising the Neinor Homes Group consider that the provisions made are adequate to cover potential risks in connection with claims under way and that if these risks materialise for amounts higher than these provisions, the additional liabilities would not have a significant impact on the Group's financial statements.

17. Bank borrowings and other financial liabilities

Details of bank borrowings and other financial liabilities at 31 December 2017 and 31 December 2016 are as follows:

	Thousands of euros	
	31.12.2017	31.12.2016
Long-term bank borrowings:		
Credit lines (*)	17.902	26.623
Total (non-current)	**17.902**	**26.623**
Short-term financial liabilities with sole shareholder (see Note 23):		
Other accounts payable	-	3.071
Short-term Bank borrowings (see Note 23):		
Interest payable	455	190
Mortgage loans (*)	317.149	201.569
Credit lines (*)	56.670	68.416
Other loans (*)	11.203	6.893
Factoring	14.286	-
Total (current)	**399.763**	**280.139**

(*) Borrowings are presented at amortised cost, net of the debt arrangement expenses incurred in 2017 amounting to EUR 3.914 thousand, of which EUR 1.782 thousand were charged to "Finance Costs (Net of Capitalised Borrowing Costs)" in the consolidated statement of profit or loss for 2017 (EUR 5.178 and 1.088 thousand respectively in 2016).

31 December 2017

Scheduled maturities:	31.12.17
2018	138.274
2019	172.751
2020	368
2021	368
2022 and following	105.904
Total	**417.665**

In connection with the figures disclosed above, there are EUR 77 million with maturity in 2018 corresponding to the debt with J.P. Morgan, whose repayment may be extended until the year 2019, at the discretion of the Group. It also includes three mortgage loans worth EUR 8.316 thousand, which in January 2018 have been converted into a property developer loan, extending its initial maturity for 2018 (EUR 6.336 thousand) and 2019 (EUR 1.980 thousand) in 30 years.

31 December 2016

Scheduled maturities:	31.12.16
2017	38.050
2018	7.343
2019	249.792
2020	396
2021 and followings	11.181
Total	**306.762**

Payables to sole shareholder

The balance of this line item at 31 December 2016 relates to the account payable to the Parent's sole shareholder in relation to income tax under the consolidated tax regime under which both the Neinor Homes Group and its sole shareholder are taxed on a consolidated basis (see Note 20), amounting to EUR 3.071 thousand euros. During the second half of 2017, this amount was cancelled by Neinor Holdings, S.L.U., and the Group recorded an amount of EUR 397 thousand under "Parent Company Reserves" caption in the accompanying consolidated balance sheet for 2017 and EUR 2.674 thousand under the heading "Other operating income" in the accompanying consolidated income statement, in proportion to the participation that the previous Sole Shareholder held at the date of the aforementioned cancellation.

Short-term and long-term bank borrowings

Mortgage loans

The balance recognized under "Bank borrowings – Mortgage loans for land" in the foregoing table which amounts to EUR 317.149 thousand at 31 December 2017 relates to the amount payable on loans regarding plots of land which secure repayment of these loans. These loans bear interest at a market rate and ultimately mature between 2018-2050.

Certain Group companies are jointly and severally guaranteeing most of these loans (See Appendix I).

Specifically, the Group has contracted 24 new mortgage loans during 2017 with a limit of 64.302 thousand euros, of which an amount of 54.174 thousand euros has been withdrawn. In addition, the limit and maturity of 14 loans contracted during the year 2016 have been extended, and their maturity for the years 2044-2050 has been established.

Credit lines

"Long-Term Bank Borrowings" includes a credit line aimed at providing the Group with additional liquidity for its ordinary operations not directly associated with land purchases. The credit line, which was arranged by the Group's Parent in 2016, has a limit of EUR 30 million and has final maturity in 2019. The credit line has been drawn down in full and the remainder is recognised under "Short – Term Bank Borrowings" as it was established that the limit thereof be reduced by EUR 3 million in 2017, by EUR 9 million in 2018 and by EUR 18 million in 2019. During 2017, the limit has been decreased in 3 million euros.

In addition, the Parent has assigned, as a performance guarantee to secure the full repayment of the credit line, the collection rights consisting of the payments under the asset administration and management agreement entered into with Kutxabank, S.A. on 14 May 2015.

In addition, the borrowers in this agreement are all the Neinor Homes Group companies (see Appendix I), all with joint and several liability.

On 15 June 2015, the Group arranged a credit facility with a bank with a limit of EUR 30.000 thousand and maturing on 15 December 2016, which was novated in 2016, increasing the limit to EUR 50.000 thousand and extending the maturity to 2019. The aim of the facility is to finance the payment of the deferred price of the land purchases, and the Group must support all the drawdowns made against it through a credit facility drawdown request signed by the Group that specifies the amount being requested and contains a description of the property to be acquired. EUR 48.308 thousand had been drawn down at 31 December 2017, and this amount was classified as a current liability due to the real estate nature of the facility (31 December 2016: EUR 48.611 thousand). In relation to this credit facility, the Neinor Homes Group has undertaken to arrange first mortgages at the request of the bank in order to secure the facility up to an amount of EUR 25 million. Such a request had not been made at 31 December 2017. However, the directors consider that the borrowings should be associated directly with the property developments being financed by it.

The debt arrangement expenses associated with these credit lines amounted to EUR 507 thousand at 31 December 2017.

VAT lines

This caption at 31 December 2017 included the balance drawn down of a loan received by the Group in order to finance the input VAT on certain land purchase transactions, which was received in 2015, and upon maturity in 2016 and 2017 was novated for an additional year. Hence, the loan matures in 2018 and bears interest at market rates. The limit on these loans amounts to EUR 15 million of which the amount of EUR 11.203 has been disposed at December 2017 (31 December 2016: EUR 6.893 thousand). To secure repayment of the borrowings, the receivables relating to input VAT arising for the public administration in these transactions were pledged to the financial institutions (Note 20).

VAT Factoring

On 6 June 2017, the Group entered into a recourse factoring agreement with a bank mainly to finance input VAT on certain land purchase transactions. The agreement expires at one year and bears interest at market rates. The factoring line has a limit of EUR 29 million, although in January 2018 it has been reduced to 15 million euros, and EUR 14.286 thousand had been drawn down at 31 December 2017. The amounts owed to it by virtue of the transactions performed will be used to guarantee the repayment of this financing.

Other loans

On 28 August 2017, the Group signed a financing agreement with J.P. Morgan for EUR 150 million. The loan is for an initial term of 12 months and may be renewed for an additional 12 months. It may be drawn by Neinor Norte, S.L.U., Neinor Sur, S.A.U and Neinor Peninsula, S.L.U, acting Neinor Homes S.A. only as guarantor of this debt.

At 31 December 2017, the Group had drawn down EUR 76.962 million through Neinor Sur, S.A., and this amount was used to purchase land. To guarantee the repayment of this financing, a promise to mortgage property was constituted in favor of the lender from up to EUR 470.013 thousand(market value), that will depend on the amounts disposed by the Group.

Covenants and early repayment clauses

In connection with the new borrowings arranged by the Group in 2017 and 2016, and disclosed above, the Group has certain early repayment clauses associated with the loans and credit lines, including most notably the following:

- Reduction of the Parent's equity to below EUR 425 million.

- Obligation to achieve a firm and irrevocable LTV Ratio, taken to be the ratio of Net Debt to the Net Value of the Group's Properties (in both cases capex financing should be deducted), which must be below 45%.

- A 15% worsening in the coverage ratios (net financial debt to EBITDA ratio) and/or leverage (net financial debt to equity ratio) as compared to the measurement of these ratios in the latest annual financial statements; furthermore, when a depreciation of the Group's situation causes doubts as to the viability of its business, on the basis of market information. Management believes that the financial institution is aware of the current situation of the Group.

At year-end 2017, the Group was fully compliant with the covenants and clauses established in the aforementioned loans.

Other

There are other amounts included in the borrowings indicated above, totaling EUR 53.865 thousand, that have been drawn down against financing granted by a bank related to the Group as indicated in Note 23. The aforementioned amount relates to mortgage loans.

In addition, the Group had several undrawn reverse factoring lines amounting EUR 3.748 thousand at 31 December 2017 with a limit of EUR 13.050 thousand at that date (not disposed at December 2016 with a limit of EUR 3.333 thousand).

All the loans and credit facilities outstanding at 31 December 2017 indicated above were arranged with leading banks and bear interest tied to Euribor plus market spreads.

In 2017 the Group paid borrowing costs amounting to EUR 7.260 thousand plus debt arrangement expenses of EUR 1.606 thousand (of which EUR 1.782 thousand were charged to "Finance Costs" in the consolidated statement of profit or loss for 2017 and EUR 3.914 thousand were deducted from the Group's bank borrowings recognised in the consolidated balance sheet), and borrowing costs of EUR 1.893 thousand were capitalised to inventories (see Note 12).

The interest rate applicable to the Group, in general terms, is tied to Euribor plus a market spread ranging from 0,8% to 3,5% in 2017. The average cost of the borrowings calculated for 2017 and 2016 is approximately 2,65% and 2,37% respectively.

At 31 December 2017 and 2016, the Group companies had loans and undrawn credit facilities totaling EUR 6.332 thousand and EUR 9.671 thousand, respectively.

18. Other current and non-current liabilities

Details of other current and non-current liabilities at 31 December 2017 and 31 December 2016 are as follows:

	Thousands of euros			
	31.12.2017		31.12.2016	
	Non-current	Current	Non-current	Current
Guarantees and deposits received	18	37	34	288
Remuneration payable	-	1.810	-	1.556
Customer advances (see Note 12)	-	81.695	-	29.695
Total, gross	**18**	**83.542**	**34**	**31.539**

"Guarantees and deposits received" includes mainly guarantee deposits paid by lessees.

19. Current and non-current trade and other payables

"Trade and other payables" mainly includes balances payable for trade purchases and related costs. At 31 December 2016, this caption also included a payable amounting to EUR 11.875 thousand corresponding to the deferred portion of the price of a land purchased in these exercises. There is no balance at the end of 2017 for this concept (see note 12).

In addition, this heading of the balance sheet includes at 31 December of 2017 an amount of 9.436 thousands of euros (1.124 thousands of euros at 31 December 2016) as tax deductions applied to contractors for warranty.

The carrying amount of trade payables is similar to their fair value.

Information regarding the weighted average payment term to suppliers. Final Provision Two of Law 31/2014 of 3 December

Next it is detailed the information required by the Final Provision Two of Law 31/2014 of 3 December, that has been prepared applying the corresponding rules issued by the Accounting and Auditing Institute at 29 January 2016, which relates to the information to be included in the annual financial statements about weighted average payment term to suppliers.

	Period ended 31 December 2017	Period ended 31 December 2016
	Days	Days
Weighted average payment term to suppliers	18	36
Paid operations ratio	29	34
Outstanding payments ratio	18	48
	Thousands of euros	Thousands of euros
Total payments made	430.996	303.036
Total outstanding payments	20.908	22.803

The figures in the preceding table on payments to suppliers refer to those whose nature make them trade creditors because they are suppliers of goods and services. Therefore, they include the figures relating to "Current trade and other payables" under current liabilities in the consolidated balance sheet. Deferred portion of the price in relation to the purchase of various plots of land (Note 12) has not been considered for this calculation.

"Weighted average payment term to suppliers" is taken to be the period that elapses from the delivery of the goods or the provision of the services by the supplier to the effective payment of the transaction.

Pursuant to Law 11/2003, of 26 July, establishing measures on combating late payment in commercial transactions, the statutory payment period applicable to the Company at 31 December 2017 and 31 December 2016 was 30 days, unless a longer period has been agreed, which in no case may exceed 60 days. In this connection, and for the calculations referred to above, the Group has considered in all cases a maximum legal term of 30 days, no matter which the arranged conditions with the suppliers are.

20. Tax matters

a) Consolidated tax group

At the end of 2014, the Parent and the subsidiary Neinor Norte, S.A., as subsidiaries in the tax group of which Kutxabank, S.A. is the Parent, decided to apply the consolidated tax regime regulated in Title VI, Chapter VI of Bizkaia Corporation Tax Regulation 11/2013, of 5 December, with effect from the tax year commencing on 1 January 2014. Therefore, in 2014, the aforementioned companies, together with the subsidiaries Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and

Promociones Neinor 5, S.L.U., paid taxes under the aforementioned special consolidated tax regime as part of the Kutxabank Group.

In any event, as a result of the Neinor Homes Group's exit from the Kutxabank Group as a result of the agreements adopted on 14 May 2015 (see Note 1), the various Group companies paid taxes in this six-month period ended at 30 June 2015 in accordance with the general, individual tax regime.

Furthermore, at 30 June 2015, the previous sole shareholder of the Parent (Neinor Holdings, S.L.U.) notified the tax authorities of its decision to apply the consolidated tax regime mentioned above to the tax group of which it is the Parent, comprising the subsidiaries Neinor Homes, S.A., Neinor Norte, S.L.U., Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L.U., with effect from the tax year commencing on 1 July 2015.

Due to Neinor Homes, S.A. admission to listing and Neinor Holdings, S.L.U's loss of participation there has been a breakdown of the Tax Group. On 3 November 2017, the Administration approved the composition of the new Tax Group headed by Neinor Homes, S.A., and number 02117BSC. The Tax Group will pay income on a tax consolidation basis with effect from 1 January 2017 in accordance with Article 99.2 of Bizkaia Corporation Tax Regulation 11/2013, of 5 December.

On 13 December 2017, Neinor Norte, S.L.U., as the sole shareholder of Promociones Neinor 1, S.L., Promociones Neinor 2, S.L., Promociones Neinor 3, S.L., Promociones Neinor 4, S.L., and Promociones Neinor 5, S.L., decided to change the registered office of the aforementioned companies, which will be located in Madrid. As a result, since it does not meet the requirements to file consolidated tax returns in Vizcaya, on 20 December 2017, Neinor Homes, S.A., as the head of the tax group, notified the tax authorities that the legislation applicable to the aforementioned investees of Neinor Norte, S.L. for the tax periods commencing on or after 1 January 2017 will be that of Spain (excluding Navarra and the Basque Country). Therefore, in 2017 the Vizcaya consolidated tax group no. 02117BSC was made up of Neinor Homes, S.A. as the parent and Neinor Norte, S.L.U. as subsidiary

Neinor Península, S.L.U. and Neinor Sur, S.A.U. file individual tax returns pursuant to Spanish Income Tax Law 27/2014, of 27 November.

b) Tax rules and years open for review by the tax authorities

Neinor Homes, S.A. and Neinor Norte, S.L. file consolidated tax returns for the tax periods commencing on or after 1 January 2017 as tax group no. 021175BSC in accordance with the consolidated tax regime established in Vizcaya Income Tax Regulation 11/2013, of 5 December.

The rest of the Group Companies file individual tax returns pursuant to Spanish Income Tax Law 27/2014, of 27 November.

At 31 December 2017, the Parent and the subsidiaries Neinor Norte, S.L.U. and Neinor Península, S.L.U. have all the years open for review by the tax authorities since their incorporation, which took place at the end of 2014. The subsidiary Neinor Sur, S.L.U. has open to review in relation to income tax from the exercise 2012 and the last four years open to review for all other taxes applicable to it. The other companies have the last four years open to review for all taxes. In this connection, Provincial Regulation 11/2013 establishes that all tax credits applied and tax losses generated in prior years can be reviewed when they are applied in any of the years open to review, while Law 27/2014 of 27 November, establishes a review term of ten years.

The directors of the Parent do not expect any additional material liabilities not already covered to arise as a result of the inspections that could occur for the years open to inspection.

c) *Tax receivables and payables*

Details of the main tax receivables and payables are as follows:

	Thousands of euros							
	31.12.2017				31.12.2016			
	Tax assets		Tax liabilities		Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
VAT receivable / payable (Note 17)	-	29.787	-	7.125	-	8.158	-	3.753
Deferred tax asset	-	875	-	33	-	-	-	-
Income tax receivable	-	-	-	411	-	790	-	-
Personal income tax withholdings payable	-	-	-	340	-	-	-	-
Social Security contributions payable	-	-	-	-	-	-	-	287
Deferred tax liability	-	-	172	-	-	-	321	-
Others	-	-	-	-	-	102	-	364
		30.662	**172**	**7.909**	**-**	**9.050**	**321**	**4.404**

With regard to VAT, the various Group companies applied the deductible proportion rule set forth in Article 106 of VAT Law 37/1992, of 28 December (Article 106 of Provincial VAT Law 7/1994, of 14 December), which establishes that the amounts of tax paid in the acquisition of goods and services used solely in transactions made that give rise to the right to deduction may be deducted in full.

On 28 June 2016, certain Group companies were notified by the tax agency of the commencement of tax audits of the following taxes and periods:

- VAT of Neinor Península, S.L.U. for 2015 and 2016
- Income tax of Neinor Península, S.L.U. for 2015
- VAT of Neinor Sur, S.A.U. for 2014, 2015 and 2016
- Income tax of Neinor Sur, S.A.U. for 2012 to 2015

The Parent's directors and their tax advisers consider that the tax returns for the taxes not being reviewed and open for review have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the consolidated financial statements as at 31 December 2017. In addition, if the open inspections prior to the Lion Operation result in any sanctions attributable to the previous owner, under the agreements reached in the sale, these sanctions would be covered by Kutxabank Group (Note 1), except for an amount of EUR 3 million that would be assumed by Neinor Homes Group, as indicated in Note 17).

d) Reconciliation of accounting profit/loss to tax profit/loss

The reconciliation of the accounting profit/loss to consolidated income tax expense/income for the year is as follows:

At 31 December 2017

	Thousands of euros		
	Group 02117BSC	Other entities	Total
Profit/(Loss) before tax	(4.627)	(21.341)	(25.968)
Permanent differences -	9	82	91
Temporary differences (*)	9.014	(13.154)	(9.386)
Preliminary Taxable income/(loss)	**4.396**	**(34.413)**	**(35.263)**
Tax losses compensation	(4.275)	-	(4.275)
Taxable income/(loss)	**121**	**(34.413)**	**(34.292)**
Tax rate	28%	25%	-
Tax accrued	(34)	8.603	8.569
Not capitalised Tax assets accrued in the period	-	(8.603)	(8.603)
Other adjustments for income tax	-	54	54
Previous years income tax regularization	9	5	14
Income tax expense	**(25)**	**59**	**34**

(*) Not capitalized.

At 31 December 2016

	Thousands of euros		
	Group 02117BSC	Other entities	Total
Profit/(Loss) before tax	15.359	(11.231)	4.128
Permanent differences -	45	688	733
Temporary differences (*)	(5.009)	(21.143)	(26.152)
Preliminary Taxable income/(loss)	**10.395**	**(31.686)**	**(21.291)**
Taxable income/(loss)	**10.395**	**(31.686)**	**(21.291)**
Taxable income - 28% tax rate (positive basis)	10.395	-	10.395
Taxable loss - 25% tax rate (negative basis)	-	(31.686)	(31.686)
Tax rate	28%	25%	-
Tax accrued	(2.911)	7.922	5.011
Not capitalised Tax assets accrued in the period	-	(7.922)	(7.922)
Other adjustments for income tax	130	-	130
Previous years income tax regularization	(290)	-	(290)
Income tax expense	**(3.071)**	-	**(3.071)**

(*) Not capitalized.

The permanent differences included in the preceding table correspond, mainly, to certain expenses recorded in the period that have not been considered deductible (see Note 16). Additionally, taking into account a conservative criteria that can be assumed by the tax authorities, the Group has considered deductible those impairments calculated on the basis of appraisals, which are carried out by independent experts not related to the Group and which are going to be available for the income tax file.

e) Tax losses

Details of the tax losses of the different companies included in the Neinor Homes Group at 31 December 2017, which correspond with those generated by the subsidiaries Neinor Sur, S.L.U., Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L.U. are as follows:

	Thousands of euros		
Year of generation	Unrecognised	Recognised	Year of maturity
Group tax losses 02117BSC:			
Exercise 30 of June 2015 (*)	1.435	-	2030
Other entities tax loses:			
Exercise 2008	32	-	2028
Exercise 2010	813	-	2028
Exercise 2011	8.797	-	2028
Exercise 2012	18.711	-	2028
Exercise 2013	1.798	-	2028
Exercise 2014	167	-	2029
Exercise 30 of June 2015 (*)	52	-	2030
Exercise 31 of December 2015	55	-	2030
Exercise 2009	5		No time limit
Exercise 2011	2.479	-	No time limit
Exercise 2012	8.617	-	No time limit
Exercise 2013	26.805	-	No time limit
Exercise 2014	16.241	-	No time limit
Exercise 30 of June 2015	8.170	-	No time limit
Exercise 31 of December 2015	46.463	-	No time limit
Exercise 2016	33.497	-	No time limit
Exercise 2017	34.637		No time limit
Total	**208.774**	-	

(*) Generated outside the tax Group.

The tax group's tax losses incurred prior to the year commencing 1 July 2015 by Neinor Homes, S.A. and Neinor Norte, S.L.U. can only be offset against the taxable profit earned individually by the companies themselves that generated it, before considering the tax bases corresponding to 2017.

According to the tax rules currently in force, the tax losses with no time limit included in the preceding table, may be offset in 2017 against the taxable profit for the following tax periods up to the following limits:

- 70% of the tax base prior to offset, with a minimum of EUR 1 million, if revenue is lower than EUR 20 million.

- 50% of the tax base prior to offset, with a minimum of EUR 1 million, if revenue is higher than EUR 20 million but lower than EUR 60 million.
- 25% of the tax base prior to offset, with a minimum of EUR 1 million, if revenue is higher than EUR 60 million.

Regarding the negative tax bases with maturity broken down in the previous table, note that there is no annual limit to their compensation with the previous tax bases for each year. In this sense, the pending negative tax bases that were generated in accordance with regional regulations by the companies that have moved their registered address to Spanish Income Tax Law, may continue to be applied in the following tax periods in which they are taxed in accordance with the regulations, according to the quantitative, qualitative and temporal limits established in their birth regulations.

The Group has not recorded the deferred tax assets related to the aforementioned tax losses since the Group's directors consider that, given the current economic scenery and lack of consolidated trends in the Real Estate industry, their recovery by the generating subsidiaries is not reasonably supported.

f) Tax credits

At 31 December 2017 and 2016, the Group had unrecognised tax credits amounting to EUR 93 thousand.

g) Deferred Taxes

In accordance with the current tax legislation applicable to the Group companies, certain temporary differences may arise that should be taken into account in the estimate of the income tax base and the related income tax expense.

In this regard, at 31 December 2017, before taking into consideration the adjustments made in the estimate of the tax base relating to this reporting period, there are unrecognised deferred taxes amounting to EUR 60.496 thousand (in the tax base) (EUR 61.654 thousand at 31 December 2016) relating to adjustments to the tax base made, mainly for impairment of inventories, by the subsidiary Neinor Sur, S.L.U, and its investee companies' impairment registered by Neinor Norte, S.L.U., as well as related to employee benefits expenses not payable at the end of the year, amounting to EUR 5.246 thousand, of which EUR 4.579 thousand euros correspond to the incentive plan for the CEO and five members of the management team of the Neinor Homes Group.

As in the case of negative tax bases (and for the same reason) the accompanying consolidated financial statements do not include the deferred tax assets relating to these deferred taxes.

h) Other tax matters

From 1 January 2017, among other amendments, there is a limitation of the deductibility of losses incurred on the transfer of equity investments.

Amendments on the Corporate Income Tax regulations in the Historical Territory of Bizkaia are expected to be approved in the coming months with effects in the tax periods beginning on January 1 2018, based on the following points:

- The quantitative limit to apply net operating losses will increase up to the 50% of the tax base, nevertheless, the deadline compensation will be extended to 30 years (actually the deadline is of 15 years). These limitations will be applicable since 2018, even over the net operating losses pending to be compensated before the Regulatory reform.
- The tax rate will be reduced from the 28% to the 24%, being applicable a tax rate of 26% for fiscal year 2018.
- An advanced tax payment of 5% of the tax base of the previous fiscal year has been introduced.
- The minimum tax payment has increased from the 13% to the 17% of the Taxable income/(loss) (15% for fiscal year 2018).

21. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2017, the Group had provided guarantees to third parties for a total amount of EUR 119.756 thousand (EUR 43.427 thousand at 31 December 2016). Included in this figure there is an amount of EUR 22.559 thousand (EUR 15.654 thousand at 31 December 2016) thousand related mainly to guarantees provided to different local authorities to secure the development of different properties and EUR 97.197 thousand to secure payments in advance received by customers (EUR 27.773 thousand at 31 December 2016).

Additionally, the Group has received at 31 December 2017 from different suppliers and contractors guarantees for a total amount of EUR 18.087 thousand (EUR 8.424 thousand at 31 December 2016) to secure the perfect completion of the corresponding construction works.

The Parent's directors do not expect any additional liabilities to arise in connection with the aforementioned guarantees.

22. Revenue and expense

a) Revenues

The breakdown of revenues is as follows:

	Thousands of euros	
	31.12.2017	31.12.2016
Legacy	114.572	164.293
Development	76.621	36.611
Assets Management - Servicing	29.195	27.661
Other / Corporate	-	-
Total	**220.388**	**228.565**

According to the asset administration and management agreement entered into by the Parent and various Kutxabank Group companies dated on 14 May 2015, the Group billed during the 2017 exercise an amount of EUR 29.195 thousand to the aforementioned companies of the Kutxabank Group (EUR 27.661 thousand at 31 December 2016).

All of the Group revenues have been obtained in Spain.

The net revenues from Legacy assets includes an amount of EUR 668 thousand in 2017(EUR 1.109 thousand in 2016) corresponding to rental income of the investment properties (Note 9).

At the end of the reporting period, the Group minimum lease payment commitments to lessees are not significant.

b) Cost of sales

Details of this heading in the consolidated income statement are as follows:

	Thousands of euros	
	Total Group	
	31.12.2017	31.12.2016
Cost of sales	**232.451**	**205.360**
Sites and land	15.378	34.271
Construction work in progress and completed buildings	217.073	171.089

c) Employee benefits expense and average headcount

Details of "Employee benefits expense" are as follows:

	Thousands of euros	
	31.12.2017	31.12.2016
Wages, salaries and similar expenses	31.984	9.527
Termination benefits	151	186
Social security costs	2.480	1.840
Other employee benefit costs	184	124
Total	**34.799**	**11.677**

The caption" Wages, salaries and similar expenses" includes an amount of EUR 19.619 thousand corresponding to incentive planes approved in 2017 (see Notes 4.s and 15.f).

At December 2017, the average headcount at Group companies was 216 (170 at 31 December 2016). The breakdown by category is as follows:

	31.12.2017			31.12.2016		
	Women	Men	Total	Women	Men	Total
Higher degree staff	72	113	185	51	83	134
Medium degree staff	43	7	50	48	16	64
Total	**115**	**120**	**235**	**99**	**99**	**198**

In addition, at 31 December 2017, the Group had 3 employees with a disability of more than 33% (3 at 31 December 2016).

d) External services

Details of this heading in the consolidated income statement are as follows:

	Thousands of euros	
	31.12.2017	31.12.2016
Research and development expenses	2	-
Leases and royalties	872	685
Maintenance	1.874	3.334
Independent professional services	16.013	20.572
Transport	5	3
Insurance premiums	483	343
Bank Services	653	23
Advertising and marketing	5.146	2.743
Supplies	377	263
Other external services	4.039	3.139
Levies (see Note 16)	8.979	9.093
Total	**38.443**	**40.198**

"Independent Professional Services" in the foregoing table includes mainly the fees accrued in the period by the investment property agents and other intermediaries involved in the sales.

Moreover, this heading includes 2.35 million euros that relate to the expenses of the company's shares going public this year.

e) Contribution to consolidated profit or loss

The contributions to consolidated profit or loss for the exercise ended 31 December 2017 and 2016 by each company included in the consolidated group are as follows:

Entity	Thousands of euros	
	31.12.2017	31.12.2016
Full consolidation:		
Parent and consolidation adjustments (*)	1.262	12.429
Neinor Norte, S.L.U.	(5.914)	(126)
Promociones Neinor 1, S.L.U.	(3)	(9)
Promociones Neinor 2, S.L.U.	(27)	3
Promociones Neinor 3, S.L.U.	156	49
Promociones Neinor 4, S.L.U.	28	(31)
Promociones Neinor 5, S.L.U.	39	(27)
Neinor Península, S.L.U.	(19.212)	(6.408)
Neinor Sur, S.L.U.	(2.263)	(4.823)
Total	**(25.934)**	**1.057**

(*) There are no consolidation adjustments as of 31 December 2017 and 31 December 2016.

f) Changes in trade provisions

The detail of "Changes in trade provisions" recognised in the accompanying consolidated income statement is as follows:

	Thousands of euros Income / (Expense)	
	31.12.2017	31.12.2016
Change in trade provisions -Application of impairments for sold stocks (see Notes 6 and 12)	**68.668**	**44.077**
Change in trade provisions – Others	**(7.285)**	**(9.482)**
Impairment losses of inventories(see Note 12)	(6.969)	(9.501)
Provision for bad debts (see Note 13)	39	19
Other provisions	(355)	-
Total change in trade provisions	**61.383**	**34.595**

23. Related party transactions

The Group's "related parties" are deemed to be, in addition to the subsidiaries, associates and jointly-controlled entities, the shareholders, the Parent's "key management personnel" (its directors and managers, and their close family members) and the entities over which key management personnel may exercise significant influence or control or by which they may be influenced. Specifically, related party transactions are deemed to be transactions with parties outside the Group but with which there are ties as defined in Ministry of Economy and Finance Order EHA/3050/2004, of 15 September, and in Spanish National Securities Market Commission (CNMV) Circular 1/2005, of 1 April. Pursuant to the aforementioned criteria, for disclosure purposes the bank Banco de Santander, S.A. and Banco Popular Español, S.A. are considered a related party, due the link between a senior executive and director of the group and one of the directors. Also, in accordance with the definitions and criteria contained in these provisions, IDOM, S.A. and 1810 Capital Investments, S.L. are also considered to be related companies, due to their relatedness to shareholders and directors.

	Thousands of Euros					
	Income			Expenses		
	Net Revenues (Note 22.a)					
Exercise 2017	Sales	Services Provided	Financial Incomes	Cost of Sales – Purchases (Note 22.c)	External Services (Note 22.d)	Financial costs (Note 17)
Other Group´s "related parties"-	-	-	-	-	2	1.417
Banco de Santander, S.A.	-	-	-	2.910	-	119
Banco Popular Español, S.A. (*)	-	-	-	-	-	-
IDOM, S.A.	-	-	-	68	-	-
1810 Capital Investments, S.L.	-	737	-	-	-	-
	-	**737**	-	**2.978**	**2**	**1.536**

(*) Company related to the Group since 7 June 2017. In this regard, the transactions accrued from that date have been included.

	Thousands of Euros					
	Income			Expenses		
	Net Revenues (Note 22.a)					
Exercise 2016	Sales	Services Provided	Financial Incomes	Cost of Sales – Purchases (Note 22.c)	External Services (Note 22.d)	Financial costs (Note 17)
Shareholders-						
Neinor Holdings, S.L.	-	-	-	-	-	503
Other Group´s "related parties"-						
Banco de Santander, S.A.	-	-	5	-	-	608
Hudson Advisors Spain, S.L.	-	-	-	-	981	-
1810 Capital Investments, S.L. (*)	-	-	-	-	-	-
	-	-	**5**	-	**981**	**1.111**

(*) Company related to the Group since 25 April 2016. In this regard, the transactions accrued from that date have been included.

The breakdown of the transactions carried out during 2017 is as follows:

- Financial expenses arising on the loans and credit lines with the financial entity.
- Services provided at the period ended 30 June 2017

The breakdown of the transactions carried out during 2016 is as follows:

- The finance costs arose on the loan granted by Neinor Holdings, S.L.U. (see Note 17), which was repaid in full in 2017, and various loans and credit facilities with the related bank.

- The services provided at 31 December 2016 related to the agreement for the provision of services relating to the counselling and support in the preparation of the business plans, budgets and monitoring tasks in relation to the business plan by Hudson Advisors Spain, S.L., a related company as defined in Ministry of Economy and Finance Order EHA/3050/2004, of 15 September, and in Spanish National Securities Market Commission (CNMV) Circular 1/2005, of 1 April. In addition, on 31 December 2016, the two parties mutually agreed to terminate the aforementioned service contract, with no penalties for either of the two parties.

- The Group recognised 14 thousand euros in 2016 as additions to "Intangible Assets - Industrial Property" (see Note 7) as a result of the purchase of the brand "Neinor Homes" from its sole shareholder (Neinor Holdings, S.L.).

These transactions with related parties were performed on an arm's length basis. There are no obligations or guarantees to related parties in addition to those previously disclosed in this Note or in Note 17 in relation to the financial debt.

The balances held with companies related to the Group at 31 December 2017 and 2016 are as follows:

31 December 2017

Thousands of Euros	Cash a cash equivalents	Payables to sole shareholder	Short-term Bank borrowings	Advances to Suppliers	Current trade and other payables	Customer prepayments
Other Group´s "related parties"-						
Banco Santander, S.A.	27.839	-	42.615	-	-	-
Banco Popular Español, S.A.	69	-	11.250	-	-	-
1810 Capital Investments, S.L.	-	-	-	-	-	1.956
	27.908	**-**	**53.865**	**-**	**-**	**1.956**

31 December 2016

Thousands of Euros	Cash a cash equivalents	Payables to sole shareholder	Short-term Bank borrowings	Advances to Suppliers	Current trade and other payables	Customer prepayments
Shareholders-						
Neinor Holdings, S.L.U.	-	3.071	-	-	-	-
Other Group´s "related parties"-						
Banco Santander, S.A.	22.901	-	64.633	-	-	-
Hudson Advisor Spain, S.L.	-	-	-	13	149	-
1810 Capital Investments, S.L. (*)	-	-	-	7	-	1.676
	22.901	**3.071**	**64.633**	**20**	**149**	**1.676**

(*)Company related to the Group since 25 April 2016. In this regard, the balances accrued from that date have been included. Sales commitments total EUR 1.935 thousand.

At 31 December 2016 the account payable to Neinor Holdings, S.L.U. relates to the income tax under the consolidated tax regime under which both the Neinor Homes Group and its sole shareholder are taxed on a consolidated basis (Note 20), amounting to EUR 3.071 thousand. As indicated in Note 17, during the second half of 2017, this amount has been cancelled by Neinor Holdings, S.L.U.

24. Legal information relating to the Board of Directors and Senior executives

Information regarding situations of conflict of interest involving the directors

In the exercises ended 31 December 2017 and 31 December 2016 the Parent's current and former directors did not perform any transactions with the Parent or the companies of the Group to which it belongs that were outside the normal course of business or were not on an arm's length basis.

Also, during the current exercise and the former one the members of the Board of Directors of the Parent and persons related thereto, as defined by the Spanish Limited Liability Companies Law, did not maintain relationships with other companies that may represent a conflict of interest for them or the Parent. No notification was made to the competent bodies in the sense indicated in Article 229 and, accordingly, these consolidated financial statements do not present any disclosures in this connection.

Directors' compensation and other benefits

As of December 31, 2017, the Directors of the Parent Company, including those who have at the same time the status of members of the Senior Management (one person), have received a fixed and variable compensation for their position as administrators an amount of EUR 1.598, as well as other remuneration (see Note 4.s) amounting to EUR 10.609 thousand (1.250 and 0 thousand euros, respectively, as of December 31, 2016). In addition, the Group has recorded an expense charged to the "Employee benefits expenses" caption in the accompanying consolidated income statement for an amount of EUR 3.625 thousand as a Management incentive plan approved in 2017 (see Notes 15 and 22).

The companies related to them provided to the Group and billed the amounts indicated in Note 23.

The Parent has taken out third-party liability insurance for directors and senior executives the cost of which amounts to EUR 67 thousand in 2017 (EUR 54 thousand in 2016).

The Parent has no pension obligations to the Directors.

The Parent has granted no advances, loans or guarantees to any of its Directors.

Senior executives' compensation and other benefits

The remuneration of the Parent's senior executives and persons discharging similar duties, excluding those who are simultaneously members of the Board of Directors (one person), at 31 December 2017 and 31 December 2016 is summarised as follows:

Number of employees		Thousands of euros					
		31.12.2017			31.12.2016		
31.12.2017	31.12.2016	Fixed and variable remuneration	Other Total	Total	Fixed and variable remuneration	Other Total	Total
9	10	1.474	3.764	5.238	1.229	-	1.229

In addition, the Group has recorded an expense charged to the "Employee benefits expenses" caption in the accompanying consolidated income statement for an amount of EUR 1.347 thousand as a Management incentive plan approved in 2017 (see Notes 4.s and 15).

The Parent has no pension obligations and has granted no advances, loans or guarantees to senior executives. Also, there are no special incentive plans on Neinor Homes, S.L.U. shares for the exercise ended 31 December 2017.

25. Auditors' fees

Fees for audit services for the exercise ended 31 December 2017 for the different companies in the Neinor Homes Group and subsidiaries, provided by the statutory auditor and companies related thereto have amounted to EUR 100 thousand (EUR 88 thousand at 31 December 2016). Likewise, fees for verification services and other services provided by the statutory auditor for the exercise ended at 31 December 2017 have amounted to EUR 370 thousand and EUR 22 thousand at 31 December 2016.

Additionally, companies related to the statutory auditor have provided additional services amounting to EUR 9 thousand for the exercise ended 31 December 2017 (EUR 75 thousand 31 December 2016).

26. Environmental information

Due to the nature of the business in which the Neinor Home Group is engaged, the Group has no environmental liabilities, expenses, assets, provisions or contingencies that might have a significant impact on its equity, financial position or profit or loss. Additionally, the Group does not have any issue related to emission rights.

Therefore, no specific environmental disclosures have been included in these notes to the consolidated financial statements.

27. Exposure to risk

The Group manages its capital to ensure that Group companies will be able to continue as profitable businesses and to maximise shareholder value by achieving a balance between debt and equity. In this regard, the Group has decided not to exceed in the long term a leverage ratio of 20% regarding Loan to Value (LTV) ratio and 40% in relation to the ratio of Net Debt to the Net Value of the Group's Properties, which, in turn, will enable it to comply with the covenants established with respect to its borrowings (see Note 17).

The Company's financial risk management is centralised in its Corporate Financial Office, which has established the mechanisms required to control exposure to credit and liquidity risk, as well as, though in a minor way, to interest rate fluctuations risk. The main financial risks affecting the Company are as follows:

Liquidity risk: the risk that the Group may not be able to meet payments to which it is already committed and/or commitments arising from new investments.

Market risk:

1. Interest rate risk: the impact that any rise in interest rates may have on finance costs charged to the income statement.

2. Credit risk: the impact that defaults on receivables may have on the income statement.

The risk management systems in place to mitigate these risks are detailed below:

Liquidity risk

The Group calculates its cash needs using a 12-month cash-flow budget. This tool is used to identify the amounts and timing of cash needs and to plan for new funding requirements.

The Group's liquidity management policy is to arrange firm credit facilities and hold short-term financial investments that are sufficient to meet its forecast needs over periods that vary depending on the current situation and the outlook for debt and capital markets.

At 31 December 2017, the undrawn credit facilities and loans amounted to EUR 6.332 thousand (EUR 9.671 thousand at 31 December 2016) Additionally, the Group has EUR 73.038 thousand not disposed from the financing agreement of J.P. Morgan (see Note 17).

The Group's available cash position at 31 December 2017 was EUR 76.822 thousand (45.301 at 31 December 2016) of which EUR 41.141 thousand (21.373 at December 2016) may only be drawn down in connection with the construction of the developments, as indicated in Note 14.

The Company's directors are confident that they will have sufficient funds to meet its cash requirements in the future. In addition, the Group entered into an administration management and property asset management contract with Kutxabank, S.A. in 2016 which provides the Group with relatively stable annual revenue until the contract expires in 2022. In this connection, cash is managed at Neinor Homes Group level, in order to avoid cash strains in the operating subsidiaries and allow them to normally develop their properties that are forecasted to be financed by third parties.

Market risk

Interest rate risk

Interest rate fluctuations affect the fair value of fixed-rate assets and liabilities and the future cash flows from floating-rate assets and liabilities.

With the new financial structure described in Note 17 the Group has a higher exposure to the risk of interest rate volatility; leading to a change in the Group's finance costs of approximately EUR +/- 4 million if the interest rate applicable to the Group's current borrowings increases or decreases by 1% in relation to 2017 reporting period (+/- 2 million in 2016) (see Note 17).

Credit risk

The Company does not have a significant credit risk exposure to third parties arising from its own property activity since it collects substantially all of its sales when they are executed in a public deed, when the purchaser either subrogates to the related portion of the property developer loan or chooses a different method. The credit risk arising from the deferred payments on land or building sales is offset through the securing of collateral by the purchaser of the setting of conditions subsequent in the event of non-payment. These conditions would give rise to the recovery of ownership of the asset sold and the collection of compensation.

In general, the Group holds its cash and cash equivalents at banks with high credit ratings.

28. Events after the reporting period

On 11 January 2018, Neinor Holdings, S.L.U. (Note 1 – Lone Star Funds) announced that it had completed the accelerated book built offering of the shares it held in Neinor Homes, S.A. for a total of approximately EUR 174 million, at a price of EUR 17.65 per share (see Note 15-a). Following the transaction, the selling shareholder will hold 350.918 shares, representing approximately 0.4% of the share capital, which are earmarked to secure the requirements provided for in the Management Incentive Plan with respect to certain executives and key employees (see Note 4-s, 15-f and 22-c).

Between January 1, 2018 and the date of formulation of the present consolidated annual accounts for the year ended December 31, 2017, the Board of Directors does not consider that there have been additional significant events that have a significant effect on the mentioned consolidated annual accounts or in the information contained therein.

29. Explanation added for translation to English

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Appendix I
"Scope of consolidation"

Company	Registered address	Activity	% direct and indirect ownership 31.12.2017	31.12.2016	Shareholder	Auditors
Neinor Norte, S.L.U.	Bilbao	Real Estate Development	100%	100%	Neinor Homes, S.A.	Deloitte, S.L.
Promociones Neinor 1, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 2, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 3, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 4, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 5, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Neinor Península, S.L.U.	Córdoba	Real Estate Development	100%	100%	Neinor Homes, S.A.	Deloitte, S.L.
Neinor Sur, S.L.U.	Córdoba	Real Estate Development	100%	100%	Neinor Península, S.L.U.	Deloitte, S.L.

(*) The registered address moved from Bilbao to Paseo de la Castellana 20, Madrid, by means of a public deed granted on December 13, 2017.

Some financial figures of interest with respect to the consolidated companies are given below:

Company	Total equity at December 31, 2017 (thousands of euros)					
	Share capital	Reserves	Previous years' losses	Profit / (Loss)	Other equity	Total equity
Neinor Norte, S.L.U.	235.091	912	(126)	(5.914)	99	230.062
Promociones Neinor 1, S.L.U.	301	59	(36)	(3)	-	321
Promociones Neinor 2, S.L.U.	880	170	(10)	(27)	-	1.013
Promociones Neinor 3, S.L.U.	594	122	(22)	156	-	850
Promociones Neinor 4, S.L.U.	2.981	592	(65)	28	-	3.536
Promociones Neinor 5, S.L.U.	2.979	592	(38)	39	-	3.572
Neinor Peninsula, S.L.U.	558.422	114	(6.408)	(19.212)	135	533.051
Neinor Sur, S.L.U.	158.981	657	(4.824)	(2.263)	-	152.551

Company	Total equity at December 31, 2016 (thousands of euros)					
	Share capital	Reserves	Previous years' losses	Profit / (Loss)	Other equity	Total equity
Neinor Norte, S.L.U.	235.091	(17)	-	(126)	-	234.948
Promociones Neinor 1, S.L.U.	301	59	(27)	(9)	-	324
Promociones Neinor 2, S.L.U.	880	170	(13)	3	-	1.040
Promociones Neinor 3, S.L.U.	594	117	(67)	49	-	693
Promociones Neinor 4, S.L.U.	2.981	592	(34)	(31)	-	3.508
Promociones Neinor 5, S.L.U.	2.979	592	(12)	(27)	-	3.532
Neinor Peninsula, S.L.U.	558.422	-	-	(6.408)	-	552.014
Neinor Sur, S.L.U.	158.981	120	-	(4.824)	-	154.277

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

DIRECTORS' REPORT

Year ended 31 December 2017

Neinor Homes, S.A. and Subsidiaries

1. ***<u>The Group: Organisational structure and operations</u>***

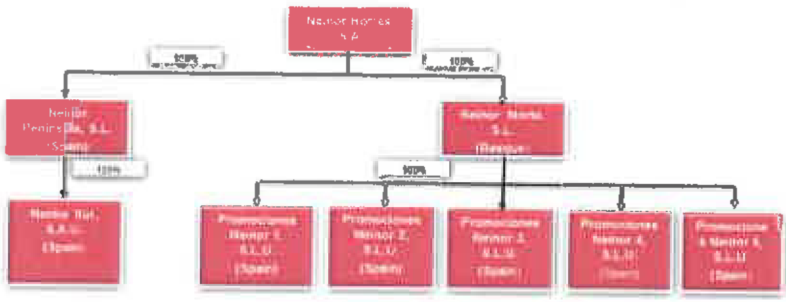
The Neinor Homes Group was incorporated under the memorandum of understanding entered into in 2014 by Kutxabank, S.A. and the Lone Star investment fund, through its investee, Intertax Business, S.L.U. (now Neinor Holdings, S.L.U.), for the purchase and sale of a portion of the Kutxabank Group's property assets. The aforementioned purchase and sale (Operation Lion) was completed on 14 May 2015 through the transfer by Kutxabank, S.A. to Neinor Holdings, S.L.U. of all the shares that the former held in Neinor Homes, S.A., once the conditions precedent set forth in the purchase and sale agreement entered into by the parties on 18 December 2014 had been fulfilled.

On 1 January 2015, within the context of the transaction (the "Transaction"), all the employees who had been performing the property development group's development and management tasks, and the technical resources and means required to carry out the activity, were transferred to Neinor Homes, S.A.

In 2017, the Parent, Neinor Homes, S.A. was registered as a public limited liability company ("S.A.") (a transaction that was formalised by virtue of a public deed executed on 1 March 2017 before the Bilbao notary Raquel Ruiz Torres under number 234 of her protocol) with a view to its admission to trading on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges, which took place on 29 March 2017 with the prior authorisation of the Company's sole shareholder on 6 March 2017.

Neinor Homes Homes, is currently the head of a business group which carries on its activities either directly or indirectly through ownership interests in various companies.

A flowchart of the corporate structure of Neinor Homes S.A. and Subsidiaries (the "Group") is as follows:



The Group's business activities are performed exclusively in Spain, and principally, through three business lines:

A) Development business line:

The Group's core and strategic business activity based on the acquisition of land for residential use for its subsequent property development.

The Parent's land portfolio is comprised of 185 lots with a total of 12.000 buildable units. The portfolio is distributed over the Parent's five main geographical areas of activity, namely: Madrid, Catalonia, the Basque Country, and Andalusia.

The land portfolio arose as a result of both the Transaction and subsequent purchase and sale transactions in 2015, 2016 and 2017.

B) Legacy business line:

Business activity consisting of the disposal of non-strategic assets acquired in the Transaction.

The portfolio is divided into three main types of asset: i) multi-unit new property developments ii) remnants of new property developments end products and iii) singular assets, which include industrial warehouses, hotels, premises, offices and land either below the minimum size for development or rather, situated in the Group's non-strategic areas.

C) Servicing business line:

On 14 May 2015, an asset administration and management agreement was entered into between the various companies of the Kutxabank Group and Neinor Homes, S.A. in relation to the property assets which continue to be the property of the Kutxabank Group. This servicing agreement has an initial term of seven years, and may be automatically renewed for additional periods of one year.

As consideration for these services, the Kutxabank Group pays a fixed remuneration based on the type and volume of the managed assets, and an additional variable success remuneration applicable for the marketing thereof and for the execution of certain specific actions relating to the assets.

At an organisational structure level, the Company has a Board of Directors and three Committees: Audit and Control Committee, Nomination and Remuneration Committee and Land Investment Committee.

In 2017 they met on four occasions, three of which were in person and one in writing and without a convening a formal meeting (25 January, 26 April, 26 July and 31 October). Additionally, the Audit and Control Committee met on December 5. The meetings in writing and without session were on February 22 and 27, March 6 and 8 and August 25.

The most relevant resolutions adopted by the Board of Directors and the Committees in 2017 include most notably approval of the annual accounts, the transformation of the Company into S.A., the application for admission to the Stock Exchange, the change of the members of the Board of Directors, the approval of the Long Term Incentive Plan (LTIP), the financing agreement with J.P. Morgan, the re-election of Deloitte, S.L. as auditors and the approval of the following documents:

a) Regulations of the General Shareholders' Meeting and amendments to the Regulations of the Board and its Committees
b) Conduct Regulation in the Securities Markets
c) Treasury stock policy
d) Dividend policy
e) Investment and financing policy
f) Tax risks policy
g) Board members selection policy
h) Board members reimbursable expenses policy
i) Operating rules of the Shareholders' forum
j) Adhesion to the Code of Good Tax Practices
k) Employment policy for former employees of the auditor
l) Policy of services to be provided by the auditor other than the audit
m) Regulation of the Compliance function
n) Compliance activities schedule
o) Remuneration Policy for Management
p) Employee compensation policy

2. ***Business performance and earnings - Significant aggregates***

In 2017, the Group recognised revenue of EUR 220.388 thousand achieving a gross margin of EUR 56.605 thousand and EBITDA of EUR(17.574) thousand an adjusted EBITDA of EUR 8.277 thousand. At equity level, total assets at 31 December 2017 amounted to EUR 1.278.950 thousand, equity to EUR 722.418 thousand and current and non-current liabilities to EUR 556.532 thousand.

Revenue and gross margin

By business volume, the Legacy business activity recognised sales of EUR 114.572 thousand, with a gross margin of EUR 6.448 thousand, representing a margin of 6%. This is followed by the volume in the Development business line, with revenue of EUR 76.621 thousand and gross margin of EUR 20.962 and recognising a gross margin of 27%. Finally, the Servicing business line recognised revenue of EUR 29.195 thousand.

Legacy sales, amounting to EUR 113.905 thousand, correspond to more than 1.700 main units, situated mainly in Southern Spain (61%).

Development sales are due mainly to the completion and delivery of 8 property developments (98%): *Dehesa homes* with sales of EUR 27.539 thousand and La Catalana with sales of EUR 12.317 thousand, and the rest, that amounts EUR 35.135 thousand, are: Las Salinas, Móstoles III-Los Alerces, Leku Eder Homes, Pintor Alsamora, Urduliz Homes and Jardines de Zabalgana. The remaining 2% (EUR 1.630 thousand) relates to housing units of developments completed in 2016: *Jardines de Zabalgana Bloque III, El Castillón, Bádames II, Jardines de Zabalgana II, Euroresidencial and Torresolo VPO.*

Servicing revenue relates mainly to: *Management Fee* on the EUR 1.500 million of managed assets (EUR 19.532 thousand (67%)), *Success Fee* calculated on total sales of EUR 174 million (EUR 7.909 thousand (27%)), and other income (EUR 1.754 thousand (6%)).

Adjusted EBITDA

The adjusted EBITDA in 2017 stood at (EUR 17.574 thousand), mainly due to "Development" with a negative EBITDA of (EUR 22.017 thousand) and "Legacy" with a negative EBITDA of (EUR14.069 thousand). Servicing' profit of EUR 18.512 thousand, which represents a net margin of 63%; partially compensates for the losses.

In 2017, the consolidated income statetents includes an expense of EUR 18.952 thousand due to MIP (assumed by Lone Star) and IPO expenses amounting to EUR 2.350 thousand. Additionally, there has been an impairment of the "Legacy" stock of 4.549 thousand euros. Excluding these three effects, the first two re relating to "Develpment" and the third to "Legacy", the adjusted EBITDA of the company is 8.277 thousand euros.

Profit/Loss for the year

Loss for 2017 amounted to EUR 25.934 thousand.

Financial position

The current liabilities and non-current liabilities at 31 December 2017 amounted to EUR 556.532 thousand compared to EUR 384.817 thousand at 31 December 2016 (an increase of EUR 171.716 thousand) due mainly due to the Increase in financing (EUR113.974 thousand) and advances received from customers (EUR 51.999 thousand).

The borrowing position at 31 December 2017 continues to indicate very sound debt/equity ratios: 33% Loan To Cost ratio (LTC) and 22% Loan To Value ratio (LTV).

Borrowings at 31 December 2017

At the end of 2017, EUR 418 million was recognised under current and non-current bank borrowings. The detail of bank borrowings is as follows:

- Corporate facilities: EUR 75 million (non-current: EUR 18 million).
- Land financing facilities: EUR 207 million
- Capex financing facilities: EUR 111 million
- VAT facilities: EUR 11 million
- Factoring facilities: EUR 14 million

On 28 August 2017, the Group signed a financing agreement with J.P. Morgan for EUR 150 million for land acquisition. The loan is for an initial term of 12 months and may be renewed for an additional 12 months.

Future changes in debt

Neinor Homes' medium- to long-term objective is to focus borrowings on Capex's financing and not to exceed a LTV ratio of approximately 40%.

3. Matters relating to the environment and employees

As detailed in Note 26 to the consolidated financial statements, in view of the business activities carried on by the Neinor Homes Group, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. In addition, the Group's activities do not give rise to situations relating to greenhouse gas emission allowances.

At 31 December 2017, the average number of employees employed in the various companies that make up the Group was 215 people, representing an increase of 26% on the twelve month period ended 31 December 2016 (170 people). The distribution of the headcount, by gender and professional category, was as follows:

	31/12/17			31/12/16		
	Women	Men	Total	Women	Men	Total
University graduates	72	113	185	51	83	134
Further education college graduates	43	7	50	48	16	64
Total	**115**	**120**	**235**	**99**	**99**	**198**

4. Liquidity and capital resources

Note 27 to the consolidated financial statements includes the capital management and liquidity risk policy.

Also, the Group has a sufficient level of cash and cash equivalents in order to carry on its business activities.

Of note in 2017, is the financing, mainly of land and corporate projects, obtained by the Group, which amounts to an on balance sheet balance of EUR 417.665 thousand, highlighting the loan signed with J.P. Morgan mentioned above.

In addition to this financing, the outlook is to arrange developer-type financing to fund the investment and, in turn, link the majority of the required payments and investments with the delivery of the property development and, therefore, the earnings from the sale.

5. Information regarding the weighted average payment term to suppliers. Final Provision Two of Law 31/2014 of 3 December

Next it is detailed the information required by the Final Provision Two of Law 31/2014 of 3 December, that has been prepared applying the corresponding rules issued by the Accounting and Auditing Institute at 29 January 2016, which relates to the information to be included in the annual financial statements about weighted average payment term to suppliers.

	Period ended 31 December 2017	Period ended 31 December 2016
	Days	Days
Weighted average payment term to suppliers	18	36
Paid operations ratio	29	34
Outstanding payments ratio	18	48
	Thousands of euros	Thousands of euros
Total payments made	430.996	303.036
Total outstanding payments	20.908	22.803

Pursuant to Law 11/2003, of 26 July, establishing measures on combating late payment in commercial transactions, the statutory payment period applicable to the Company at 31 December 2017 and 31 December 2016 was 30 days, unless a longer period has been agreed, which in no case may exceed 60 days. In this connection, and for the calculations referred to above, the Group has considered in all cases a maximum legal term of 30 days, no matter which the arranged conditions with the suppliers are.

6. ***Main risks and uncertainties***

The Company has a risk map. In this connection, the organisation's procedures have been analysed, the possible sources of risk have been identified and, the appropriate measures have been taken to prevent them.

The most significant financial risks are:

Market risk

Exposure to interest rate risk

The Group does not use interest rate hedges.

Most of the loans and credit facilities in the Group's balance sheet are indexed to Euribor.

Exposure to credit risk

The Group does not have significant credit risk exposure to third parties arising from its own development business since it receives payment for substantially all its sales at the time the transaction is executed in a deed through subrogation of the buyer for the corresponding portion of the developer loan or by any other method of the buyer's choice. The credit risk arising from the payment deferrals in land or completed buildings sale transactions are mitigated through the obtainment of guarantees by the buyer or through the establishment of conditions subsequent in the event of default, which would give rise to the recovery of ownership of the asset sold and the collection of an indemnity payment.

In general, the Group holds its cash and cash equivalents at banks with high credit ratings.

Exposure to solvency risk

The Group regularly analyses the insolvency risk of its accounts receivable and adjusts the corresponding impairment loss. The Parent's directors consider that the amount of trade and other receivables approximates their fair value.

Exposure to exchange rate risk

In view of the Group's scant international exposure in markets outside the eurozone, its exposure to foreign currency risk is scantly material.

7. *Significant events after the reporting period*

Subsequent to 2017 year-end no additional events took place other than those indicated in Note 28 to the consolidated financial statements which may significantly affect the financial information detailed in this report, or which should be highlighted in view of its importance.

8. *Information on the outlook for the entity in 2017*

The Group's main lines of action for 2018 focus on:

Development business line

- Continuing to acquire land to which a specific use has been assigned in order to increase the land bank, focusing mainly on the aforementioned strategic areas, but also monitoring new areas with potential for expansion. There is increasing competition from both local developers and new players in the property development market; however, the entry barriers in this sector are greater than in the past, since financial institutions are very selective when granting financing for the purchase of land.

- Maintaining intensity in the launch of new property developments. Thus, an additional 50 property developments (3.500 units) will be added to the existing 88 property developments (8.000 units) that we had launched at 31 December 2017.

- Monitoring of the 36 construction projects which the Group had at 2017 year-end, plus the tenders and contracting of 50 new projects.

- Continuing the upward trend in the number of pre-sales reached in 2017, whereby approximately 1.300 housing units were sold, reaching a volume of presales of more than EUR 740 million. Also, capture the increases in prices that are occurring in each location due to the increase in demand and low supply of quality products.

- Delivering the property developments for which the construction completion date is forecast for 2018, while taking due care of our clients' satisfaction and experience.

Legacy business line

- Continuing with the divestment in order to monetise the majority of the portfolio in 2018.

- In terms of margins, the Group adopts a conservative outlook, presenting an almost neutral impact.

- The gains on this divestment will mainly be used to fund the acquisition of new land for the Development business line.

Servicing business line

- Maintaining the level of client satisfaction.

- Complying with the KPIs agreed between the parties, mainly at the level of new assets that come under management, administrative management of real estate assets, and the launch of their marketing and sale.

9. *R&D&i activities*

Given the lines of business of Neinor Homes S.A., there are no relevant research, development and innovation activities.

10. *Treasury shares*

At 31 December 2017, the Company's share capital was represented by 79.005.034 (31 December 2016: 729.297.000) fully subscribed and paid shares of EUR 10 par value each. All these shares carry identical voting and dividend rights.

During 2017, treasury shares have been acquired, including an amount of 3.459 thousand euros on the balance sheet at 31 December 2017.

At 31 December 2017, the Parent Company held 228.798 treasury shares being the average purchase price of EUR 18,03, following the value date criteria.

At 31 December 2017, the Parent Company held 228.798 treasury shares being the average purchase price of EUR 18,03, following the operation date criteria.

11. Alternative performance measures

As indicated in Note 2 to the consolidated financial statements, the Group prepares its consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union (EU-IFRSs). The Group also presents certain Alternative Performance Measures (APMs) to provide additional information which facilitates the comparability and comprehension of its financial information and enables decision-making and assessment of the Group's performance.

The most significant APMs are as follows:

Gross profit:

Definition: External sales + Cost of sales + Change in operating provisions, allowances and write-downs - Derecognition of write-downs on inventories sold.

Reconciliation: the Parent presents the calculation of gross profit in Note 6 to the consolidated financial statements.

Explanation of use: the Parent considers gross profit to be a performance measure, since it provides information on gross profit, which is calculated on the basis of external sales less the cost incurred to complete those sales. The impairment losses derecognised in connection with real estate assets sold during the year were also taken into consideration for this calculation.

Comparative: the Parent presents comparative figures for the prior year.

Consistency: the criterion used to calculate the gross profit is the same as that used in the previous year.

EBITDA:

Definition: Gross profit + Staff costs + Outside services + Change in operating provisions, allowances and write-downs – Other + Other operating income + Impairment and gains/(losses) on disposals of non-current assets.

Reconciliation: the Parent presents the calculation of EBITDA in Note 6 to the consolidated financial statements.

Explanation of use: the Parent considers EBITDA to be a performance measure since it provides an analysis of the operating results (excluding depreciation and amortisation, as it is a non-cash item) as an approximation of the cash flows from operating activities which reflect the generation of cash. It is also an indicator that is widely used by investors when valuing companies, and by rating agencies and creditors to measure the level of borrowings, comparing EBITDA with net debt.

Comparative: the Parent presents comparative figures for the prior year.

Consistency: the criterion used to calculate EBITDA is the same as that used in the previous year.

Adjusted EBITDA

Definition: Profit or loss before tax + Incentive plan costs + IPO costs + Change in operating provisions, allowances and write-downs + Net financial profit or loss and other income and expenses + Depreciation and amortisation charge.

Reconciliation: the Parent presents the calculation of adjusted EBITDA in Note 6 to the consolidated financial statements.

Explanation of use: the Parent considers adjusted EBITDA to be a performance measure since it provides an analysis of the operating results, excluding the non-cash depreciation and amortisation charge, inventory write-downs, investment property and doubtful debts considered to be non-recurring.

Comparative: the Parent presents comparative figures for the prior year.

Consistency: the criterion used to calculate adjusted EBITDA is the same as that used in the previous year. Additionally, and exceptionally, the expenses derived from the IPO and MIP have been adjusted to present the information homogeneous with respect to the previous year.

Adjusted statement of cash flows

The statement of cash flows contains all the equity movements of the year, regardless of whether or not they have assumed an outflow of funds, which are recorded under the section "Net cash flows from financing activities" of the statements consolidated cash flow, with its corresponding counterparts in the operating flows, as it corresponds mainly to a single transaction in cash and shares, and therefore indivisible.

Borrowings

Definition: Bank borrowings recognised under non-current liabilities + bank borrowings recognised under current liabilities.

Reconciliation: the Parent presents the calculation of borrowings in Note 6 to the consolidated financial statements.

Explanation of use: Borrowings is a financial indicator that measures the company's debt position. It is also an indicator that is widely used by investors when valuing the financial leverage of companies, and by rating agencies and creditors to assess the level of borrowings.

Comparative: the Parent presents comparative figures for the prior year.

Consistency: the criterion used to calculate borrowings is the same as that used in the previous year.

Net financial debt

Definition: Bank borrowings (current and non-current liabilities) + deferred payment for the purchase of land recognised under "Trade and Other Payables" under both non-current and current liabilities (see Note 19 to the consolidated financial statements) - "Cash and Cash Equivalents" (excluding the restricted component associated with the advances received and associated with a property development, which are deposited in a special account and are only available in connection with the construction of the property developments (see Note 14 to the consolidated financial statements).

Reconciliation: the detail of the reconciliation of this APM with the consolidated financial statements is as follows (in thousand euros):

	31/12/17
Non-current liabilities - bank borrowings	17.902
Current liabilities - bank borrowings	399.763
Current trade and other payables - deferred payment for land (Note 19)	0
Cash and cash equivalents - available cash (Note 14)	(35.681)
Net financial debt	**381.984**

Explanation of use: Net financial debt is a financial indicator that measures a company's net debt position. It is also an indicator that is widely used by investors when valuing the net financial leverage of companies, and by rating agencies and creditors to assess the level of net borrowings.

Comparative: the Parent presents comparative figures for the prior year.

Consistency: the criterion used to calculate net financial debt is the same as that used in the previous year.

Loan to Value (LTV)

Definition: Net financial debt / Assets market value

Explanation of use: The LTV ratio is an indicator that measures the company's indebtedness position. It is widely used by investors to assess the financial leverage of real estate companies, as well as by rating agencies and banks to assess the level of indebtedness.

Reconciliation: The reconciliation of this APM with the consolidated financial statements is as follows (in million euros):

	31 December 2017
Net financial debt	382
Assets market value	1.717
LTV	**22%**

Loan to Cost (LTC)

Definition: Net financial debt / (Inventories + Investment Property)

Explanation of use: The LTC is an indicator that measures the company's indebtedness position. It is widely used by investors to assess the financial leverage of real estate companies, as well as by rating agencies and banks to assess the level of indebtedness.

Reconciliation: The reconciliation of this APM with the consolidated financial statements is as follows (in million euros):

	31 December 2017
Net financial debt	382
Inventories	1.143
Investment Property	2
LTV	**33%**

12. *Annual Corporate Governance Report*

The Annual Corporate Governance Report has been approved by the Board of Directors of Neinor Homes, S.A. and it is an integral part of the Director´s Report of the year ended 31 December 2017. The Annual Corporate Governance Report is incorporated below.

ANNEX I MODEL

ANNUAL CORPORATE GOVERNANCE REPORT ON PUBLICLY TRADED COMPANIES

IDENTIFYING DATA OF ISSUER

CLOSING DATE OF THE FINANCIAL YEAR OF REFERENCE **2017**

Tax ID Code A- - 95786562

Company Name NEINOR HOMES, S.A.

Registered Address: C/ Ercilla 24, Bilbao

[ENGLISH LOOSE TRANSLATION FOR INFORMATION PURPOSES ONLY. IN CASE OF DISCREPANCY BETWEEN THE ENGLISH AND THE SPANISH VERSION, THE SPANISH VERSION SHALL PREVAIL]

ANNUAL CORPORATE GOVERNANCE REPORT ON PUBLICLY TRADED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital

Complete the following table on the company's share capital	Share capital	Number of shares	Number of voting rights
28/03/2017	790,050,340	79,005,034	79,005,034

Are there different types of shares with different associated rights?

☐ Yes ☑ No

Class	Number of shares	Nominal unit	Unit number of voting rights	Different rights

A.2 Provide details of the direct and indirect owners of significant holdings in your company at year end, excluding directors:

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
LONE STAR CAPITAL INVESTMENTS, S.A.R.L.	0	10.209.030	12,92%
ADAR CAPITAL PARTNERS, LTD	0	4.108.261	5,20%
KSAC EUROPE HOLDINGS, L.P.	0	3.317.421	4,20%
WELLINGTON MANAGEMENT GROUP, LLP	0	6.743.869	8,54%
INVESCO LIMITED	0	3.962.101	5,01%
FMR, LLC	0	5.444.315	6,89%
BANK OF MONTREAL	2.433.355	0	3,08%

Name or company name of the indirect owner of the stake	Through: Name or company name of the direct owner of the stake	Number of voting rights
LONE STAR CAPITAL INVESTMENTS, S.A.R.L.	NEINOR HOLDINGS, S.L.	10.209.030
ADAR CAPITAL PARTNERS, LTD	ADAR MACRO FUND, LTD	4.108.261
KSAC EUROPE HOLDINGS, L.P.	KSAC EUROPE INVESTMENTS, S.A.R.L.	3.317.421
WELLINGTON MANAGEMENT GROUP, LLP	WELLINGTON GRUP HOLDINGS, LLP	6.743.869
INVESCO LIMITED	INVESCO ASSET MANAGEMENT LIMITED	3.900.478
INVESCO LIMITED	INVESCO ADVISERS, INC	61.623
FMR, LLC	FIDELITY MANAGEMENT AND RESEARCH COMPANY	3.062.235
FMR, LLC	FMR INVESTMENT MANAGEMENT (UK) LIMITED	2.382.001
FMR, LLC	FIDELITY INSTITUTIONAL ASSET MANAGEMENT TRUST COMPANY	79

Indicate the most significant changes in the shareholder structure during the year

Name of shareholder (person or company)	Date of the transaction	Description of the transaction
NEINOR HOLDINGS, S.L.	13/09/2017	Fell from 39.549% to 12.922% of the share capital

A.3 Complete the following tables on the members of the company's board of directors who have voting rights over shares in the company:

Name of board member (person or company)	Number of direct voting rights	Indirect voting rights	% of total voting rights
Juan Velayos Lluís	287.299	0	0,36

% of total voting rights held by the board of directors	0,36%

Complete the following tables on the members of the company's board of directors who have rights over shares in the company:

A.4 Indicate, where applicable, any family, commercial, contractual or corporate relations between the holders of significant shareholdings, where they are known by the company, unless such relations are irrelevant or arise from normal trading activities

A.5 Indicate, where applicable, any commercial, contractual or corporate relations between the holders of significant shareholdings, and the company and/or its group, unless such relations are irrelevant or arise from normal trading activities:

A.6 Indicate whether any shareholder agreements have been notified to the company that affect it under Articles 530 and 531 of the Ley de Sociedades de Capital (Spanish Companies' Act) If so, describe them briefly and specify the shareholders bound by such agreements

☐ Yes ☑ No

Participants in shareholders agreement	% of share capital affected	Brief description of agreement

Indicate whether the company knows of the existence of any concerted actions between its shareholders. If so, describe them briefly

☐ Yes ☑ No

Participants in concerted action	% of share capital affected	Brief description of concerted action

If any modification or cancellation of these covenants, agreements or concerted actions has taken place during the year, please make express mention of this:

N/A.

A.7 Indicate whether there is any individual person or corporate entity that exercises, or may exercise, control over the company, pursuant to Article 5 of the Ley del Mercado de Valores (Securities Market Act If so, identify this person or entity

☐ Yes ☑ No

Name

Observations

A.8 Complete the following tables on the company's treasury stock:

At the close of the financial year

Number of direct shares	Number of indirect shares (*)	% of share capital
233.258	0	0.30%

(*)Through:

Explain any significant changes occurring during the year, pursuant to Royal Decree 1362/2007:

Explain any significant changes
The company started a treasury stock program through which it acquired 200,000 of its own shares between 04/05/2017 and 20/09/2017 Subsequently, on 22/09/2017, the company signed a liquidity contract for which it contributed 28,000 of its own shares and 500,000 euros. On 5/10/2017, the company withdrew 27,046 shares from the account associated with the liquidity contract and contributed an additional 675,871.11 euros. At the end of the fiscal year, the company's treasury stock amounted to 233,258 shares, of which 199,406 are deposited in a securities account and 33,852 are deposited in the account associated with the liquidity contract.

A.9 Give details of the terms and conditions corresponding to the General Meeting of Shareholders' current mandate to the board of directors to issue, acquire or assign own shares.

The Sole Shareholder of the company before the IPO authorized the Board on 6 March, 2017 the following aspects:

1) Issuance of debt and any other securities of a similar nature, convertible into newly issued shares of the Company and / or exchangeable in outstanding shares of the Company, as well as warrants or other similar securities that may directly or indirectly entitle the subscription or acquisition of shares of the company, either newly issued or already in circulation, with the following conditions:

- Securities: debt, bonds and other fixed-income securities of a similar nature, exchangeable for shares of the Company, of any other Company, whether or not it belongs to its group and / or convertible into shares of the company, promissory notes, preference stock and warrants.
- Delegation term: 5 years.
- Maximum amount: 500.000.000 €.

2) Derivative acquisition of own shares, by the company or its subsidiaries, for a term of 5 years, for a maximum amount equal to 10% of the share capital and for a price or equivalent value that ranges between a minimum equivalent to its nominal value and a maximum equivalent to that which is greater than (i) 105% of the quoted price of the Company's shares on the Continuous Market at the time of acquisition or of the closing price of the last trading session prior to the acquisition and (ii)) the result of increasing by 10% the maximum share price of the three months prior to the moment at which the acquisition takes place. Said shares may be used for their sale or cancellation as well as for their delivery directly to the employees or managers of the company or as a consequence of exercising the stock options that they may hold.

A.9 bis Estimated free float:

	%
Estimated free float	87,5%

A.10 Indicate whether there are any restrictions on the transfer of securities and/or any other restrictions on voting rights. In particular, any type of restrictions that may make it difficult to take control of the company by the acquisition of its shares on the market must be reported.

☐ Yes ☑ No

Description of the restrictions

A.11 Indicate whether the General Meeting has agreed to adopt neutralization measures against a takeover bid by virtue of the provisions in Law 6/2007.

☐ Yes ☑ No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

☐ Yes ☑ No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they grant.

B ANNUAL GENERAL MEETING

B.1 Indicate and, where applicable, list the differences with respect to the minimum regime under the Companies Act with of the quorum for establishing the Annual General Meeting.

☐ Yes ☑ No

B.2 Indicate and, where applicable, list the differences with respect to the regime under the Companies Act for adopting the company resolutions:

☐ Yes ☑ No

Describe how they differ from the rules established in the Companies' Act (LSC).

B.3 Indicate the rules applicable to the modification of the company's bylaws. In particular, report the majority required to amend the bylaws and, where applicable, the rules for preserving the rights of shareholders in the amendment of the bylaws.

Article 28.1 of the Statutes establishes that, when modifying the bylaws, even if they appear in the same item on the agenda, each article or group of articles that has its own autonomy must be voted on separately.

Article 30 of the Regulations of the Annual General Meeting establishes that the modification of Bylaws will require an absolute majority if the capital present or represented exceeds 50%, or two thirds of the capital present or represented when the second call is attended by shareholders representing 25% or more of the subscribed capital with the right to vote without reaching 50%.

B.4 Indicate the attendance figures at the General Meetings held each year to which this report refers and those of the previous year:

	Attendance data				
Date of Annual General Meeting	% physical presence	% representation	% remote voting		Total
			E-voting	Others	
01/01/2017	0,00%	0,00%	0,00%	0,00%	0,00%

B.5 Indicate whether there is any restriction in the bylaws establishing a minimum number of shares needed to attend the AGM:

☐ Yes ☑ No

Number of shares necessary to attend AGM	

B.6 Repealed section.

B.7 Indicate the direction and form of accessing the information on corporate governance through the company's website and other information on AGMs that should be made available to the shareholders through the Company's website

You can find information on the Company's corporate governance at the following address: https://www.neinorhomes.com/accionistas-inversores

C MANAGEMENT STRUCTURE OF THE COMPANY

C.1 Board of directors

C.1.1 The maximum and minimum number of directors set forth in the bylaws are:

Maximum number of directors	15
Minimum number of directors	5

C.1.2 Complete the following table with the members of the board:

Name of director (person or company)	Repre-sentative	Director status	Position on the board	Date of first appoint-ment	Date of last appointment	Election procedure
Ricardo Martí Fluxá		Independent	Chairman	08/03/2017	08/03/2017	Appointed by sole shareholder
Anna M. Birulés Bertrán		Independent	Voting member	08/03/2017	08/03/2017	Appointed by sole shareholder
Alfonso Rodés Vilà		Independent	Voting member	08/03/2017	08/03/2017	Appointed by sole shareholder
Juan José Pepa		Proprietary	Voting member	14/05/2015	08/03/2017	Appointed by sole shareholder
Felipe Morenés Botín Sanz-de Sautuola		Proprietary	Voting member	14/05/2015	08/03/2017	Appointed by sole shareholder
Juan Velayos Lluis		Executive	CEO	14/05/2015	08/03/2017	Appointed by sole shareholder
Alberto Prieto Ruiz		Independent	Voting member	31/10/2017	31/10/2017	Cooptation

Total number of directors	7

Indicate any resignations that have taken place in the Board of Directors during the reporting period:

Name of director (person or company)	Status of director at time of resignation	Date of resignation
Andre Collin	Proprietary	08/03/2017
Donald Quintin	Proprietary	08/03/2017
William David Young	Proprietary	08/03/2017
Vinay Khandelwal	Proprietary	08/03/2017
Philippe Couturier	Proprietary	08/03/2017
Denis Baudillon	Proprietary	08/03/2017
Dominique Jean Marie Cressot	Proprietary	31/10/2017

C.1.3 Complete the following tables on the members of the board and their status:

EXECUTIVE DIRECTORS

Name of director (person or company)	Position in the company's organization chart
Juan Velayos Lluis	CEO

Total number of executive directors	1
% of the total board	14,29%

EXTERNAL PROPRIETARY DIRECTORS

Name of director (person or company)	Name of significant shareholder represented or proposing appointment
Juan José Pepa	Neinor Holdings S.L.
Felipe Morenés Botín Sanz-de Sautuola	Neinor Holdings S.L.

Total number of proprietary directors	2
% of the total board	28,57%

EXTERNAL INDEPENDENT DIRECTORS

Name of director (person or company)	Profile
Ricardo Martí Fluxá	Mr. Martí Fluxa is the Chairman of the Spanish Association of Real Estate Consulting Companies (ACI) and Director at Liteyca y Bodesa, S.A.U. He was Secretary of State for Security from 1996 to 2000. As a member of the Spanish Diplomatic Corps, he held different positions abroad and was finally appointed Chief of Protocol and Activities of His Majesty the King of Spain In the private sector, he was the Chairman of Industria de Turbo Propulsores, S. A. (ITP), President at Marco Polo Investments, Board Member of the Tomás Pascual Group, Member of the Advisory Board of the investment bank Arcano Capital, Board Member of Ibersecurities, Board Member of the technology firm IKUSI and member of the Executive Committee and Chairman of the Remuneration Committee of Caja de Ahorros y Monte de Piedad de Navarra. Currently, he is the President of the Board at Reina Sofia Art Centre Museum, Secretary of the Spanish Royal Academy of Language Studies Foundation, Trustee of The Prado Museum Friends Foundation, Chairman at the Tomás Pascual Institute for Nutrition and Health and President of the Ankaria Foundation
Anna M. Birulés Bertrán	Ms. Birulés is an independent board member, coordinating director, Chairman of the Audit and Compliance Committee, member of the Management and Investment boards at Grupo Pelayo Mutua de Seguros y Reaseguros a Prima Fija. She is also an independent board member of the Audit and Risk Committee and member of the Remuneration and Appointments Committee at Ban co Mediolanum and independent board member of IDOM, Consulting, Engineering, Architecture, S.A.U. She is member of several advisory boards. Ms. Birulés is a former Minister of Science and Technology for the Spanish Government and the Former General Secretary of the Board of Banco Sabadell. She has a PHD in Economics and began her career in the Department of Industry and Energy of the Generalitat of

	Catalonia, eventually becoming General Director of the Information and Business Development Centre (CIDEM) and President of the Consortium for the Commercial Promotion of Catalonia (COPCA). She was CEO of Retevisión (now part of Grupo Abertis and of Vodafone Group), where she led the expansion process of the telecommunications operator, through its subsidiaries. She is member of the Circle of Entrepreneurs and the Barcelona Business Circle Board. She has a close relationship with the leading business schools: IESE, where she chairs Finaves, the international centre for fostering initiatives through seed capital, and Esade, where she is member of its Professional Advisory Board.
Alfonso Rodés Vilà	Mr. Rodés is the President of Havas Group Media, President of Havas Group Spain and Deputy CEO at Havas S.A., a multinational media company which is part of the Vivendi Group and has market capitalization of over 4 billion euros. Previously, Mr. Rodés was CEO of Media Planning Group ("MPG"). MPG was a company controlled by the Rodés family that merged with Havas in 2001. Mr. Rodés joined MPG in 1996 as Head of Corporate Development after a period in private banking. Mr. Rodés has been Executive Director at Havas S.A. since 19 June, 2012. He also participates in other investment vehicles controlled by the Rodés family.
Alberto Prieto Ruiz	Mr. Alberto Prieto is Senior Advisor of Real Estate and Financial Advisory at BDO Spain. He joined the firm in September 2016 and he is responsible for the design, management and execution of large real estate transactions, as well as M&A and Corporate Finance transactions. Alberto possesses a deep understanding of the Spanish residential and commercial real estate markets and before joining BDO, he worked at Knight Frank from 1996 to 2016. In 2011, he was appointed CEO of the Spanish Branch and a permanent member of the European Executive Board. Mr. Prieto holds a Bachelor in Journalism and Information Sciences and a Master in Economic Journalism from the Universidad Complutense de Madrid. He is also a member of ASPRIMA (Madrid Real Estate Developers Association) and sits on several of its boards. He is also one of the four founders of ACI (Spanish Association of Real Estate Consultants.

Total number of independent board members	4
% of total board	57,14%

Indicate whether any director classified as independent receives any sum or benefit from the company or from its group, for an item other than the remuneration of directors; or has or has had in the last year a business relationship with the company or with any company in its group, whether in his or her own name or as a significant shareholder, director, or senior manager of a company that has or may have had such a relationship.

N/A

Where appropriate, a reasoned statement must be included from the board on the reasons why it is considered that this director may perform his or her functions as independent director.

Name of director (person or company)	Description of relationship	Reasoned statement
Alberto Prieto Ruiz	BDO performed a valuation of the properties for the Company's IPO.	BDO turnover with Neinor Homes and with its main shareholder, Neinor Holdings, S.L. in fiscal year 2017, at the date on which Mr. Prieto was appointed as director, only represented 4% of the total revenue of the department of the company of which he is managing director (BDO Financial Advisory Services). Consequently, the Board considered that this business relationship was not material, so there were no reasonable grounds to believe that Mr. Prieto could not perform his duties without being conditioned by his relationship with the company or its significant shareholder, so that none of the conditions of incompatibility mentioned in art. 529 duodecies 4.e) of Spanish Corporations Law. Additionally, Mr. Prieto has renounced any commercial relations with the company.

OTHER EXTERNAL DIRECTORS

Please name any other external directors and describe the reasons why they are not proprietary or independent directors, and any links held with the company, its executives or shareholders:

Indicate any changes that may have arisen during the reporting period, in each director's status:

C.1.4 Complete the following table with information on the number and status of female directors at the closing date of the last 4 financial years:

	Number of female directors				% over the total directors in each category			
	Fiscal year t	Fiscal year t-1	Fiscal year t-2	Fiscal year t-3	Fiscal year t	Fiscal year t-1	Fiscal year t-2	Fiscal year t-3
Female executive	0	N.A.	N.A.	N.A.	0%	N.A.	N.A.	N.A.
Proprietary	0	N.A.	N.A.	N.A.	0%	N.A.	N.A.	N.A.
Independent	1	N.A.	N.A.	N.A.	25,00%	N.A.	N.A.	N.A.
Other female external directors	0	N.A.	N.A.	N.A.	0%	N.A.	N.A.	N.A.
Total:	1	N.A.	N.A.	N.A.	14,29%	N.A.	N.A.	N.A.

C.1.5 Explain the measures that may have been adopted to ensure that there is a balanced presence of women and men on the board of directors.

Explanation of measures
In 2017, the company approved a policy for recruiting directors that favours the diversity of gender, experience and knowledge of its directors and aims to avoid unconscious biases that may lead to any type of discrimination, especially any biases that hinder the recruitment of female board members. In this regard, Neinor Homes has set the target of ensuring that female directors represent at least 30% of the total number of the members on its Board of Directors by 2020. You can find this policy at: https://www.neinorhomes.com/corporate-governance-and-sustainability/codes-and-policies

C.1.6 Explain the measures that may have been agreed by the appointments committee so that the recruitment procedures do not include any implicit bias that prevent the selection of female directors, and so that the company deliberately searches for and includes women with the appropriate profile among the potential candidates:

Explanation of measures
In 2017, the company approved a policy for recruiting directors that favours the diversity of gender, experience and knowledge of its directors and aims to avoid unconscious biases that may lead to any type of discrimination, especially any biases that hinder the recruitment of female board members. In this regard, Neinor Homes has set the target of ensuring that female directors represent at least 30% of the total number of the members on its Board of Directors by 2020. On an annual basis, the Appointments and Remuneration Committee will review compliance with this policy and will take the necessary measures to effectively comply with the aspects indicated in this section and the rest of the policy's content. You can find this policy at: https://www.neinorhomes.com/corporate-governance-and-sustainability/codes-and-policies

When despite the measures that may have been adopted, the number of female directors is zero or limited, explain the reasons justifying this:

Explanation of the reasons
The time horizon for the aforementioned measures is 2020.

C.1.6 bis Explain the conclusions reached by the Appointment Committee on verified compliance with the director recruitment policy. In particular, include how this policy is working towards the target that by 2020 the number of female directors represent at least 30% of all the Board members.

The Appointments Committee has not yet carried out the verification of compliance with the director recruitment policy, as it was approved on July 26, 2017 and enough time has not passed since its creation to determine to what degree the company has complied with this policy.

C.1.7 Explain the form of representation in the board of directors of the shareholders with significant holdings.

During fiscal year 2017, the main shareholder was Neinor Holdings, S.L., which was represented by three proprietary directors (Juan José Pepa, Felipe Morenés Botín Sanz-de Sautuola and Dominique Jean Marie Cressot). On 31 October 2017, Dominique Cressot resigned as a result of the accelerated book-building performed by the aforementioned shareholder, being replaced by an independent director (Alberto Prieto Ruiz) by co-optation.

C.1.8 Explain, where applicable, the reasons for the appointment of proprietary directors at the suggestion of shareholders whose holding is below 3% of the share capital:

Indicate whether formal petitions have been met for the presence of shareholders on the board whose holding is equal to or greater than that of others at whose request proprietary directors may have been appointed. In this case, explain the reasons why they have not been granted:

☐ Yes ☑ No

C.1.9 Indicate whether any director has resigned before the end of his or her term in office, if the said director has explained the reasons for the resignation and how, to the board, and if the resignation was in writing to all the board, explain at least the reasons given:

Name of the board member	Reason for resignation
Dominique Jean Marie Cressot	Sale of the shares held by the shareholder he represented through an accelerated book-building offering

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s):

Name of director (person or company)	Brief description
Juan Velayos Lluis	The Chief Executive Officer has been delegated with all the Board of Directors powers, apart from those which cannot be delegated in accordance with the Bylaws and with the law (the power to acquire land, in particular).

C.1.11 Identify, where applicable, the members of the board who occupy positions as directors or executives in other companies that form part of the group of the traded company:

Name of director (person or company)	Company name of the company in the group	Positi on	Does he have executive functions?
Juan José Pepa	Neinor Norte, S.L.U. Neinor Península, S.L.U. Neinor Sur, S.A.U. Promociones Neinor 1, S.L.U. Promociones Neinor 2, S.L.U. Promociones Neinor 3, S.L.U. Promociones Neinor 4, S.L.U. Promociones Neinor 5, S.L.U.	Joint Administrator until 10 July, 2017, the date on which Juan Velayos Lluis was appointed as the Sole Administrator of the aforementioned companies.	No
Juan Velayos Lluis	Neinor Norte, S.L.U. Neinor Península, S.L.U. Neinor Sur, S.A.U. Promociones Neinor 1, S.L.U. Promociones Neinor 2, S.L.U. Promociones Neinor 3, S.L.U. Promociones Neinor 4, S.L.U. Promociones Neinor 5, S.L.U.	Joint Administrator until 10 July, 2017, the date on which Juan Velayos Lluis was appointed as the Sole Administrator of the aforementioned companies.	Yes

C.1.12 Identify, where applicable, the directors of the company who are members of the board of directors of companies not in your group that are traded on official stock exchanges, and that have been reported to the company:

C.1.13 Indicate, and where applicable, explain whether the company has established rules on the number of boards of directors that its directors may be members of:

☑ Yes ☐ No

Explain the rules
The Board of Directors Regulations establishes directors cannot sit on more than four boards of traded companies (apart from the Company).

C.1.14 Repealed section.

C.1.15 Indicate the Board of Directors' global remuneration:

Remuneration of the Board of Directors in thousands of euros)	1.598.000
Total remuneration corresponding to the pension rights accumulated by directors (in thousands of euros)	0
Total remuneration corresponding to the pension rights accumulated by former directors (in thousands of euros)	0

C.1.16 Identify the members of senior management who are not also executive directors, and indicate the total remuneration paid to them during the year:

Identity or company name	Position(s)
Silvia López Jiménez	Director of Legal Department (Secretary of the Board of Directors)
Jordi Argemí García	Chief Financial Officer
Mikel Etxebarria Dobaran	Chief Corporate Officer
Gabriel Sánchez Cassinello	Chief Business Officer
Mario Lapiedra Vivanco	Chief Property Officer
Julio Egusquiza González-Gil	Chief Servicing Officer
Juan Gómez Vega	Chief Investor Relations Officer
José Carlos Saz Gimeno	Chief Operations Officer
Álvaro Conde Herranz	Chief Internal Auditor

Total remuneration of senior management (thousands of euros)	1.474.257,96

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:

C.1.18 Indicate if any changes have taken place to the regulation of the board of directors during the year:

☑ Yes ☐ No

Describe changes
Modifications necessary for its adaptation to traded company regulations.

C.1.19 Indicate the selection, appointment, re-election, assessment and removal procedures for board members. Specify the competent bodies, the procedures to follow and the criteria to use in each of the above procedures.

Selection:

The company has approved a Policy for Appointing Directors that details the procedure to be followed for their selection. It establishes that the selection process is based on a prior analysis of the needs of the Company made by the Board of Directors, with the advice of the Appointments and Remuneration Committee. The Appointments and Remuneration Committee will define the functions and capacities of the candidates and will evaluate the time and dedication required for each vacancy, so that the requested responsibilities can be adequately fulfilled.

In order to carry out the needs analysis and the annual evaluation of compliance with the selection policy, the Company may request external advice.

In relation to the guidelines for the selection or re-election of directors, candidates must meet the requirements detailed in point 4.2 of the Policy (that they be honourable persons, of recognized competence and solvency, with the experience, qualifications, training, availability and commitment to perform the function and in those that do not meet the incompatibility requirements indicated in that section).

The Company will foster the diversity of gender, experiences and knowledge of its directors and will ensure that there are no unconscious biases that may lead to any type of discrimination, especially any that hinders the recruitment of female directors.

Appointment and re-election:

The Directors are appointed by the General Meeting or by the Board of Directors by co-optation, following a report from the Appointments and Remuneration Committee or, in the case of independent directors, at the proposal of the latter.

The directors shall hold office for a term of three years, at the end of which they may be re-elected one or more times for periods of the same maximum duration.

The directors appointed by co-optation will hold their position until the first meeting of the Annual General Meeting held after their appointment, and must step down from the position in the event that the aforementioned Annual General Meeting does not ratify their appointment.

Before proposing the re-election of directors to the Annual General Meeting, the Board of Directors will evaluate, with the abstention of the affected parties, the quality of the work and the dedication to the position of the directors proposed during the previous mandate.

Evaluation:

Regarding the Board's evaluation, the Regulations of the Board of Directors establish, in article 18, that the Board will evaluate annually (i) its operation and the quality of its work, (ii) the performance of its duties by the Chairman of the Board of Administration and by the Chief Executive Officer, based on the report submitted by the Appointments and Remuneration Committee, (iii) the diversity in the composition and powers of the Board of Directors, and (iv) the functioning of its Committees, based on the report that they send it. To this end, the Chairman of the Board of Directors will organize and coordinate with the Chairmen of the Commissions the aforementioned evaluation process.

Every three years, the Board of Directors will be assisted in the evaluation by an external consultant, whose independence will be verified by the Appointments and Remuneration Committee.

On the basis of the results obtained in the annual evaluation, the Board of Directors will propose an action plan to correct the deficiencies detected with respect to the quality and efficiency of the functioning of the Board, the functioning and composition of its committees, diversity, the performance of the Chairman and Chief Executive Officer and the performance and contribution of each director.

Removal:

The directors shall cease to hold office when the period for which they were appointed has elapsed and when the Annual General Meeting so decides.

The directors must place their position at the disposal of the Board of Directors in the cases indicated in article 21.2 of the Regulations of the Board (see section C.1.21 below).

The Board of Directors may only propose the removal of an independent director before the expiration of the statutory term when there is just cause, so deemed by the Board of Directors following a report from the Appointments and Remuneration Committee. The removal of independent directors may also be proposed as a result of public takeover bids, mergers and other similar corporate transactions that involve a change in the capital structure of the Company, provided that such changes are supported by good corporate governance recommendations applicable to the Company at any given time.

C.1.20 Explain to what extent the Board's annual evaluation has entailed relevant changes in its internal organization and procedures applicable to its activities:

Describe changes
So far the company has not made any evaluation of the operation of the board, since it was not a listed company until March 2017 and therefore a calendar year had not elapsed at the end of fiscal 2017. Following the recommendations of the National Securities Market Commission's technical guide 3/2017, the company plans to conduct an internal autonomous evaluation of the operation of the committee each year and an external evaluation every three years also in accordance with the recommendations of the Unified Code of Good Governance. The evaluations will be linked to action plans for measures of improvement. The first internal evaluation of the operation of the committee will be conducted after one calendar year has passed from the start of the company's listing for two basic reasons: • The addition during 2017 of four new Independent Directors, one of them the Chairman, which means that 57% of the members of the Board are new. • The company's wish to consider a full cycle, in which the actions taken and meetings held in the period of a calendar year can be included for analysis and evaluation in order to obtain greater clarity and objectivity regarding compliance with the recommendations for Good Corporate Governance.

C.1.20.bis) Describe the evaluation process and the areas evaluated by the Board of Directors, with the assistance of an external consultant, as the case may be, with respect to diversity in its composition and competences, the operation and composition of its committees, performance of the Board Chairperson and Company CEO and performance/contributions made by each director.

See C.1.20

C.1.20.ter) Provide a breakdown, as the case may be, of the business relations that the consultant or any group company holds with the Company or any group company.

It does not apply because the Company has not yet carried out the first annual evaluation of the Board since a year has not elapsed since it has started trading on the stock market.

C.1.21 Indicate the cases in which directors are forced to resign.

The directors must place their position at the disposal of the Board of Directors in the following cases:

- when they resign from the executive position to which their appointment as director is associated;
- when they are involved in any case of incompatibility or legal or statutorily prohibited provision;
- when they are seriously reprimanded by the Board of Directors for having infringed their obligations as directors;
- when their remaining on the Board may jeopardize or damage the interests, credit or reputation of the Company or when the reasons for which they were appointed disappear, including, without limitation, when there are significant changes in their professional situation or in the conditions under which they would have been appointed director;
- when they are prosecuted for an allegedly criminal act or are subject to disciplinary proceedings for serious or very serious misconduct opened by supervisory authorities;
- in the case of proprietary directors, (i) when the shareholder they represent sells its shareholding in its entirety or reduces it substantially; and (ii) in the corresponding number, when said shareholder reduces its shareholding to such a degree that the number of proprietary directors must be lowered;
- when they sit on more than four boards of directors of other listed companies (different from the Company);

- when the director remaining on the Board, in its opinion, causes serious damage to the corporate equity or reputation due to reasons attributable to the director.

C.1.22 Repealed section.

C.1.23 Are reinforced majorities other than those under law required for any type of decision?

☐ Yes ☑ No

If yes, describe the differences.

C.1.24 Indicate whether there are specific requirements other than those relating to directors, to be appointed chairman of the board of directors.

☐ Yes ☑ No

Description of the requirements
.

C.1.25 Indicate whether the chairman has a casting vote:

☐ Yes ☑ No

Matters where there is a casting vote
.

C.1.26 Indicate whether the bylaws or the regulation of the board of directors establishes any age limit for directors:

☐ Yes ☑ No

☐ Age limit: Chairperson

☐ Age limit: Chief Executive ☐ Age limit: Board Member

C.1.27 Indicate whether the bylaws or regulation of the board of directors establishes a limited mandate for independent directors, other than that established by law:

☐ Yes ☑ No

C.1.28 Indicate whether the bylaws or regulation of the board of directors establishes specific rules for delegation of votes in the board of directors, the method of casting such votes, and in particular the maximum number of delegated voters that a director may hold; and whether the delegated vote must be delegated to a director of the same type. If so, give a brief outline of these rules.

Neither the bylaws nor the regulations of the board of directors establish specific rules for the delegating the vote in the board of directors or limitations regarding the categories in which it is possible to delegate, beyond the limitations imposed by law.

C.1.29 Indicate the number of meetings that the board of directors has held during the year. Also indicate the number of times, where applicable, that the board has met without the chairman being present. For the purposes of this calculation, attendance will include votes delegated with specific instructions.

Number of board meetings	4
Number of meetings of the board without the chairman being present	0

If the chairman is an executive director, indicate the number of meetings held, without the presence or representation of any executive director and under the chairmanship of the coordinating board member.

Number of meetings	0

Indicate the number of meetings held in the year by the different board committees:

Number of meetings of the audit committee	5
Number of meetings held by the appointments and remuneration committee	4
Number of meetings held by the Real Estate Investment Commission (LIC)	4

C.1.30 Indicate the number of meetings held by the Board of Directors during the year with all members present. For the purposes of this calculation, attendance will include votes delegated with specific instructions.

Number of meetings with all directors present	3
% of attendance out of the total votes during the year	96.42%

C.1.31 Indicate whether the individual and consolidated annual accounts submitted for approval to the board have been previously certified:

☐ Yes ☑ No

Where applicable, identify the person(s) who has/have certified the company's individual and consolidated annual accounts for their preparation by the board:

C.1.32 Explain, where applicable, the mechanisms established by the board of directors to prevent the individual and consolidated accounts prepared by it to be presented to the general meeting of shareholders with qualifications in the auditor's report.

In accordance with article 39.3 of the Board of Directors Regulations, the Board will strive to draft the final financial statements in such a way that the auditor will not have any reservations or qualifications. In the exceptional cases, both the Chairperson of the Audit and Control Committee and the external auditors will clearly explain the content of such reservations or qualifications to the shareholders. Nevertheless, when the Board believes that it should maintain its criteria, it will publicly explain the content and the scope of the discrepancy.

In accordance with article 9.1 (d) of the Board of the Audit and Control Committee establishes that the Board will strive to draft the final financial statements in such a way that the auditor will not have any reservations or qualifications. In the exceptional cases, both the Chairperson of the Audit and Control Committee and the external auditors will clearly explain the content of such reservations or qualifications to the shareholders.

Likewise, Article 9.6 (e) of the Regulations of the Audit and Control Committee establishes that the Commission will meet periodically with the external auditor (which includes once in the planning phase before the audit and once after the audit). in the generation phase of reports) and, at least once a year, without members of the management team of the Company being present, to discuss the role of the auditor and the issues arising from the audit.

C.1.33 Is the secretary of the board a director?

☐ Yes ☑ No

If the secretary is not a director, complete the following table:

Name of the Secretary	Representative
Silvia López Jiménez	

C.1.34 Repealed section.

C.1.35 Indicate, where applicable, the mechanisms established by the company to preserve the independence of external auditors, financial analysts, investment banks and rating agencies.

The company has approval, selection and evaluation procedures established for all relevant suppliers that contribute to and strengthen transparency in bidding processes.
Within the services considered in this section, the company contracts the external audit services to which, like the rest, the procedures mentioned in the previous paragraph are applicable.
Additionally, with the objective of preserving the external auditors' independence, the company has established the following policies which are approved by the audit and control committee:

- Employment policy for former auditors.
- Policy for the provision of services other than auditing by the external auditor.
- Annual internal audit report on the external auditor's independence.
- Annual statement/independence report provided by the external auditor.

C.1.36 Indicate whether during the year the company has changed its external auditor. If so, identify the incoming and outgoing auditors:

☐ Yes ☑ No

Outgoing auditor	Incoming auditor

Explain any disagreements with the outgoing auditor and the reasons for this:

C.1.37 Indicate whether the audit firm carries out other tasks for the company and/or its group other than those of auditing. If so, specify the amount of fees received for this work and the percentage this amount represents of the total fees invoiced to the company and/or its group:

☑ Yes ☐ No

	Company	Group	Total
Amount of other work other than those of auditing (thousands of euros)	0	379.200	379,200
Amount for work other than auditing / total invoiced by the audit firm (as %)	0,00%	79,13%	79.13%

C.1.38 Indicate whether the audit report on the annual accounts for the previous year includes any reservations or qualifications. In this case, indicate the reasons given by the chairman of the audit committee to explain the content and scope of these reservations or qualifications.

☐ Yes ☑ No

C.1.39 Indicate the number of continuous years that the current audit firm has been carrying out the audit of the company and/or its group's annual

accounts. Also, indicate the percentage that the number of years audited by the current audit firm represents out of the total years in which the annual accounts have been audited:

	Company	Group
Number of continuous years	4	4

	Company	Group
No. of years audited by the current audit firm / No. of years the company has been audited (%)	100%	100%

C.1.40 Indicate and, where applicable, specify whether there is a procedure for which directors can have external advice:

☑ Yes ☐ No

Detail of procedure
The Board of Directors Regulations establish that the Audit and Control Committee and the Appointments and Remuneration Committee, respectively, can receive advice from external experts to better comply with their functions. The appointment must deal with specific problems of certain importance and complexity that arise in the performance of the position and may only be vetoed by the Board of Directors in the assessed and accredited cases established in the Regulations. The decision to employ external advisors from the Company must be communicated to the Chairman of the Board of Directors.

C.1.41 Indicate and specify, where applicable, whether there is a procedure for directors to have the information needed to prepare the meetings of the management bodies in sufficient time:

☑ Yes ☐ No

Detail of procedure
Article 16 of the Board of Directors Regulations establishes that this body must be convened at least 72 hours before the meeting and the notice must always include the agenda and the duly prepared and summarized relevant information. In practice, both the call and the submission of documentation must be made with 6-7 days' prior notice through an exclusive access tool to the directors that guarantees the security of the information. The agenda must clearly state the items for which the Board must adopt a resolution so that the directors can previously study or receive the information required. Moreover, article 23 of the Board of Directors Regulations establishes that the directors can request information about any matters in the Board's powers and, in this sense, they can examine its books, registers, documents and other documentation. They must request this information from the Board Secretary, who will submit this to the Chairperson and to the appropriate liaison officer at the Company. The Secretary will notify the directors of the confidential nature of the information requested and received and of their duty of confidentiality in accordance with the provisions of the Board Regulations. The Chairperson can refuse to provide the information if he believes that: (i) it is not necessary for the proper performance of the duties entrusted to the director; or (ii) the cost thereof is not reasonable in view of the importance of the problem and of the Company's assets and income.

C.1.42 Indicate, and specify where applicable, whether the company has established rules that oblige directors to inform or resign in cases that may

damage the credit and reputation of the company:

☑ Yes ☐ No

Details of rules
The Board Regulations establish in article 21.2 (iv) that directors must submit their resignation to the Board of Directors and formalize, if deemed appropriate, the corresponding resignation, when their remaining on the Board may put the Company at risk or harm its interests, credit or reputation. In these cases, the director must set out the reasons in a letter which must be sent to all the Board members, and the reasons must be stated in the Annual Corporate Governance Report.

C.1.43 Indicate whether any member of the board of directors has informed the company that he or she has been prosecuted or legal proceedings have been initiated against him or her, for any of the offences specified in Article 213 of the Companies Act:

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

C.1.44 Specify the significant agreements that the company may have concluded and that enter into force, are amended, or terminate if the control of the company changes due to a takeover bid, and its effects.

The majority of the financing agreements signed by the company with financial entities establishes the need for the creditor's prior consent to the company's change of control.

C.1.45 Identify as a whole, and indicate in detail the agreements between the company and its administrative and managerial positions or employees who have compensation, guarantee or golden parachute clause, when these directors resign or are dismissed unfairly, or if the contractual relationship reaches its conclusion due to a takeover bid or other types of operations.

Number of beneficiaries: 0

Type of beneficiary:

0

Description of the resolution:

The agreements between the company and its management and executive positions or employees do not contain operative or armor clauses. The compensation to be paid in the event of unfair dismissal is as established in the current legislation.

In cases that may arise in the future, a fact that the company does not presently contemplate, these agreements must be reviewed by the appointments and remuneration committee and approved by the Board of Directors.

Please indicate whether these contracts need to be reported to and/or approved by the bodies of the company or its group:

	Board of directors	General Meeting
Body authorizing the clauses	Yes	No

	YES	NO
Is the General Meeting informed of the clauses?		X

C.2 Committees of the Board of Directors

C.2.1 Specify all the committees of the Board of Directors, their members and the proportion of executives, proprietary, independent and other external directors who are members of them.

APPOINTMENT AND REMUNERATION COMMITTEE

Name	Position	Professional level
Ricardo Martí Fluxá	Chairman	Independent board member
Juan José Pepa	Voting member	Proprietary board member
Alfonso Rodés Vilá	Voting member	Independent board member

% executive directors	0%
% proprietary directors	33.33%
% independent directors	66.67%
% other external directors	0%

Explain the tasks assigned to this committee, describe any procedures and organization/operation rules and summarize its most relevant activities during the year.

Procedure and rules of organization and operation:

Article 43 of the Bylaws establishes the following:

1. The Board of Directors must establish a permanent Appointment and Remuneration

Committee, an internal body of an informative and advisory nature, without executive functions, with powers of information, advice and proposal within its scope of action indicated in section 5 of this article. The Appointments and Remuneration Committee shall consist of at least three and a maximum of five directors appointed by the board itself at the suggestion of the Chairperson of the board, and they must be non-executive directors. Most of the members of the Appointments and Remuneration Committee shall be independent directors.

2. The Board of Directors must also appoint its Chairman from among the independent directors who are part of the Committee. In addition, the Board of Directors may appoint a Vice Chairman if deemed appropriate, the provisions of the appointment of the Chairman being applicable to the appointment of the Vice Chairman.

3. The position of Secretary of the Appointments and Remuneration Committee shall be held by the person who is appointed by the board and may be a secretary who does not sit on the Appointments and Remuneration Committee, in which case it shall not be necessary for them to be a board member. The Secretary of the Appointments and Remuneration Committee may be other than the Secretary of the Board.

4. The directors who sit on the Appointments and Remuneration Committee shall perform their duties in this role while their appointment as directors of the company remains effective, save where the board decides otherwise. The renewal, re-election and removal of the Committee directors shall be governed by agreement of the Board of Directors.

5. Without detriment to any other tasks that may be allocated at any time to it by the board, the Appointments and Remuneration Committee shall exercise the following basic functions independently:

   (i) Evaluate the competences, knowledge and experience necessary in the Board of Directors: For these purposes, the functions and aptitudes required of the candidates who will cover each vacancy will be defined, and the time and dedication necessary for them to effectively perform their task will be evaluated.
   (ii) Establish a representation target for the least represented gender on the board and prepare guidance on how to achieve this.
   (iii) Submit proposed appointments of independent directors to the board for them to be designated by co-option or made subject to a resolution by those at the Shareholders' General Meeting , as well as proposals for the re-election or removal of these directors by those at the Shareholders' General Meeting.
   (iv) Report on proposed appointments of the remaining directors for them to be designated by co-option or subject to a resolution at the Shareholders' General Meeting, as well as on proposals for their re-election or removal by those at the Shareholders' General Meeting.
   (v) Report on the proposed appointment and removal of executive personnel and the basic conditions of their contracts.
   (vi) Examine and organise the succession of the Chairperson of the board and the most senior company executive and, where applicable, make proposals to the board with a view to said succession taking place in an orderly and planned manner.
   (vii) Propose to the board a remuneration policy for directors and general managers or those who perform roles as senior managers and report directly to the board, to executive committees or executive directors, as well as individual remuneration and other terms of executive directors' contracts, while checking and ensuring that such policy is adhered to.

6. The functioning of the Appointments and Remuneration Committee shall be governed by the rules decided on by the board in its relevant regulations.

On the other hand article 15 of the board regulations additionally lays down the following:

The Appointments and Remuneration Committee shall meet regularly every three months or at least four times per annum. It shall likewise meet at the request of any of its members and whenever called to do so by its Chairperson, who shall have to do this whenever the board or the Chairperson thereof requests that a report be issued or proposals adopted, and in any event whenever appropriate for the proper performance of its duties.

The Appointments and Remuneration Committee shall be quorate when the majority of its members attend in person or by proxy and its resolutions shall be adopted by an absolute majority of votes.

The committee shall have to take down minutes of its meetings, a copy of which shall be sent to all of the board members.

The committee shall have to consult the Chairperson and the senior executive of the company, particularly when the issue at hand involves executive directors and managerial staff.

Key activities of the Committee over the financial year:

(i) Selection and proposal of candidates to be independent directors
(ii) Approval, either direct or for referral to the board, of the following policies and procedures:
   a. Senior management remuneration policy
   b. Employee remuneration policy

AUDIT COMMITTEE

Name	Position	Professional level
Anna M. Birulés Bertran	Chairperson	Independent board member
Ricardo Martí Fluxá	Voting member	Independent board member
Felipe Morenés Botín-Sanz de Sautuola	Voting member	Proprietary board member

% executive directors	0%
% proprietary directors	33.33%
% independent directors	66.67%
% other external directors	0%

Explain the tasks assigned to this committee, describe any procedures and organization/operation rules and summarize its most relevant activities during the year.

Procedure and rules of organization and operation:

Article 42 of the Bylaws establishes the following:

1. The Board of Directors must establish a permanent Audit and Control Committee (ACC), an internal body of an informative and advisory nature, without executive functions, with powers of information, advice and proposal within its scope of action indicated in section 5 of this article. The ACC must have a minimum of three and a maximum of five directors, appointed by the Board of Directors, who must be non-executive directors. The majority of the members of ACC must be independent and at least one must be appointed taking his/her knowledge and experience in accounting or auditing or both into account.

2. The Board of Directors must also appoint its Chairman from among the independent directors who are part of the Committee. The Board may also appoint a Deputy Chairperson, if it deems this appropriate.

3. The post of Secretary to the Audit and Control Committee shall be the person whom the Board appoints, who does not have to be a member of the Audit and Control Committee.

4. The position of Chairperson is exercised for a maximum of four years, at the end of which he/she cannot be re-elected as such until one year has elapsed since then, without prejudice to his/her continuation or re-election as a member of the ACC.

5. The ACC shall have the following duties:
   (i) Inform those at the Shareholders' Meeting regarding the issues raised there by shareholders concerning its competency and the findings of the audit.
   (ii) Supervise the effectiveness of internal oversight of the company and its group, internal auditing and risk management systems, including those relating to tax matters.
   (iii) Supervise the process of preparing and presenting the regulated financial information and submit recommendations or proposals to the Board of Directors, aimed at safeguarding their integrity.
   (iv) Propose the selection, appointment, re-election or replacement of auditors for approval at the Shareholders' Meeting.
   (v) Supervise the activity of the Company's internal audit.
   (vi) Establish suitable liaison with auditors to obtain information on any issues that

might compromise their independence.

(vii) Issue a report annually, prior to the issue of the audit report.

(viii) Inform the Board in advance regarding all matters provided for in law, the bylaws and the regulations governing the board.

(ix) With regard to the external auditor: (i) ensure that their remuneration does not compromise the quality of their work or their independence, (ii) supervise that the company notifies the CNMV of any change of auditor as a material fact (iii) ensure that the company and the external auditor respect the prevailing standards.

(x) Summon any employee or executive of the company.

(xi) Any other duties assigned to it by the Board in its regulations.

6. The ACC shall meet as a matter of course every quarter to review the regular financial reporting that has to be sent in to the stock exchange authorities, as well as the information that the Board is obliged to approve and include within its annual publicly-released documentation. It will likewise meet at the request of any of its members and whenever called to do so by its Chairperson. Its meetings shall be deemed quorate when at least half plus one of the committee's members either attend in person or by proxy, while its resolutions are passed by a majority vote. In the event of tied voting, the Chairperson shall not have a casting vote.

On the other hand, article 14 of the committee regulations also establishes the following:

(i) Reporting on transactions that imply or might imply conflicts of interest.

(ii) Reporting on any structural and corporate modifications that the company plans, the financial terms and accounting impact thereof, in particular, on any applicable exchange ratio.

(iii) Supervision of a mechanism that allows employees to give confidential notification of any irregularities observed within the company that are potentially significant.

The ACC committee shall prepare an annual report on its activities.

The company shall have an internal audit department which shall oversee the proper functioning of the reporting and internal control systems under the supervision of ACC. The internal audit function shall report operationally to the non-executive Chairperson of the board or the ACC.

Key activities of the ACC *over the financial year:*

(i) Definition of a new structure for administrative bodies and powers as a result of the stock market flotation

(ii) Re-election of Deloitte as the company's auditor

(iii) Approval, either direct or for referral to the board, of the following policies and procedures:

   a. Treasury stock portfolio.
   b. Dividend policy.
   c. Investment and financing policy.
   d. Fiscal risk policy.
   e. Director selection policy.
   f. Policy of reimbursable expenses to the Directors.
   g. Rules on the functioning of the shareholder forum.
   h. Compliance with the Code of Good Tax Practices.
   i. Employment policy for former employees of the auditor.
   j. Policy for services to be provided by the auditor other than auditing.
   k. Rules for the compliance function.
   l. Programme of activities of the compliance function.

(iv) Review of the actions carried out and the monitoring processes implemented in fields such as conflicts of interest, related-party transactions, anti-money laundering, data protection, etc.

Identify the director that sits on the audit committee who has been appointed bearing in mind their knowledge and experience in the field of accounting or auditing or in both areas and disclose the number of years for which the Chairperson of the committee has held this position.

Name of the director with experience	Anna M. Birulés Bertrán
No. of years as Chairperson	1

REAL ESTATE INVESTMENT COMMITTEE

Name	Position	Professional level
Juan José Pepa	Chairman	Proprietary board member
Juan Velayos Lluis	Voting member	Executive director
Ricardo Martí Fluxá	Voting member	Independent board member
Felipe Morenés Botín Sanz-de Sautuola	Voting member	Proprietary board member
Alberto Prieto Ruiz	Voting member	Independent board member

% executive directors	20%
% proprietary directors	40%
% independent directors	40%
% other external directors	0%

Explain the tasks assigned to this committee, describe any procedures and organization/operation rules and summarize its most relevant activities during the year.

Procedure and rules of organization and operation:

The internal regulations of the Real Estate Investment Committee (REIC) lays down the following, among other issues:

1. The committee shall comprise at least three and up to seven members.

   The REIC members shall be appointed by the board at the proposal of the Appointments and Remuneration Committee and subject to prior consultation of the Chairperson of the REIC.

2. A majority of the members of the committee shall be non-executive directors. All of the committee members must have extensive, recent and suitable professional, technical and financial experience in the real estate sector and financial investment, be this in securities or in real estate assets.

3. Only REIC members shall be entitled to attend committee meetings.

   Even so, other directors and employees, as well as other natural persons and external advisers, may be invited to attend committee meetings on a regular basis, it being similarly possible to invite other persons not on the committee to attend all or part of a meeting whenever considered necessary and appropriate. Only REIC members shall be entitled to vote on committee resolutions, while the other attendees shall only be allowed to speak.

4. REIC members shall be appointed for three years at most, this period being extendable for a maximum of a further two periods of three years, as long as the committee members continue to be board members.

5. The board shall be in charge of appointing the chairperson of the committee. In the absence of the chairperson of the committee and/or the person who has been appointed to cover for them, the other committee members at the meeting shall have to choose one of their number to chair the meeting.

6. The position of Secretary of the Real Estate Investment Committee shall be held by the person designated by the board for such purpose.

7. Resolutions shall be passed by simple majority. All of the committee members who attend its meetings shall have to vote on all of the points in the order of business, save where there might be any conflict of interest, in which case the committee member concerned shall leave the meeting and shall not take part in deliberations or vote on any of the points with regard to which they might have a conflict of interest.

8. All reports prepared by the committee and which it submits to the board for consideration prior to approval of a resolution by the latter shall have to make express reference to compliance with prevailing legislation for any proposals made by the committee.

9. The REIC must meet at least four times a year as well as whenever this becomes necessary. Even so, the committee shall meet whenever any of its members asks for this or when it is validly called by the committee's Chairperson.

10. The Chairperson must call a committee meeting whenever the board or its Chairperson requests that a report be prepared or a proposal approved and, in any event, whenever this seems appropriate for the committee's duties to be performed properly.

11. The sessions of the committee must be called by the committee secretary at the request of any of its members or the Chairman of the Board.

12. The call to meet each time must be sent to each of the committee members, to all other persons who have to attend the meeting and to all of the other non-executive directors at least three (3) working days before the date set for the meeting.

13. The REIC can hold its meetings via teleconference or videoconference, or using other, similar media.

14. The committee will have to perform the following duties for the company and its key subsidiaries:

    (i) Define general investment policies and strategies, investment targets, the rules and limitations that apply to the acquisition and disposal of real estate assets and all other investment policies.
    (ii) Revise all of the above strategies and targets at least annually and adopt and approve modifications thereof.
    (iii) Weigh up and take the ultimate decision, whether affirmative or negative, on the potential acquisition of real estate assets, possible property developments and the funding of those acquisitions and/or property developments carried out by the company.
    (iv) Prepare and present to the board the relevant reports on all issues analysed by the committee, in particular those matters where current legislation makes it mandatory to obtain a board resolution.
    (v) Analyse and observe the company's returns on investment in relation to the investment strategies, targets, policies, rules and limitations which have been approved by the committee.
    (vi) Approve the measurement methods which the company must follow for acquiring or disposing of real estate portfolios or assets.
    (vii) Any others that might be confined to the scope of duties entrusted to the committee.

15. The committee shall have to report to the board on any acquisition, investment or disposal of land for property development prior to approval, as appropriate, from the board, whenever the transaction amount concerned exceeds 10,000,000 euros.

16. The Committee shall draft a report on its activity, detailing the investments and divestments carried out, as well as a brief summary of the executed transaction and the conclusions of the Committee's report on each of them.

Key activities of the Committee over the financial year:

(i) Approval for the purchase of all land acquired by the company.
(ii) Approval for the launch of all developments launched by the company and for all the related capex funding.

C.2.2 Fill out the following table with the information on the number of female directors on the board's committees at the close of the past four fiscal years:

	Number of female directors			
	Fiscal year t Number %	Fiscal year t-1 Number %	Fiscal year t-2 Number %	Fiscal year t-3 Number %
Appointments and remuneration committee	0	0,00%	0,00%	0,00%
Audit committee	1	33,33%	0,00%	0,00%
Real estate investment committee	0	0,00%	0,00%	0,00%

C.2.3 Repealed section.

C.2.4 Repealed section.

C.2.5 Indicate, as applicable, any regulation of board committees, the place where this is available for consultation, and any changes that have been implemented over the year. Please also indicate whether any annual report has been voluntarily prepared on the activities of each committee.

Each of the three committees has its own regulations. All of them are available on the company's website at www.neinorhomes.com, in the Shareholders and Investors section, sub-section Corporate Governance and Sustainability.

The current regulations were approved on 8 March 2017, prior to the company's flotation on the stock market, and have not been amended since then.

C.2.6 Repealed section.

D RELATED-PARTY AND INTRA-GROUP TRANSACTIONS

D.1 Where applicable, explain the procedure for approving related-party and intra-group transactions.

Procedure for reporting on the approval of related-party transactions
The procedure followed by the company to report on the approval of related-party transactions is included in the policy on conflicts of interest and related parties approved by the board on the company's website. The following aspects are described in this: 1) When the company's responsible parties know about a potential related-party transaction, they must inform the general secretariat of the board of the company and the compliance officer as soon as they become aware of the transaction. If after scrutiny it is held that this is a related-party transaction, the responsible party must prepare a written report for the general secretariat of the board of the company and the compliance officer to justify that the transaction is being conducted in market conditions and respects the principle of equal treatment among shareholders. 2) Those transactions which, in the opinion of the legal officer and the compliance officer, may lead to a conflict of interest shall be reported to the Chairperson of the Appointments and Remuneration Committee (the "Committee") to be examined at the committee's next meeting. The report shall be included among the documentation submitted to the committee for discussion. All transactions without an accompanying report shall only be submitted to the Committee in exceptional circumstances and the reason for presenting such a transaction shall be forward to the General Secretariat of the Board of Directors, which shall forward it to the Committee for evaluation. 3) The Committee will evaluate the transaction and if appropriate it may request reports from independent experts. When a transaction might affect the equality of treatment of all shareholders, please refer to paragraph 4.1.4. of the policy. 4) Once approval has been received from the Committee, the transaction shall be submitted to the Board of Directors for review and approval. If a Board Member has a conflict of interest in relation to the transaction, he or she must withdraw from the decision-making process. Approval of transactions may be delegated to an Executive Committee in urgent cases and that Committee shall be ratified thereafter by the Board of Directors. The Company's Compliance Department shall carry out, at least quarterly, (i) a review of compliance with the requirements set forth in this Standard and (ii) a confirmation that the transactions have been performed under the approved terms and conditions. A report on the review will be provided to the Chairman of the Audit and Control Committee. The Audit and Control Committee may request clarification as to a particular transaction and/or request additional documentation to assess whether the transaction has been carried out in accordance with the approved terms and conditions.

D.2 Detail those transactions that are important due to their amount or relevant due to their content matter, carried out between the company or the entities of its group, and important company shareholders:

Name or company name of significant shareholder	Name or company name of the company or entity of its group	Type of relationship	Type of transaction	Value (thousand euros)
Lone Star Capital Investments, S.A.R.L	Neinor Homes S.A	Corporate	Others	3.071

D.3 Detail those transactions that are important due to their amount or relevant due to their content matter, carried out between the company or the entities of its group, and the board members or executives of the company:

D.4 Report on important transactions made by the company with other entities belonging to the same group, always provided that they are not eliminated in the process of drawing up consolidated financial statements and do not form part of the regular business of the company insofar as its purpose and conditions are concerned.

In any case, information shall be provided on any intra-group transactions with entities established in countries or territories regarded as tax havens:

D.5 Indicate the sum of the transactions with other related parties.

(thousands of euros): 5.251

D.6 Detail the mechanisms established to detect, determine and resolve possible conflicts of interest between the company and/or its group and its board members, executives or important shareholders.

The mechanisms established to detect, determine and resolve possible conflicts of interest may be found in the Policy on Conflicts of Interest and Related Parties approved by the Board and published on the company's website.

In addition to the policy and to that which is stipulated therein, the company has implemented an internal control structure with regard to this matter, which is based on the following components that provide reasonable assurance to the company's governance bodies:

- A communication channel set up to report transactions with related parties or those that may generate conflict of interest.
- Registration of the transactions and their analysis.
- A letter of compliance, acceptance and notification or communication to board members, senior management and other executives who may be taken into consideration on account of the performance of their duties, concerning the transactions or the conflicts of interest they may have incurred.
- Periodic reviews and analysis of related transactions by Internal Auditing.
- Report to the Auditing and Control Committee on related transactions and conflicts of interest communicated to and analysed by Internal Auditing.

D.7 Is more than one company of the Group listed in Spain?

☐ Yes ☑ No

Identify the affiliated societies that are listed in Spain:

Indicate whether the respective areas of activity and possible business relationships between them have been publicly and precisely defined, as well as those of the dependent listed company with the other companies of the group;

☐ Yes ☐ No

Define the possible business relationships between the parent company and the listed affiliated society, and between this latter and the other companies of the group

Identify the mechanisms set in place to resolve possible conflicts of interest between

the listed affiliated society and the other companies of the group:

Mechanisms to resolve possible conflicts of interests

E CONTROL SYSTEMS AND RISK MANAGEMENT

E.1 Explain the scope of the company's Risk Management System, including those of a fiscal nature.

Neinor Homes has defined an Integrated Control System (ICS), which has been communicated to the entire organization, in which risks are associated with strategic objectives, processes and to control activities. It also includes those responsible for the implementation and monitoring of such controls, as well as the evidence on which the system is based.

The continuous monitoring of this model makes it possible to respond to day-to-day operations and contingencies, and to facilitate the management of all areas of risk that may affect the achievement of the company's objectives (e.g.: business, financial, fiscal, regulatory risk, etc.). In short, the Neinor Homes model integrates all environments of regulatory compliance, with all the control and business risks structured in a uniform manner, to obtain a transversal perspective, which encourages synergies and eliminates duplication.

The following are the main inputs of the ICS:

- Compliance risks and controls: covering the internal control of financial information, money laundering, data protection, the prevention of criminal responsibility, conflicts of interest, fraud and corruption, etc.
- Corporate risks and controls: covering external factors, the competitive environment, cyber security, people, etc.
- Business risks and controls (value chain): including the acquisition of land, product, recruitment, commercial management and sales, among others.

On the other hand, the Risk Management methodology used by Neinor Homes is based on "Enterprise Risk Management" (also known as COSO II), which makes it possible to provide added value through the identification, management and monitoring of the management of business risk.

E.2 Identify the bodies of the company responsible for preparing and implementing the Risk Management System, including tax risk.

As set out in Article 5.6 of the Regulations of the Board of Directors, the powers of this body includes the adoption of the policy of risk control and management, including tax risks, as well as the periodic monitoring of the internal systems of information and control.

In addition, the Board delegates these functions to the Audit and Control Committee (ACC), and therefore, as detailed in article 9.7 of the Regulations of the Audit and Control Committee, insofar as risk management is concerned, the ACC is responsible for:

- Identifying and evaluating the different types of risk (transactional, technological, financial, legal, social, environmental, political, tax, reputational, etc.) to which the Company is exposed, including among the financial or economic risks, the contingent liabilities and other off-balance-sheet risks of the company.
- Identify the levels of risk that the Company considers acceptable.
- Identify the measures put in place to reduce the impact of the identified risks, were they to occur.
- Identify the information and internal control systems that will be used to control and manage these risks, including contingent liabilities and off-balance-sheet risks.

However, in Neinor Homes the initial responsibility for the supervision of the Integrated Risk Management and Control System corresponds to each involved business area. The periodic review by the Directorate for Compliance and the Directorate for Internal Audit as the second and third lines of defence, respectively, and the final validation of the Audit and Control Committee and the Board of Directors.

E.3 Point out the main risks, including tax risks, which may affect the achievement of the business objectives.

Neinor Homes has classified the various risks to which it is exposed in 6 global categories:

- External factors: related to the housing sector and the cyclical nature of the business.
- Competitive environment: associated with the competitiveness of the various agents involved in the housing sector.
- Operational model: including how the internal and external processes work, as well as the business structure.
- Commitment to third parties: relating to compliance with the expectations agreed upon with the

client and/or shareholder, as well as third-party relationships (suppliers such as construction and marketing companies).

- Governance and compliance: covering adaptation to standards and applicable regulations, ethical activities and conduct, etc.
- People: which primarily has to do with training and mechanisms for the attraction and retention of talent.

Given that the Integrated Control System (ICS) that has been implemented is a dynamic tool intended to provide continuous and up-to-date information about the potential risks faced by the company; Neinor Homes regularly collects from the various defined sources of risk detection, occurrences / events that might become a risk, in order to facilitate their analysis and continuous monitoring and to take measures to remedy them, and also where appropriate, the addition of a control, or the analysis of the effectiveness and efficiency of an existing one within the ICS.

E.4 Identify whether the entity has a level of risk tolerance, including tax risk.

The levels of risk tolerance are defined in the basis of evaluation of risks used by Neinor Homes to evaluate the potential risks to which it is exposed, classifying those risks that the company is willing to assume or reject and setting such risks down on the Risk Map.

The bases of evaluation consider both the economic and the reputational impact that may arise were the risk being evaluated to become a reality.

In addition, the final evaluation of the risk within the bases of evaluation considers the likelihood of that risk becoming a reality, taking both already past historical data and future estimates into consideration.

The risks are evaluated at the inherent level and the residual level, that is to say, after having implemented the control measures established in each case which makes it possible, in this way, to prioritise the totality of risk events.

The final classification of the risks incorporates qualitative elements such as those that might affect the achievement of the company's strategic objectives or interfere in the mission, vision and values that it has established.

The analysis that is carried out contrasts both the opinion of external third parties interested in the company, and that of internal sources.

The Audit and Control Committee is the body responsible for reviewing these variables annually and to update and approve them.

E.5 Indicates what risks, including tax risks, have become a reality during the fiscal year.

During the 2017 fiscal year, certain inherent risks in the Neinor Homes' housing sector business materialised, although they have not had a material impact on the development and operation of the company.

In particular, the currently uncertain political situation in Catalonia has affected the pace of sales there, although its impact has not had an important impact on the overall profitability of Neinor Homes, given the significant number of pre-sold units in that region and the company's territorial diversification.

On the other hand, during the 2017 fiscal year (1 June 2017) auditing actions began to check and investigate the companies of the group NEINOR SUR (2014-2015 Value Added Tax; 2012-2015 Company Tax) and NEINOR PENÍNSULA (2015-2016 Value Added Tax; 2015 Company Tax). Such actions are ongoing and to date no contingent liabilities have been detected that might pose a risk to the companies.

E.6 Explain the response and monitoring plans for the institution's principal risks, including tax risks.

During the process of updating the company's Corporate Risk Map, not only have the risks and risk events that affect the business objectives and regulatory compliance of Neinor Homes been defined, the control activities that make it possible to mitigate those events have also been defined.

For each of the controls that have been set in place, those responsible for their implementation and monitoring have been identified and the evidence that supports and justifies their successful execution has been determined.

In this sense, among the duties included in their Annual Activity Plans, both the Directorate for Compliance and the Directorate for Internal Auditing have established the periodic review of such control activities to ensure their effectiveness, and in the case of any control weaknesses being detected, to establish recommendations and action plans that should be implemented.

The periodic review of the control activities is an essential part of the company's entire control structure which integrates different compliance models that have been introduced since the company was established in May 2015, such as the ICFR, the prevention of criminal responsibility, the prevention of money laundering and the financing of terrorism, data protection, related transactions and conflicts of interest, the prevention of fraud and corruption…

In order to integrate all the compliance models in an effective and efficient manner, they have all followed the same process of uniform and standardised implementation. The steps taken are as follows: the analysis of expectations and external and internal risk appetite, the analysis of policies and the applicable national and international best practice regulations, risk analysis, policy creation, the analysis of the existing internal control structure, the implementation and where appropriate the design of additional controls / protocols for improvement, the identification of the model of Governance (execution / monitoring / reporting), training and transfer to the organisation.

In addition, the Audit and Control Committee regularly receives a report for its monitoring purposes, on the evolution of the risk management carried out by the company, the state of the critical risks and the monitoring and level of progress of the agreed response plans.

F INTERNAL CONTROL SYSTEMS AND RISK MANAGEMENT IN RELATION TO THE PROCESS FOR ISSUING FINANCIAL INFORMATION (ICFR)

Describe the mechanisms that make up the control and risk management systems in relation to the process for issuing financial information (ICFR) in your institution.

F.1 The institution's control environment

Indicating their main characteristics, report at least on:

F.1.1. Which organs and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR; (ii) its implementation; and (iii) its monitoring.

Article 5.4 of the Regulations of the Board of Directors establishes the powers of the Board of Directors and, in particular, point xxi refers to "the ultimate responsibility for the existence and maintenance of an adequate and effective system of internal control of financial information (ICFR)".

The implementation of this ICFR rests with the actual business areas that are defined in Neinor Homes, as they are responsible for putting into practice the monitoring mechanisms and activities designed to ensure the reliability of the financial information of the company.

To ensure the adequate development and execution of the system, the Board is supported by the Audit and Control Committee (ACC), which, as indicated in article 9.3 of the Regulations of the Audit and Control Committee, will be responsible for the following activities:

- Evaluate the adequacy and effectiveness of internal financial controls and the internal control and risk management systems, including the monitoring of the Systems for the Internal Control of Financial Reporting (ICFR), in such a way that the main risks can be properly identified, managed, evaluated and communicated.
- To ensure that these systems conveniently reduce the risks, within the context of the policy that the Board of Directors were to have established, as the case may be.

F.1.2 Whether the following elements exist, especially with regard to the process for preparing financial information:

- **Departments and/or mechanisms responsible for: (i) the design and review of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring there are sufficient procedures for the proper dissemination thereof in the institution.**

  Among its powers, the Board of Directors of Neinor Homes has that of defining the structure of the company, therefore it is ultimately responsible for establishing responsibilities in the process of preparing and monitoring financial information, and ensuring that such functions are being properly communicated to each of the areas involved.

  Primarily, the GFD (the General Financial Directorate) is the area responsible for preparing the financial information, although all areas of the company must promote the transparency and the accuracy of the information managed and supplied to the market.

- **Code of good conduct, approval body, degree of dissemination and instruction, included principles and values (indicating whether there are specific references to the registration of transactions and processing of financial information), the body responsible for analysing noncompliance and for proposing corrective actions and sanctions.**

  The purpose of the Code of Ethics of Neinor Homes is to establish a catalogue of ethical principles, values and standards of behaviour that should guide the actions of all the companies and individuals that form part of the company. This document is sent to all employees on an annual basis, including any new additions, for their knowledge and referral. It is signed on acceptance.

In addition, annual training in ethics and compliance is provided for the entire company.

In particular, annex 4 of this Code specifies that in order to ensure that the information displays a faithful image of the equity, the financial situation and the results of the company, "the individuals who are responsible for entering data into the different types of records, whether physical or logical, processed by the company during the financial information preparation process, must necessarily guarantee their reliability, integrity, accuracy and updating".

Both the company's Code of Ethics and the Code of Good Conduct of third parties and many of the Compliance and Good Practices Policies and Manuals that are mandatory for all staff, are published on the company's website (Shareholders & Investors / Corporate Governance and Sustainability / Codes and Policies). The principles and values of the company are set out in the Code of Ethics itself and in the "Mission, Vision and Values" document which has also been published.

In addition, "the effectiveness of the ICFR as a whole is subject to annual review by the Directorate for Internal Auditing".

On the other hand, one of Neinor Homes governing principles, as specified in its Code of Ethics, is transparency. As a result, the company establishes that it "will provide to the authorities, to its shareholders, to the markets in which it operates and to its customers, truthful and transparent financial and accounting information in accordance with the legislation in force".

The body responsible for analysing breaches of the Code of Ethics and for proposing corrective actions and sanctions is the company's Monitoring and Control Committee, formed by the Directors of the Legal, Human Resources, Compliance and Internal Auditing departments.

- **A channel for complaints, which makes it possible to communicate to the Audit Committee any irregularities of a financial and accounting nature, as well as any possible breaches of the Code of Good Conduct and irregular activities in the organisation, advising where appropriate if this channel is of a confidential nature.**

Neinor Homes has established an Ethics Channel that allows people to communicate (by letter or e-mail) any irregular or inappropriate behaviour related to accounting, control, risks and financial information, as well as other relevant issues related to the integrity, conduct and transparency of transactions within the internal and external operations of the company.

Neinor Homes has published on its website its Complaints Management Procedure in which the operation of said Ethics Channel is regulated.

Only communications in which the complainant is duly identified are formally accepted. The total confidentiality and anonymity of the person providing the information is however guaranteed and the system does allow communication even if the person has not identified him- or herself. These communications are received by the Directorate for Compliance and the Directorate for Internal Auditing, and after their prior analysis, they are forwarded to the Monitoring and Control Committee for resolution.

In addition to the Ethics Channel which is disseminated externally and internally, the company has internally implemented a confidential channel for the communication of inefficiencies, breaches of protocols, malpractices or inappropriate behaviour on the part of employees. Access to this channel is restricted to the Internal Auditing Director and the Quality Director.

- **Training programmes and regular refresher training for staff involved in preparing and reviewing financial information, as well as in evaluating the ICFR, covering at least: accounting standards, auditing, internal control and risk management.**

The Directorate of Internai Auditing has given a training course on the ICFR to those areas involved in preparing and reviewing the financial information.

The Directorate of Internal Auditing together with the External Auditor have given a course to the accounting department on the obligations as a listed company in the area of financial information made available to the market and on Good Corporate Governance.

In addition, staff involved in preparing and reviewing financial information receive regular training and periodic updating in accounting standards, internal control, risk management and regulatory compliance.

During the course of the 2017 fiscal year and in relation to these subjects, the following topics have been dealt with:

- Updating and changes in International Financial Reporting Standards (IFRS).
- New Audit Report.
- Components and principles of entrepreneurial Risk Management, COSO 2017
- Key aspects of Technical Guide 3/2017 of the CNMV on Audit Committees of public-interest entities.
- New additions to data protection regulations.

The target groups for such training belong to the accounting (perimeter and servicing), management control and legal departments.

In addition, during the 2017 fiscal year, all of the company's staff has received training on cybersecurity, use of the company's ERP, control of information security, ethics, prevention of money laundering and data protection.

Training protocols in the field of compliance, internal control and risk management provide for evaluations of the course content, the quality of the course and of the trainer as well as an evaluation of the knowledge acquired.

F.2 Financial information risk assessment

Report, at least, on:

F.2.1. What are the main features of the risk identification process, including error or fraud risks, in terms of:

- **Whether the process exists and is documented.**

Neinor Homes has a procedure for calculating the scope of the processes that are to be incorporated into the ICFR and for identifying relevant business cycles.

Additionally, a matrix of controls has been defined that are associated with potential risks and accounting or administrative processes in each process incorporated into the ICFR. For each control, those responsible for executing and supervising the associated policies/procedures and the required audit evidence have been established.

The company has established a risk management methodology that is replicated in the design and implementation process of any internal control structure and regulatory compliance that takes into account:

- Internal and external information for identifying risks.
- Rating scales for risk assessment.
- Holding interviews and workshops to prioritize risks.
- The economic and reputational impact for classifying risks.
- Past, present and future probability in risk materialization analysis.

All of the company's compliance environments, such as the ICFR, are incorporated into an integrated system of internal control and continuous risk management. The main characteristics of this model are:

- Identifying each risk event, the associated corporate/strategic risk, the strategic objectives, procedures, controls and associated evidence, integrated in a control panel that prevents duplication between the controls and risks defined by each regulatory or operational compliance environment.
- Implementing processes and protocols that enable the risks that materialize to be continuously identified and taken into account in redesigning and improving the internal control model, as well as taking the corresponding corrective actions into consideration.
- Monitoring and continuous reporting on the model's operation and the materialized risks to the company's audit and control committee.

The company's Control and Risk Management Systems are further detailed in section E.

- **Whether the process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), whether it is updated and with what frequency.**

  The process defined in Neinor Homes covers all financial information objectives:

  - Existence and occurrence: the transactions, facts and other events collected by the information do exist and are registered at the appropriate time.
  - Integrity: the information reflects all transactions, facts and other events in which the entity is an affected party.
  - Valuation: transactions, facts and other events are recorded and valued pursuant to applicable regulations.
  - Presentation and disclosure: transactions, events and other events are classified, presented and disclosed in the information pursuant to the applicable regulations.
  - Rights and obligations: the information shows, on the corresponding date, the rights and obligations through the corresponding assets and liabilities, pursuant to applicable regulations.

  These objectives are reviewed and updated when there are significant changes in the company's operations with an impact on financial information.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, shell corporations and special purpose vehicles.**

  The identification of the scope of consolidation with the detail of the corporate interests, as well as the corporate operations carried out that affect share capital or reserves, is transferred quarterly by the Legal Advisory Office to General Financial Management (GFM).

  This provides the company with the updated equity situation and the GFM integrates the new companies into the financial statements, accounting for these transactions appropriately.

  Within the Neinor Homes Group scope of consolidation, there are no complex corporate structures that could give rise to interpretations or value judgments that could affect the comprehension of the Financial Statements. Any corporate transaction or operation that could lead to the scope of consolidation has been consulted with the company's external auditors in order to correctly record them in the Annual Accounts.

- **Whether the process addresses other types of risks (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

  The ICFR is one of the components of Neinor Homes Integrated Control System (ICS). In this model, as already mentioned in section E.1, the main risks that affect regulatory compliance are also considered, such as fraud and corruption risks, money laundering, data protection, etc.; as well as corporate risks and the risks inherent to the company's operation and activity (e.g., land acquisition, product, sales, procurement, among others).

  Please see section E.3 to see the detail of the risks that are integrated at the corporate level.

- **Which of the Company's governing bodies is responsible for overseeing the process?**

  As mentioned in section F.1.1, the Board of Directors through the Audit and Control Committee (ACC) is the body in charge of supervising the ICFR to guarantee that the main risks can be identified, managed, valued and communicated appropriately. To carry out this function, the ACC relies on the company's Internal Audit Department.

F.3 Control activities

Inform, indicating the main characteristics, whether it has at least:

F.3.1. Procedures for reviewing and authorizing the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, measurements and projections.

As indicated in Article 14.5.iii of the Regulations of the Board of Directors, the ACC is delegated the responsibility of supervising the process of preparing and presenting the regulated financial information in order to safeguard its integrity. For this purpose, this Commission relies on the General Financial Management and the Internal Audit Departments.

The procedure for reviewing and authorizing financial information initially consists of a double check from the sub-directorate and Accounting Directorate. A review is subsequently made from the company's Management Control area and finally, a final check is made by Financial Management.

The financial results are transferred to the Audit and Control Committee monthly.

On a quarterly basis, prior to the Board of Directors approval of the financial information and its subsequent publication, the Audit and Control Committee reviews and authorizes the financial information at the committee meeting, received sufficiently in advance to provide a reasonable margin for analysis.

The Internal Audit Department reviews the effectiveness and efficiency of the ICFR yearly and reports its findings to the Audit and Control Committee.

At the end of the year, the company has 212 procedures/policies and manuals in which non-compliance could directly or indirectly impact the financial statements. General Financial Management is responsible for 23 of these procedures that cover the main functions of the Directorate such as accounting, the financial information control system, guarantees, financing, payments and collections, receipt of invoices, dividends, bank reconciliations and treasury, among others.

With regard to the accounting closing procedure, Neinor Homes has established a schedule with the milestones and the dates that must be met at each monthly closing. In this sense, the Accounting Department, according to the dates established in this schedule and to avoid errors in the accounting information, closes the accounting periods sequentially by work group. The management system does not allow the users included in those work groups to post if the accounting period has been closed for them. Additionally, each person responsible for the posting checks that the closing checklist has been completed correctly.

There are also individual and specific control activities for the supervising estimate and provision calculations (e.g. provisions for bonus and extra pay, legal contingencies, fiscal contingencies, etc.). This financial information obtained independently by the different areas involved is subject to further review, since it is validated by the Management Control Department before being transferred to the Accounting Department and an analytical verification is also carried out by the Strategic Financial Planning Directorate or the Internal Audit Department.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and separation of duties) giving support to key company processes regarding the preparation and publication of financial information.

Neinor Homes manages most of its business activities on Information Systems, which provide basic support for internal operations, service management and sales development. The information handled by the different systems and applications, as well as the communications infrastructure, together with the people, are the company's main asset for the normal development of business operations.

To this end, the Security Policy has been developed, which is made up of the organizational structure, human and technical resources, processes, plans, procedures and protocols related to prevention and response measures against security risks of a physical and logical nature and compliance with applicable regulation and good corporate governance.

The security requirements and objectives are determined by the Information Security Committee based on the criteria derived from Neinor Homes policies and the needs determined by those responsible for information assets and those responsible for business processes. Their scope includes all activities related to physical security and information security with a special focus on logical security. They apply to the provision of activities and services that are directly related to the security of the organization itself and also third parties, following their directives and instructions with an advanced, complete and comprehensive approach.

The purpose of this Policy is to achieve adequate protection of Neinor Homes information assets, within the scope defined for the Information Security Management System, preserving the following security principles:

- Confidentiality: ensure that the information is accessible only to those who are authorized to access it.
- Integrity: guarantee the accuracy and completeness of the information and its processing methods.
- Availability: ensure that authorized users have access to the information and its associated assets when required.

These basic principles must be preserved and assured on any media the information is on, whether electronic, printed, visual or spoken form, and regardless of whether it is processed within or outside of Neinor Homes premises.

In this sense, the company has high levels of security on access, continuous training on cybersecurity, reviews of the information sent, protocols for the use of mobile devices, daily backups of the servers, restricted access to external devices, etc.

Neinor Homes has approval processes for invoices and payments, which are configured on the computer tool used, which enables the people involved in each Directorate and the existence of separate roles to be identified.

On the publication date of this document, Neinor Homes is certified by the Information Security ISO 27001.

F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as evaluation, calculation or valuation aspects entrusted to independent experts that may materially affect the financial statements.

Neinor Homes has a procedure for selecting, approving and evaluating suppliers/third parties (e.g. architects, construction marketing firms, consultants, among others) in which these external companies are valued in an objective way, to select and hire those that are considered most suitable for providing their services in compliance with the company's legality and internal procedures (including the correct treatment of financial information and not disclosing it without authorization, among others).

Neinor Homes believes that the scope of internal control procedures for third parties should take into account suppliers due to their materiality, strategic suppliers due to their significant impact on financial information and reputational level, suppliers for the use of confidential information or for the relevance of their professional services, as well as external auditors, independent experts in the valuation of assets, etc., which must always demonstrate their experience, independence and reputation in the market.

The reports issued by an independent expert are reviewed by the company's personnel with experience and technical skills in the matters addressed.

The company also has a Code of Conduct for third parties that establishes the ethical standards that must be met by significant collaborators that provide some type of service to Neinor Homes. Among these principles is compliance with legal and fiscal obligations and preventing committing criminal offenses, fraud and corruption. This Code is accepted and signed by all strategic third parties that work with the company.

F.4 Information and communication

Inform, indicating the main characteristics, whether it has at least:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) up to date and settling doubts or conflicts over their interpretation, maintaining regular communication with the persons responsible for the organization's transactions, as well as an updated accounting policy manual that is provided to all the company's operating units.

Neinor Homes General Financial Management (GFM) establishes the processes and also the applicable accounting policies and norms, and is also responsible for coordinating between the different departments involved in preparing the financial information. On the other hand, the Administration and Accounting Area, dependent on GFM, assumes responsibility for defining and resolving the queries arising from interpretation of the accounting policies.

In this sense, Neinor Homes has an Accounting Policy Manual developed internally in May 2016 and contrasted by independent accounting experts, which defines the classification and valuation criteria for preparing the financial statements.

The personnel involved in the process of preparing and reviewing the financial information are constantly informed of the accounting and tax updates through continuous communication with their tax advisors, their external auditor and other alerts and notifications received from the main audit firms and professional offices.

The Audit and Control Committee is entrusted with supervising and reviewing the annual accounts pursuant to current regulations, in compliance with generally accepted accounting principles.

When applying the regulation entails a certain complexity in its interpretation, the company seeks advice from its external auditor and other advisors or regulatory body.

F.4.2. Mechanisms in standard format for capturing and preparing financial information, which are applied and used in all units within the company or group, and support its main financial statements and attached notes as well as disclosures concerning ICFR.

The financial information preparation process is defined in Neinor Homes and incorporates the description of the different standardized activities that are carried out in closing the accounts and preparing the financial statements, as well as the persons responsible for their execution and review.

A common IT tool (ERP) is also available, which works with the financial information of all the companies, and which facilitates the subsequent consolidation.

Additionally, a single Account Plan is used, which is implemented to carry out and manage the accounting of all companies.

F.5 Monitoring of the functioning of the system

Indicating their main characteristics, report at least on:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. The scope of the ICFR evaluation conducted during the year and the procedure by which the person responsible for executing the evaluation communicates its results is also informed, whether the entity has an action plan detailing possible corrective measures, and whether its impact on financial information is considered.

As indicated in section F.1.1, in order to ensure the correct development and execution of the ICFR, Neinor Homes Board of Directors relies on the Audit and Control Committee (ACC) and the latter, in turn, delegates these monitoring functions to the Internal Audit Department.

The Internal Audit Department is, therefore, an objective function independent of the other areas, since it depends directly on the Audit and Control Committee and indirectly but functionally on the Chief Executive Officer.

The functions attributed include supervising the operation of the ICFR, having to evaluate the effectiveness of the internal control system and reasonably ensure efficiency and effectiveness in the use of resources, the reliability of financial information and compliance with legality and internal policies and procedures.

The first internal audit on the ICFR was also carried out in 2017.

In the ICFR review, the design and effectiveness of the controls is considered annually, the integrity of the evidence that supports these controls. Based on these reviews during 2017, measures have been implemented to improve the ICFR model derived from the recommendations made by the internal audit function and other independent experts.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the company has an action plan to correct or mitigate the weaknesses found.

Neinor Homes issues a quarterly report to Senior Management and the Audit and Control Committee in which the Internal Audit Department presents the analysis and monitoring of the internal control and risk management system implemented, as well as the main issues identified and the action plans to be implemented.

This report also includes the results of other obligatory compliance audits carried out in collaboration with the Compliance Department (e.g. data protection, money laundering, etc.).

The external auditors also communicate the semiannual and annual financial statements, as well as the weaknesses detected during their audit.

The Internal Audit Department, the Compliance Department and the external auditor also hold regular meetings with the ACC without the presence of Senior Management, to report on the operation of the control systems.

To address weaknesses or breaches related to ethical or fraud issues, there is a Monitoring and Control Committee, which meets periodically and at least four times a year.

F.6 Other relevant information

N/A.

F.7 External auditor report

Report from:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Group's Management has decided to submit the information on the ICFR, included in this section F of the Annual Corporate Governance Report for 2017 prepared by the Group's Management, to be reviewed by the external auditor. The Auditor's Report referring to information regarding Neinor Homes S.A. internal control system over financial information (ICFR) corresponding to the year ended 31 December 2017 is attached to this Annual Corporate Governance Report.

Since 2016, the external auditor's strategy to focus on the audit is based on trust in controls, so information is gathered to know how the entity is covering the risk of errors for each of the significant business cycles (e.g. procurement, sales, inventories, etc.).

G LEVEL OF COMPLIANCE WITH CORPORATE GOVERNANCE REGULATIONS

Please describe the extent to which the company has complied with the recommendations of the Code of Good Governance for Publicly Traded Companies.

If any recommendation is omitted or only partly followed, a detailed explanation must be given of the reasons for this, in order to ensure that the shareholders, investors and the market in general have enough information to be able to assess the company's conduct. General explanations will not be accepted.

1. **The Bylaws of listed companies do not limit the number of votes that may be issued by the same shareholder, nor do they contain any other restrictions that hinder the taking of a company's control by purchasing its shares on the market.**

   ☑ Compliance ☐ Explain

2. **If the parent company and one of its dependent companies are both listed, a public and accurate definition of the following:**

   a) **The respective areas of activity and possible business relations between them have been identified precisely, as well as those of the publicly traded subsidiary with other companies in the group.**

   b) **The devices foreseen to resolve any future conflicts of interest that may arise.**

   ☐ Compliance ☐ Compliance in part ☐ Explain ☑ Not applicable

3. **During the General Shareholders' Meeting, as a supplement to the distribution in writing of the annual corporate governance report, the chairman of the Board of Directors informs the shareholders verbally, in sufficient detail, of the most relevant corporate governance aspects of the company, and in particular:**

   a) **Of the changes that have occurred since the previous General Shareholders' Meeting.**

   b) **Of the specific reasons why the company does not follow any of the recommendations of the Code of Corporate Governance and of any alternative rules that may be applicable in this matter.**

   ☐ Compliance ☐ Compliance in part ☑ Explain

   At December 31, 2017, the company has not held a General Meeting of Shareholders since it was not listed on a stock exchange until March 2017 The company will hold its first General Meeting of Shareholders in the first half of 2018, at which time it intends to comply with this section.

4. **The company defines and promotes a policy of communication and contact with shareholders, institutional investors and proxy advisers that is fully respectful of the rules against market abuse and gives a similar treatment to shareholders that are in the same position.**
   The company makes public this policy through its website, including information relating to the way in which it has been implemented and identifying the contacts or those responsible for carrying it out.

   ☑ Compliance ☐ Compliance in part ☐ Explain

5. **The Board of Directors does not submit to the General Meeting of Shareholders a proposal for delegating powers to issue shares or convertible securities, except for the right to preferential subscription, for an amount greater than 20% of the share capital at the time of delegation.**

And when the Board of Directors approves any issue of shares or convertible securities, not including the right to preferential subscription, the company immediately publishes on its website the reports on this exclusion referred to by company law.

☑ Compliance ☐ Compliance in part ☐ Explain

6. **Listed companies preparing the reports mentioned below, whether as an obligation or voluntarily, publish them on their websites in sufficient time before the General Meeting of Shareholders, even if their publication is not mandatory:**

   a) Report on the independence of the auditor.

   b) Reports on the operation of the Auditing and Appointments and Remuneration committees.

   c) Auditing Committee report on related operations.

   d) Report on the Corporate Social Responsibility policy.

☐ Compliance ☐ Compliance in part ☑ Explain

At December 31, 2017, the company has not held a General Meeting of Shareholders since it was not listed on a stock exchange until March 2017 The company will hold its first General Meeting of Shareholders in the first half of 2018, at which time it intends to comply with this section regarding publication of the following reports already made by the company:

a) Report on the independence of the auditor.

b) Auditing Committee report on related operations.

c) Report on the Corporate Social Responsibility policy.

The company will generate performance reports of the audit and appointments and remuneration commissions after one calendar year of the operations of these commissions has transpired from the company's IPO, so as to provide greater visibility of their operations and of the new directors' performance.

These reports, once approved by the committees and by the Board of Directors, will be published on the company's website and serve as a reference for evaluating the committees' operation. See section C. 1. 20 bis

7. **The company broadcasts the general meetings of shareholders live via its website.**

☐ Compliance ☑ Explain

At December 31, 2017, the company has not held a General Meeting of Shareholders since it was not listed on a stock exchange until March 2017 The company will hold its first General Meeting of Shareholders in the first half of 2018, at which time it intends to comply with this section.

8. **The Auditing Committee oversees the Board of Directors to ensure that if possible it presents the accounts to the General Meeting of Shareholders without any limitations or qualifications in the auditor's report; and that in the exceptional cases when there are qualifications, both the chairman of the Auditing Committee and the auditors explain clearly to the shareholders the content and scope of these limitations or exceptions.**

☑ **Compliance** ☐ **Compliance in part** ☐ **Explain**

9. **The company posts publicly and permanently on its website, the requirements and procedures that it will accept to accredit the ownership of the shares, the right of attendance to the General Meeting of Shareholders and the exercise of delegation of this voting right.**

These requirements and procedures favour attendance and the exercise of voting rights by the shareholders and are applied in a non-discriminatory way.

☐ **Compliance** ☐ **Compliance in part** ☑ **Explain**

At December 31, 2017, the company has not held a General Meeting of Shareholders since it was not listed on a stock exchange until March 2017 The company will hold its first General Meeting of Shareholders in the first half of 2018, at which time it intends to comply with this section.

10. **When a duly registered shareholder has exercised the right to add to the Agenda or present new proposed resolutions before the general meeting of shareholders, the company:**

   a) **Immediately makes public these supplementary points and new proposed resolutions.**
   b) **Makes public the model of attendance card or form of delegating the vote or distance vote, together with the precise modifications, so that the new points on the Agenda and the alternative proposed resolutions can be voted on in the same terms as those proposed by the Board of Directors.**
   c) **Subjects all these points or alternative proposals to the vote and applies to them the same voting rules as those issued by the Board of Directors, including in particular any assumptions or deductions regarding voting intention.**
   d) **Following the General Meeting of Shareholders, reports the breakdown of the vote on these supplementary points or alternative proposals.**

☐ **Compliance** ☐ **Compliance in part** ☑ **Explain**

At December 31, 2017, the company has not held a General Meeting of Shareholders since it was not listed on a stock exchange until March 2017 The company will hold its first General Meeting of Shareholders in the first half of 2018, at which time it intends to comply with this section.

11. **If the company plans to pay attendance bonuses for shareholders who attend the general meeting, it should establish in advance a general policy on such bonuses and this policy should be stable.**

☐ **Compliance** ☐ **Compliance in part** ☐ **Explain** ☑ **Not applicable**

12. The Board of Directors performs its duties with a single purpose and with independent criteria, treats all shareholders who are in the same position in the same way and is guided by the corporate interest, in other words by the achievement of a profitable and sustainable business in the long term that promotes its continuity and the maximization of the company's economic value.

    In aiming for the corporate interest, as well as respecting the laws and regulations and a good behavior based on good faith, ethics and respect for commonly accepted customs and good practices, it aims to reconcile the corporate interest with the legitimate interests of its employees, suppliers, customers, and the other stakeholders that may be affected, as appropriate, as well as the impact of the company's activities on the community as a whole and on the environment.

    ☑ Compliance ☐ Compliance in part ☐ Explain

13. The Board of Directors is of the right size to ensure effective and participative operation, which means that it is advisable for it to have between five and 15 members.

    ☑ Compliance ☐ Explain

14. The Board of Directors approves a policy on appointing directors that:

    a) is specific and verifiable.

    b) Ensures that the proposals for appointment or re-election are based on a prior analysis of the needs of the Board of Directors.

    c) Favors diversity of knowledge, experiences and gender.

    The result of the prior analysis of the needs of the Board of Directors is included in the justificatory report from the Appointments Committee published when calling the General Meeting of Shareholders to which the ratification, appointment or re-election of each director is subject.

    The policy for selecting directors fosters the target that in 2020 the number of female directors should represent at least 30% of all the members of the Board of Directors.

    The appointments committee shall check compliance with the policy for selecting directors every year and report on this in the Annual Report on Corporate Governance.

    ☑ Compliance ☐ Compliance in part ☐ Explain

15. The nominee and independent directors constitute a broad majority of the Board and the number of executive directors is the smallest possible, taking into account the complexity of the corporate group and the percentage participation held by executive directors in the company's capital stock.

    ☑ Compliance ☐ Compliance in part ☐ Explain

16. The percentage of nominee directors out of the total number of non-executive directors is not greater than the proportion between the company's capital stock represented by these directors and the rest of the capital.

This criterion may be eased:

a) **In companies with high capitalization, when there are few shareholdings that are legally considered to be significant.**

b) **In the case of companies where there are a number of shareholders represented on the Board and there is no relation between them.**

☐ **Compliance** ☑ **Explain**

With the accelerated placement of shares that it carried out on September 14, 2017 (see section C.1.9), Neinor Holdings, S.L. reduced its holding in the Company from 39.5% to 12.9%. On October 31, 2017 one nominee director, Dominique Cressot, resigned, leaving Neinor Holdings, S.L. with two directors on the Board (Juan José Pepa and Felipe Morenés Botín-Sanz de Sautuola). Consequently, from the accelerated placement until December 31, 2017, the percentage of directors representing Neinor Holdings, S.L. has been slightly higher than the proportion between the capital stock held by Neinor Holdings S.L. and the rest of the capital stock. This situation was subsequently corrected by (i) the resignation of Juan José Pepa and Felipe Morenés Botín-Sanz de Sautuola of Lone Star (the owner of Neinor Holdings, S.L.), (ii) the second accelerated placement of shares by Neinor Holdings, S.L. on January 10, 2018, on which date it reduced its holding in the Company from 12.9% to 0.4% and (iii) the change in the classification of the Directors Juan José Pepa and Felipe Morenés Botín-Sanz de Sautuola decided by the Board on January 22, 2018, when they were reclassified as external directors. As a result of the above, on the date of on which this report is issued, there are no nominee directors on the Board, and accordingly the Company is in compliance with this recommendation.

17. **The number of independent directors is at least half of the number of all the directors.**

However, when the company does not have a high market value, or when it does but has one shareholder or a number acting together who control more than 30% of the capital stock, the number of independent directors is at least a third of the total number of directors.

☑ **Compliance** ☐ **Explain**

18. **The companies publish and keep updated the following information on their directors on their website:**

a) **Professional and personal background.**

b) **Other boards of directors to which they belong, whether or not of listed companies, as well as information on other remunerated activities they engage in, whatever their nature.**

c) **Indication of the type of director, specifying in the case of nominee directors, the shareholder they represent or to which they are related.**

d) **Date of the initial appointment as director of the company, as well as of subsequent re-elections.**

e) **Shares in the company, and options on such shares, that they own.**

☑ **Compliance** ☐ **Compliance in part** ☐ **Explain**

19. **The annual report on corporate governance, following review by the appointments committee, explains the reasons for the appointment of the nominee directors at the request of shareholders whose holding is under 3% of the capital; and, where appropriate, explains the reasons for not approving formal requests for representation on the Board from shareholders whose holding is equal to or greater than that of others at whose request nominee directors have been appointed.**

☐ Compliance ☐ Compliance in part ☐ Explain ☑ Not applicable

20. Nominee directors resign if the shareholder they represent fully transfers its shareholding. They also resign, in the necessary number, if said shareholder reduces its shareholding to a level that requires a decrease in the number of nominee directors.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

21. The Board of Directors does not propose the removal of any independent director before expiration of the term of appointment specified in the by-laws, without due cause ascertained by the Board subject to a prior report from the Appointments Committee. In particular, due cause will be deemed to exist if the director takes on a new position or undertakes new duties that prevent him from dedicating the time needed to perform the duties of director, infringes the duties inherent to his office or is involved in any of the circumstances entailing loss of independence under applicable law.

The removal of independent directors may also be proposed as a result of takeover bids, mergers or other similar corporate operations, entailing a change in the company's capital structure, if such changes in the board's structure are triggered by the proportionality principle indicated in Recommendation 16.

☑ Compliance ☐ Explain

22. The companies establish rules obliging their directors to report and, if necessary, to resign in any situation that may damage the company's creditworthiness and reputation. In particular, they are obliged to inform the board of directors of any criminal proceedings in which they are charged, including any subsequent procedural vicissitudes.

If a director is prosecuted or an order initiating a public trial is delivered against him, for any of the offences foreseen in company law, the Board examines the case as soon as possible and, in light of the specific circumstances, decides whether or not the director should remain in his post. The Board reports all of the foregoing, in a reasoned manner, in the Annual Report on Corporate Governance.

☑ Compliance ☐ Compliance in part ☐ Explain

23. All directors may clearly expressly their disagreement if they consider that any proposed decision presented to the Board may be contrary to the corporate interest. The foregoing will also apply, in particular, in the case of independent directors and other directors not affected by a potential conflict of interest, for decisions that may be detrimental to shareholders not represented on the Board.

If the board of directors adopts significant or reiterated decisions on which a director has expressed serious reservations, the latter may reach the necessary conclusions and, if he decides to resign, explain his reasons in the letter referred to in the following recommendation.

This recommendation also covers the Secretary of the Board of Directors even if he does not hold director status.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

24. If because of resignation or for another reason, a director abandons his office before the end of his term, he may explain his reasons for this in a letter sent to all of the Board members. Without prejudice to such abandonment being notified as a relevant event, the Annual Report on Corporate Governance explains the reasons for the abandonment.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

25. The appointments committee ensures that non-executive directors have sufficient time available for the correct performance of their duties.

The regulations of the board establish the maximum number of boards of directors to which its directors may belong.

☑ Compliance ☐ Compliance in part ☐ Explain

26. The Board of Directors meets as frequently as necessary to perform its duties effectively, and at least eight times a year, following the schedule of dates and issues it establishes at the start of the year. Each director may individually propose agenda items other than those initially included.

☑ Compliance ☐ Compliance in part ☐ Explain

27. Non-attendance by directors is limited to unavoidable cases that are listed in the annual Corporate Governance Report. When non-attendance has to occur, a proxy is granted with instructions.

☑ Compliance ☐ Compliance in part ☐ Explain

28. When the directors or the secretary express concern regarding a proposal, or in the case of directors, on the performance of the company, and these concerns are not resolved by the Board of Directors, this is noted in the minutes at the request of the person who has raised the concerns.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

29. The company establishes appropriate channels allowing directors to obtain the necessary advice on the performance of their duties, including, if circumstances require, external advice at the company's expense.

☑ Compliance ☐ Compliance in part ☐ Explain

30. Apart from the knowledge required from the directors to perform their duties, the companies also offer their directors refresher courses to update knowledge where required by the circumstances.

☑ Compliance ☐ Compliance in part ☐ Explain

31. The agenda clearly states the items on which the board of directors must resolve so that the directors can previously study or gather the information required to adopt the resolution.

Exceptionally, when because of an emergency, the chairman wishes to submit motions to the board of directors for approval that are not included on the Agenda, the prior consent of the majority of directors present will be required, and due note of this will be included in the minutes.

☑ Compliance ☐ Compliance in part ☐ Explain

32. The directors are regularly informed of changes in the shareholder structure and of the opinions of significant shareholders, investors and ratings agencies on the company and its group.

☑ Compliance ☐ Compliance in part ☐ Explain

33. The chairman, as responsible for the efficient operation of the Board of Directors, not only performs the duties established by law and the bylaws, but prepares and submits to the board of directors a schedule of dates and business to be discussed; organizes and coordinates the regular evaluation of the Board, and where appropriate, of the company's chief executive; is responsible for the management of the Board and for its effective operation; ensures that it dedicates sufficient time to discussion of strategic questions, and agrees and reviews the programs for updating each director's knowledge, where advisable.

☑ Compliance ☐ Compliance in part ☐ Explain

34. When there is a coordinating director, the bylaws or the regulations of the board of directors grant him the following powers, in addition to those granted to him by law: to chair the board of directors in the absence of the chairman and of the deputy chairmen, if any; to respond to the concerns raised by the non-executive directors; to maintain contact with investors and shareholders to discover their points of view in order to form an opinion on their concerns, in particular in relation to the company's corporate governance; and to coordinate the succession plan for the chairman.

☐ Cumple ☐ Compliance in part ☐ Explain ☑ Not applicable

35. The Secretary of the Board of Directors pays particular attention to ensuring that the actions and decisions of the board of directors take into account the recommendations on good governance included in this Code of Good Governance that are applicable to the company.

☑ Compliance ☐ Explain

36. The full Board of Directors evaluates once a year and adopts, where appropriate, an action plan to correct any deficiencies identified with respect to:

a) The quality and efficiency of the board's operation.

b) The operation and composition of its committees.

c) The diversity in composition and abilities of the board of directors.

d) The performance of the chairman of the board of directors and of the company's chief executive.

e) The performance and contribution of each director, with particular attention to those responsible for the different board committees.

The evaluation of the different committees is based on the report that they submit to the Board of Directors, and the evaluation of the board of directors is based on the report submitted by the appointments committee.

Every three years, the board of directors will be assisted in carrying out the evaluation by an external consultant, whose independence will be verified by the appointments committee.

Any business relationships that the consultant and any company in his group have with the company or any company in its group must be disclosed in the annual report on corporate governance.

The process and the areas evaluated will be described in the annual report on corporate governance.

☐ Compliance ☐ Compliance in part ☑ Explain

So far the company has not made any evaluation of the operation of the board, since it was not a listed company until March 2017 and therefore a calendar year had not elapsed at the end of fiscal 2017.
Following the recommendations of the National Securities Market Commission's technical guide 3/2017, the company plans to conduct an internal autonomous evaluation of the operation of the committee each year and an external evaluation every three years also in accordance with the recommendations of the Unified Code of Good Governance.

The evaluations will be linked to action plans for measures of improvement.
The first internal evaluation of the operation of the committee will be conducted after one calendar year has passed from the start of the company's listing for two basic reasons:

- The addition during 2017 of four new Independent Directors, one of them the Chairman, which means that 57% of the members of the Board are new.
- The company's wish to consider a full cycle, in which the actions taken and meetings held in the period of a calendar year can be included for analysis and evaluation in order to obtain greater clarity and objectivity regarding compliance with the recommendations for Good Corporate Governance.

37. When an executive committee exists, the structure of participation by the different categories of directors is similar to that of the board of directors, and its secretary is the secretary of the board.

☐ Compliance ☐ Compliance in part ☐ Explain ☑ Not applicable

38. The Board is always informed of the business discussed and of the decisions adopted by the executive committee, and all the board members receive a copy of the minutes of all executive committee meetings.

☐ Compliance ☐ Compliance in part ☐ Explain ☑ Not applicable

39. The members of the audit committee, and in particular its chairman, are appointed taking into account their knowledge and experience in matters of accounting, auditing and risk management, and most of them are independent directors.

☑ Compliance ☐ Compliance in part ☐ Explain

40. There is a unit under the supervision of the audit committee that assumes the internal audit function and ensures the correct operation of the information and internal control systems. It answers to the non-executive chairman of the board of directors or of the audit committee.

☑ Compliance ☐ Compliance in part ☐ Explain

41. The person in charge of the unit that assumes the function of internal auditing presents his annual work plan to the audit committee, directly reports any incidents that may arise and presents a report on activities at the end of each financial year.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

42. In addition to those specified by law, the audit committee has the following duties:

1. In relation to information and internal control systems:

   a) To supervise the preparation process and the completeness of the financial information relating to the company and, where appropriate, to the group, to check compliance with regulatory requirements, the appropriate specification of the scope of consolidation and the correct application of accounting criteria.

   b) To ensure the independence of the unit that assumes the internal auditing function; to propose the selection, appointment, re-election and removal of the head of the internal auditing department; to propose the budget for this service; to approve the approach and the work plans, while ensuring that its activity is focused mainly on significant risks to the company; to receive periodic information on its activities; and to check that senior management takes into account the conclusions and recommendations made in its reports.

   c) To establish and supervise a procedure that enables employees to report confidentially and, if possible and considered appropriate, anonymously any irregularities of potential importance, particularly financial and accounting irregularities, that they notice within the company.

2. With regard to external auditors:

   a) If an external auditor resigns, examine the circumstances that may have caused this.

   b) Ensure that the remuneration of the external auditor for his work does not compromise his quality or independence.

   c) Ensure that the company informs the National Securities Market Commission of a change of auditor, as a relevant event, and that it attaches a statement about any disagreements with the outgoing auditor and the content thereof.

   d) Ensure that the external auditor holds a meeting every year with the full Board of Directors to inform it about the work done and changes in the accounting situation and risks to the company.

   e) Ensure that the company and the external auditor respect the regulations in force on provision of services other than auditing, the limits to the auditor's business concentration and, in general, the other regulations on the independence of auditors.

☑ Compliance ☐ Compliance in part ☐ Explain

43. The Auditing Committee may summon any company employee or executive, and even order them to appear without the presence of any other executive.

☑ Compliance ☐ Compliance in part ☐ Explain

44. The audit committee is informed of any structural and corporate modifications planned by the company in order to review them and informs the board of directors in advance of their financial conditions and their accounting impact, in particular on the proposed exchange ratio, where applicable.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

45. The risk control and management policy identifies at least:

a) The different types of financial and non-financial risk, (among others, operational, technological, legal, social, environmental, political and reputational) faced by the Company. The financial or economic risks include tax risk, contingent liabilities and other off-balance-sheet risks.

b) A specific risk threshold that the company considers acceptable.

c) The measures planned to mitigate the impact of the identified risks, if they materialize.

d) The information and internal control systems that will be used to control and manage these risks, including contingent liabilities and off-balance-sheet risks.

☑ Compliance ☐ Compliance in part ☐ Explain

46. Under the direct supervision of the audit committee or, where appropriate, a specialized committee of the board of directors, there is an internal risk control and management function exercised by an internal unit or department in the company that has the following functions expressly attributed to it:

a) To ensure the proper operation of the systems of risk control and management; in particular to appropriately identify, manage and quantify all the important risks affecting the company.

b) To participate actively in preparing the risk strategy and the important decisions with respect to its management.

c) To ensure that the risk control and management functions mitigate the risks sufficiently within the framework of the policy defined by the board of directors.

☑ Compliance ☐ Compliance in part ☐ Explain

47. When appointed, the members of the appointments and remuneration committee — or of the appointments committee and the remunerations committee, if they are separate — should have the knowledge, attitudes and experience that are appropriate to the functions they are to perform and most of them should be independent directors.

☑ Compliance ☐ Compliance in part ☐ Explain

48. Companies with high capitalization should have a separate Appointments Committee and Remunerations Committee.

☐ Compliance ☐ Explíque ☑ Not applicable

49. The Appointments Committee should consult the Chairman of the Board of Directors and the Company's chief executive, particularly in matters relating to executive directors.

Any director may request that the appointments committee take potential candidates into account if he considers them suitable to fill director vacancies.

☑ Compliance ☐ Compliance in part ☐ Explain

50. The remunerations committee should exercise its functions independently and, in addition to the tasks attributed to it by law, it has the following duties

a) To propose to the board of directors the basic terms and conditions of the contracts of senior managers.

b) To ensure compliance with the remuneration policy established by the company.

c) To review periodically the remunerations policy applied to directors and senior management, including the share-based remuneration systems and their application; and to guarantee that individual remuneration is proportionate to what is paid to other directors and senior managers in the company.

d) To ensure that possible conflicts of interest do not harm the independence of the external advice provided to the committee.

e) To verify the information on the remuneration of directors and senior managers contained in the different corporate documents, including the annual report on directors' remuneration.

☑ Compliance ☐ Compliance in part ☐ Explain

51. The remuneration committee should consult the company's chairman and its chief executive, particularly in matters relating to executive directors and senior managers.

☑ Compliance ☐ Compliance in part ☐ Explain

52. The rules on the composition and operation of the supervision and control committees appear in the regulations of the board of directors and are consistent with those applicable to the legally mandatory committees in accordance with the above recommendations, including:

a) They are composed exclusively of non-executive directors, with a majority of independent directors.

b) Their chairmen are independent directors

c) The board of directors appoints the members of these committees taking into account the knowledge, skills and experience of the directors and the tasks of each committee. It deliberates on their proposals and reports and ensures that they render accounts of their activity at the first full meeting of the board of directors following their meetings and that they answer for the work done.

d) The committees may have recourse to external advice when they consider it necessary to perform their duties.

e) Minutes of the meetings are drafted and made available to all the directors.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

53. Supervision of compliance with the rules on corporate governance, the internal codes of conduct and the policy on corporate social responsibility is attributed to one committee or is divided between a number of committees of the board of directors. They may be the auditing committee, the appointments committee, the corporate social responsibility committee (if there is one), or a specialized committee that the board of directors, in the exercise of its faculty of self-organization, decides to create for this purpose, to which the following minimum tasks are specifically attributed.

a) Supervision of compliance with the internal codes of conduct and the rules of the company's corporate governance.

b) Supervision of the communication strategy and relationship with shareholders and investors, including small and medium shareholders.

c) Periodic evaluation of the appropriateness of the company's system of corporate governance, to ensure that it accomplishes its mission of promoting the corporate interest and takes into account the legitimate interests of any other stakeholders.

d) Review of the company's corporate social responsibility policy, ensuring that it is geared to creating value.

e) Monitoring of the strategy and practice of corporate social responsibility and evaluation of the level of compliance.

f) Supervision and evaluation of the processes of engagement with the different stakeholders.

g) Assessment of everything related to the company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordination of the process of reporting non-financial information and information on diversity, in accordance with the applicable regulations and relevant international standards.

☑ Compliance ☐ Compliance in part ☐ Explain

54. The corporate social responsibility policy includes the principles or commitments assumed by the company voluntarily in its relations with the different stakeholders, and identifies at least:

a) The goals of the corporate social responsibility policy and the development of support instruments.

b) The corporate strategy related to sustainability, the environment, and social questions.

c) The specific practices on questions related to: shareholders, employees, customers, suppliers, social questions, the environment, diversity, tax responsibility, respect for human rights and prevention of illegal conduct.

d) Methods or systems for monitoring the results of the application of the specific practices specified in the above point, associated risks and their management.

e) Mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for communication, participation and dialogue with stakeholders.

g) Responsible communication practices that prevent the manipulation of information and protect integrity and honour.

☑ Compliance ☐ Compliance in part ☐ Explain

55. The company should report on the issues related to corporate social responsibility in a separate document or management report, using some of the internationally accepted methodologies for this purpose.

☑ Compliance ☐ Compliance in part ☐ Explain

56. The remuneration of directors should be sufficient to attract and retain the directors

with the required profiles and to remunerate the dedication, qualification and responsibility required by the position, but not so high that it compromises the independent judgement of non-executive directors.

☑ Compliance ☐ Explain

57. Variable remuneration linked to the company's performance and personal performance should be limited to executive directors, as should remuneration based on delivery of shares, options or rights to shares, or instruments that depend on the value of the shares and the systems of long-term savings such as pension plans, retirement plans or other social insurance systems.

Delivery of shares may be used as remuneration for non-executive directors when it is conditional on their being held until their end their period as directors. The above will not be applicable to shares that the director may need to dispose of in order to pay the costs related to their acquisition.

☑ Compliance ☐ Compliance in part ☐ Explain

58. In the case of variable remuneration, the remuneration policies include limits and precise technical thresholds to ensure that the remuneration is related to the professional performance of their beneficiaries and does not only derive from the general movements of market prices or the company's sector of activity, or other similar circumstances.

And in particular, the variable components of remuneration:

a) Should be linked to predetermined and measurable performance criteria, and these criteria should consider the risk assumed to obtain a result.

b) Should promote the company's sustainability and include non-financial criteria that are appropriate for the creation of value in the long-term, such as compliance with the company's rules and internal procedures and its policies for risk control and management.

c) Should be organized on the basis of a balance between compliance with short-, medium- and long-term objectives, which make it possible to remunerate performance continued over a period of time that is sufficient for its contribution to the sustainable creation of value to be appreciated, so that the elements for measuring this performance do not solely involve one-off, occasional or extraordinary events.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

59. The payment of a significant part of the variable components of remuneration is deferred for a minimum period of time that is sufficient to confirm that the previously established conditions for performance have been satisfied.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

60. Remunerations related to the Company's results must take into account any reservations declared in the external auditor's report that may negatively affect said results.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

61. A significant percentage of the variable remuneration of the executive directors

should be linked to the delivery of shares or financial instruments linked to their value.

☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

62. **Once the shares or options or rights on the shares corresponding to the remuneration systems have been allocated, the directors may not transfer the ownership of a number of shares equivalent to twice their fixed annual remuneration, nor may they exercise the options or rights for at least three years from the time of their allocation.**

    The above will not be applicable to shares that the director may need to dispose of in order to pay the costs related to their acquisition.

    ☐ Compliance ☐ Compliance in part ☑ Explain ☐ Not applicable

    In accordance with the Regulations of the Company's Long-Term Incentive Plan for 2017-2021, the Company's Executive Directors are obliged to keep the shares received (net of the applicable deposit for personal income tax) for a period of one year following delivery.

63. **The contractual agreements include a clause that allows the company to claim repayment of the variable components of remuneration when the payment has not met the performance conditions or when payment has been made based on data that is subsequently proved to be erroneous.**

    ☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

64. **Severance payments should not be greater than the equivalent of two years of total annual remuneration and should not be paid until the company has confirmed that the director has complied with the previously established performance criteria.**

    ☑ Compliance ☐ Compliance in part ☐ Explain ☐ Not applicable

H OTHER INFORMATION OF INTEREST

1. **If there is any relevant aspect on the matter of corporate governance in the company or in the members of the group that has not been included in the other sections of this report, but which should be included in order to provide more complete and detailed information on the structure and practices of governance in the company or its group, please provide it here briefly.**

2. **This section may also include any other information, clarification or distinction related to the foregoing sections of this report, insofar as it is relevant and not repetitive.**

   Specifically, the company will indicate whether it is subject to laws other than those of Spain on corporate governance and, if applicable, include any other information that it is obliged to provide other than that required in this report.

3. **The company may also indicate whether it has voluntarily adhered to other codes of ethics or good practice, whether international, sectoral or in another sphere. If so, please provide the code and date of adhesion. In particular, it will also state whether it has adhered to the Code of Good Tax Practices of 20 July 2010.**

H.1

Regarding section A.2: The Shareholder Bank Of Montreal participates indirectly in Neinor Homes, S.A. through several companies within its group but we ignore in which percentage participates each of them. Therefore, we have included the participation of Bank Of Montreal in Neinor Homes, S.A. as direct voting rights or direct holding.

Regarding section C.1.3: There were no other external directors in the fiscal year covered in this report Notwithstanding the aforementioned, the two proprietary directors mentioned in the table of External Proprietary Directors of this section have ceased to provide services for the shareholder who appointed them, Neinor Holdings, S.L (Lone Star) effective 31 December 2017, and the Board reclassified them as other external directors in January 2018.

Regarding section C.1.37: The main amount of the fees invoiced for work other than auditing by the external auditor mainly corresponds (91%) to due diligence services that were provided on when the company was listed on the stock exchange. In this sense, this work entailed verifying and validating the financial and business information transferred to the market.
The rest of the amount corresponds mainly to the limited auditing due diligence work of the first half of the 2017 financial year.

Other relevant events:

Because Neinor Homes is fully aware of its business, institutional, and social importance as a home development company that is used as a benchmark in Spain, it cannot — and does not want — to be a company other than one that conducts all its operations with the utmost diligence in the area of Good Governance, ethics and transparency

Below we have included the information we consider necessary for a better understanding of our Corporate Governance and the efforts made by the company to improve in this regard.

The document "Mission, Vision and Values of Neinor Homes" is included in annex J in order to highlight the company's goals.

The principal code of Neinor Homes is its mandatory Code of Conduct, which includes the principles and main criteria that govern the behaviour of all Neinor Homes employees. This code is copied, accepted and observed by all employees every year.

In accordance with the preceding paragraph, Neinor Homes has included its rules of Corporate Governance in its Articles of Association, in the Regulations of the Board of Directors and of the General Meeting of Shareholders, in the Regulations of the Boards Committees, and in the Internal Code of Conduct in Securities Markets. All the above have been approved by the Board of Directors and are applicable as from the first day on which the shares in the Company are admitted to listing on the Spanish Stock Exchanges.

In this regard, Neinor Homes has drawn up a series of mandatory policies and regulations which are monitored by the integrated control system in order to support the regulations of its governing bodies in Corporate Governance matters. Some of said regulations are published on the corporate web site:

- Code of Good Conduct for third parties.
- Procedure for conflicts of interest and linked transactions.
- Code of Good Practices for Real Estate Agents.
- Model for the prevention of corporate criminal liability.
- Director selection policy.

- Fiscal Policy and Good Tax Practices.
- Compliance Unit Regulations.
- Internal Audit Operating Manual.
- Policy for the provision of services other than auditing by the auditor.
- Employment policy for former auditors.
- Electronic Shareholders' Forum operating standards.

Finally, we consider that we must stress that since the day on which the company was formed, its Board of Directors has reflected deeply on the relations that the company should maintain with its Stakeholders as leaders in the transformation of the sector that we wish to carry out. Furthermore, looking beyond its shareholders and the financial community, many actions have been taken that we hope will be reflected in our way of doing things and be beneficial for our team, our providers, the environment, regulatory bodies, the media, and society in general, etc. Some of them are:

1. **Continuous Internal Control and Risk Management Model.** See section F
2. **Model of Continuous Improvement in Corporate Governance:** This basically consists of two actions:
    - The company has created a tracking and continuous monitoring structure for the continuous improvement goals of the non-financial projects in which it is involved relating to the environment, quality, innovation...
    - The company has implemented a Model for the continuous management of Good Governance which monitors the activities related to Good Governance that the company has to perform during the year. It has done this by making an in-depth analysis of national and international regulations and recommending the mandatory activities that each Council and Commission must have on its agenda. It then makes an annual diagnosis of the degree of compliance with the recommendations of the Unified Code of Good Governance, the Companies Act, the New Auditing Act, the National Securities Market Commission Guides, and best international practices. (King IV, Federal Sentencing Guidelines...).
3. **Creation of the White Book** NH has created the first White Book for the residential sector. This is a design and construction manual intended to standardize the parameters of quality, sustainability, and design that define all the real estate developments so that all the processes that are required throughout the life cycle of NH's products are systematized and described and can be followed by architects and builders with the high standards defined by the company.
4. **BREEAM Certification.** In most NH developments. BREEAM encourages sustainable construction that results in economic, environmental, and social benefits for everyone connected with the life of a building (tenants, users, developers, owners, managers, etc) while transferring Corporate Social Responsibility from the company to society and to the market in a way that is unequivocal and easily perceived.
5. **Certification of NH's integrated management system.** Neinor Homes holds the following certifications: Quality Management (ISO 9001), Environmental Management (ISO 14001), R+D+I Management (UNE 166002) and Occupational Health and Safety Management (OHSAS 18001) issued by AENOR in December 2016 and renewed in 2017. It is the first real estate developer of the new cycle to obtain these four certifications.

    Furthermore, on the date of this report Neinor Homes has now obtained ISO 27001 certification for information security management.
6. **Preparation of the first memorandum of Corporate Social Responsibility based on GRI Standards,** making visible and public the efforts and resources employed by the company in social responsibility. It includes an analysis of materiality, which is extremely valuable from the strategic point of view since it throws a spotlight on the social, environmental, and economic matters that are relevant to the company's and have a bearing on the creation of value for its stakeholders.

    Our principal goal is to grasp the opportunity provided by the transformation and consolidation of the housing sector to create sustainable value for all our stakeholders with margins and returns that are appropriate to the risk of the developer by building homes where people come first, establishing stable relationships with our suppliers, and increasing the value of our employees.
7. **EFQM 300+ European Seal of Excellence.** In 2017 Neinor Homes was awarded the EFQM 300+ European Seal of Excellence from the Excellence in Management Club. With this, Neinor became the first company in the Spanish housing sector to obtain this European benchmark for business evaluation and management, which consolidated it as a driving force in the transformation of the sector.

The EFQM Model provides a comprehensive tool which makes it possible to perform an objective structural analysis of the company's operations in order to attain excellence in the management of the processes involved in its business and to set priorities for action. The principles of the model are based on the effects on customers, persons, society, and the business.

EFQM certification is part of Neinor Homes' ambition to become excellent in corporate management. The total transformation that we are championing in property development in Spain calls for processes of quality and practices with the maximum level of excellence. That is why we believe that subjecting organizations to this type of examination can only bring improved results and sustainable growth. We hope that our adherence to the EFQM model will inspire other companies in the sector so that together we can give a definitive boost to the new age of residential development.

During the process of obtaining certification from the Excellence in Management Club, Neinor Homes stood out mainly for alliance and resource management, its commitment to industrialization, and the integrated model of compliance and risk management.

The EFQM model is based on the Values of Excellence, eight essential foundations for achieving sustained excellence over the course of time:

1. adding value for customers by understanding and anticipating needs and opportunities;
2. creating a sustainable future by improving the economic, social, and environmental conditions of the world surrounding the company;
3. developing the organization's capacity for increasing efficiency:
4. making good use of creativity and innovation;
5. leading with vision, inspiration, and integrity;
6. managing opportunities and threats nimbly;
7. achieving success through the talent of our people;
8. maintaining outstanding results over the course of time.

Neinor Homes will be able to submit its degree of implementation of the EFQM model of excellence to external evaluation every two years. Accordingly, it is working on continuous improvement to raise its level of excellence.

H.2

Since it was approved by its Board of Directors on 26 July 2017, Neinor Homes has complied with the Code of Good Tax Practices promoted by the Forum of Large Businesses and the Spanish Tax Authority

This annual report on corporate governance was approved by the company's board of directors when it met on 21 February 2018.

Indicate whether there are directors who voted against the approval of this report, or who abstained.

☐ Yes ☑ No

Name or company name of the director that did not vote to approve this report	Reason (objection, abstention, non-attendance)	Explain reasons

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

AUDITOR'S REPORT ON "INFORMATION RELATING TO THE INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF NEINOR HOMES, S.A., FOR THE YEAR ENDED 31 DECEMBER 2017

To the Directors of Neinor Homes, S.A.:

At the request of the Board of Neinor Homes, S.A. (hereinafter the Company) and in accordance with our proposal dated October 6, 2017, we applied certain procedures to the accompanying "ICFR related information" included in section F) of the Annual Corporate Governance Report for Neinor Homes, S.A., for the year ended 31 December 2017, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for taking appropriate measures to reasonably ensure the implementation, maintenance, supervision, and improvement of a correct internal control system, as well as preparing and establishing the content of all the related accompanying ICFR related information included in section F) of the Annual Corporate Governance Report.

It is worth noting that apart from the quality of design and operability of the Company's internal control system as far as annual financial reporting is concerned, it only provides a reasonable, rather than absolute, degree of security regarding its objectives due to the inherent limitations to the internal control system as a whole.

Throughout the course of our audit work on the financial statements, and in conformity with Technical Auditing Standards, the sole purpose of our evaluation of the Company's internal control system was to establish the scope, nature, and timing of the audit procedures performed on its financial statements. Therefore, our internal control assessment performed for the audit of the aforementioned financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the *Guidelines on the Auditors' report relating to Information on the Internal Control over Financial Reporting on Listed Companies*, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of the abovementioned procedures performed was limited and substantially less than that of an audit carried out in accordance with generally accepted accounting principles, we have not expressed an opinion regarding its efficacy, design, or operational effectiveness regarding the Company's financial data for the year ended 31 December 2017 described in the accompanying ICFR information included in section F) of the Annual Corporate Governance Report. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with the Spanish Audit Law, we do not express an audit opinion in the terms provided for therein.

The following procedures were applied:

1. Read and understand the information prepared by the Company in relation to the ICFR -disclosure information included in the Directors' Report- and assess whether such information addresses all the required information, which will follow the minimum content detailed as per the Annual Corporate Governance Report model established by CNMV Circular n° 7/2015 dated December 22, 2015.
2. Make inquiries of personnel in charge of preparing the information described in point 1 above in order to: (i) obtain an understanding of its preparation process; (ii) obtain information making it possible to evaluate whether the terminology employed is in line with reference framework definitions (iii) gather information regarding whether the described control procedures are implemented and functioning within the Group.
3. Review the explanatory documentation supporting the information described in section 1 above, which should basically include everything directly provided to those in charge of preparing the descriptive ICFR information. This documentation includes reports prepared by the Internal Audit Department, senior management, and other internal and external experts in their role supporting the Audit Committee.
4. Compare the information contained in section 1 above with the Company's ICFR knowledge obtained as a result of performing the procedures within the framework of auditing the financial statements.
5. Read the minutes of the Board Meetings, Audit Committee, and other Company committee in order to evaluate the consistency between issues related to the ICFR and information discussed in section 1.
6. Obtain the representation letter related to the work performed, duly signed by those responsible for preparing and authorizing the information discussed in section 1.

As a result of the procedures applied on the ICFR-related information, no inconsistencies or incidents have come to our attention which might affect it.

This report was prepared exclusively within the framework of the requirements of article 540 of the consolidated text of the Corporate Enterprises Act and by Circular 7/2015 of the Spanish National Security Market, dated December 22, 2015, related to the description of the ICFR in the Corporate Governance Report.

DELOITTE, S.L.

(Signed on the original)

February 21, 2018

DECLARATION OF DIRECTORS' RESPONSIBILITY

The members of the Board of Directors of Neinor Homes, S.A. ("**Neinor**" or the "**Company**") on its meeting held on February 21, 2018, and according to article 118 of the reinstated text of the Spanish Securities Markets Act approved by Royal Legislative Decree 4/2015 of 23 October as well as to article 8 b) of Royal Decree 1362/2007 of 19 October, declare that, as far as they are aware, the individual Annual Accounts of the Company, as well as the consolidated ones with its dependent companies, corresponding to the financial year ended December 31, 2017, drawn up by the Board of Directors on the referred meeting of February 21, 2018 and prepared in accordance with the applicable accounting principles, offer a true and fair image of the equity, the financial situation and the results of the Company and the companies within the consolidation taken as a whole, and the complementary management reports of the individual and consolidated Annual Accounts include an accurate analysis of the business evolution and results and of the position of Neinor and the companies within the consolidation taken as a whole, together with the main risks and uncertainties which they face.

Madrid, February 21, 2018

D. Alfonso Rodés Vilà

D. Anna M. Birulés Bertran

D. Alberto Prieto Ruiz

D. Juan José Pepa

D. Felipe Morenés Botín-Sanz de Sautuola

D. Juan Velayos Lluis

D. Ricardo Martí Fluxá