

This document includes the translation of the Consolidated Financial Statements for the period ended 31 December 2018 (Corporate Governance excluded)

Neinor Homes, S.A. and Subsidiaries

Consolidated Financial Statements for the
period ended 31 December 2018,
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.

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 2018, 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 2018, 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 2018 was EUR 1,165 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 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.

For this reason, we considered this matter to be a key matter in our audit.

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.

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

In this connection, with the assistance of our internal valuation experts, we analysed and concluded on the reasonableness of the valuation procedures and methodology used by the experts engaged by Group management; we performed a mass appraisal of all the properties using an automated valuation model, taking into account the available information of the macroeconomic, financial and real estate variables that affect each asset, as well as an individual RICS-compliant appraisal of a sample of assets to verify this mass appraisal; and we checked, for a sample of assets, that the technical inputs used by the appraiser were appropriate to the urban conditions of the assets appraised.

We also analysed and concluded on the appropriateness of the disclosures made by the Group in relation to these matters, which are included in Notes 4.6, 6 and 12 to the consolidated financial statements for 2018.

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 in the recognition of property asset revenue

Description

The Group's property asset sales represent 82% of consolidated revenue. They relate mainly to sales to private individuals, which involve highly standardised processes and agreements.

The recognition of this revenue under the Group's habitual terms and conditions is not complex and practically does not give rise to any accounts receivable, since the payments for the sales are received at the time the transaction is executed in a deed.

However, the revenue from property asset sales amounted to EUR 312 million and this aggregate is considered, both quantitatively and qualitatively, to be a key parameter of the Group's performance.

For this reason, we considered 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 agreements, in addition to the sales accounting and recognition procedure.

In addition, for a representative sample of these 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 on the appropriateness of the disclosures made by the Group in relation to these matters, which are included in Notes 4.13, 6 and 22.1 to the consolidated financial statements for 2018.

The results of the procedures performed in relation to occurrence in the recognition of property asset revenue 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 2018, the preparation of which is the responsibility of the Parent's directors and which does not form part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not cover the 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 Annual Corporate Governance Report, as defined in Article 35.2.b) of Spanish Audit Law 22/2015, which consists solely of checking that the aforementioned information has been provided in the consolidated directors' report 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 consolidated directors' report are in conformity with the applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described in the preceding paragraphs, we do not have anything to report with respect to the consolidated directors' report for 2018 and the Corporate Governance Report,

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 2018 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 6, 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 27 February 2019.

Engagement Period

The Ordinary General Shareholders' Meeting held on 18 April 2018 appointed us as auditors for a period of one year from the year ended 31 December 2017.

Previously, we were designated by the then sole shareholder for a period of three years, we have been auditing the consolidated financial statements uninterruptedly during 4 years since the 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

27 February 2019

**NEINOR HOMES, S.A.
AND SUBSIDIARIES (NEINOR HOMES GROUP)**

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017

(Thousands of Euros)

ASSETS	Notes	31.12.18	31.12.17 (*)	EQUITY AND LIABILITIES	Notes	31.12.18	31.12.17 (*)
NON-CURRENT ASSETS:				EQUITY:			
Intangible assets	7	1.681	1.206	Share capital		790.050	790.050
Property, plant and equipment	8	7.676	1.878	Share premium		39.247	39.247
Investment property	9	990	1.615	Legal reserve		2.192	2.066
Non-current financial assets	11	1.062	396	Reserves of the Parent		42.820	38.385
Deferred tax assets	20	22.263	-	(Own Shares)		(3.902)	(4.126)
Total non-current assets		33.672	5.095	Other reserves		1.405	667
				Reserves at fully consolidated companies		(145.133)	(117.937)
				Consolidated profit / (loss) for the year		45.991	(25.934)
				Total equity	15	772.670	722.418
				NON-CURRENT LIABILITIES:			
				Bank borrowings	17	-	17.902
				Other non-current liabilities	18	18	18
				Deferred tax liabilities	20	87	172
				Total non-current liabilities		105	18.092
CURRENT ASSETS:				CURRENT LIABILITIES:			
Inventories	12	1.229.719	1.143.289	Provisions	16	13.029	5.626
Trade and other receivables	13	28.354	22.627	Bank borrowings	17 and 23	380.529	399.763
Current financial assets	11	7	455	Other current financial liabilities	18	18	37
Tax receivables	20	12.122	30.662	Current trade and other payables	19 and 23	114.236	41.600
Cash and cash equivalents	14	113.760	76.822	Tax payables	20	33.029	7.909
				Other current liabilities	12 and 18	104.018	83.505
Total current assets		1.383.962	1.273.855	Total current liabilities		644.859	538.440
TOTAL ASSETS		1.417.634	1.278.950	TOTAL EQUITY AND LIABILITIES		1.417.634	1.278.950

(*) 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 2018.

**NEINOR HOMES, S.A.
AND SUBSIDIARIES (NEINOR HOMES GROUP)**

**CONSOLIDATED INCOME STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2018 AND 2017**

(Thousands of Euros)

	Notes	Period ended 31 December 2018	Period ended 31 December 2017 (*)
Net revenues	22 and 23	379.986	220.388
Cost of sales	22 and 23	(272.162)	(232.451)
Employee benefits expenses	22	(21.948)	(34.799)
Depreciation and amortisation charges	7, 8 and 9	(1.295)	(716)
External services	22	(40.797)	(38.443)
Change in trade provisions	22	5.929	61.383
Other operating gains/(losses)	15	1.299	5.621
Impairment and gains/(losses) on disposals of non-current assets	8	41	727
PROFIT / (LOSS) FROM OPERATIONS		51.053	(18.290)
Finance revenue		253	5
Finance costs	17 and 23	(10.675)	(7.683)
Change in fair value of financial instruments		(447)	-
PROFIT / (LOSS) BEFORE TAX		40.184	(25.968)
Income tax	20	5.807	34
PROFIT / (LOSS) FOR THE YEAR		45.991	(25.934)
Earnings/(losses) per share (Euros):			
Basic	5	0,589	(0,142)
Diluted	5	0,589	(0,142)

(*) 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 2018.

**NEINOR HOMES, S.A.
AND SUBSIDIARIES (NEINOR HOMES GROUP)**

**CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE PERIOD ENDED 31 DECEMBER 2018 AND 2017**

(Thousands of Euros)

	Notes	Period ended 31 December 2018	Period ended 31 December 2017 (*)
CONSOLIDATED PROFIT / (LOSS) FOR THE YEAR		45.991	(25.934)
OTHER RECOGNISED INCOME (EXPENSES)		-	-
ITEMS NOT SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		-	-
ITEMS SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		-	-
TOTAL RECOGNISED INCOME AND EXPENSE		45.991	(25.934)
a) Attributable to the Parent		45.991	(25.934)
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 2018.

**NEINOR HOMES, S.A.
AND SUBSIDIARIES (NEINOR HOMES GROUP)**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2018 AND 2017**

(Thousands of Euros)

	Share capital	Share premium	Legal reserve	Reserves of the Parent	Own shares	Other reserves	Reserves at fully consolidated companies	Consolidated profit/(loss) for the year	Total equity
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	(4.126)	667	(117.937)	(25.934)	722.418
Distribution of profit/loss for the year:									
To reserves	-	-	126	1.136	-	-	(27.196)	25.934	-
Income/expense recognised in the period	-	-	-	-	-	-	-	45.991	45.991
Increase of capital (Note 15)	-	-	-	-	-	-	-	-	-
Transactions with Treasury Shares	-	-	-	-	(223)	-	-	-	(223)
Other movements (Notes 4.s y 15.f)	-	-	-	3.299	447	738	-	-	4.484
Balance at 31 December 2018	790.050	39.247	2.192	42.820	(3.902)	1.405	(145.133)	45.991	772.670

(*) 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 2018.

**NEINOR HOMES, S.A.
AND SUBSIDIARIES (NEINOR HOMES GROUP)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2018 AND 2017**

(Thousands of Euros)

	Notes	Period ended 31 December 2018	Period ended 31 December 2017 (*)
Cash flows from/(used in) operating activities			
Profit/(loss) from operations		40.184	(25.968)
Adjustments-			
Depreciation and amortisation	7, 8 and 9	1.295	716
Change in provisions	9, 12,15 and 16	10.836	4.132
Impairment and gains/(losses) on disposal of intangible and tangible assets		(41)	(727)
Finance costs		10.675	7.683
Finance revenue		(253)	(5)
Incentive Plans	15	3.375	13.611
Debt cancellation with shareholder	17	-	(2.674)
Other proceeds / (payables)		447	-
		66.518	(3.232)
Increase/(Decrease) in current assets and liabilities:			
Inventories	12	(89.357)	(224.892)
Trade and other receivables	11 and 13	11.685	(22.581)
Current trade and other payables	18 and 19	81.195	12.025
Other current and non-current assets and liabilities	11 and 23	20.513	52.254
Income tax paid	20	-	-
		90.554	(186.426)
Cash flows from/(used in) investing activities:			
Investments in intangible and tangible assets	7 and 8	(6.731)	(1.228)
Disposals of investment property	9	899	11.752
Investments in non-current financial assets	11	(666)	-
		(6.498)	10.524
Cash flows from/(used in) financing activities:			
Proceeds from share capital increases	15	-	99.986
Proceeds from bank borrowings	17	58.929	148.752
Repayment of bank borrowings	17	(96.065)	(34.778)
Interests paid	17 and 23	(10.422)	(7.678)
Transactions with Treasury Shares	17	(223)	(4.200)
Incentive Plans	15	1.384	5.341
Other proceeds/payments related to financing activities	17	(721)	-
		(47.118)	207.423
Net increase/(decrease) in cash and cash equivalents (I+II+III)			
		36.938	31.521
Cash and cash equivalents at beginning of the period		76.822	45.301
Cash and cash equivalents at end of year		113.760	76.822

(*) 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 2018.

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 2018 (hereinafter, 2018 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 address 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 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 2018 and 2017, there are 25 people of the Group, 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 2018, amounting to EUR 189 thousand are not recognized in the accompanying consolidated balance sheet (EUR 7 thousand at 31 December 2017), 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.

In December 2018, 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.

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), and approved by its sole shareholder on 18 April 2018.

Appendix I includes the detail of the consolidated Group companies and the information related thereto at 31 December 2018 and 2017, 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 2018 were prepared by the Parent's directors at the Board of Directors' meeting held on 27 February 2019, 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 2018 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 2018 consolidated financial statements of the Group and the financial statements of the Group companies have not yet been approved by their respective 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 2018. 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 2018

Approved for use in the European Union		Mandatory application for annual periods beginning on or after:
IFRS 15, <i>Revenue from Contracts with Customers</i> (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, <i>Financial Instruments</i> (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 2, <i>Classification and Measurement of Share-based Payment Transactions</i> (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 IFRS 4, <i>Applying IFRS 9 Financial Instruments with IFRS 4, Insurance Contracts</i> (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
Amendments to IAS 40, <i>Transfers of Investment Property</i> (issued in December 2016)	Guide to investment property transactions when there is a change in use.	1 January 2018
<i>Improvements to the IFRS Cycle 2014-2016</i> (issued in December 2016) (*)	Minor amendments in relation to IFRS 1, IAS 28 and IFRS 12.	1 January 2018
Amendments to IAS 28 <i>Long-term Interests in Associates and Joint Ventures</i> (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 2018

IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> (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
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IFRS 15

In relation to IFRS 15, 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 it has not arisen any impact therefrom and, therefore, does not consider it necessary to apply it retrospectively, restating the comparative information, as there is not any transition adjustment. 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 does 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 continues 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 (the moment in which the entire expense is recognized as the cost of sales), as they are reimbursable if the sales embodied in private sale and purchase agreements are not fulfilled. Other necessary or incremental contract costs might exist 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 984 thousand in 2018 (EUR 464 thousand in 2017) recorded under the caption "External Services" in the accompanying consolidated income statement.

With regard to the provision of services within the framework of 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.

No other significant impacts on the entity's financial situation or profit or loss are expected.

The disaggregated breakdown of income from ordinary activities from contracts with customers required by IFRS 15 can be extracted from the segmented information disclosed in Note 6, as this information is sufficiently descriptive in terms of the nature, amount, timing and uncertainty that might affect the revenue and cash flows arising from the sale agreements.

Also, in relation to the Group's main business lines (see Note 6), consisting of the "development sales" and the asset management services agreement ("servicing"), it is estimated that, according with the commitments made with customers as of December 31, 2018, considering that all of them reach a successful conclusion, the income figure associated with them will be the following for the next three years, in millions of euros:

Type	
Development sales (*)	922
Servicing	101
TOTAL	1.023

(*) Calculated based on the advances received of amounts for the housing units for which private sale and purchase agreements have been signed and which have not yet been handed over (see Note 12).

IFRS 9

IFRS 9 supersedes IAS 39 for reporting periods beginning on or after 1 January 2018. There are very significant differences with respect to the previous 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 updates 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, 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 application of IFRS 9 has not changed this policy. The Group has applied 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 are subject to impairment, taking into consideration the facts and circumstances that exist 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 (in thousands of euros):

Concept	Gross Amount 31/12/2018	Estimated loss at 12 months (%) (*)	Estimated loss at 12 months at 31/12/2018	Net Amount 31/12/2018
Advances to creditors (Note 12)	23.832	0% - 3%	715	23.117
Clients – servicing (Note 13)	9.500	0,02%	2	9.498
Advances to suppliers (Note 13)	16.759	3%	484	16.275
Trade and other receivables (Note 13)	2.630	0% - 3%	49	2.581
Cash	113.801	0% - 0,06%	41	113.760
TOTAL	166.522		1.291	165.231

(*) 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.

(2) New standards, amendments and interpretations of mandatory application for annual periods after the calendar year starting on 1 January 2018:

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 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
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
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> (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 IAS 28 <i>Long-term Interests in Associates and Joint Ventures</i> (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

Not Approved for use in the European Union		Mandatory application for annual periods beginning on or after:
IFRS 17 <i>Insurance Contracts</i> (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
<i>Improvements to IFRSs, 2015-2017 cycle</i> (issued in December 2017)	Minor amendments in relation to IFRS 3, IAS 12 and IAS 13.	1 January 2019
Amendments to IAS 19 <i>Amendments in Plan Amendment, Curtailment or Settlement</i>	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
<i>Improvements to IFRS 3 Business definition</i> (published in October 2018)	Clarifications to the business definition	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of "Materiality" (published in October 2018)	Modifications to IAS 1 and IAS 8 to align the definition of materiality with that contained in the conceptual framework	1 January 2020

The Group has performed an assessment in relation to the standards that come into force in 2019 and subsequent years, particularly IFRS 16, of the impacts that the future application of this standard might have on the consolidated financial statements once they become effective.

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. 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.

The assessment of the impact this new standard had already been completed at 31 December 2018, and took into consideration the following aspects:

- The Group identified all the leases which at the end of the current year which in turn were not classified as relating to underlying assets of "low value" (taking as a reference the figure provided in the IFRSs of USD 5,000), focusing the analysis on those that convey the right to control an asset. In accordance with the cost-benefit method permitted by the IFRSs, the leases for underlying assets of low value or short-term leases will be recognised by the Group as an expense on a straight-line basis over the lease term in application of the current accounting policy. At 31 December 2018, these leases amounted to EUR 1.504 thousand.
- In relation to the identified leases, their compliance with the requirements established in the standard for their recognition as leases was analysed, i.e.:
 - a) where there is an identified asset (either in the form of a separate asset or a "physically distinct portion" thereof) which, in accordance with the clauses of the lease, conveys the right to control the use of the identified asset.

- b) where the use of this asset provides the customer with the right to obtain substantially all the economic rewards from use of the asset over the term of the lease.
- The leases subject to this new standard relate mainly to both its branches (Bilbao, Barcelona, Madrid, Córdoba, Valencia and Malaga) and the offices for the sale of housing units ("Neinor stores" and sales cabins). The impact associated with the rights of use of these assets was determined on a case-by-case basis, without separating, due to their scant significance, those additional service items not associated with the lease and without, therefore, taking into consideration that, as permitted by the standard, these items could have been grouped together in a portfolio if they shared similar features. In addition, regarding the initial recognition of this asset, no direct costs were incurred and no dismantling and restoring costs that should be taken into consideration are envisaged.
 - The initial recognition of the liability included both the fixed lease payments (less any incentives granted by the lessor) and the variable lease payments that depend on an index (mainly, the CPI). This calculation did not identify any optional payments or other disbursements payable on expiry of the lease. As provided in the standard, the total amount of these lease payments is discounted using the incremental borrowing rate of the Group's loans, as the interest rate implicit in the leases cannot be readily determined.
 - As regards the discount rate, a homogenous rate of 2% was used, as the leased assets do not significantly differ in terms of the nature, are located in Spain and the terms of the leases are of similar duration.
 - For the purposes of recognising this new accounting standard, the Group will recognise the impact by applying the modified retrospective method, in such a way that at 1 January 2019 the right-of-use asset is equivalent to the lease liability. The impact will amount to around EUR 4.4 million (with expiration date between 2021 and 2027).

In any event, the new requirements of IFRS 16 do not have a significant impact on the Group's consolidated financial statements on the basis of the leases in force at 31 December 2018 (for comparison purposes, see Note 4-e in relation to the minimum lease payments contracted by the Group for the leases currently in force).

c) Changes in accounting policies

In the exercise ended 31 December 2018, there were no significant changes in accounting policies with respect to those applied in the exercise ended 31 December 2017.

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 2018 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 2018 for 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 2018, 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 2017 year-end during the period ended on 31 December 2018, except for the recoverability of deferred tax assets estimate (see Note 20).

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 2018 and 31 December 2017.

i) Comparative information

The information relating to the 2018 consolidated financial statements is presented for comparison purposes with that relating to period ended 31 December 2017.

In addition, any comparison must take into account the effect of the incentive plans approved in 2017 and 2018 (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 2017.

3. Distribution of profits attributable to the Parent

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

	Thousands of euros	
	31.12.18	31.12.17
Basis of distribution:		
Profit for the year	11.708	1.262
Application:		
-To legal reserve	1.171	126
-To voluntary reserves	10.537	1.136
	11.708	1.262

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 2018 and 31 December 2017 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.

The period intangible asset amortisation charge is recognised in the consolidated statement of profit or loss at rates based on the following years of estimated useful life, which for the intangible assets is four years.

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
<i>Straight-line depreciation method:</i>	
Other installations	10%
Furniture	25%
Data processing equipment	25%
Other items of property, plant and equipment	10%

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	3%

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 2018 and 2017, 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	Nominal value
	2018	2017
Within one year	1.373	894
Between one and five years	2.852	1.223
After five years	209	252
Total	4.434	2.369

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 1.872 thousand in 2018, 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 (1.893 thousands of euros in 2017)(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 Aguirre Newman Valoraciones y Tasaciones, S.A.U.) 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 2018, as for 31 December 2017 all its "Development" assets had been appraised by an independent expert, 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 5% (for work in progress with pre-sales) and 20% (for certain urban plots) in 2018 (between 6% and 18% in 2017).

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 obtaining 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 analysed basically using the comparison method, adjusted for the commercialization cost, 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 2018 and 2017 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 5.590 thousand was drawn down at 31 December 2018 (EUR 3.748 at 31 December 2017) (Note 17).

j) Shares of the Parent

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

At 31 December 2018, the Parent Company held 300.201 treasury shares (228.798 at 31 December 2017) and none of the subsidiaries or associates held additional treasury shares (See Note 15.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 2018 and 2017 certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal and tax 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 filed consolidated income tax returns under Income Tax Provincial Regulation 11/2013, of 5 December, and formed 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.A.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 pays 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 2018 and 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 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 is 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 2018, as well as in 2017.

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 2018, the Group capitalised borrowing costs amounting to EUR 1.872 thousand to "Inventories" (1.893 thousand in 2017) (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 2018 nor 31 December 2017 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 amount of EUR 3.375 thousand (10.967 thousand for 2017) 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 shares (cash and shares in 2017), and therefore indivisible. The reconciliation between both consolidated statement of cash flows is broken down in the following table:

2018

	Inputs / (Outputs)		
	Monetary flow	Adjusted flow	Variation
Cash flows from operating activities	90.554	87.179	(3.375)
Cash flows from investing activities	(6.498)	(6.498)	-
Cash flows from financing activities	(47.118)	(43.743)	3.375
Increase in cash and cash equivalents	36.938	36.938	-
Cash and cash equivalents at beginning of the period	76.822	76.822	-
Cash and cash equivalents at end of year	113.760	113.760	-

2017

	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	
	31.12.18	31.12.17
Inventories (long term)	903.438	864.655
Total current assets	903.438	864.655
Bank borrowings	140.349	261.489
Other current liabilities	28.849	42.429
Total current liabilities	169.198	303.918

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 was a fixed amount and was accrued 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 were 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 recognises on an accrual basis the corresponding contribution of the shareholder to consolidated equity for the same amount under "Staff Costs". 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. EUR 4.020 thousand has been recorded under the Income Statement at 2018 period (EUR 18.950 thousand at 2017).

On the first anniversary, March 2018, and taking into account the evolution of the share price of Neinor Homes, S.A. in the quarter preceding the first anniversary, a variable remuneration for a total amount of EUR 3.256 thousand was accrued and paid, which has been payable through the delivery of shares and cash to assume the corresponding taxes, in the terms set forth in the prospectus of exit to Stock Exchange, being assumed its cost by Neinor Holdings, S.L.U.

Also, during 2017 a long-term incentive plan payable in full in shares for 40 key employees was approved, 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 EUR 267 thousand in 2018 (EUR 667 thousand 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.

Lastly, in 2018 a long-term retention plan was approved aimed at the employees of the Group (with the exception of the Chief Executive Officer). The plan extends from 1 September 2018 to 2 September 2020 and consists of the allocation of an incentive based on each employee's salary payable in shares of Neinor Homes, S.A., provided that resignation or dismissal on disciplinary grounds does not arise, and linked to the increase experienced in the value of the shares on expiry of the plan. The plan envisages various incentives, setting staggered compliance tranches (of 50%, 75% or 100%), the accrual of which commences with a minimum increase in the value of the share of 5%. The maximum disbursement envisaged under the plan amounts to an estimated EUR 9.3 million. Applying the Monte Carlo method and, taking into consideration the share price volatility of companies in the European real estate industry and Neinor Homes share's volatility, over a comparable period, the external appraiser estimated that the fair value of the aforementioned variable portion amounted to approximately, EUR 2.9 million. In 2018 this plan gave rise to the recognition of staff costs of EUR 472 thousand with a balancing entry under equity in the accompanying consolidated balance sheet (see Note 22-c).

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:

	31.12.18	31.12.17
Earnings / (loss) for the year (thousands of euros)	45.991	(25.934)
Weighted average number of shares outstanding (thousands of shares) (*) (Note 15)	78.038	182.788
Basic earnings/ (loss) per share (euros)	0,589	(0,142)

(*) 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 2018, diluted earnings per share (31 December 2017: diluted loss per share) of the Neinor Homes Group basically coincided with the basic earnings per share (31 December 2017: basic loss per share), since the impact of the share-based payments (see Note 4.s) in this calculation is not significant.

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, at the current period, 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 2018 and 2017 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

	Miles de euros							
	Legacy		Development		Assets management - Servicing & Others / Corporate		Total	
	31.12.18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17
Revenue: Third party sales(*)	36.491	114.572	312.245	76.621	31.250	29.195	379.986	220.388
Total Revenue:	36.491	114.572	312.245	76.621	31.250	29.195	379.986	220.388

(*) Includes under "Legacy" segment an amount of EUR 99 thousand in 2018 (EUR 668 thousand in 2017) corresponding to rental income of the investment properties (Note 9).

	Thousands of Euros								
	Legacy		Development		Assets Management – Servicing (***) & Others / Corporate		Total		
	31.12.18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17	
Income:									
Third party sales (***)	36.491	114.572	312.245	76.621	31.250	29.195	379.986	220.388	
Cost of sales	(50.172)	(176.792)	(221.990)	(55.659)	-	-	(272.162)	(232.451)	
Change in trade provisions - Application of impairments for sold stocks (**)	13.079	68.668	-	-	-	-	13.079	68.668	
Gross Margin	(602)	6.448	90.255	20.962	31.250	29.195	120.903	56.605	
Employee benefits expenses	(221)	(1.854)	(12.479)	(9.386)	(4.487)	(4.607)	(17.187)	(15.847)	
Employee benefits expenses – Incentive Plan (Note 15)	-	-	(4.760)	(18.952)	-	-	(4.760)	(18.952)	
External Services	(6.926)	(14.511)	(25.622)	(17.856)	(8.250)	(6.076)	(40.798)	(38.443)	
Change in trade provisions – Others (**)	(4.037)	(7.293)	(3.112)	8	-	-	(7.150)	(7.285)	
Other operating gains	470	2.414	829	3.207	-	-	1.299	5.621	
Impairment and gains/(losses) on disposals of non-current assets	41	727	-	-	-	-	41	727	
EBITDA	(11.275)	(14.069)	45.111	(22.017)	18.513	18.512	52.348	(17.574)	
Net interest expense and others	-	-	(10.868)	(7.678)	-	-	(10.868)	(7.678)	
Depreciation and amortization	(40)	(250)	(602)	-	(653)	(466)	(1.295)	(716)	
Profit / (Loss) Before Tax	(11.315)	(14.319)	33.641	(29.695)	17.860	18.046	40.185	(25.968)	
Employee benefits expenses – Incentive Plan (Note 15)	-	-	4.020	18.952	-	-	4.020	18.952	
External Services (Note 13.d)	-	-	-	2.350	-	-	-	2.350	
Change in trade provisions(**)	-	4.549	-	-	-	-	-	4.549	
Net interest expense and others	-	-	10.868	7.678	-	-	10.868	7.678	
Depreciation and amortization	40	250	602	-	653	466	1.295	716	
ADJUSTED EBITDA (*)	(11.275)	(9.520)	49.131	(715)	18.513	18.512	56.368	8.277	

(*) 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 99 thousand in 2017 (EUR 668 thousand in 2017) corresponding to rental income of the investment properties (Note 9).

The main magnitudes of the consolidated balance sheet by segment at 31 of December 2018 and 2017 are the following:

	Thousands of Euros									
	Legacy		Development		Management Assets - Servicing		Others / Corporate		Total	
	31.12.18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17
Balance sheet:										
Non-Current assets	990	1.615	5.023	-	-	-	27.659	3.480	33.672	5.095
Current assets	43.010	85.513	1.217.438	1.101.435	9.754	10.085	113.760	76.822	1.383.962	1.273.855
Total Assets	44.000	87.128	1.222.461	1.101.435	9.754	10.085	141.419	80.302	1.417.634	1.278.950
Financial Debt (*)	-	-	380.529	417.665	-	-	-	-	380.529	417.665
Other Non-current liabilities	105	190	-	-	-	-	-	-	105	190
Other current liabilities	4.653	8.332	249.452	127.085	1.699	1.193	8.526	2.067	264.330	138.677
Total Liabilities	4.758	8.522	629.981	544.750	1.699	1.193	8.526	2.067	644.964	556.532

(*) Non- Current and Current Bank Borrowings

7. Intangible assets

The changes in "Intangible assets" in the exercises ended 31 December 2018 and 2017, by type of asset, were as follows:

Exercise ended 31 December 2018

	Thousands of euros		
	Computer Software	Industrial property	Total
Cost:			
Balance at 31 December 2017	1.598	14	1.612
Additions	1.128	-	1.128
Balance at 31 December 2018	2.726	14	2.740
Accumulated amortisation:			
Balance at 31 December 2017	(406)	-	(406)
Charges	(653)	-	(653)
Balance at 31 December 2018	(1.059)	-	(1.059)
Net Balance at 31 December 2018	1.667	14	1.681

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

The main additions in 2018 relate to the development of the management software used by the Group.

The main additions in 2017 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 2018 and 2017, there were no intangible assets provided as collateral for any obligation.

At 31 December 2018 intangible assets fully amortized amount to EUR 47 thousand (at 31 December 2017 there were no intangible assets fully amortized).

8. Property, plant and equipment

The changes in this heading in the exercises ended 31 December 2018 and 2017 were as follows:

Exercise ended 31 December 2018

	Thousands of euros		
	Technical items and machinery	Other items of Property, Plant and equipment	Total
Cost:			
Balance at 31 December 2017	883	1.337	2.220
Additions	4.671	931	5.602
Transfers from "Inventories" (Note 12)	1.388	-	1.388
Balance at 31 December 2018	6.942	2.268	9.304
Accumulated amortisation:			
Balance at 31 December 2017	(114)	(228)	(342)
Charges	(322)	(280)	(602)
Balance at 31 December 2018	(436)	(508)	(944)
Accumulated depreciation:			
Balance at 31 December 2017	-	-	-
Transfers from "Inventories" (Note 12)	(590)	-	(590)
Balance at 31 December 2018	(590)	-	(590)
Net Balance at 31 December 2018	5.916	1.760	7.676

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

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

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 2018 and 2017, there were no property, plant and equipment items fully amortised.

At 31 December 2018 and 2017, there were no property, plant and equipment items provided as collateral for any obligation.

At 31 December 2018 and 2017, 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 2018 and 2017 were as follows:

Exercise ended 31 December 2018

	Thousands of euros			
	Cost	Amortisation	Provision (see Note 22.f)	Net
Balance at 31 December 2017	3.058	(133)	(1.310)	1.615
Additions/Charges	390	(40)	-	350
Disposals	(1.634)	105	554	(975)
Balance at 31 December 2018	1.814	(68)	(756)	990

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

The gain on sales of investment property amounted to EUR 41 thousand in 2018 that is recorded under the caption "impairment losses and losses/gains on disposal of intangible assets" (727 thousand in 2017).

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 2018, rental income from investment property owned by the consolidated companies amounted to EUR 99 thousand (EUR 668 thousand at 31 December 2017).

At 31 December 2018 and December 2017, 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			
	31.12.2018		31.12.2017	
	Non-current	Non-current	Non-current	Current
Equity instruments	150	-	-	-
Guarantees and deposits	912	7	396	455
Total	1.062	7	396	455

12. Inventories

Details of "Inventories" at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of euros	
	31.12.2018	31.12.2017
Sites and land (Note 19)	565.301	748.671
Construction work in progress	588.251	319.438
Completed buildings	81.234	111.751
Advances to suppliers	23.117	3.020
Less – Impairment losses (Note 9)	(28.184)	(39.591)
	1.229.719	1.143.289

In the year, ended 31 December 2018 borrowing costs amounting to EUR 1.872 thousand were capitalised to inventories (EUR 1.893 thousand in 2017).

The additions in the period ended 31 December 2018 relate mainly to work certifications of the ongoing promotions and capitalized costs associated with the pre-construction for a value of EUR 234 million. Additionally, purchases of land worth EUR 95 million have taken place (124 and 263 thousand euros in 2017).

In addition, in 2018 the Group has handed over 24 properties and has 57 property developments recognised under "Construction work in progress" at year-end. In 2017, the Group handed over 8 properties and has 36 property developments recognised under "Construction work in progress" at year-end.

At 31 December 2018 there are assets included in "Inventories" caption in the accompanying consolidated balance sheet with a net cost of EUR 1.165 million corresponding to assets classified as "Development" and EUR 43 million relating to "Legacy" assets. (EUR 1.060 million and EUR 83

million at 31 December 2017). Likewise, the advances granted for an amount of 23 million euros correspond to assets that will be classified as "Development".

At 31 December 2018, there are assets included under "Inventories" with a gross cost of EUR 1.065.549 thousand (EUR 584.068 thousand at 31 December 2017) 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 31.090 thousand had been drawn down at 31 December 2018 (EUR 48.308 thousand in 2017). 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, this limit has been reduced during the year to 75 million euros. At 31 December 2018, the Group had drawn down EUR 75 million through. To guarantee the repayment of this financing, a promise to mortgage property was constituted in favor of the lender up to EUR 228.342 thousand of market value, having agreed with the bank a Loan To Value of 30% (Note 17).

At the end of 2018, the Group has paid advances to suppliers for future purchases of land amounting to 23.117 thousand euros, net of impairment, all of which are guaranteed by a mortgage or by means of a scroll account whose deed is expected to be carried out during the 2018. As of December 31, 2018 and 2017, the Group did not maintain additional significant commitments.

The property development sale commitments entered into with customers at 31 December 2018 and 2017, 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 102.138 and 81.695 thousand respectively, which have been recognised under "Current liabilities - Customer advances" in the consolidated balance sheet at 31 December 2018 and 31 December 2017 (see Note 18).

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 2018 and 2017 in the write-downs associated with the inventories were as follows:

	2018	2017
Balance at 01/01/17	39.591	101.317
Write-downs recognised	1.856	6.969
Write-downs reversed	(12.673)	(68.668)
Transfers to "Investment Property" (Note 9)	-	(27)
Transfers to "Property, plant and equipment" (Note 8)	(590)	-
Balance at 31/12/17	28.184	39.591

At 31 December 2018, all the Development assets have been evaluated by an independent expert. The net realisable value determined by "Savills Aguirre Newman Valoraciones y Tasaciones, S.A.U.)" for the inventories and investment property (see Note 9) owned by the Group amounted to approximately EUR 1.873 million (EUR 1.610 million at 31 December 2017) This figure includes the value of land advances for an amount of EUR 104 million.

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 2018, 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	(34.656)	37.289	29.656	(28.814)	145.387	(147.225)
Change in carrying amount (*)	(57)	213	213	(59)	350	(2.288)

(*) 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 28.814 thousand and EUR 147.225 thousand, and the recognition of additional impairment losses of EUR 59 thousand and EUR 2.288 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 2018 year-end amounted to approximately EUR 215 million (of which EUR 139 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.

13. Trade and other receivables

"Trade and other receivables" includes the following items:

	Thousands of euros	
	31.12.2018	31.12.2017
Trade receivables and notes receivables	11.971	12.015
Other receivables – Down Payments	16.275	10.501
Other receivables – Provision of Services	231	407
Impairment (Notes 9 and 22.f)	(123)	(296)
Total	28.354	22.627

"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 9.498 thousand (9.977 thousand euros at 31 December of 2017).

"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 16.275 thousands an amount that includes 9.020 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 2018 nor 31 December 2017, 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 40.698 thousand at 31 December 2018 (EUR 41.141 thousand 2017), 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

In 2017, the Parent, Neinor Homes, S.A. 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, 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.

At 31 December 2018, 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:

	31.12.2018	
	% Ownership Interest Registered	Total Share Capital Amount (Thousand euros)
Adar Capital Partners Ltd	28,68	226.586
Bank Of Montreal	5,21	41.162
Invesco Limited	5,02	39.661
Julius Baer Group, Ltd	5,01	39.582
Ksac Europe Holdings, L.p.	4,20	33.182
Norges Bank	4,56	36.026
Portsea Asset Management Llp	3,27	28.835
Resto de Bolsa	44,05	348.017
Total	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 2018 and 31 December 2017 legal reserve was not fully contributed.

c) Reserves at fully consolidated companies

Details, by company, of reserves at fully consolidated companies at 31 December 2018 and 31 December 2017 are as follows:

Company	Thousands of euros	
	31.12.2018 (*)	31.12.2017 (*)
Full consolidation:		
Parent and consolidation adjustments (**)	42.820	38.385
Neinor Norte, S.L.U.	(22.410)	(16.496)
Promociones Neinor 1, S.L.U.	(281)	(278)
Promociones Neinor 2, S.L.U.	(14.988)	(14.961)
Promociones Neinor 3, S.L.U.	(851)	(1.007)
Promociones Neinor 4, S.L.U.	(5.365)	(5.393)
Promociones Neinor 5, S.L.	(5.429)	(5.468)
Neinor Península, S.L.U.	(73.828)	(54.616)
Neinor Sur, S.L.U.	(21.981)	(19.718)
	(102.313)	(79.552)

(*) The Parent has also set up a legal reserve of EUR 2.192 thousand at December 2018 (EUR 2.066 thousand at December 2017) not included in this detail. The consolidated reserves include the legal reserve of the subsidiaries for a value of EUR 1.553 thousand.

(**) The reserve of fully consolidated companies at 31 December 2017 and 2018 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 2017 (see Note 15-a).

At 31 December 2018 and 2017 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. 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.

d) Treasury shares and other reserves

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 199.406 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." whereby it makes purchase and sale of shares during the year. As of December 31, 2018, the total Treasury Stock of the Parent Company amounts to 300.201 securities (228.798 at 31 December 2017). The average unit purchase price of the securities was 14,49 euros (18,03 euros at December 2017).

Lastly, in 2018 a long-term retention plan was approved aimed at the employees of the Group (with the exception of the Chief Executive Officer). The plan extends from 1 September 2018 to 2 September 2020 and consists of the allocation of an incentive based on each employee's salary payable in shares of Neinor Homes, S.A., provided that resignation or dismissal on disciplinary grounds does not arise, and linked to the increase experienced in the value of the shares on expiry of the plan. In 2018 this plan gave rise to the recognition of staff costs of EUR 472 thousand with a balancing entry under equity in the accompanying consolidated balance sheet (see Note 22-c).

e) Dividends paid

No dividends were paid in either 2018 or 2017.

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 above 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 2018 amounted to EUR 4.020 thousand (EUR 18.952 thousand in 2017) (see Notes 4.s, 15, 22.c and 24).

16. Provisions

a) Current provisions

Changes in current provisions in 2018 and 2017 are as follows:

At 31 December 2018

Description	Thousands of euros		
	For taxes (see Note 22.d)	Other provisions (see Note 22.d)	Total
Balance at 31 December 2017	2.233	3.393	5.626
Charges	5.654	4.978	10.633
Amounts used	(2.015)	(1.215)	(3.230)
Balance at 31 December 2018	5.872	7.156	13.029

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

"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.

During 2018, provisions have been charged for after-sales expenses, expenses to be incurred for sales commissions and capital gains derived from the increase in sales for the year.

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 2018 and December 2017, 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 2018 there are legal claims in relation with assets owned by the different companies of the Group for a total amount of EUR 1.038 thousand (at 31 December 2017 EUR 983 thousand), mainly corresponding to claims for intermediation fees, termination of contracts, refunds of retentions, repairs of constructive defects and challenges of justices in expropriations, as well as an indeterminate demand for the objection of work licenses, which may be prosperous that it has not prospered in the first instance but that, in any case, has been appealed and is not yet firm, 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, except for an amount of up to 3 million euros established as a franchise, which would be covered by Grupo Neinor Homes. 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 2018 and 31 December 2017 are as follows:

	Thousands of euros	
	31.12.2018	31.12.2017
Long-term bank borrowings:		
Credit lines (*)	-	17.902
Total (non-current)	-	17.902
Short-term Bank borrowings (see Note 23):		
Interest payable	549	455
Mortgage loans (*)	324.395	317.149
Credit lines (*)	48.260	56.670
Other loans (*)	4.385	11.203
Factoring	2.940	14.286
Total (current)	380.529	399.763

(*) Borrowings are presented at amortised cost, net of the debt arrangement expenses amounting to EUR 3.784 thousand. During 2018 EUR 3.002 thousand were charged to "Finance Costs (Net of Capitalised Borrowing Costs)" in the consolidated statement of profit or loss for 2018 (EUR 3.914 and 1.782 thousand respectively in 2017).

31 December 2018

Scheduled maturities:	31.12.18
2019	240.180
2020	15.674
2021	3.250
2022 and following	121.425
Total	380.529

31 December 2017

Scheduled maturities:	31.12.17
2018	138.274
2019	172.751
2020	368
2021 and followings	106.272
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 has been extended until the year 2019.

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 324.395 thousand at 31 December 2018 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 2019-2051.

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

Specifically, the Group has contracted 17 new mortgage loans during 2018 with a limit of 145.037 thousand euros, of which an amount of 28.140 thousand euros has been withdrawn. In addition, the limit and maturity of 12 loans contracted during the previous years have been extended, and their maturity for the years 2036-2051 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, had a initial limit of EUR 30 million. This limit has been reduced since its concession, amounting to 18 million euros. The credit line has been drawn down in full and the remainder is recognised under "Short – Term Bank Borrowings".

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 31.090 thousand had been drawn down at 31 December 2018, and this amount was classified as a current liability due to the real estate nature of the facility (31 December 2017: EUR 48.308 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 2018. 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 108 thousand at 31 December 2018.

VAT lines

This caption at 31 December 2018 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, 2017 and 2018 was novated for an additional year. Hence, the loan matures in 2019 and bears interest at market rates. The limit on these loans amounts to EUR 15 million of which the amount of EUR 4.385 has been disposed at December 2018 (31 December 2017: EUR 11.203 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 had a limit of EUR 29 million, although in January 2018 it has been reduced to 15 million euros, and EUR 2.940 thousand had been drawn down at 31 December 2018 (EUR 14.286 thousand 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. During the 2018, the maturity of this loan has been extended until August 2019 and the limit has been reduced to 75 million euros. 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 2018, the Group had drawn down EUR 74.999 million through Neinor Sur, S.A., and this amount was used to purchase land (EUR 76.962 million at 31 December 2017). To guarantee the repayment of this financing, a promise to mortgage property was constituted in favor of the lender from up to EUR 228.342 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 2018 and 2017, 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.

At year-end 2018, the Group was fully compliant with the covenants and clauses established in the aforementioned loans.

Other

In addition, the Group had several undrawn reverse factoring lines amounting EUR 5.590 thousand at 31 December 2018 with a limit of EUR 38.015 thousand at that date (EUR 3.748 thousand at 31 December 2017 with a limit of EUR 13.050 thousand at that date).

All the loans and credit facilities outstanding at 31 December 2018 indicated above were arranged with leading banks and bear interest tied to Euribor plus market spreads.

In 2018 the Group paid borrowing costs amounting to EUR 12.816 thousand plus debt arrangement expenses of EUR 3.105 thousand (of which EUR 3.002 thousand were charged to "Finance Costs" in the consolidated statement of profit or loss for 2018 and EUR 3.784 thousand were deducted from the Group's bank borrowings recognised in the consolidated balance sheet), and borrowing costs of EUR 1.872 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 2018. The average cost of the borrowings calculated for 2018 and 2017 is approximately 2,98% and 2,65%, respectively.

At 31 December 2018 and 2017, the Group companies had loans and undrawn credit facilities totaling EUR 18.924 and EUR 6.332 thousand, respectively.

Finally, 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:

2018

	01/01/2018	Cash Flow	Without cash flow impact			31/12/2018
			Variation in fair value	Reclassifications	Others	
Long Term Loans	17.902	-	-	(17.902)	-	-
Short Term Loans	399.763	(37.132)	-	17.902	(4)	380.529
Total Liabilities from financing activities	417.665	(37.132)	-	-	(4)	380.529

(*) 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, minus the expenses for the formalization of new loans for the year.

2017

	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, minus the expenses for the formalization of new loans for the year.

18. Other current and non-current liabilities

Details of other current and non-current liabilities at 31 December 2018 and 31 December 2017 are as follows:

	Thousands of euros			
	31.12.2018		31.12.2017	
	Non-current	Current	Non-current	Current
Guarantees and deposits received	18	18	18	37
Remuneration payable	-	1.880	-	1.810
Customer advances (see Note 12)	-	102.138	-	81.695
Total, gross	18	104.036	18	83.542

"Guarantees and deposits received" includes mainly guarantee deposits paid by lessees (Note 4.r).

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 2018, this caption also included a payable amounting to EUR 36.755 thousand corresponding to the deferred portion of the price of a land purchased in these exercises. There was 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 2018 an amount of 22.759 thousands of euros (9.436 thousands of euros at 31 December 2017) 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 2018	Period ended 31 December 2017
	Days	Days
Weighted average payment term to suppliers	55	18
Paid operations ratio	42	29
Outstanding payments ratio	40	18
	Thousands of euros	Thousands of euros
Total payments made	320.072	430.996
Total outstanding payments	34.323	20.908

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 2018 and 31 December 2017 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

All the Group companies, except the subsidiaries Neinor Península, S.L.U. and Neinor Sur, S.A.U., were paying income tax as from the years commencing 1 January 2015 as a Tax Group number 0211BSC in accordance with Corporation Tax Law 11/2013, of 5 December, pay taxes pursuant to Bizkaia Corporation Tax Regulation 11/2013. The tax group was headed by the Parent's former shareholder Neinor Holdings, S.L.U.

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.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., 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 2018 and 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

On the other hand, the other group companies 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 2018, 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 2016 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.

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

In January 2019 the Group received notification of final disciplinary proceedings concerning the tax inspections relating to Neinor Península, S.L.U., which gave rise to adjustments to tax payable

amounting to EUR 3.272 thousand, which were recognised under "Income Tax" in the consolidated statement of profit or loss for the year ended 31 December 2018, and also penalties and late-payment interest of EUR 793 thousand and EUR 417 thousand recognised under "Other Operation Expenses" and "Finance Costs (Net of Capitalised Finance Costs)", respectively, in the consolidated statement of profit or loss for the year ended 31 December 2018. Although pleadings have been filed against this decision, the Parent's directors, in accordance with the opinion of their external tax advisers, consider payment of these amounts probable since a final decision has been handed down in this connection. In addition, during the initial procedural formalities, penalties of EUR 6.3 million also became evident and it is considered that the administrative appeal filed by the Group will, in any event, give rise to a favourable outcome for it. This policy has also been approved by the Group's external tax advisers.

Also, in October 2018 tax assessments were signed on an uncontested basis in relation to the income tax of Neinor Sur, S.A.U. The assessments gave rise to the adjustment of the tax losses for 2013, 2014 and 2015 by EUR 426 thousand, EUR 836 thousand and EUR 187 thousand, respectively, without any impact on the Group's consolidated financial statements.

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. 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).

c) Tax receivables and payables

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

	Thousands of euros							
	31.12.2018				31.12.2017			
	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)	-	10.885	-	14.852	-	29.787	-	7.125
Income tax receivable	-	1.237	-	15.780	-	875	-	33
Personal income tax withholdings payable	-	-	-	1.960	-	-	-	411
Social Security contributions payable	-	-	-	434	-	-	-	340
Deferred tax asset	22.263	-	-	-	-	-	-	-
Deferred tax liability	-	-	87	-	-	-	172	-
Others	-	-	-	3	-	-	-	-
	22.363	12.122	87	33.029	-	30.662	172	7.909

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 2018

	Thousands of euros		
	Group 02117BSC	Other entities	Total
Profit/(Loss) before tax	36.155	4.029	40.184
Consolidated Adjustments	2.245	-	2.245
Permanent differences -	51	165	216
Temporary differences	3.978	(1.345)	2.633
Tax losses compensation pre consolidation (Neinor Homes)	(1.435)	-	(1.435)
Preliminary Taxable income/(loss)	40.994	2.849	43.843
Tax losses compensation	(2.340)	(4.563)	(6.903)
Taxable income/(loss)	38.654	(1.714)	36.940
Tax rate	26%	25%	-
Tax accrued	(10.050)	428	(9.622)
Not capitalised Tax assets accrued in the period	-	(3.686)	(3.686)
Deferred Tax Asset capitalised	2.850	19.413	22.263
Other adjustments for income tax	38	(3.186)	(3.148)
Income tax expense	(7.162)	12.970	5.807

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.

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 2018, 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. are as follows:

Year of generation	Thousands of euros		Year of maturity
	Unrecognised	Recognised	
Other entities tax losses:			
Exercise 2008	32	-	2038
Exercise 2010	813	-	2040
Exercise 2011	8.693	-	2041
Exercise 2012	18.711	-	2042
Exercise 2013	1.798	-	2043
Exercise 2014	167	-	2044
Exercise 30 of June 2015 (*)	52	-	2045
Exercise 31 of December 2015	55	-	2045
Exercise 2009	-	-	No time limit
Exercise 2011	-	-	No time limit
Exercise 2012	-	6.642	No time limit
Exercise 2013	-	26.378	No time limit
Exercise 2014	-	15.404	No time limit
Exercise 30 of June 2015	-	5.697	No time limit
Exercise 31 of December 2015	2.473	10.130	No time limit
Exercise 2016	27.586	-	No time limit
Exercise 2017	33.497	-	No time limit
Exercise 2018	34.546	-	No time limit
Total	143.166	64.251	

(*) It includes tax losses that are subject to inspection for an amount of EUR 30.059 thousand (Note 20.b)

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 2018.

According to the tax rules currently in force, the tax losses with no time limit included in the preceding table, may be offset in 2018 against the taxable profit for the following tax periods up the limit of 25% of the tax base prior to offset, with a minimum of EUR 1 million, taking into account the Group's revenue. For Neinor Península this limit is 50% of the tax base prior to offset, for Neinor Sur it is 25%, and for the other companies of the Group it is 70%, with a minimum of EUR 1 million in all cases.

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.

In 2018, in the specific case of Neinor Sur, S.A.U., it was considered probable that sufficient future taxable profits would be obtained to enable the offset all of this subsidiary's tax losses. In this regard, it was taken into account that a profit from operations of EUR 29.306 thousand had been obtained at 31 December 2018, that the Group is in line with the budget drawn up in 2017 and that adequate visibility exists in terms of revenue in the next three years (see Note 2.2) since pre-sales for this period exceed 50%. This policy led to the recognition of income of EUR 16.062 thousand with a credit to "Income Tax" in the consolidated statement of profit or loss for the year ended 31 December 2018. On the other hand, in relation to Neinor Península, 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. it was considered that the results of their operations would, based on their history of ongoing losses, either give rise to a loss or to scant profit. As a result, the obtainment of future taxable profit is not sufficiently supported and

the policy followed to date was maintained. Accordingly, it was deemed reasonable not to recognise any deferred assets for these companies, since their recoverability is not reasonably assured.

f) Tax credits

At 31 December 2018 and 2017, 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 2018, 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 30.668 thousand (in the tax base) (EUR 60.496 thousand at 31 December 2017) relating to adjustments to the tax base made, mainly for impairment of investee companies' impairment registered by Neinor Norte, S.L.U.

As in the case of the tax losses, and for the same reason, the accompanying consolidated financial statements only include the deferred tax assets relating to the deferred tax assets of Neinor Sur, S.A.U. This policy gave rise to the recognition of income of EUR 6.201 thousand with a credit to "Income Tax" in the consolidated statement of profit or loss for the year ended 31 December 2018.

h) Other tax matters

Amendments on the Corporate Income Tax regulations in the Historical Territory of Bizkaia have taken place with effects in the tax periods beginning on January 1 2018, based on the following points:

- The quantitative limit to apply net operating losses have increased 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 has been 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 2018, the Group had provided guarantees to third parties for a total amount of EUR 148.035 thousand (EUR 119.756 thousand at 31 December 2017). Included in this figure there is an amount of EUR 35.382 thousand (EUR 22.559 thousand at 31 December 2017) thousand related mainly to guarantees provided to different local authorities to secure the development of different properties and EUR 112.653 thousand to secure payments in advance received by customers (EUR 97.197 thousand at 31 December 2017).

Additionally, the Group has received at 31 December 2018 from different suppliers and contractors guarantees for a total amount of EUR 34.486 thousand (EUR 18.087 thousand at 31 December 2017) 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	
	31.12.2018	31.12.2017
Legacy	36.491	114.572
Development	312.245	76.621
Assets Management - Servicing	31.250	29.195
Total	379.986	220.388

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 2018 exercise an amount of EUR 31.250 thousand to the aforementioned companies of the Kutxabank Group (EUR 29.195 thousand at 31 December 2017).

All of the Group revenues have been obtained in Spain.

The net revenues from Legacy assets includes an amount of EUR 99 thousand in 2018 (EUR 668 thousand in 2017) 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	
	31.12.2018	31.12.2017
Cost of sales	272.162	232.451
Sites and land	1.398	15.378
Construction work in progress and completed buildings	270.764	217.073

c) Employee benefits expense and average headcount

Details of "Employee benefits expense" are as follows:

	Thousands of euros	
	31.12.2018	31.12.2017
Wages, salaries and similar expenses	18.625	31.984
Termination benefits	177	151
Social security costs	2.843	2.480
Other employee benefit costs	303	184
Total	21.948	34.799

The caption "Wages, salaries and similar expenses" includes an amount of EUR 4.760 thousand corresponding to incentive planes approved in 2017 and 2018 (EUR 19.619 thousand in 2017) (see Notes 4.s and 15.f).

At December 2018, the average headcount at Group companies was 254 (216 at 31 December 2017). The breakdown by category is as follows:

	31.12.2018			31.12.2017		
	Women	Men	Total	Women	Men	Total
Higher degree staff	118	141	259	72	113	185
Medium degree staff	10	2	12	43	7	50
Total	128	143	271	115	120	235

In addition, at 31 December 2018, the Group had 4 employees with a disability of more than 33% (2 at 31 December 2017).

d) External services

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

	Thousands of euros	
	31.12.2018	31.12.2017
Research and development expenses	-	2
Leases and royalties	1.504	872
Maintenance	1.877	1.874
Independent professional services	19.372	16.013
Transport	5	5
Insurance premiums	461	483
Bank Services	1.113	653
Advertising and marketing	4.071	5.146
Supplies	508	377
Other external services	2.329	4.039
Levies (see Note 16)	9.557	8.979
Total	40.797	38.443

"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 their own sales and servicing income.

Moreover, in 2017 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 2018 and 2017 by each company included in the consolidated group are as follows:

Entity	Thousands of euros	
	31.12.2018	31.12.2017
Full consolidation:		
Parent and consolidation adjustments (*)	9.499	1.262
Neinor Norte, S.L.U.	19.527	(5.914)
Promociones Neinor 1, S.L.U.	(9)	(3)
Promociones Neinor 2, S.L.U.	(14)	(27)
Promociones Neinor 3, S.L.U.	(198)	156
Promociones Neinor 4, S.L.U.	72	28
Promociones Neinor 5, S.L.U.	30	39
Neinor Península, S.L.U.	(18.456)	(19.212)
Neinor Sur, S.L.U.	35.540	(2.263)
Total	45.991	(25.934)

(*) During 2018, it includes consolidation adjustments related to the application of IFRS 9 (Note 2.b). There are no consolidation adjustments as of 31 December 2017.

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)	
	31.12.2018	31.12.2017
Change in trade provisions -Application of impairments for sold stocks (see Note 12)	12.673	68.668
	12.673	68.668
Change in trade provisions – Others	(6.744)	(7.285)
Impairment losses of inventories(see Note 12)	(1.856)	(6.969)
Provision for bad debts (see Note 13)	(1.576)	39
Other provisions	(3.312)	(355)
Total change in trade provisions	5.929	61.383

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., 1810 Capital Investments, S.L., "Global Hepérides, S.L."

and "BDO, Auditores, S.L." (until November 2018) 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)		Financial Incomes	Cost of Sales - Purchases (Note 22.c)	External Services (Note 22.d)	Financial costs (Note 17)
	Sales	Services Provided				
Exercise 2018						
Other Group´s "related parties"-						
Banco de Santander, S.A.	-	-	-	-	101	953
Banco Popular Español, S.A.	-	-	-	-	-	219
IDOM, S.A.	-	-	-	-	-	-
1810 Capital Investments, S.L.	4.635	-	-	-	-	-
BDO Auditores, S.L.P. (*)	-	-	-	-	13	-
Global Hespérides, S.L.	2.405	-	-	-	-	-
	7.040	-	-	-	114	1.172

(*) Company related to the Group until 20 October 2018 Alberto Prieto's departure from the Board of Directors, this is expenses prior to this date

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

The breakdown of the transactions carried out during 2018 is as follows:

- Financial expenses arising on the loans and credit lines with the financial entity.
- The services accrued at the end of the period ended December 31, 2018 are due to the billing of various construction expenses incurred by the Group

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 31 December 2017.

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 2018 and 2017 are as follows:

31 December 2018

Thousands of Euros	Cash a cash equivalents	Short-term Bank borrowings	Current trade and other receivables	Customer prepayments
Other Group´s "related parties"-				
Banco Santander, S.A.	41.337	34.510	-	-
Banco Popular Español, S.A.	45	11.250	-	-
IDOM, S.A.	-	-	-	-
1810 Capital Investments, S.L.	-	-	792	2.010
	41.382	45.760	792	2.010

31 December 2017

Thousands of Euros	Cash a cash equivalents	Short-term Bank borrowings	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

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 2018 and 31 December 2017 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, 2018, 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 1.902, as well as other remuneration (see Note 4.s) amounting to EUR 2.505 thousand (1.598 and 10.609 thousand

euros, respectively, as of December 31, 2017). 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 3.134 thousand as a Management incentive plan approved (EUR 3.625 thousand 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 63 thousand in 2018 (EUR 67 thousand in 2017).

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 2018 and 31 December 2017 is summarised as follows:

Number of employees		Thousands of euros					
		31.12.2018			31.12.2017		
		Fixed and variable remuneration	Other Total	Total	Fixed and variable remuneration	Other Total	Total
31.12.2018	31.12.2017	1.340	601	1.941	1.474	3.764	5.238
8	9						

The Parent has no pension obligations and has granted no advances, loans or guarantees to senior executives.

25. Auditors' fees

Fees for audit services for the exercise ended 31 December 2018 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 100 thousand at 31 December 2017). Likewise, fees for verification services and other services provided by the statutory auditor for the exercise ended at 31 December 2018 have amounted to EUR 25 thousand and EUR 370 thousand at 31 December 2017.

Additionally, companies related to the statutory auditor have provided additional services amounting to EUR 63 thousand for the exercise ended 31 December 2018 (EUR 9 thousand 31 December 2017).

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 2018, the undrawn credit facilities and loans amounted to EUR 18.924 thousand (EUR 6.332 thousand at 31 December 2017).

The Group's available cash position at 31 December 2018 was EUR 113.760 thousand (76.822 at 31 December 2017) of which EUR 40.698 thousand (41.141 at December 2017) 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 +/- 3 million if the interest rate applicable to the Group's current borrowings increases or decreases by 1% in relation to 2018 reporting period (+/- 4 million in 2017) (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 or 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

The draft General State Budget Law was introduced for debate before the Spanish lower house, and includes significant income tax-related proposals for the tax periods commencing on or after 1 January 2019. Notable among these for its possible impact on the Group's business plans is the introduction of a minimum tax regime whereby the net tax payable (defined as the gross tax payable less any applicable tax relief and tax credits) cannot be lower than 15% of the taxable profit net of the tax loss offset.

Between January 1, 2019 and the date of formulation of the present consolidated annual accounts for the year ended December 31, 2018, 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		Shareholder	Auditors
			31.12.2018	31.12.2017		
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.	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.A.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, 2018 (thousands of euros)						
	Share capital	Share premium	Reserves	Previous years' losses	Profit / (Loss)	Other equity	Total equity
Neinor Norte, S.L.U.	235.091	-	911	(6.040)	19.527	292	249.781
Promociones Neinor 1, S.L.U.	301	-	59	(38)	(9)	-	313
Promociones Neinor 2, S.L.U.	880	-	170	(37)	(14)	-	999
Promociones Neinor 3, S.L.U.	594	-	256	-	(198)	-	652
Promociones Neinor 4, S.L.U.	2.981	-	592	(37)	72	-	3.608
Promociones Neinor 5, S.L.	5.649	593	589	-	30	-	6.861
Neinor Peninsula, S.L.U.	558.422	-	114	(25.620)	(18.456)	354	514.814
Neinor Sur, S.A.U.	158.981	-	657	(7.087)	35.540	4	188.095

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

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 2018

Neinor Homes, S.A. and Subsidiaries

1. The Group: Organisational structure and operations

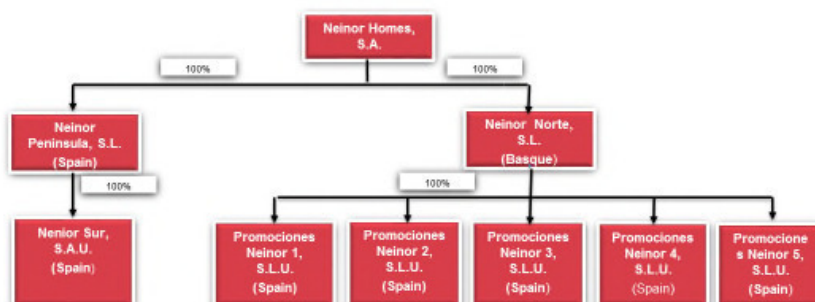
The Neinor Homes Group was incorporated under the memorandum of understanding entered into in 2014 by Kutxabank, S.A. and the Lone Star investment fund, through its investee, Intertax Business, S.L.U. (now Neinor Holdings, S.L.U.), for the purchase and sale of a portion of the Kutxabank Group's property 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 190 lots with a total of 13.000 buildable units. The portfolio is distributed over the Parent's five main geographical areas of

activity, namely: Madrid, Catalonia, the Basque Country, Valencia and Andalusia.

The land portfolio arose as a result of both the Transaction detailed in Note 1 and subsequent purchase and sale transactions in 2015, 2016, 2017 and 2018.

B) Legacy business line:

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

The portfolio is divided into two main types of asset: i) multi-unit new property developments and ii) remnants of new property developments end products and

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 2018 they met on four occasions, (21 February, 8 May, 23 July and 31 October).

The main agreements, approvals and activities of the Supervision by the Board and Committees that have occurred during 2018 are the followings:

- a) The call for the General Shareholders' Meeting
- b) Business Plan for 2018-2022
- c) External Accounts Audit Plan for 2018
- d) Annual plan for the CAC
- e) Incentive plan, salary objectives and bonus system
- f) Employee retention plan
- g) Re-election of account auditors
- h) Modification of the composition of the three Committees
- i) Annual Accounts and Management Report
- j) Quarterly, semi-annual and annual financial results and presentation to markets
- k) Distribution of 2018 income
- l) Review of the negotiation with the Company's own shares
- m) Presentation and revision of asset valuation methodology
- n) Presentation of the 2018 acquisitions and launches and planned program for 2019
- o) Equality policy
- p) Succession plan
- q) Corporate Governance Policy
- r) Modification of the Treasury Stock Regulation
- s) Modification of the Remuneration Policy
- t) The Activities Report of the Council and its Commissions
- u) The Corporate Social Responsibility Report of 2017 and the CSR Plan of 2018
- v) The independence report of the external auditors
- w) The report to be submitted to the CNMV on information requirements
- x) The 2017 Annual Corporate Governance Report
- y) The annual remuneration report for 2017
- z) The report of activities of Internal Audit of 2017 and the annual plan of 2018
- aa) The report of conflicts of interest and related operations

- bb) The report of the 2017 Compliance activities
- cc) Report of activities carried out for the supervision of the RIC
- dd) Supervision of ICFR
- ee) The audit report on Prevention of Money Laundering and Financing of Terrorism
- ff) Supervisión del modelo integrado de Control Interno y Riesgos

Regarding the control and compliance model, in Neinor Homes it is implanted an integrated a GRC structure (Government, Risk and Compliance) that is based on:

- Analysis and evaluation of risks that affect internally and to interested parties.
- Integration of all regulatory environments and business processes.
- Homogeneous methodology in implementations and projects in the field of fulfillment.

This model is based on the analysis and evaluation of strategic risks of the company, of all control environments and the entire value chain. In this way, all risks are analyzed, gross and residuals and they are classified according to their economic, reputational and organizational impact.

Currently in the model, all the company's business processes are integrated and the different normative areas, among others, the SCIF, prevention of criminal responsibility, Prevention of Cybersecurity, RDL 5/2018 on data protection, PBC / FT, LSC, Good Governance recommendations, Order EHA / 3050/2004 on Operations Linked, Circular 3/2015 of the CNMV.

The balance scorecard of the model includes:

- The processes and procedures that apply to an environment of regulatory or operational compliance.
- The controls assigned to each risk and environment
- Which risks are mitigated or eliminated by each control, to which processes does it affect
- Who is the responsible for each control, of its supervision and when it is reported

The management of GRC, composed by areas of Internal Audit, Corporate Governance, Compliance, Risks, Corporate Social Responsibility and Quality is in charge of ensuring the entire integrated control and assurance system.

2. Business performance and earnings - Significant aggregates

In 2018, the Group recognised revenue of EUR 379.986 thousand achieving a gross margin of EUR 120.903 thousand and EBITDA of EUR 52.348 thousand an adjusted EBITDA (without MIP) of EUR 56.368 thousand. At equity level, total assets at 31 December 2018 amounted to EUR 1.414.694 thousand, equity to EUR 772.670 thousand and current and non-current liabilities to EUR 642.024 thousand.

Revenue and gross margin

By business volume, the Development business line has recognised sales of EUR 312.245 thousand, with a gross margin of EUR 90.255 thousand, representing a margin of 28,9%. This is followed by the volume in Legacy business line, with revenue of EUR 36.491 thousand and gross margin of EUR (602) and recognising a gross margin of (1,6)%. Finally, the Servicing business line recognised revenue of EUR 31.250 thousand.

Legacy sales, amounting to EUR 35.391 thousand, correspond to more than 1.263 main units, situated mainly in Southern Spain (71%).

Development sales are due mainly to the completion and delivery of 8 property developments (98%) among which the followings stand out: *La Marina Badalona P-9* with sales of EUR 46.272 thousand, *Plaza Homes* with sales of EUR 47.905 thousand, *San Roke Homes* with sales of EUR 23.784 thousand and *La Catalana R-4* with sales of EUR 20.631 thousand. The remaining 2% realtes to pending units of promotions delivered during previous years amounting to EUR

6.312 thousand and several floors and lots with sales of EUR 412 thousand euros.

Servicing revenue relates mainly to: *Management Fee* on the EUR 1.6Bn of managed assets (EUR 20.632 thousand (66%)), *Success Fee* calculated on total sales of EUR 245 million (EUR 9.246 thousand (30%)), and other income (EUR 1.372 thousand (4%)).

EBITDA

The EBITDA in 2018 reached EUR 45.991 thousand, mainly due to "Development" with a EBITDA of EUR 45.111 thousand and "Legacy" with EBITDA of EUR 18.513 thousand, and Servicing' EBITDA of EUR 18.513 thousand, which results in a margin on sales of 13,7%.

In 2018, the consolidated income statement includes an expense of EUR 4.020 thousand due to MIP (assumed by Lone Star). Excluding this effect the EBITDA amounts to EUR 56.368 thousand.

Profit for the year

The profit of 2018 amounts to EUR 45.991 thousand, which considering the effect of the MIP, the adjusted profit is EUR 50.011 thousand.

Financial position

The current liabilities and non-current liabilities at 31 December 2018 amounted to EUR 642.024 thousand compared to EUR 556.532 thousand at 31 December 2017 (an increase of EUR 85.492 thousand).

The borrowing position at 31 December 2018 continues to indicate very sound debt/equity ratios: 21,67% Loan To Cost ratio (LTC) and 14,64% Loan To Value ratio (LTV).

Borrowings at 31 December 2018

At the end of 2018, EUR 381 million was recognised under current and non-current bank borrowings. The detail of bank borrowings is as follows:

- Corporate facilities: EUR 124 million.
- Land financing facilities: EUR 223 million with a limit of EUR 248 million
- Capex financing facilities: EUR 27 million with a limit of EUR 348 million
- VAT facilities: EUR 4 million with a limit of 15 million
- Factoring facilities: EUR 3 million with a limit of 15 million

During 2018 the Group has paid EUR 96 million of debt, which mainly was due to corporate debt: JP Morgan EUR 35 million, Bankinter EUR 18 million and Banco Sabadell EUR 9 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.

3. Matters relating to the environment and employees

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 2018, the average number of employees employed in the various companies that make up the Group was 254 people, representing an increase of 15% on the twelve month period ended 31 December 2017 (216 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	118	141	259	72	113	185
Further education college graduates	10	2	12	43	7	50
Total	128	143	271	115	120	235

4. Liquidity and capital resources

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

Of note in 2018, is the financing, mainly of land and corporate projects, obtained by the Group, which amounts to an on balance sheet balance of EUR 380.529 thousand .

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. 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 scantily material.

6. Significant events after the reporting period

Subsequent to 2018 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.

7. Information on the outlook for the entity in 2019

The Group's main lines of action for 2019 focus on:

Development business line

- Monitoring of the construction projects which the Group had at 2018 year-end, plus the tenders and contracting of new projects.
- Continuing the upward trend in the number of pre-sales reached in 2018. 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 2019, 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 2019.
- 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.

8. R&D&i activities

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

9. Treasury shares

At 31 December 2018, the Company's share capital was represented by 79.005.034 fully subscribed and paid shares of EUR 10 par value each. All these shares carry identical voting and dividend rights.

During 2018, treasury shares have been acquired, including an amount of 3.902 thousand euros on the balance sheet at 31 December 2018.

At 31 December 2018, the Parent Company held 300.201 treasury shares being the average purchase price of EUR 14,49 , following the value date criteria.

10. 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.

	<u>31/12/18</u>
Non-current liabilities - bank borrowings	-
Current liabilities - bank borrowings	380.529
Cash and cash equivalents - available cash (Note 14)	(113.760)
Net financial debt	266.769

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):

	31/12/18
Non-current liabilities - bank borrowings	-
Current liabilities - bank borrowings	380.529
Current trade and other payables - deferred payment for land (Note 19)	36.756
Cash and cash equivalents - available cash (Note 14)	(73.062)
Net financial debt	344.223

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 2018
Net financial debt	267
Assets market value	1.822
LTV	14.64%

Loan to Value (LTV) - Adjusted

Definition: Adjusted 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 2018
Net financial debt - Adjusted	344
Assets market value	1.822
LTV	14.64%

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 2018
Net financial debt - Adjusted	267
Inventories	1.230
Investment Property	1
LTC	21.67%

Loan to Cost (LTC) - Adjusted

Definition: Adjusted 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 2018
Net financial debt - Adjusted	344
Inventories	1.230
Investment Property	1
LTC	27.96%

ANNEX I - FORM

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

PARTICULARS OF THE ISSUER

REPORTING DATE

2018

Tax No. A- 95786562

Company Name: NEINOR HOMES, S.A.

Registered Office: C/ Ercilla 24, Bilbao

**ANNUAL CORPORATE GOVERNANCE REPORT FOR
LISTED COMPANIES**

A. OWNERSHIP STRUCTURE

A.1 Complete the following table with information about the company's share capital.

Date of last change	Share capital (€)	Number of shares	Number of voting rights
28/03/2017	790,050,340	79,005,034	79,005,034

Remarks

State whether there are different classes of shares associated with different rights.

Yes No

Class	Number of shares	Nominal unit price	Number of unit voting rights	Rights and obligations conferred

Remarks

A.2 Indicate the direct and indirect owners of significant shareholdings at the reporting date, excluding directors.

Shareholder's name	% voting rights attached to the shares		% voting rights held via financial instruments	% total voting rights
	Direct	Indirect		
ADAR CAPITAL PARTNERS LTD	0	26.018%	2.658%	28.676%
BANK OF MONTREAL	0	5.209%	0	5.209%
INVESCO LIMITED	0	5.015%	0	5.015%
JULIUS BAER GROUP, LTD	0	4.273%	0.734%	5.007%
KSAC EUROPE HOLDINGS, L.P.	0	4.199%	0	4.199%
NORGES BANK	2.670%	0	1.892%	4.562%
PORTSEA ASSET MANAGEMENT LLP	0	0	3.268%	3.268%

Remarks

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Details of indirect shareholdings:

Indirect shareholder's name	Direct shareholder's name	% of voting rights associated with the shares	% of voting rights held through financial instruments	% of total voting rights

Remarks

State any material changes in the shareholder structure arising during the year.

Shareholder's name	Transaction date	Description of the transaction
ADAR CAPITAL PARTNERS LTD	23/02/2018	5.2% increase in the shareholding to 26.02%
WELLINGTON MANAGEMENT GROUP	06/07/2018	8.54% decrease in the shareholding to 2.74%
FMR LLC	05/03/2018	6.89% decrease in the shareholding to 2.89%
NEINOR HOLDINGS, S.L.	11/01/2018	12.92% decrease in the shareholding to 0.44%

A.3 Complete the following tables with information about members of the company's board of directors holding voting rights associated with shares in the company.

Director's name	% of voting rights associated with the shares		% of voting rights held through financial instruments		% of total voting rights	% voting rights transferable via financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
VELAYOS LLUIS, JUAN	0.479	0.312			0.792		
PEPA , JUAN JOSE	0.158				0.158		
BTESH , FRANCIS	0.013				0.013		

% of total voting rights held by the board of directors	0.96%
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Remarks

Details of indirect shareholdings:

Director's name	Direct shareholder's name	% of voting rights associated with the shares	% of voting rights held through financial instruments	% of total voting rights	% voting rights transferable via financial instruments

Remarks

- A.4 Where appropriate, state any family, business, contractual or corporate relations existing between the owners of significant shareholdings, insofar as they may be known to the company, unless such relations are immaterial or are the result of ordinary business or trading activities, except for the relations reported in section A.6 below.**

The Company has no knowledge of any family, business, contractual or corporate relations between owners of significant shareholdings.

Related party's name	Nature of relationship	Brief description
-	-	-

- A.5 Where appropriate, state any business, contractual or corporate relations existing between the owners of significant shareholdings and the company and/or its group, unless such relations are immaterial or are the result of ordinary business or trading activities.**

There are no family, business, contractual or corporate relations between the owners of significant shareholdings and the Company.

Related party's name	Nature of relationship	Brief description
-	-	-

- A.6 Describe any relations, unless immaterial to both parties, existing between significant shareholders and/or shareholders represented on the board and the directors or their representatives in the case of legal entity directors.**

Where appropriate, explain how significant shareholders are represented. Specifically, identify any directors appointed to represent significant shareholders, any directors appointed at the instigation of a significant shareholder, and any directors related with a significant shareholder and/or group entity, stating the nature of the relationship. In particular, state the existence, identity and office held by any members of the board or representatives of directors of the listed company who are, in turn, members of the boards of directors, or representatives of directors of any companies owning significant shareholdings in the listed company or in any entities belonging to such significant shareholders' business groups.

Related director's or representative's name	Related significant shareholder's name	Name of the significant shareholder's group entity	Description of relationship / office
Francis Btesh	Adar Macro Fund Ltd		
Jorge Pepa	Adar Macro Fund Ltd		

Remarks

A.7 State whether the company has been notified of any shareholders' agreements affecting it pursuant to Articles 530 and 531 of the Spanish Limited Companies Act. Where appropriate, provide a brief description and list the shareholders bound by the agreement.

Yes No

Parties to the shareholders' agreement	% share capital affected	Brief description of the agreement	Termination date of the agreement, if any

Remarks

State whether the company has knowledge of any concerted action between shareholders. Describe, where appropriate.

Yes No

Parties to concerted action	% of share capital affected	Brief description of the concerted action	Termination date of the concerted action, if any

Remarks

State whether any shareholders' agreements or concerted actions were amended or broken off during the year, expressly indicated the arrangements concerned.

Not applicable

A.8 State whether there are any natural persons or legal entities who exert, or could exert, control over the company within the meaning of Article 5 of the Spanish Limited Companies Act. Identify any such individuals or entities, where appropriate.

Yes No

Name of the individual or entity

Remarks

A.9 Complete the following tables with information about treasury shares held by the company.

At the reporting date:

Number of direct shares	Number of indirect shares (*)	% of total share capital
300,201		0.38%

Remarks

(*) Held via:

Name of the direct owner of the shareholding	Number of direct shares
Total	

Remarks

Explain any significant changes arising during the year.

Explanation of significant changes
<p>The company initiated a treasury stock programme as a result of which it acquired a total of 199,406 treasury shares between 04/05/2017 and 28/09/2017.</p> <p>On 22/09/2017 the Company entered into a cash-pooling agreement, contributing 28,000 treasury shares and €500,000. On 05/10/2017, the company withdrew 27,406 treasury shares from the account associated with the cash-pooling agreement and contributed an additional €675,871.11.</p> <p>The liquidity contract was suspended on 20/12/2018 and a second treasury stock programme was initiated.</p> <p>The company held a total of 300,201 treasury shares at the end of the financial year, of which 260,424 were deposited in a securities account and 39,777 were deposited in the account associated with the liquidity contract.</p>

A.10 State the terms of the prevailing mandate granted by the General Shareholders Meeting authorizing the board of directorsto issue, buy back or transfer treasury shares.

The sole shareholder of the company before the stock market listing granted the Board the following mandate on 6 March 2017:

1) To issue bonds or other similar securities, convertible into new shares of the company and/or exchangeable for existing shares of the company, as well as warrants or other similar securities directly or indirectly entitling holders to subscribe new shares or acquire existing shares in the company, subject to the following conditions:

- Securities: Bonds, notes and other fixed interest or similar securities exchangeable for shares of the company or of any other company, whether or not forming part of the group, and/or convertible into shares of the company, promissory notes, preference shares or warrants.
- Term of the mandate: 5 years

- Maximum amount: €500,000,000

2) Derivative acquisition of treasury shares either by the company or by its affiliates for a period of five years up to a maximum 10% of share capital and for a price or value ranging from a minimum equal to par value and a maximum equal to the higher of (i) 105% of the quoted share price of the company in the Spanish Continuous Market at the time of acquisition, or the closing price in the last stock market session held prior to acquisition, and (ii) the value calculated by increasing the maximum quotation for the three months preceding the date of acquisition by 10%. The treasury shares may be acquired either for disposal or redemption, for delivery directly to employees or directors of the company, or as a consequence of the exercise of stock options by their holders.

A.11 Estimated free float

	%
Estimated free float	32%

Remarks

A.12 State whether there are any statutory, legislative or other restrictions on the transferability of securities and/or any restrictions on voting rights In particular, you should report the existence of any kind of restrictions that could hinder or prevent a takeover of the company by means of the acquisition of shares in the market, as well as any requirements established under applicable industry regulations for prior authorization or notification of the acquisition or transfer of financial instruments issued by the company.

Yes No

Description of restrictions

A.13 State whether the General Shareholders Meeting has resolved to adopt any anti-takeover measures in accordance with Spanish Law 6/2007.

Yes No

Where appropriate, explain the measures approved and the conditions under which the resulting restrictions would be lifted:

Explain the measures approved and the conditions under which they would be lifted.

A.14 State whether the company has issued any securities that are not traded on a regulated market in the European Union.

Yes No

Where appropriate, list the different classes of shares and the rights and obligations conferred by each class of share.

List the different classes of shares

B. GENERAL MEETING

- B.1 State whether there are any differences with the minimum quorum for the General Shareholders Meeting established in the Spanish Limited Companies Act, and explain said differences where appropriate.**

Yes No

	Different % quorum to that established in Art. 193, Spanish Companies Act (general cases)	Different % quorum to that established in Art. 194, Spanish Companies Act (special cases)
Quorum required on first call		
Quorum required on second call		

Description of differences

- B.2 State whether there are any differences with the system for the adoption of corporate resolutions established under the Spanish Limited Companies Act, and describe said differences where appropriate.**

Yes No

Describe any differences with the Spanish Limited Companies Act.

	Different qualified majority from Art. 201.2 for the cases mentioned in Art. 194.1 of the Limited Companies Act	Other cases requiring qualified majorities
% established by the entity for the adoption of resolutions		
Description of differences		

- B.3 State the rules applicable to amendment of the company's bylaws. In particular, you should report the majorities required and, where appropriate, the rules established for the protection of shareholders' rights in the event of amendment of the bylaws.**

In accordance with Article 28.1 of the bylaws, a separate vote must be held for the amendment of each article or group of articles of the bylaws, even where such amendments are included in the same point on the agenda for the meeting.

Article 30 of the Regulations for the General Shareholders Meeting requires an absolute majority of the votes cast to amend the Bylaws where the shares present or represented by proxy exceed 50% of total share capital, or two thirds of shares present or represented by proxy when the shareholders present or represented by proxy at second call hold 25% or more of total subscribed capital with voting rights but less than 50%.

- B.4 Provide figures for attendance at the general meetings held during the year referred to in this report and in the prior year.**

Date of general meeting	Attendance figures				Total
	% physical attendance	% attendance by proxy	% remote votes cast		
			Electronic votes	Other	
18/04/2018	0.649%	73.036%	0	0	73.686%

- B.5 State whether there were any motions proposed in the agenda for the general meetings held during the year that were not approved by the shareholders for any reason.**

Yes No

Motions not approved	% votes against (*)

(*) Where any motion was not approved for reasons other than a majority of votes against, the explanation should be included in the text field, and the remark "n/a" should be entered in the column headed "% votes against".

- B.6 State whether there are any statutory restrictions establishing a minimum number of shares needed to attend general meetings, or to vote remotely.**

Yes No

Number of shares needed to attend general meetings	
Number of shares needed for remote voting	

Remarks

- B.7 State whether the bylaws require that decisions regarding the acquisition, disposal or assignment to any other company of core assets, or any other similar corporate transactions, must be submitted for approval by the shareholders at their general meeting, other than in the cases established by Law.**

Yes No

Decisions that must be submitted for approval by the General Shareholders Meeting, other than as required by Law

- B.8 State the internet address and means of access to the company webpage containing corporate governance and other information concerning general meetings which must be made available to the shareholders online via the corporate website.**

The address where the corporate governance information is posted online is
<https://www.neinorhomes.com/accionistas-inversores>

C. CORPORATE MANAGEMENT STRUCTURE

C.1 Board of directors

C.1.1 Maximum and minimum number of directors allowed under the bylaws and number of directors established by the General Shareholders Meeting.

Maximum number of directors	15
Minimum number of directors	5
Number of directors established by the general meeting	9

Remarks

C.1.2 Complete the following table with information about the board members.

Director's name	Representative	Category of director	Office	Date of first appointment	Date of last appointment	Selection procedure	Date of birth
Ricardo Martí Fluxá		Independent	Chairman	08/03/2017		Appointed by sole shareholder	08/09/1950
Anna M. Birulés Bertrán		Independent	Director	08/03/2017		Appointed by sole shareholder	28/06/1954
Alfonso Rodés Vilà		Independent	Director	08/03/2017		Appointed by sole shareholder	09/08/1961
Jorge Pepa		Proprietary	Director	18/04/2018		Appointed by the General Meeting	29/10/1980
Francis Btsh		Proprietary	Director	18/04/2018		Appointed by General Meeting	12/09/1985
Juan José Pepa		Other External	Director	14/05/2015		Appointed by sole shareholder	18/02/1978
Felipe Morenés Botín Sanz-de Sautuola		Other External	Director	14/05/2015		Appointed by sole shareholder	13/02/1986
Juan Velayos Lluís		Executive	Chief Executive	14/05/2015		Appointed by sole shareholder	14/12/1973

Total number of directors	8
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List any members who may have resigned, been removed from or otherwise left the board of directors during the reporting period.

Director's name	Category of director upon leaving office	Date of last appointment	Leaving date	Membership of any specialist committees	State whether the director served the full term of office
Alberto Prieto Ruiz	Independent	21/02/2018	20/11/2018	Land Investment Committee	Yes

Reasons for leaving the board and remarks
Mr Prieto left office on his own initiative on 20 November of this year, when he resigned because he had taken on new professional responsibilities which meant that he would not be able to dedicate the necessary time to properly discharge his functions.

C.1.3 Complete the following tables with information about the members of the board and the different categories of director.

EXECUTIVE DIRECTORS

Director's name	Office held in the company's organization chart	Profile
Juan Velayos Lluís	Chief Executive	<p>Juan began his career with the law firm Uría Menéndez, where he was appointed to the position of partner in the M&A, Capital Markets and Real Estate practices at the age of 31. Between June 2007 and the end of 2011, Juan was the Chief Executive of Mixta África, in which position he led the entry of financial partners and Renta Corporación, as well as heading the restructuring process (€800 million in debt) and managing assets worth some €1 billion. At the age of 38 he joined PwC, where he founded the firm's Real Estate practice, advising Spanish and foreign funds in numerous corporate transactions. Juan joined Neinor Homes as Chief Executive in December 2014.</p> <p>Juan holds a Degree in Law awarded by Universidad Abat Oliba in Barcelona and an MBA from IESE Business School.</p>

Total number of executive directors	1
% of total board	12.5%

Remarks

EXTERNAL PROPRIETARY DIRECTORS

Director's name	Name of the significant shareholder represented or who proposed the director's appointment	Profile
Jorge Pepa	Adar Macro Fund Ltd.	<p>Jorge is currently a Director of 1810 Capital Investments, S.L., a company engaging in real estate investment. He has over 15 years' experience in investment banking. Until recently he worked as Executive Director of UBS in New York with responsibility for the Latin American private finance division. He had previously been a vice-president of Credit Suisse in New York, where he was responsible for the accounts of Latin American</p>

		clients. Jorge had previously worked in the emerging markets division of Deutsche Bank in New York. Jorge holds a degree in Business Administration awarded by Universidad de San Andrés in Buenos Aires. He is the brother of Juan José Pepa, another of the company's (external) directors.
Francis Btesh	Adar Macro Fund Ltd.	<p>Jorge is currently a Director of 1810 Francis Investments, S.L., a company engaging in real estate investment. He has more than 10 years' experience in investment banking and the real estate sector in Argentina and Spain. Until recently he was employed as Chief Operating Officer of a financial services firm. In this position, he was involved in the incorporation and start-up of a fixed income brokerage business specializing in Latin American markets, where he was in charge of advising on, structuring and executing each transaction.</p> <p>Francis had previously worked as Principal Associate for Columbus Merchant Banking, advising on mergers and acquisitions, capital markets, syndicated debt, restructuring processes and project finance. Francis holds a degree in Business Administration awarded by Universidad de San Andrés in Buenos Aires.</p>

Total number of proprietary directors	2
% of total board	25%

Remarks

INDEPENDENT EXTERNAL DIRECTORS

Director's name	Profile
Ricardo Martí Fluxá	<p>Mr Martí Fluxá is Chairman of the Spanish Association of Real Estate Consultants (ACI), and a Director of Liteyca and of Bodesa, S.A.U.</p> <p>He was Secretary of State for Security between 1996 and 2000. As a member of the Spanish Diplomatic Corps, he held various posts abroad, finally becoming Head of Protocol and Activities for His Majesty the King of Spain. In his private sector career, he has held office as Chairman of Industria de Turbo Propulsores, S. A. (ITP) and of Inversiones Marco Polo Investments, director of the Tomás Pascual Group, member of the Advisory Board of the investment bank Arcano Capital, director of Ibersecurities, technology director of IKUSI, and as a member of the Executive Committee and chair of the Remuneration Committee of Caja de Ahorros y Monte de Piedad de Navarra.</p> <p>He is currently the chairman of the Board of Trustees of Museo Nacional Centro de Arte Reina Sofía, secretary of Fundación Pro Real Academia de la Lengua, a member of the board of trustees of Fundación Amigos del Museo del Prado, chairman of the Tomás Pascual Institute for Nutrition and Health, and Chairman of Fundación</p>

	Ankaria.
Anna M. Birulés Bertran	<p>Ms Birulés is an independent director, coordinating director, chair of the Audit and Regulatory Compliance Committee and member of the Executive and Investment Committees of Grupo Pelayo, Mutua de Seguros y Reaseguros a Prima Fija. She is also an independent director, chair of the Audit and Risk Committee and member of the Remuneration and Appointments Committee of Banco Mediolanum, and an independent director of IDOM, Consulting, Engineering, Architecture, S.A.U. She is a member of various advisory boards.</p> <p>She has held office as Spain's Minister of Science and Technology, and as Secretary to the Board of Directors of Banco Sabadell. A PhD in Economics, she began her professional career in the Catalan Regional Department of Industry and Energy, and she was eventually appointed Director General of the Centre for Business Information and Development (CIDEM) and Chair of the Consortium for Catalan Trade Promotion (COPCA). She was Chief Executive of Retevisión (now owned by the Abertis and Vodafone groups), where she directed the expansion of telecommunications operators via their subsidiaries.</p> <p>She is a member of the Círculo de Empresarios and the Barcelona Círculo de Economía. She is closely associated with leading business schools, including IESE, where she is chair of Finaves, the international centre set up to foster seed capital initiatives, and ESADE, where she is a member of the Professional Advisory Board.</p>
Alfonso Rodés Vilà	<p>Mr Rodés is Chairman of Havas Group Media, Chairman of Havas Group Spain and Deputy Chief Executive of Havas, S.A., an advertising multinational with a capitalization of more than €4 billion which forms part of the Vivendi group.</p> <p>Previously, Mr Rodés had held the position of Chief Executive Officer at Media Planning Group, S.A. ("MPG"). MPG, a company controlled by the Rodés family, merged with Havas in 2001. Mr Rodés joined MPG in 1996 as Corporate Development Officer after a spell in private banking. Mr Rodés has been Chief Executive of Havas, S.A. since 19 June 2012.</p> <p>He also sits on the boards of certain investment vehicles controlled by the Rodés family.</p>

Total number of independent directors	3
% of total board	37.5%

Remarks

State whether any director categorized as an independent receives any moneys or benefits from the company or its group in respect of any item other than director's remuneration, or maintains, or in the last year maintained, any business relationship with the company or with any company forming part of its group, either on their own behalf or as a significant shareholder, director or senior executive of an entity maintaining, or which may in the past have maintained, any such relationship.

Where appropriate, include a reasoned statement from the board stating the reasons why it considers that the director concerned can nevertheless discharge his/her functions as an independent director.

Director's name	Description of the relationship	Reasoned statement

OTHER EXTERNAL DIRECTORS

Identify any other external directors and state the reasons why they should not be considered either proprietary or independent directors, as well as their links with the company, its management or its shareholders.

There were two members of the board of directors categorized as "other external directors" during the year concerned in this report. In the prior year, these directors held office as proprietary directors appointed by the former sole shareholder Neinor Holdings, S.L. (Lone Star). Given the reduction in said shareholder's stake in the company and the resignation of the two directors concerned from their positions in said shareholder, however, the Board of Directors was concerned to ensure the continuity of both as persons of value given the expertise they brought to the company and the fact that they had been involved with it since its inception. In this light, the appointments and Remunerations Committee resolved to keep them in office and reclassified them as other external directors at its meeting of 22 January 2018.

Director's name	Reasons	Company, executive or shareholder with whom the director is related	Profile
Felipe Morenés Botín Sanz-de Sautuola	Proprietary director of the former shareholder		<p>Felipe Morenés Botín-Sanz de Sautuola is a founding partner of Stoneshield Capital. He was previously a Director of Lone Star, where he was involved in the fund's investment operations in Europe. In 2013 he was put in charge of analysis structuring and supervising a number of investments in both debt and equity. Before joining Lone Star, he worked for five years as an Associate Director in UBS Investment Banking and in the UBS Credit Restructuring Desk in London. While working for UBS, he advised on M&A transactions, capital raising and structured finance for banks and hedge funds.</p> <p>Mr Morenés holds a degree in Political Science and Economics from Georgetown University.</p>
Juan José Pepa	Proprietary director of the former shareholder		<p>Juan José Pepa is a founding partner of Stoneshield Capital. Before then, he was Chief Executive and the top manager of Lone Star in Spain and Portugal. Beginning in 2008, he has taken part in investment activities and the management of various Lone Star equity and debt transactions involving commercial real estate assets in Europe worth</p>

			<p>more than €10 billion in total in jurisdictions including Germany, the United Kingdom, the Netherlands, France, Belgium, Switzerland and, recently, in Spain and Portugal, including assets of varying kinds such as offices, retail premises, hotels, clinics, residential properties and logistics facilities.</p> <p>Before joining Lone Star, Mr Pepa was a member of the Citigroup special situations real estate team. He holds a degree in Business Management and an MBA awarded by Babson College.</p>
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Total other external directors	2
% of total board	25%

Remarks

Indicate any changes arising in the category of each director over the period, where applicable.

Director's name	Date of change	Previous category	Current category
Felipe Morenés Botín Sanz-de Sautuola	22/01/2018	Proprietary	Other external
Juan José Pepa	22/01/2018	Proprietary	Other external

Remarks

C.1.4 Complete the following table with information about the number of female directors at the close of each of the last four years, and the category of the directors concerned.

	Number of female directors				% of total directors in each category			
	2018	2017	2016	2015	2018	2017	2016	2015
Executive	0	0	-	-	0%	0%	-	-
Proprietary	0	0	-	-	0%	0%	-	-
Independent	1	1	-	-	33%	25%	-	-
Other external	0	0	-	-	0%	0%	-	-
Total	1	1	-	-	12,5%	14,29%	-	-

Remarks

- C.1.5 State whether the company has diversity policies for the board of directors in relation to issues such as age, gender, disability, and professional qualifications and expertise. In accordance with the definition established in the Spanish Audit Act, small and medium-sized enterprises should report at least on the policy established in relation to gender diversity.**

Yes No

If yes, describe the diversity policies, their objectives, the measures implemented and the manner in which they were applied, and the results obtained in the year. You should also indicate the specific measures adopted by the board of directors and the appointments and Remunerations Committee to ensure a balanced and diverse make-up of directors.

If the company does not apply a diversity policy, explain the reasons why not.

Description of measures
<p>The company approved a policy for the selection of directors in 2017 which requires it to foster diversity in terms of gender, experience and expertise among the directors and to ensure that no implicit bias exists such as might result in any kind of discrimination, especially where this might hinder the selection of female directors.</p> <p>In this regard, Neinor Homes' objective is to ensure that female directors make up at least 30% of the total board members by 2020.</p> <p>This policy has been published online at https://www.neinorhomes.com/accionistas-inversores/Gobierno/Corporativo/Códigos_y_políticas</p>

- C.1.6 Explain any measures adopted by the appointments committee, where applicable, to ensure that selection procedures are free of any bias which might hinder the selection of female directors, and that the company deliberately seeks and includes women meeting the professional profile sought among potential candidates so as to ensure that it achieves a balanced make-up between women and men.**

Description of measures
<p>The company approved a policy for the selection of directors in 2017 which requires it to foster diversity in terms of gender, experience and expertise among the directors and ensure that no implicit bias exists such as might result in any kind of discrimination, especially where this might hinder the selection of female directors.</p> <p>In this regard, Neinor Homes' objective is to ensure that female directors make up at least 30% of the total board members by 2020.</p> <p>The appointments and remunerations committee will review compliance with this policy each year and will take the necessary measures to ensure effective compliance with the matters addressed in this section and with the rest of the director selection policy.</p> <p>This policy is published online at https://www.neinorhomes.com/accionistas-inversores/Gobierno/Corporativo/Códigos_y_políticas</p>

Where there are few or no female directors despite the measures adopted, where applicable, explain the reasons for this circumstance:

Explanation

The time horizon of the measures described is 2020.

C.1.7 Explain the appointments committee's findings on its verification of compliance with policy for the selection of directors. In particular, describe how the policy contributes to the goal of achieving a number of female directors representing at least 30% of the total board members by 2020.

The appointments and Remunerations Committee has not reached any conclusions with regard to compliance with the selection policy, insofar as:

- (i) The two appointments arising in 2018 were made at the proposal of a company's relevant shareholder; and
- (ii) No appointment was made to fill the vacancy left by the resignation of Mr Alberto Prieto.

Following Mr Alberto Prieto's resignation as an independent director, the Appointments and Remunerations Committee has retained the professional services of a specialist executive search firm to assist in the process of finding a replacement. This firm's instructions require that the search profile should fit the director selection policy in all respects.

C.1.8 Where appropriate, explain the reasons why any proprietary directors were appointed at the proposal of shareholders owning less than 3% of capital.

Not applicable

Shareholder's name	Reason for appointment

State whether the company has refused any formal requests for seats on the board made by shareholders holding interests in share capital equal to or greater than the holdings of other shareholders at whose request proprietary directors were appointed. Where appropriate, explain the reasons why these requests were turned down.

Yes

No

Shareholder's name	Explanation

C.1.9 Indicate any powers and authorizations, if any, delegated by the board to directors or any of the board committees.

Director's name	Brief description

Juan Velayos Lluís	All powers of the board have been delegated to the Chief Executive Officer, except those which may not be delegated in accordance with the law or the bylaws (in particular, authorization to purchase land).
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C.1.10 Where appropriate, list any board members who also hold office as directors or executive positions in other companies forming part of the listed company's group.

Director's name	Group entity's name	Office	Executive functions?
Juan Velayos Lluís	Neinor Norte, S.L.U. Neinor Península, S.L.U. Neinor Sur, S.A.U.	Sole Director	Yes
Juan Velayos Lluís	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.	Joint director	Yes

Remarks

C.1.11 Where appropriate, list any directors or representatives of corporate directors of your company, who have notified the same that they hold seats on the boards of any other listed companies unrelated with your group as directors or representatives of corporate directors.

Not applicable

Director's name	Listed company's name	Office

Remarks

C.1.12 State whether the company has established any rules with regard to the maximum number of company boards on which its Directors may hold seats, and where appropriate explain such rules, indicating where such they are established.

Yes

No

Explanation of rules and identification of the document establishing the same
In accordance with the Board's Regulations, the directors may not hold seats on more than four boards of other listed companies (aside from the company itself).

C.1.13 State the total amounts paid out in respect of the following directors' remuneration items:

Remuneration accruing to the Board of Directors during the year (thousands of euros)	4,407
Cumulative pension rights accruing to current directors (thousands of euros)	N/A
Cumulative pension rights accruing to former directors (thousands of euros)	N/A
Remarks	

C.1.14 Identify any senior managers who are not also executive directors, and state the total remuneration earned by the same during year.

Name of the individual or entity	Position
Jordi Argemí García	Chief Financial Officer
Mikel Etxebarria Dobarán	Chief Corporate Officer
Gabriel Sánchez Cassinello	Chief Business Officer
Mario Lapiedra Vivanco	Chief Real Estate Officer
Julio Egusquiza González-Gil	Chief Services Officer
Juan Gómez Vega	Chief Investor Relations Officer
Borja García-Egotxeaga	Chief Operating Officer
Álvaro Conde Herranz	Internal Audit Manager

Total senior management remuneration (thousands of euros)	1,941
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Remarks

C.1.15 State whether there have been any changes in the board's regulation during the year.

Yes No

Description of changes

C.1.16 Explain the procedures in place for the selection, appointment, resell action and removal of directors. Indicate the competent bodies, the procedural steps involved and the criteria applicable to each procedure.

Selection

The company has approved a Directors Selection Policy, which sets out the selection procedure. In accordance with this policy, the selection process shall be based on a prior analysis of the Company's needs by the Board of Directors assisted by the Appointments and Remunerations Committee. The Appointments and Remunerations Committee shall define the candidates' functions and skills, and shall assess the time and dedication required for each vacancy, so as to ensure that the eventual appointee is able appropriately to discharge his/her responsibilities.

The Company may seek external advice in order to complete its needs analysis and/or its annual assessment of compliance with the selection policy.

With regard to the criteria for the selection or reelection of directors, candidates shall meet the conditions established in point 4.2 of the policy (i.e. they must be reputable persons of acknowledged ability and professional solvency, with the appropriate experience, qualifications, training, availability and commitment to discharge the office concerned, and they must be unaffected by any of the incompatibilities enumerated in this section).

The Company shall foster diversity in terms of gender, experience and expertise among the directors and shall ensure that no implicit bias exists such as might result in any kind of discrimination, especially where this might hinder the selection of female directors.

Appointment and reelection

The directors are appointed by the General Shareholders Meeting or may be co-opted by the Board of Directors, subject to a report from the Appointments and Remunerations Committee, or in the case of independent directors at the proposal of said committee.

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

Directors co-opted onto the Board shall hold office until the next General Shareholders Meeting held after their appointment, and they shall resign their office in the event that said appointment is not ratified at the General Shareholders Meeting.

Before proposing the reelection of directors to the General Shareholders Meeting, the board shall assess the quality of the work carried out and the dedication to their office shown by the directors proposed during their previous term in office, who shall absent themselves from said assessment.

Assessment

With regard to assessment, Article 18 of the Regulation of the Board of Directors requires the Board annually to assess (i) its functioning and the quality of work; (ii) the discharge by the Chairman and the Chief Executive Officer of their functions as such, based on the report issued by the Appointments and Remunerations Committee; (iii) the diversity of the Board's members and the skills of the directors; and (iv) the functioning of the Board Committees based on the reports issued by the same. For these purposes, the Chairman of the Board of Directors shall organize and coordinate the assessment process with the Chairs of the Board Committees.

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

Based on the results of the annual assessment, the Board of Directors may propose an action plan to correct any weaknesses observed in relation to the quality and efficiency of the Board's functioning, the functioning and membership of committees, diversity, the work of the Chairman and of the Chief Executive, and the work and contributions made by each director.

Removal

The directors shall cease to hold office when the term for which they were appointed ends, or where so decided by the General Shareholders Meeting.

Directors shall tender their resignation to the Board in the cases mentioned in Article 21.2 of the Board's Regulation (see section C.1.21 below).

The Board of Directors may only propose the removal of an independent director before the end of his/her statutory term of office upon sufficient grounds, established by the Board of Directors subject to a report by the Appointments and Remunerations Committee. The removal of independent directors may also be proposed as a consequence of a public takeover bid or of mergers and other similar corporate operations that would result in changes in the company's capital structure, provided such changes arise in line with corporate good governance recommendations applicable to the Company from time to time.

C.1.17 Explain the extent to which annual Board assessments have resulted in significant changes in its internal organization and in the procedures applicable to its activity.

Description of changes
In accordance with Article 529(ix) of the Spanish Limited Companies Act and Recommendation 36 of the Code of Good Governance, as well as CNMV Technical Guideline 3/2017 on Audit Committees, the Company carried out an autonomous internal assessment of the functioning of the Board and its respective Committees in the second quarter of 2018, following best market practice.

The assessment carried out was linked to an action plan establishing improvement measures. This assessment of the Board did not result in any significant changes to its internal organization, insofar as it found the functioning of the Board and of its respective Committees to be highly positive and in line with best corporate governance practice in listed public companies. A summary of key improvement measures contained in the action plan is as follows:

- Periodic presentations to the Board to explain specific CSR measures implemented and the progress of the CSR Master Plan
- Increase in the number of Board meetings
- Intensification of formal classroom training for directors
- Preparation of policies, including a Corporate Governance Policy and a Succession Plan
- Organization of an Investor Day

Describe the assessment process and the areas evaluated by the Board of Directors with the assistance, where applicable, of an external consultant, with respect to the functioning and membership of the board and its committees, and any other area or issue subject to assessment.

The assessment process was carried out internally, allowing:

- **Greater access to confidential internal information**
- **A more in-depth review**, given that the scope of external assessments is limited with respect to Neinor Homes' objectives
- **Flexibility**, allowing adaptation to the directors' schedules

The assessment process was carried out following a three-pronged approach to the work in order to maximize visibility and objectivity. The three avenues of approach were:

1. **Assessment:** Review of documentation and functioning by the internal audit department, as well as measurement of the levels of dedication, commitment, involvement and expertise exhibited by the directors, and analysis of their performance in the discharge of their responsibilities.
2. **Self-assessment:** Self-assessment and review by the directors themselves of their effectiveness in the discharge of their duties and functioning. This process was conducted by means of questionnaires and personal interviews, respecting the anonymity of the responses received. The process ended with a workshop using the data obtained.
3. **Benchmarking:** Comparative analysis of Neinor Homes' Corporate Governance practices with respect to the activity in this area of comparable companies both in and outside the industry in light of applicable domestic / international standards and best practices.

The scope of the review procedures carried out comprised the following:

1. **Membership:** Number of members making up the Board and its Committees. Number of directors by category (executive, proprietary, independent and other external directors). Number of years for which each director has held office.
2. **Diversity:** Number of women holding seats on the Board and on its Committees. Number of foreign members of the Board and its Committees.
3. **Experience and expertise:** Assessment of the directors' experience in the industry according to their CVs. Corporate Governance experience of each director based on membership of other boards aside from Neinor Homes'. Verification of the training received by the Board and its Committees.
4. **Directors' succession:** Verification of the existence of a succession plan for the CEO and other directors.
5. **Functioning:** Examination of the schedule for meetings and of the meetings actually held. Verification of the prior notice given in calls for meetings, and of the agendas for the same. Review of minutes to verify the consideration of mandatory issues (pursuant to the Spanish Limited Companies Act, the Securities Market Act, etc.) at board meetings. Duration of the meetings held by the Board and its Committees.
6. **Quality of information:** Verification of the adequacy and quality of the information supplied to directors for decision-making purposes.
7. **Directors' dedication / involvement:** Number of absences from meetings of the Board and its Committees. Analysis of issues raised by the directors with regard to the information received before meetings. Analysis of issues raised by the directors in the course of meetings based on the information presented. Verification of additional requests made by the directors for occasional working papers / studies to be prepared by

- the Company.
8. Senior management and/or external advisers: Assessment of participation at meetings of the Board and its Committees by senior managers and/or external auditors without the presence of the CEO.
 9. Compliance with best practices: Appraisal of the *tone at the top* in the functioning of the Board and its Committees in matters involving ethics, compliance, transparency, etc. Analysis of the Board's and Committees' awareness of and interest in compliance with the recommendations enshrined in the CNMV Unified Code of Good Governance (CUBG in the Spanish acronym). Review of the level of compliance with and effective implementation of the recommendations of the CUBG.
 10. Directors' remuneration: Verification of the use of comparative market analyses of director remuneration prepared by external experts.

C.1.18 For those years in which evaluations were assisted by an external consultant, describe the business relations maintained by the consultant or any entity forming part of its group with the company or any group company.

Not applicable, because the Company carried out its first annual assessment of the Board internally.

C.1.19 Describe the circumstances in which directors are obliged to resign.

Directors must tender their resignations to the Board of Directors in the following circumstances:

- when they cease to hold the executive posts associated with their appointment to directorships;
- where they are affected by any case of incompatibility or disbarment established by law or in the bylaws.
- when they are admonished by the Board of Directors for infringing any of the obligations incumbent upon the directors;
- when their continuance as members of the Board could jeopardize or harm the interest, credit or reputation of the Company, or where the reasons for their appointment are removed, including, without limitation, as a result of significant changes in their professional situation or in the conditions under which they were appointed to their directorship;
- when they are prosecuted for any offence or are the subject of disciplinary proceedings instigated by the supervisory authorities in relation to any serious or very serious offence;
- in the case of proprietary directors, (i) when the shareholder represented sells its entire shareholding or materially reduces said the same, or (ii) by the requisite number, when the shareholder represented reduces its shareholding to a level requiring a reduction in the number of proprietary directors;
- when a director is a member of more than four Boards of listed companies (aside from the Company);
- when alleged wrongdoing by a director means that his/her continuance could be seriously detrimental to equity or corporate the reputation in the Board's opinion.

C.1.20 Are qualified majorities other than those established by law required for any decisions?

Yes No

Describe the differences, where applicable.

Description of differences
.

C.1.21 State whether any specific conditions exist for appointment as chairman the board other than those applicable to directors.

Yes No

Description of conditions

C.1.22 State whether the bylaws or the Board's Regulations establish any age limits for directors.

- Yes No
 Age limit for chairman
 Age limit for CEO Age limit for directors

Remarks

C.1.23 State whether the bylaws or the Board's Regulations establish any limits on mandates or other stricter requirements in addition to the conditions established by law or applicable regulations for independent directors.

- Yes No

Additional requirements and/or maximum term of mandates in years	
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C.1.24 State whether the bylaws or the Board's Regulations establish any specific rules for proxy votes by other directors at board meetings, the procedure for the issue of proxies and, in particular, the maximum number of proxies a director may hold. Likewise, state whether any restrictions exist with regard to the categories of director to whom proxies may be issued above and beyond the restrictions established by law. Where appropriate, provide a brief description of the rules.

Neither the bylaws nor the Board's Regulations establish any specific rules for proxy votes at Board meetings, and there are no restrictions with regard to the categories of directors to whom proxies may be granted above and beyond the restrictions established by law.

C.1.25 State the number of meetings held by the board of directors during the year. Where appropriate, indicate the number of board meetings that were not attended by the chairman. In this computation, the chairman should be treated as attending where represented by proxy with specific instructions.

Number of board meetings	5
Number of board meetings not attended by the chairman	0

Remarks

State the number of meetings held by the coordinating director with the other directors but not attended by the CEO either in person or by proxy.

Not applicable, because the chairman is not the CEO.

Number of meetings	-
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State the number of meetings held by the different board committees during the year.

Number of meetings of the executive or steering committee	- *
Number of meetings of the audit committee	4
Number of meetings of the appointments and Remunerations Committee	6
Number of meetings of the appointments committee	- *
Number of meetings of the remuneration committee	- *
Number of meetings of the Land Investment Committee (LIC)	4

* Not applicable, because of this committee does not exist.

Remarks

C.1.26 State the number of meetings held by the board of directors during the year and the attendance data for the board members.

Number of meetings attended in person by at least 80% of directors	4
% attendance in person / total votes cast during the year	100%
Number of meetings attended by all directors either in person or by proxies issued with specific instructions	4
% of votes cast by directors in person or by proxies issued with specific instructions / total votes cast during the year	-

Remarks
According to section C.1.25, five board meetings were held, but this section provides details of only four. The difference is that the Board voted by letter without a meeting in one case.

C.1.27 State whether the individual and consolidated annual accounts presented to the board for approval are previously certified.

Yes

No

Where appropriate, identify the person(s) who certified the individual and consolidated annual accounts of the company for preparation by the board.

Name	Office

Remarks

C.1.28 Explain the mechanisms, if any, established by the Board of Directors to ensure that the auditors' reports on the individual and consolidated annual

accounts prepared presented to the annual general meeting are unqualified.

In accordance with Article 39.3 of the Board's Regulations, the Board of Directors shall endeavour to prepare the final annual accounts in such manner as to ensure that there is no need for the auditor to include any emphasis of matter or qualifications in the opinion issued. In the exceptional cases where emphasis of matter paragraphs or qualifications may exist, both the Chair of the Audit and Control Committee and the external auditors shall provide the shareholders with clear explanations as to the contents of the same. Where the Board considers that it must maintain its stance, it shall publicly explain the meaning and extent of the difference of opinion.

Article 9.1(d) of the Audit and Control Committee Regulation expressly requires the Committee to ensure that the Board of Directors is able to present the financial statements to the Annual General Meeting without scope limitations or qualifications and, in the exceptional cases where such may exist, the Chair of the Audit and Control Committee and the external auditors shall clearly explain to the shareholders of the meaning and extent of such scope limitations and qualifications.

In accordance with Article 9.6(e) of the Audit and Control Committee Regulation, the Committee shall meet periodically with the external auditor (once in the planning phase before audit procedures begin and once after the audit in the drafting phase for reports). At least one such meeting each year shall be held without the presence of any members of the Company's management team in order to debate audit tasks and any issues arising from the audit procedures carried out.

C.1.29 Is the secretary to the board a director?

Yes No

Complete the following table if the secretary is not a director.

Secretary's name	Representative
Silvia López Jiménez	

Remarks

C.1.30 Describe the specific mechanisms established by the company to protect the independence of external auditors, as well as the mechanisms, if any, to protect the independence of financial analysts, investment banks and rating agencies, including a brief explanation of how the pertinent legal provisions were implemented in practice.

The company has established selection, approval and evaluation procedures for all relevant providers to support and ensure transparency in tender processes.

With regard to the services concerned in this section, the company retains the services of external auditors applying the procedures mentioned in the preceding paragraph on the same basis as for other service providers.

In order to safeguard the independence of the company's external auditors, the Audit and Control Committee has also established the following policies and procedures:

- Employment policy for former auditors
- Policy for the provision of non-audit services by the external auditor
- Annual internal audit report on the independence of the external auditor
- Annual Independence Letter/Report issued by the external auditor

C.1.31 State whether the company changed its external auditor during the year. If so, identify the incoming and outgoing auditors.

Yes No

Outgoing auditor	Incoming auditor

Remarks

State whether there were any disagreements with the outgoing auditor and explain their content.

Yes No

Explanation of disagreements

C.1.32 State whether the audit firm carries out any other non-audit work for the company and/or its group, and if so state the fees paid for such work in absolute terms and as a percentage of the total fees billed by the auditor to the company and/or its group.

Yes No

	Company	Group companies	Total
Cost of other non-audit work (thousands of euros)	Neinor Homes S.A.		63
Cost of non-audit work / total fees billed by the audit firm (%)			33%

€45M of the fees billed by the auditor for other non-audit work corresponds to verification activities regarding SCIF information, the money laundering prevention audit and the verification report on the sustainability report, and €18 million for tax advisory services provided to the company.

C.1.33 State whether the auditor's report on the annual accounts for the prior year contained any emphasis of matter paragraphs or qualifications. Where applicable, state the reasons offered by the chairman of the audit committee to the shareholders at the annual general meeting to explain the contents and scope of such emphasis of my paragraphs and/or qualifications.

Yes No

Explanation

C.1.34 State the number of consecutive years for which the current audit firm has examined the individual and/or consolidated annual accounts of the company. Also, state the number of years examined by the current auditor as a percentage of the total number of years in which the annual accounts have been audited.

	Individual	Consolidated
Number of consecutive years	5	5
Number of years examined by the current audit firm / Number of years in which the company has been audited (%)	100%	100%
Remarks		

C.1.35 State whether there is any procedure to ensure that the directors are provided sufficiently in advance with the necessary information to prepare meetings of the governing body, and where applicable explain such procedure.

Yes No

Description of procedure
<p>In accordance with Article 16 of the Board's Regulations, calls for meetings of the Board of Directors must be issued at least 72 hours prior to the date of the meeting, accompanied by all relevant information duly prepared and summarized. In practice, both calls and the documentation for meetings are sent 6-7 days in advance using a restricted tool to which only the directors have access, in order to guarantee information security.</p> <p>The agenda for board meetings shall indicate clearly the points on which the board of directors is required to adopt a decision or resolution, so that the directors can examine or obtain the necessary information in advance.</p> <p>Moreover, Article 23 of the Regulation permits the directors to request information on any matter falling within the purview of the Board of Directors and to examine the books, ledgers, documents and other documentation.</p> <p>Requests for information must be addressed to the Secretary of the Board of Directors, who will submit them to the Chairman of the Board and to the appropriate interlocutor in the Company.</p> <p>The Secretary shall advise the director concerned of the confidential nature of the information requested and received, and of his/her duty of confidentiality pursuant to the Regulation.</p> <p>The Chairman may refuse to provide the information where he considers (i) that it is not needed for the proper discharge of the functions incumbent upon the director, or (ii) that the cost is not reasonable in view of the importance of the problem and the Company's assets and revenues.</p>

C.1.36 State whether the company has established any rules obliging directors to report circumstances that could harm the credit and reputation of the company and to resign where appropriate. Explain such rules, if any.

Yes No

Explanation of rules
<p>In accordance with Article 21.2(iv) of the Board's Regulations, the directors are required to tender their resignation to the Board of Directors where their continuance could jeopardize the interest, credit or reputation of the Company. The Board shall accept such resignation where deemed appropriate.</p> <p>In such cases, the director concerned shall explain the circumstances in a letter sent to all of the Board members, and his/her removal shall also be duly explained in the Annual Corporate Governance Report.</p>

C.1.37 State whether any member of the Board of Directors has informed the company of prosecution or the initiation of trial proceedings against him/her on any of the charges mentioned in Article 213 of the Spanish Limited Companies Act.

Yes No

Director's name	Criminal charge	Remarks

State whether the Board of Directors has examined the case. If yes, provide a reasoned explanation of the decision adopted as to the continuation or otherwise of the director in office, and explain the actions taken by the Board of Directors to date, if any, and those which it plans to take.

Yes No

Decision adopted / action taken	Reasoned explanation

C.1.38 List any agreements entered into by the company, which will come into force, be amended or be terminated in the event of a change in control of the company resulting from a public takeover debate and its effects.

The majority of the loan agreements made by the company with banks require the lender's prior consent for any change in control of the company.

C.1.39 Indicate any agreements between the company and its directors, managers and employees, which provide for compensation, guarantees or golden parachutes in the event of resignation or unfair dismissal, or where contractual relations are terminated as a consequence of a public takeover bid or any other type of corporate transaction. These agreements should be identified individually in the case of directors and on aggregate in other cases.

No agreements between the company and its directors, managers and employees contain guarantee or golden parachute clauses. The severance payable in the event of unfair dismissal is as provided in prevailing legislation.

In those cases where these agreements may need to be reviewed in the future, a procedure not currently envisaged by the company, such review will be carried out by the Appointments and Remunerations Committee and approved by the Board of Directors.

Executive directors are entitled to severance in the event of termination of the employment relationship through no fault of their own. This severance must be expressly included in the contact made between the executive director and the Company. In any event, the Company will endeavour to ensure that the severance agreed for cases of termination does not reward poor results.

The service agreement made by the CEO with the company does not include any clauses providing for severance payments in the event of termination.

Number of beneficiaries	
Type of beneficiary	Description of the agreement

State whether these agreements must be reported to and/or approved by the company's management bodies or by the group in any cases other than those established by applicable law. If so, specify the procedures, the case is concerned and the nature of the management bodies responsible for approval and for reporting.

	Board of directors	General Meeting
Body authorizing clauses	X	

	Y E S	NO
Are these clauses reported to the General Shareholders Meeting?		X

Remarks

C.2 Board of committees

C.2.1 List all board committees, their members and the proportion of executive, proprietary, independent and other external holding seats on the same.

There is no Executive or Steering Committee.

EXECUTIVE COMMITTEE

Name	Office	Category
-	-	-

% executive directors	
% proprietary directors	
% independent directors	
% other external directors	

Remarks

Explain any functions delegated or assigned to this committee other than those already mentioned in section C.1.10 ten above, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

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AUDIT COMMITTEE

Name	Office	Category
Anna M. Birulés Bertran	Chairwoman	Independent director
Ricardo Martí Fluxá	Member	Independent director

Alfonso Rodés Vilà	Member	Independent director
Jorge Pepa	Member	Proprietary director
Felipe Morenés Botín Sanz-de Sautuola	Member	Other external director

% executive directors	0%
% proprietary directors	20%
% independent directors	60%
% other external directors	20%

Explain the functions assigned to this committee including any additional functions to those provided for by law, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

Procedures and rules governing organization and functioning

Article 42 of the Company's Bylaws is as follows:

1. The Board of Directors shall create a permanent Audit and Control Committee as an internal informational and consultative body without executive duties, but vested with reporting, advisory and proposal-making powers within its remit, as established in subsection 5 of this Article. The Audit and Control Committee shall have a minimum of three and a maximum of five members, being non-executive directors appointed by the Board. The majority of the Audit and Control Committee's members shall be independent directors, and one of them shall be appointed taking into account his/her knowledge and expertise in accounting and/or audit matters.
2. The Board of Directors shall appoint the Committee's Chair from among the independent directors holding seats on the same. The Board of Directors shall likewise appoint a Deputy Chair where considered appropriate. The Deputy Chair shall be appointed under the same conditions as the Chair.
3. The office of Secretary to the Audit and Control Committee will be held by the person appointed by the Board of Directors. The secretary need not be a full member of the Audit and Control Committee, in which case it will not be necessary for the Secretary to be a member of the Board of Directors. The Secretary to the Audit and Control Committee need not be the same person as the Secretary to the Board of Directors.
4. The directors holding seats on the Audit and Control Committee shall discharge their functions while they continue in office as directors of the Company, unless otherwise agreed by the Board of Directors. The renewal, reelection and removal of the directors holding seats on the Committee shall be governed by the pertinent resolutions of the Board of Directors.

The office of Chair shall be held for a maximum term of four years, after which period the outgoing Chairman shall not be reselected until at least one year has passed since his/her termination, notwithstanding his/her continuation or reelection as a member of the Committee.

5. Notwithstanding any other tasks that may be assigned to it by the Board of Directors from time to time, the Audit and Control Committee shall have the following basic functions:
 - (i) To report to the General Shareholders Meeting on any questions raised by the shareholders within the remit of the Committee and, in particular, to report on the results of the audit, explaining how it contributed to the integrity of the financial information and the role played by the Audit and Control Committee in the audit process.
 - (ii) To supervise the effectiveness of the Company's and the group's internal controls, internal audit function and risk management systems (including the management of tax risks), and to discuss any significant weaknesses in the internal control system detected in the course of audit procedures with the auditor

- without thereby compromising its independence. For these purposes, the Committee may present its recommendations and proposals to the management body, establishing the pertinent monitoring periods.
- (iii) To supervise the process by which regulated financial information is prepared and presented, and to make recommendations and proposals to the Board of Directors to safeguard the integrity of such information.
 - (iv) To make proposals to the Board of Directors, for eventual approval by the General Shareholders Meeting, with regard to the selection, appointment, reelection or replacement of the auditors, in accordance with prevailing legislation, as well as proposals relating to the terms of engagements; to seek and obtain regular information from the auditors with regard to their audit plan and the progress thereof; and to safeguard the independence of the auditors in the discharge of their functions.
 - (v) To supervise internal audits in the Company.
 - (vi) To establish appropriate relations with the auditors in order to obtain information regarding any matters which might compromise their independence for examination by the Audit and Control Committee, as well as information concerning the audit procedures carried out and, where applicable, as required for the authorization of other non-audit services permitted under prevailing legislation, and to receive all other communications required under legislation governing the audit of financial statements and by prevailing audit standards. In any event, the Audit and Control Committee shall obtain the external auditors' annual letter of representations establishing their independence from the company and other companies directly or directly related with the same, as well as detailed, itemized information on any additional non-audit services of any kind and the fees received in respect of thereof by the external auditor or by any persons or entities related with the same, in accordance with prevailing audit legislation.
 - (vii) To issue an annual report expressing an opinion on the independence or otherwise of auditors and audit firms. Said report shall be issued before the audit opinion is received. The Audit and Control Committee's report shall in any case address the provision of the additional non-audit services referred to in the preceding paragraph, considered both individually and as a whole, and it shall likewise address the system in place to assure the independence of the auditor in accordance with prevailing audit regulations;
 - (viii) To report to the Board of Directors in advance on all relevant matters where so required by Law, the Bylaws or the Board's Regulations, in particular with regard to: (i) the financial information published periodically by the Company; (ii) the creation, or acquisition of equity investments in, special purpose vehicles or entities registered in countries or territories listed as tax havens; and (iii) related-party transactions.
 - (ix) In relation to the external auditor: (i) to ensure that fees do not compromise audit quality or the auditor's independence; (ii) to supervise the issue of a relevant event notice to the CNMV in the event of any change of auditor, and to accompany such notice with a declaration regarding the possible existence and contents of any disagreements with the outgoing auditor, where applicable; and (iii) to ensure that the Company and the external auditor respect and abide by prevailing rules governing the provision of non-audit services, limits on the concentration of the auditor's business and, in general, any other rules governing auditor independence.
 - (x) To summon any employee or executive of the company, and where appropriate to require their attendance without the presence of any other director or executive.
 - (xi) Any other functions assigned by the Board of Directors in its Regulation.
6. The Audit and Control Committee shall meet quarterly on an ordinary basis to review the periodic financial information to be reported to stock market supervisors, as well as any information requiring the approval of the Board of Directors for inclusion in the annual reports published. The Committee shall also meet at the request of any of its members and wherever convened by its Chair, who shall convene a meeting whenever the Board of Directors or the Chairman of the Board requires a report or the adoption of proposals, and in any event whenever appropriate for the proper discharge of its functions. Committee meetings shall be deemed quorate whenever attended, either in person or by proxy, by half plus one of its members. Resolutions shall be adopted by majority vote. The Chair shall not have a casting vote in the event of tie.
7. The Board of Directors may draw up and approve a Regulation implementing the foregoing.

Also, Article 14 of the Board's Regulations provides as follows:

- (i) To report on transactions which imply, or could imply, any conflict of interest.
- (ii) To report on transactions involving structural or corporate changes which the company plans to carry out, the financial terms and accounting impact of such transactions, and the exchange ratio proposed, if any.
- (iii) To oversee a whistle-blowing mechanism allowing employees confidentially to report any irregularities, especially of a financial or accounting nature, which they may observe in the company, as well as any matters that could give rise to any criminal liability on the part of the Company.

The Audit and Control Committee shall prepare an annual report on its activities, explaining the main matters arising, if any in relation to the Committee's functions. Where the Audit and Control Committee may deem it appropriate, it may include proposals to improve the Company's governance rules in said report.

The Audit and Control Committee may summon any member of the companies management team or staff to appear before it, even without the presence of any other manager. Persons so summoned shall be required to attend the meetings of the Audit and Control Committee and to offer their full cooperation and access to any information they may hold. That committee may likewise require the auditors to attend its meetings.

With a view to achieving the best possible outcomes, the Audit and Control Committee may seek the advice of external experts where deemed necessary to ensure the adequate discharge of its functions.

The Company shall establish an Internal Audit Department to supervise the proper functioning of information systems and internal controls under the oversight of the Committee. The Internal Audit Department shall report functionally to the non-executive Chairman of the Board of Directors or to the Chair of the Audit and Control Committee. The head of the Internal Audit Department shall present the department's annual working plan to the Audit and Control Committee. The Department head shall likewise report any incidents arising in the course of internal audit activities and shall submit a report to the Committee at the end of each financial year.

Relevant actions of the Committee during the year

- (i) Reelection of Deloitte as the company's external auditor
- (ii) Direct approval or submission to the Board of the following policies and procedures:
 - a. CSR policy
 - b. Procedure for bond issues
 - c. Asset valuation procedure
 - d. Risk management and internal control structure
 - e. Annual work plan for the Audit and Control Committee
 - f. Compliance Unit Regulation
 - g. Schedule of compliance unit activities

Identify the directors appointed to seats on the audit committee in view of their knowledge and expertise in accounting and audit matters, and state the date of the Committee Chair's appointment to office.

Name of directors with relevant expertise	Anna M. Birulés Bertran
Date of appointment as Committee Chair	08/03/2017

APPOINTMENTS AND REMUNERATIONS COMMITTEE

Name	Office	Category
Ricardo Martí Fluxá	Chairman	Independent director

Juan José Pepa	Member	Other external director
Alfonso Rodés Vilà	Member	Independent director
Anna M. Birulés Bertran	Member	Independent director
Francis Btsh	Member	Proprietary director

% executive directors	0%
% proprietary directors	20%
% independent directors	60%
% other external directors	20%

Explain the functions assigned to this committee including any additional functions to those provided for by law, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

Procedures and rules governing organization and functioning

Article 43 of the Company's Bylaws provides as follows:

1. The Board of Directors shall create a permanent Appointments and Remunerations Committee as an internal informational and consultative body without executive duties, but vested with reporting, advisory and proposal-making powers in its area of activity, as described in sub-section 5 of this Article. The Appointments and Remunerations Committee shall have a minimum of three and a maximum of five members, being non-executive directors appointed by the Board of Directors at the proposal of its Chairman. The majority of the members of the Appointments and Remunerations Committee shall be independent directors.
2. The Board of Directors shall appoint the Committee's Chair from among the independent directors holding seats on the same. The Board of Directors shall likewise appoint a Deputy Chair where considered appropriate. The Deputy Chair shall be appointed under the same conditions as the Chair.
3. The office of Secretary to the Appointments and Remunerations Committee will be held by the person appointed by the Board of Directors. The secretary need not be a full member of the Appointments and Remunerations Committee, in which case it will not be necessary for the Secretary to be a member of the Board of Directors. The Secretary to the Appointments and Remunerations Committee need not be the same person as the Secretary to the Board of Directors.
4. The directors holding seats on the Appointments and Remunerations Committee shall discharge their functions while they continue in office as directors of the Company, unless otherwise agreed by the Board of Directors. The renewal, reelection and removal of the directors holding seats on the Committee shall be governed by the pertinent resolutions of the Board of Directors.
5. Notwithstanding any other tasks that may be assigned to it by the Board of Directors from time to time, the Appointments and Remunerations Committee shall have the following basic functions:
 - (i) To evaluate the competences, expertise and experience required by the Board of Directors; For these purposes, the Appointments and Remunerations Committee shall define the necessary skills and abilities of the candidates to cover any vacancy and shall evaluate the time and dedication required to discharge the related duties effectively.
 - (ii) To establish a target for representation by the minority gender in the Board of Directors, and to prepare guidelines for the attainment of that target.
 - (iii) To make proposals to the Board of Directors for the appointment of independent directors by co-option or for presentation and approval at the General Shareholders Meeting, as well as proposals for the reelection or removal of such directors by the General Shareholders Meeting.

- (iv) To make proposals for the appointment of other directors by co-option or for presentation and approval at the General Shareholders Meeting, as well as proposals for the reelection or removal of such directors by the General Shareholders Meeting.
 - (v) To make informed proposals for the appointment or removal of management personnel, and on the basic terms and conditions of their contracts.
 - (vi) To examine and organize the succession of the Chairman of the Board and of the Chief Executive Officer of the Company and, where applicable, to make proposals to the Board of Directors to ensure an orderly and well-planned succession.
 - (vii) To report to the Board of Directors on policy regarding the remuneration of directors and senior managers or other persons holding management posts and reporting directly to the Board of Directors, executive committees or executive directors, as well as the individual remuneration and other contractual terms applicable to the executive directors, and to verify compliance with the policy established.
6. The functioning of the Appointments and Remunerations Committee shall be governed by such rules as may be determined by the Board of Directors in the pertinent Regulation.

Also, Article 15 of the Board's Regulations provides as follows:

The Appointments and Remunerations Committee shall meet quarterly on an ordinary basis, and at least four times each year. The Committee shall also meet at the request of any of its members and wherever convened by its Chair, who shall convene a meeting whenever the Board of Directors or the Chairman of the Board requires a report or the adoption of proposals, and in any event whenever appropriate for the proper discharge of its functions.

Meetings of the Appointments and Remunerations Committee shall be deemed quorate whenever attended, either in person or by proxy, by half plus one of its members. Resolutions shall be adopted by majority vote.

The Committee shall record its deliberations in the minutes, copies of which shall be forwarded to all members of the Board of Directors.

The Committee shall consult with the Chairman of the Board and the Company's Chief Executive, in particular on matters relating to executive directors and senior management personnel.

With a view to achieving the best possible outcomes, the Appointments and Remunerations Committee may seek the advice of external experts where deemed necessary to ensure the adequate discharge of its functions, taking the necessary steps to ensure that any possible conflicts of interests do not compromise the independence of the external advice received by the Committee.

Relevant actions of the Committee during the year

- (i) Proposal to the Board in relation to reclassification and appointment of candidates as "other external" directors.
- (ii) Approval of changes to the membership of the Audit and Control, Appointments and remunerations, and Land Investment Committees, increasing the number of seats on each committee by 2, 2 and 1 member, respectively.
- (iii) Presentation and approval of the new Chief Operating Officer.
- (iv) Approval of an increase in the number of meetings to be held by the Committee 6.
- (v) Direct approval or submission to the Board of the following policies and procedures:
 - a. Senior management remuneration policy
 - b. Employee remuneration policy
 - c. Employee retention plan
 - d. Equality policy
 - e. Succession Plan
 - f. Corporate Governance Policy

APPOINTMENTS COMMITTEE

The Company does not have an Appointments Committee, the functions and duties of which are assigned to the Appointments and Remunerations Committee.

Name	Office	Category

% executive directors	
% proprietary directors	
% independent directors	
% other external directors	

Explain the functions assigned to this committee including any additional functions to those provided for by law, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

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REMUNERATIONS COMMITTEE

The Company does not have a Remuneration Committee, the functions and duties of which are assigned to the Appointments and Remunerations Committee.

Name	Office	Category

% executive directors	
% proprietary directors	
% independent directors	
% other external directors	

Explain the functions assigned to this committee including any additional functions to those provided for by law, and describe the procedures and rules governing the committee's organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

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LAND INVESTMENT COMMITTEE

Name	Office	Category
Juan José Pepa	Chairman	Other external director
Juan Velayos Lluís	Member	Executive director
Ricardo Martí Fluxá	Member	Independent director

Felipe Morenés Botín Sanz-de Sautuola	Member	Other external director
Jorge Pepa	Member	Proprietary director

% executive directors	20%
% proprietary directors	20%
% independent directors	20%
% other external directors	40%

Explain the functions assigned to this committee, describe the procedures and rules governing its organization and functioning. For each function, state the most relevant actions during the year and explain how the committee discharged each of the functions attributed to it by law, the bylaws or any other corporate agreements in practice.

Procedures and rules governing organization and functioning

The internal Regulation of the Land Investment Committee establishes, inter alia, the following:

1. The Committee shall be formed by a minimum of three and a maximum of seven members. The Committee members shall be appointed by the Company's Board of Directors at the proposal of the Appointments and Remunerations Committee, subject to consultation with the Chair of the Land Investment Committee.
2. The majority of the Committee members shall be non-executive directors. All members of the Committee shall have broad, recent and appropriate professional, technical and financial experience in the real estate sector and in financial investment, whether securities investment or investment in real estate assets.
3. Only the Committee members shall be entitled to attend its meetings. However, other directors and employees, and other natural persons and external advisers may be invited to attend the Committee's meetings on a regular basis, and other persons who are not members of the Committee may also be invited to attend all or part of a meeting wherever deemed necessary or appropriate. Only the Committee members shall have the right to vote on its resolutions, and any other persons attending shall be permitted only to speak.
4. The committee members shall be appointed for a maximum term of three years, which may be extended by a further two 3-year terms, provided search Committee members continue to be members of the Board of Directors.
5. The Committee's Chair shall be appointed by the Board of Directors. In the absence of the Committee's Chair and his/her appointed stand-in, the other members of the Committee attending shall select one of their number to chair the meeting.
6. The office of Secretary to the Land Investment Committee shall be held by such persons as may be appointed by the Board of Directors. The Secretary to the Land Investment Committee need not be a full member of the same, in which case (i) he/she shall not have the right to vote, and (ii) he/she shall not be a member of the Board of Directors. The Secretary to the Land Investment Committee need not be the same person as the Secretary to the Board of Directors.
7. The Committee's resolutions shall be adopted by majority vote. All members of the Committee attending its meetings shall vote on all items on the agenda except where any conflict of interest may exist, in which case the Committee member affected shall leave the meeting and shall not take part in deliberations or vote on any matters where he/she may have a conflict of interests.
8. All reports prepared by the Committee and submitted to the Board of Directors for its consideration before the approval of any Board resolution shall expressly mention that all proposals made by the Committee are in compliance with prevailing legislation.
9. The Committee shall meet at least four times each year, and whenever necessary.

Notwithstanding, the Committee shall meet wherever so requested by any of its members or wherever it is validly convened by the Chair.

10. The Committee Chair shall convene a meeting wherever the Board of Directors or the Chairman of the Board may request that a report be prepared or a proposal approved, and in any event wherever deemed expedient for the due discharge of its functions.
11. Committee meetings shall be convened by the Secretary to the Committee at the request of any of its members, or at the request of the Chairman of the Board.
12. Unless otherwise established, the call for each meeting shall state the venue, the date and the time of the same, and the agenda setting out the business of the meeting, and it shall be sent to each of the Committee members and any other persons required to attend, as well as non-executive directors, at least three (3) business days in advance of the date of the meeting. Any background documentation shall be delivered to the Committee members and any other parties invited to attend, where applicable, together with the call for the meeting.
13. Notwithstanding the above, Committee meetings shall be understood to be validly convened without the need for any prior call if all of its members are present, either in person or by proxy, and unanimously agree to hold a meeting and the agenda for the same. Likewise, the members of the Committee may vote by letter without holding a meeting, provided none of the directors opposes this procedure.
14. The Committee members may also meet simultaneously at more than one venue connected by any system allowing recognition and identification of participants, uninterrupted communication between the same wherever they may be and participation in voting, all in real time. Subject to the foregoing, the Committee may hold its meetings by conference call or video conference, and by other similar methods of communication.

Wherever the participants in a Committee meeting may find themselves, it shall be understood that all of them attend the same meeting. Any such meetings shall be understood to be held at the venue where the majority of the Committee members are met, or in the event of a tie, at the venue where the Committee Chairman or his stand-in as chair of the meeting may be located.

15. The Committee shall discharge the following functions for the company and its principal affiliates:
 - (i) To define general investment policies and strategies, investment objectives, the rules for and limitations applicable to the purchase and disposal of real estate assets, and all other investment policies followed by the Company, and where applicable to present all of the foregoing to the Board for its approval.
 - (ii) To review all of the aforementioned strategies and objectives at least annually, and to adopt and approve any changes.
 - (iii) To evaluate and adopt a final decision either in favour of or against the possible acquisition of real estate assets, possible real estate developments and the financing of real estate purchases and/or developments undertaken by the Company, whether directly or via any group entity, and to evaluate and adopt a final decision with regard to the financial viability of such investments, their fit with the Company's investment policies and compliance with applicable laws.
 - (iv) To prepare the pertinent reports on all matters examined by the Committee and to present the same to the Board, especially in cases where a resolution of the Board is required in accordance with prevailing legislation.
 - (v) To analyse and track the Company's investment results and performance in relation to the investment strategies, objectives, policies, rules and limits approved by the Committee, including without limitation, examination of the procedures applied by the Company to establish that investments are made in accordance with the aforementioned investment strategies, objectives, policies, rules and limits.
 - (vi) To approve the evaluation methods utilized by the Company in relation to the purchase or disposal of real estate portfolios and assets.
 - (vii) To address any other issues or tasks that may fall within the Committee's remit.
16. The Chairman of the Committee shall report formally to the Board on the Committee's actions with regard to all issues falling within its remit after each meeting. The Chairman shall likewise report formally to the Board with regard to the discharge of the Committee's responsibilities, including analysis of compliance with legal, regulatory and internal requirements applicable to the evaluation and execution of investments and, in general, the outcomes of all actions concerned in the tasks assigned to the Committee.

17. The Committee shall report to the Board on all purchases, investments and disposals of land for real estate development prior to approval by the Board, wherever the amount of the transaction concerned exceeds €10 million.
18. In general, the Committee shall report to the Board on all and any other matters where the same may request the Committee's opinion, and on any issues which the Committee understands it should remit to the Board for its consideration.
19. The Committee shall make all such proposals to the Board as it may consider necessary with regard to matters falling within its remit and requiring action or the implementation of improvement measures.
20. The Committee shall prepare an activity report for inclusion in the Company's annual report. This report shall provide details of all investments and disinvestments made by the Company, as well as a brief summary of each and every one of the transactions carried out and the conclusions of the Committee reports in relation to each of the same.

Relevant actions of the Committee during the year

- (i) Approval of all land purchases carried out by the Company.
- (ii) Approval of the launch of all developments undertaken by the Company and of the associated capex.

There is currently a vacancy on the Committee following the resignation of Mr Alberto Prieto, as explained in section C.1.2 above. It is expected that this vacancy will be filled in the first quarter of 2019.

C.2.2 Complete the following table with information about the number of female directors holding seats on board committees at the reporting date for the last four years.

	Number of female directors			
	Year t	Year t-1	Year t-2	Year t-3
	Number %	Number %	Number %	Number %
Executive committee	-	-	-	-
Audit committee	1	1	-	-
Appointments and Remunerations Committee	1	0	-	-
Appointments committee	-	-	-	-
Remuneration committee	-	-	-	-
Land investment committee	0	0	-	-

C.2.3 Where applicable, state whether there are any regulations for the board committees, where they are kept available for consultation, and whether they have been amended during the year. Also, state whether any annual reports on the activities of each commission have been voluntarily prepared.

Each of the three Board Committees has its own Regulations. All of these regulations are available on the Company's website (www.neinorhomes.com) in the Shareholders and Investors section,

subsection Corporate Governance and Sustainability.

The current Regulations were approved on 8 March 2017 before the Company was listed on the Stock Exchange. There have been no amendments since.

D. RELATED PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1 Where applicable, explain the procedure for approval of related-party and intragroup transactions.

Procedure for proposals to approve related-party transactions
<p>The procedure followed by the Company to inform the approval of related-party transactions is set out in the Conflicts of Interest & Related Parties policy approved by the Board of Directors and published on the corporate website.</p> <p>This policy establishes the following:</p> <ol style="list-style-type: none"> 1) Where any Company Parties learn of a possible Related-Party Transaction, they shall inform the Secretary to the Board of Directors and the Chief Compliance Officer as soon as they become aware of the same. <p>If it is found upon examination that a transaction is a Related-Party Transaction, the Company Party shall prepare a written report addressed to the Secretary to the Board of Directors and the Chief Compliance Officer showing that the transaction would be carried out under market conditions and would respect the principle of equality between shareholders.</p> <ol style="list-style-type: none"> 2) Any transactions that could give rise to a conflict of interests in the opinion of the Legal Department and the Compliance Department shall be reported to the Chair of the Audit Committee (the "Committee") for analysis at the next meeting of the Committee. This report shall be included among the documents presented to the Committee for debate. Any transactions without an attached report shall be submitted to the Committee only under exceptional circumstances, and the reasons for presenting the transaction shall be presented to the Secretary to the Board of Directors, who shall pass the matter on to the Committee for evaluation. 3) The Committee shall evaluate the transaction, for which purpose it may request reports from independent experts where appropriate. When a transaction could affect equal treatment of the shareholders, reference shall be made to paragraph 4.1.4 of the policy. 4) When the Committee's approval is obtained, the transaction shall be submitted to the Board of Directors for review and approval. If a director has any conflict of interests related with a transaction, he/she shall withdraw from the decision-making process. <p>Approval of transactions may be delegated to an Executive Committee in urgent cases and subsequently ratified by the Board of Directors.</p> <p>The company's compliance department shall at least quarterly carry out (i) a review of compliance with the conditions established herein, and (ii) confirm that transactions were actually carried out under the approved terms. A report on this review shall be submitted to the Chair of the Audit and Control Committee.</p> <p>That Audit and Control Committee may seek clarification with regard to any given transaction and/or request additional documentation to assess whether the transaction was carried out under the approved terms.</p>

D.2 List significant transactions entered into between the company or its group companies and significant shareholders of the company in terms of the amounts involved or the nature of the transaction.

Significant shareholder's name	Company or group company involved	Nature of the relationship	Transaction type	Amount (thousands of euros)

Remarks

D.3 List significant transactions entered into between the company or its group companies and directors or senior managers of the company in terms of the amounts involved or the nature of the transaction.

Director's or senior manager's name	Related party's name	Relationship	Nature of the transaction	Amount (thousands of euros)
Jorge Pepa Francis Btsh	1810 Capital Investments, S.L.	Director / Representative	Asset purchase	4,635
Jorge Pepa Francis Btsh	Global Hespérides, S.L.	Joint and severally administrator	Asset purchase	2,405

Remarks

D.4 Report any significant transactions carried out by the Company with other group entities, wherever such transactions are not eliminated in the consolidation of the financial statements and do not form part of the company's ordinary business given their nature and terms.

You should in any event mention any intergroup transactions carried out with entities registered in countries or territories listed as tax havens.

Group entity's name	Brief description of the transaction	Amount (thousands of euros)

Remarks

D.5 List any significant transactions carried out by the company or any of its group entities with any other related parties, where such transactions are not reported above.

Related entity's name: Banco Santander

Amount (thousands of euros): 101

Brief description of the transaction: Financial intermediation services.

Amount (thousands of euros): 953

Brief description of the transaction: Finance costs.

Amount (thousands of euros): 34,510

Brief description of the transaction: Balance payable / Liabilities. Financial debt on the financing of development activities at 31.12.2018.

Amount (thousands of euros): 41,337

Brief description of the transaction: Balance Receivable / Assets. Net cash held at the bank by the company.

Related entity's name: Banco Popular (Santander Group)

Amount (thousands of euros): 219

Brief description of the transaction: Finance costs

Amount (thousands of euros): 11,250

Brief description of the transaction: Balance payable / Liabilities. Financial debt on the financing of development activities at 31.12.2018

Amount (thousands of euros): 45

Brief description of the transaction: Balance Receivable / Assets. Net cash held at the bank by the company

Related entity's name: BDO Auditores, S.L.P.

Amount (thousands of euros): 13

Brief description of the transaction: Cost of professional data protection services provided

D.6 Explain the mechanisms established to detect, determine and resolve possible conflicts of interests between the company and/or the group and its directors, managers and significant shareholders.

The mechanisms established to detect, determine and resolve possible conflicts of interests are set out in the Conflicts of Interest and Related Parties policy approved by the Board and published on the Company's website.

In addition to this policy and the provisions established therein, the company has implemented an internal controls structure in this regard, which is based on the following elements providing reasonable assurance for the companies control bodies:

- Reporting channel for related-party transactions and other operations likely to generate conflicts of interest
- Recording and analysis of transactions
- Compliance, acceptance and notification letter in relation to any transactions or conflicts of interest involving directors, senior managers and other executives in view of their functions and duties
- Periodic reviews and analysis of related-party transactions by the Internal Audit Department
- Report on related-party transactions and conflicts of interest brought to the attention of and examined by Internal Audit. This report is prepared for submission to the Audit and Control Committee

D.7 Is more than one group company listed on the stock exchange in Spain?

Yes

No

Identify any affiliates listed in Spain and state their relationship with the company.

Identification of and relationship with other listed group companies

State whether the respective areas of business and possible relations between group companies are publicly defined in detail, and indicate the nature of the listed affiliate's business and relations with other group companies.

Yes

No

Define the business relationship between the parent company and its listed affiliate, and between the latter and other group companies

State the mechanisms established to resolve potential conflicts of interests between the listed affiliate and other group companies.

Mechanisms to resolve potential conflicts of interests

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Explain the scope of the company's Risk Management System, including tax risks.

Neinor Homes has defined an integrated control system (ICS), implemented throughout the organization, which associates risks with strategic objectives, processes and control activities and identifies the officers responsible for carrying out and supervising controls, as well as the evidence supporting the system.

Continuous monitoring of this system ensures attention to day-to-day operations and contingencies, facilitating the management of all areas of risk that could affect the successful attainment of the Company's objectives (e.g. business, financial, tax and regulatory risks). In short, the Neinor Homes model seamlessly integrates all regulatory compliance environments with the entire business risk control structure to provide an all-round view that fosters synergies and eliminates duplication.

The main ICS inputs are as follows:

- Compliance risks controls: Internal control of financial information, money-laundering, data protection, prevention of criminal liability, conflict of interest, fraud and corruption, etc.
- Corporate risks and controls: External factors, competitive environment, cyber security, persons, etc.
- Business risks and controls (value chain): Land purchases, product, contracting, and commercial and sales management among other matters

Neinor Homes uses an *Enterprise Risk Management* methodology (also known as COSO II), which adds value by ensuring the identification, management and monitoring of business risks.

In the area of tax risk, Neinor Homes has adopted the necessary control mechanisms to ensure compliance with tax legislation in the context of effective business management. The company dedicates appropriate, sufficiently qualified human and material resources for these purposes.

E.2 Identify the corporate bodies responsible for the preparation and implementation of the risk control and management system, including control and management of tax risks.

In accordance with Article 5.6 of the Board's Regulations, approval of the risk control and management policy falls within the Board's remit, including the management of tax risks and periodic monitoring of internal information and control systems.

The Board delegates these functions to the Audit and Control Committee (ACC), and in accordance with Article 9.7 of the Audit and Control Committee Regulation, therefore, the ACC has the following risk management functions:

- To identify and assess the different types of risk (operational, technological, financial, legal, corporate, environmental, political, tax and reputational risk, among others) to which the Company is exposed, including contingent liabilities and other off-balance sheet risks among financial and business risks.
- To establish the levels of risk considered acceptable by the Company.
- To identify the measures in place to mitigate the impact of the risks identified in the event of materialization.
- To identify the information and internal control systems used to control and manage risks, including contingent liabilities and off-balance sheet risks.

Initial responsibility for the supervision of the Integrated Risk Control and Management System in Neinor Homes lies with each business area involved, and the periodic reviews conducted by the Compliance Department and the Internal Audit Department constitute additional second and third lines of defence, while ultimate validation of the system is the responsibility of the Audit and Control Committee and the Board of Directors.

In the tax area, in particular, the Company's tax officer reports annually to the Board of Directors, either directly or via the audit committee, on the tax policies applied.

E.3 State the principal risks, including tax risks and corruption risks (within the meaning of Spanish Royal Decree Law 18/2017), where material, which could affect the successful attainment of business objectives.

Neinor Homes classifies the various risks to which it is exposed in 9 general categories:

- Macroeconomic developments: Risks related with the real estate sector and the business cycle. There is a close correlation between our industry and the economic cycle. Business/financial structure misaligned with changes in the cycle / diversification of activities between Servicing /

Ownership / Leasing.

- Competitive environment: Risks associated with the competitiveness of different players in the real estate industry. Intensification of competition. Uneven competition.
- Government impact on the sector. New tax and regulatory policies in the sector, land policy, procedures and processing times for the grant of new licences.
- Operational model: Risks affecting the functioning of internal and external processes, and the business structure. Misalignment with the industrial model. Failure to keep up with the transformation and digitization of the industry.
- Commitments with third parties: Risks associated with the management of capital markets and meeting the expectations of customers and/or shareholders, and risks related with third parties (suppliers, construction firms and marketing firms).
- Excessive links to the financial sector.
- Asset values.
- Governance and compliance: Risks related with alignment with applicable laws and regulations, ethical practices and conduct, etc.
- People: Risks associated principally with training and talent retention / attraction mechanisms.

The Integrated Control System (ICS) implemented is a dynamic tool, and as such it is intended to provide up-to-date, continuous information on the possible risks to which the Company may be exposed. Neinor Homes periodically compiles data on development / events that could potentially pose a risk from the various risk detections sources defined in order to facilitate analysis and continuous monitoring, to take any remedial measures required, and, where appropriate, to include any appropriate control / mitigation measures, and to analyse the effectiveness and value of the measures already in place in the ICS.

E.4 State whether the entity applies risk tolerance levels, including in relation to tax risks.

Risk tolerance levels are defined in the risk assessment scale utilized by Neinor Homes to evaluate the potential risks to which it is exposed. This scale includes a classification of the risks which the company is willing to assume or prefers to decline, situating the same on a Risk Map.

These assessment scales consider both the financial and reputational impacts which the materialization of the risks evaluated could entail.

In addition, the final risk evaluation made applying the assessment scales addresses the likelihood of materialization in view of both historic data and future estimates.

Risks are evaluated both at the inherent level and at the residual level, i.e. after the application of the control measures established in each case. This procedure ensures effective prioritization of all risk events.

The final risk classification includes both qualitative elements and elements that could affect the attainment of the company's strategic goals or interfere with its mission, vision and values.

The analyses made are contrasted with the opinions of third parties interested in the company and against internal sources.

In the tax area, Neinor Homes ensures strict compliance with tax legislation in the different territories where the group operates, settling the taxes due in accordance with the law based on a reasonable interpretation of prevailing rules, notwithstanding the possibility of legitimate disputes arising with the tax authorities in relation to the interpretation of the applicable tax legislation, despite the application of a best tax practice policy.

The Audit and Control Committee is responsible for reviewing these variables each year in order to update and approve the appropriate tax practices.

E.5 State any risks, including tax risks, which have materialized during the year.

Certain risks inherent in Neinor Homes' real estate business materialized in 2018, although they had no material impact on the operations and functioning of the company.

Specifically, the current situation of political uncertainty in Catalonia continued to affect the pace of sales in this part of Spain, although the impact did not significantly affect the overall performance of Neinor Homes because of the large number of pre-sales made in the region and the company's territorial diversification.

Certain incidents involving financial claims made by suppliers / construction firms were also observed, which arose as a result of rising production costs, as well as other incidents occurring in the property development business in relation to the management of customer expectations, resulting in occasional product-related

complaints about the materials used and finishes, and complaints about delivery deadlines.

The company manages these incidents reasonably based on the contracts signed with interested parties, continuous monitoring of in-house and outsourced construction and other work, contingency planning and responses, aftersales protocols and procedures, requests for guarantees and the application of withholdings.

In this regard, delays in the waiting times involved basically in the administrative processes and procedures undertaken to obtain the approval of new works licenses, construction licenses and habitation licenses have in some cases impacted relations with suppliers and customers due to the knock-on effects on production deadlines and the delivery of finished homes.

Meanwhile, tax inspections were opened in 2017 (1 June 2017) against the group companies NEINOR SUR (Value Added Tax, 2014-2016; Corporate Income Tax, 2012-2015) and NEINOR PENÍNSULA (Value Added Tax, 2015-2016; Corporate Income Tax, 2015).

The Spanish tax authorities recently (8 January 2019) completed their inspection and investigation procedures with respect to the aforementioned companies and taxes, issuing the following final additional tax assessments:

- No contingent tax liabilities were detected in NEINOR SUR which might represent a risk for the company
- NEINOR PENÍNSULA:
 - Formerly contingent Corporate Income Tax liabilities (Year ended 30 June 2015) materialized as a consequence of timing differences, and fines were imposed. In the opinion of the company and its tax advisers, however, the liabilities of these sanctions exceeded only a remote associated risk for the company inspected, given the nature of the discrepancy, and it is therefore unlikely that they will be confirmed by the courts.
 - Also, certain formally contingent Value Added Tax liabilities (2015) were detected and it is considered probable that the resulting tax liabilities will finally be confirmed by the courts, in view of which the company has proceeded to make provision for the whole of this risk.

For further information, see section 20.2 of the Consolidated Annual Accounts Notes.

E.6 Explain the response and oversight plans for the entity's principal risks, including tax risks, as well as the procedures followed by the company to ensure that the board of directors responds to any new challenges arising.

When it updated the Corporate Risk Map, the company defined not only the risks and risk events affecting its business objectives and regulatory compliance by Neinor Homes, but also the necessary control measures to mitigate such risk events.

The officers responsible for execution and supervision were identified for each of the controls established, and the supporting evidence required to show due implementation was defined.

In this regard, the functions envisaged in the Annual Activity Plans of both the Compliance Department and the Internal Audit Department include periodic reviews of control activities to ensure their effectiveness and, where any control weaknesses may be observed, to make recommendations and propose relevant action plans.

Such periodic reviews of control activities are a fundamental part of the companies entire control structure, which integrates the different compliance systems implemented since the company was founded in May 2015, such as the FIICS and the criminal liability prevention, money laundering and terrorism finance prevention, data protection, related-party transactions and conflicts of interest, and fraud and corruption prevention systems, etc.

In order to effectively and efficiently integrate all of the compliance systems, the same uniform, standard implementation process was applied in every case, the key steps of which comprised analysis of external and internal expectations and risk appetite, analysis of domestic and international best practice policies and regulations, risk analyses, drafting of policies, analysis of the existing internal control structure, implementation and, where appropriate, design of additional controls / improvement measures, identification of the governance system (implementation / supervision / reporting), training and communication to the organization.

In addition, the Audit and Control Committee is provided with periodic reports for supervisory purposes on risk management developments in the company, the status of critical risks, monitoring and the progress of the response plans agreed.

With regard to tax risks, Neinor Homes has implemented control mechanisms to ensure due compliance with tax legislation and a continued commitment to the application of best text practices, including in particular:

- Approval of tax criteria in line with the companies tax policy and its commitment to the application of best tax practices. These criteria are reviewed and validated each year by the officer responsible for tax matters.
- Ongoing supervision and control of effective implementation of the criteria established. This supervision is carried out both internally by the department responsible for tax matters and externally by an independent tax expert.
- The officer responsible for tax matters periodically reports to the Board of Directors on the results obtained from the application of tax risk control mechanisms.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN RELATION TO THE PREPARATION AND ISSUE OF FINANCIAL INFORMATION (FIICS)

Describe the mechanisms making out the risk control and management systems relating to the preparation and issue of financial information by the company (FIICS).

F.1 Entity's control environment

Explain at least the following, describing key characteristics:

F.1.1. What bodies and/or departments are responsible for (i) the existence and application of an adequate and effective FIICS, (ii) implementation, and (iii) supervision.

Article 5.4 of the Board's Regulations establishes the powers of the Board of Directors in this area, and subparagraph xxi specifically mentions its "ultimate responsibility for the existence and application of an adequate and effective Financial information internal control system (FIICS)".

Implementation of the FIICS is a matter for all of the business areas defined in Neinor Homes, insofar as they are responsible for the application in practice of control mechanisms and measures to ensure the reliability of the company's financial information.

In its work of supervising the appropriate implementation and application of the system, the Board receives the support of the Audit and Control Committee (ACC), which is assigned the following tasks in accordance with Article 9.3 of the Audit and Control Committee Regulation:

- To assess the suitability and effectiveness of internal financial controls and internal risk control and management systems, including oversight of the Financial information internal control systems (FIICS) to ensure that the main risks are duly identified, managed, assessed and reported.
- To provide assurance that these systems appropriately mitigate risks in the context of the policy established by the Board of Directors, where appropriate.

F.1.2 Whether the following exist, especially in relation to the preparation of financial information:

- **Departments and or mechanisms for (i) the design and review of the organizational structure, (ii) the definition of lines of responsibility and authority, including appropriate distribution of tasks and duties, and (iii) the existence of sufficient procedures and awareness of the same throughout the company.**

Neinor Homes' Board of Directors competences include defining the structure of the company, and it therefore has maximum responsibility for assigning duties related with the preparation and supervision of financial information and ensuring that each of the departments involved is duly apprised of its functions.

The General Finance Department (GFD) has primary responsibility for preparing the financial information, although all departments of the company are required to foster transparency and ensure the accuracy of the information they handle and supply to the market.

- **Code of conduct, approval body, diffusion and training, principles and values included (stating any specific mentions of transaction recognition and the preparation of financial information), and body responsible for analysing non-compliance and proposing corrective actions and sanctions.**

Neinor Homes Code of Ethics was approved by the Board of Directors on 14 May 2015, and it has since been updated on several occasions, the last time on 10 March 2017. The company's Ethics Code is the main pillar of its culture, and it provides the main guide for the activity of Neinor Homes, establishing a catalogue of ethical principles, values and rules of conduct that should effectively direct the activity of all group companies and of the

people forming part of the company. This document is distributed to all employees on a periodic basis and upon the induction of new employees into the company for their information. Employees are required to return a signed copy signalling their acceptance.

In addition, the company arranges training in ethics and compliance matters for all employees.

Specifically, annex 4 of the Ethics Code explains that “persons responsible for entering data in the different physical and digital ledgers utilized by the company in the process of preparing its financial information must assure the reliability, integrity, accuracy and currency of such data” in order to ensure that the financial information reported reflects a true and fair image of the company’s equity, financial position and results of operations.

Both the Ethics Code and the Code of Conduct for third parties, and many of the company’s Compliance Policies, Manuals and best practices, compliance with which is mandatory for all employees, are published on the company’s website (Shareholders and Investors / Corporate Governance and Sustainability / Codes and Policies). The company’s principles and values are set out in its Ethics Code and in the published document titled “Mission, Vision and Values”.

Meanwhile, “the overall effectiveness of the FIICS is subject to annual assessment by the Internal Audit Department”.

One of the principles governing Neinor Homes’ operations according to the Ethics Code is transparency, and the company therefore establishes that “it will supply the authorities, its shareholders, the markets in which it operates and its customers with accurate, transparent information on financial and accounting matters prepared in accordance with prevailing legislation”.

The body responsible for examining cases of non-compliance with the ethics code and proposing corrective action and sanctions is the company’s Monitoring and Control Committee, which is formed by the heads of the Legal, Human Resources, Compliance and Internal Audit departments.

- **Whistleblowers channel to allow reporting of financial and accounting irregularities to the audit committee, as well as possible cases of non-compliance with the code of conduct and irregular activities within the organization, stating, where applicable, whether this channel is confidential.**

Neinor Homes has established an Ethics Channel to facilitate reporting (either by post or by email) of irregular or inappropriate conduct related with the accounts, control, risks and financial information, as well as other matters considered relevant in relation to the integrity, conduct and transparency of transactions arising in the course of the company’s internal and external functioning.

Neinor Homes has published its Whistleblower Management Procedure, which regulates the functioning of the Ethics Channel, on its website.

Only reports identifying the whistleblower are formally accepted, although total confidentiality and anonymity of the person providing the information is guaranteed, and the system also permits reports to be filed without identifying the whistleblower. Whistleblowers’ reports are received by the Compliance Department and the Internal Audit Department, and their analysis is a priority for the company. Where appropriate, the matters concerned may be submitted to the Monitoring and Control Department for a decision. Neinor Homes handled 20 complaints formally treated as whistleblower matters by the Compliance Department in 2018. All of these matters were resolved within an average period of 5 business days, in compliance with the deadline established in the Neinor Homes Complaints Management Procedure.

In addition to the external and internal Ethics Channel, the company has implemented a confidential internal channel for the communication of inefficiencies, non-compliance with procedures, malpractice and inappropriate conduct on the part of employees. Access to this channel is restricted to the Head of Internal Audit and to the Quality officer.

- **Periodic training and refresher programmes for employees involved in the preparation and review of financial information, and in FIICS assessments. These courses, or at least accounting rules, auditing, internal control and risk management.**

When the Internal Audit Department was set up it organized an FIICS training course covering matters concerned in the preparation and review of financial information.

Meanwhile, the Internal Audit Department and the external Auditor gave a course to the accounts department when the company was listed on the stock exchange last year, dealing with the obligations of listed companies in relation to the financial information reported to the market and corporate good governance.

In addition, the staff involved in preparing and reviewing the financial information receive periodic training and refresher courses on accounting rules, internal control, risk management and regulatory compliance.

The subjects dealt with in these training courses in 2018 were as follows:

- Updates and changes in International Financial Reporting Standards (IFRS)
- Corporate Governance
- New Audit Report
- Business Risk Management components and principles, COSO 2017
- Key issues related with CNMV Technical Guideline 3/2017 on Audit Committees in public companies
- Innovations in the new data protection regulations

The employees receiving this training belonged to be accounting (consolidation and servicing), management control and legal departments.

In addition, the entire staff of the company received training in cybersecurity, information security control, ethics, money laundering prevention and data protection in 2018.

Finally, refresher courses in accounting matters have been scheduled together with courses in financial analysis and the financial statements for all members of the accounts department in the first quarter of 2019.

F.2 Assessment of financial reporting risks

Report at least the following:

F.2.1. Principal features of the risk identification process, including error and fraud, with regard to:

- **Existence and Documentation of the process.**

Neinor Homes has a procedure in place to established the scope of the processes to be included in the FIICS and to identify the relevant business cycles.

The company has also defined a matrix of controls associated with potential risks and accounting or administrative processes in each procedure included in the FIICS. This matrix is reviewed annually. The officers responsible for execution and supervision, associated policies / procedures in place and the audit evidence required have been established for each control.

The company has established a risk management methodology, which is applied in the process of design and implementation of all internal control and regulatory compliance structures. In this regard, we may highlight the following:

- Consideration of internal and external information for the identification of risks
- Consideration of assessment scales for the evaluation of risks
- Risk prioritization interviews and workshops
- Consideration of financial and reputational impacts in relation to the classification of risks
- Consideration of past, present and future probabilities in the analysis of risk materialization

All of the company's compliance environments, including the FIICS, form part of an integrated internal control and ongoing risk management system. The principal characteristics of this system are as follows:

- Identification of the corporate / strategic risk, strategic objectives, procedures, controls and evidence associated with each risk event, which are included in a controlled schedule to avoid duplication between the controls and risks defined for each regulatory compliance and operational environment.
- Implementation of processes and procedures allowing ongoing identification of the risks materializing and their consideration in the redesign and improvements of the internal control system, as well as the pertinent corrective actions.

- Monitoring and ongoing reporting to the company's Audit and Control Committee on the system's functioning and the risks materializing.

Section E above explains the company's Risk Control and Management Systems in more detail.

- **Whether the process covers all financial reporting objectives (existence and occurrence, integrity, measurement, presentation, details and comparability, and claims and obligations), and the frequency with which procedures are updated.**

The process defined and Neinor Homes covers all financial reporting objectives:

- Existence and occurrence: The transactions, events and other matters reflected in the information actually exist and are recognized at the appropriate time.
- Integrity: The information reflects all transactions, events and other matters to which the entity is party or which affect the same.
- Measurement: Transactions, events and other matters are recognized and measured in accordance with applicable accounting rules.
- Details, presentations and disclosure: Transactions, events and other matters are classified, presented and disclosed in the information in accordance with applicable rules.
- Claims and obligations: The information reflects claims and obligations through the appropriate asset and liability captions in accordance with applicable accounting rules.

These objectives are reviewed and updated when significant changes arise in the company's operations resulting in impacts on the financial information reported.

- **Existence of a process to establish the scope of consolidation, taking into consideration, inter alia, the possible existence of complex corporate structures, instrumental entities and special purpose vehicles.**

Determination of the scope of consolidation and details of corporate shareholdings, as well as corporate transactions affecting share capital or reserves are reported by the Legal Department to the General Finance Department (GFD) as soon as they take place, and all deeds and other documentation supporting such transactions are provided.

In this way, the company ensures that its equity situation is kept up to date, and the GFD proceeds to consolidate the new companies in the financial statements and to recognize the transactions concerned on an appropriate basis.

The structure of Neinor Homes' consolidated group does not include any complex corporate structures that could give rise to any interpretations or value judgments such as might affect comprehension of the financial statements. All corporate transactions and operations which could result in changes to the scope of consolidation were discussed with our external auditors to ensure appropriate recognition in the Annual Accounts.

- **Whether the process takes into consideration the effects of other types of risks (operational, technological, financial, legal, tax, reputational and environmental risks, etc.) insofar as they might affect the financial statements.**

The FIICS is one of the components of Neinor Homes integrated control system (ICS). As mentioned in section E.1 above, the system also takes into account the principal risks associated with regulatory compliance, such as the risk of fraud and corruption, money-laundering, data protection, etc., as well as corporate risks and those proper to the operations and business of the company (e.g. acquisitions of land, products, sales and purchases).

For a detail of the risks identified at the corporate level, see section E.3.

- **Which of the entity's governance bodies supervises the process?**

As mentioned in section F.1.1, the Board of Directors is the ability responsible for supervising the FIICS via the Audit and Control Committee (ACC) in order to ensure that the principal risks are adequately identified, managed, measured and reported. In order to perform this function, ACC relies on the support of the company's Internal Audit Department.

F.3 Control activities

Explain at least the following, describing key characteristics:

F.3.1. **Procedures involved in the review and authorization of the financial information to be published in the stock market and description of the FIICS, indicating the officers responsible, and of the documentation describing workflows and controls (including controls relating to the risk of fraud) involved in the different types of transactions which could materially affect the financial statements, including the procedures applied in the accounting close and in specific reviews of the use of relevant judgements, estimates, valuations and projections.**

In accordance with Article 14.5.iii of the Board's Regulations, responsibility for supervising the preparation and presentation of regulated financial information is delegated to the ACC in order to safeguard its integrity. The Committee relies on the support of the General Finance Department and the Internal Audit Department to discharge this function.

The review and authorization procedure for financial information consists initially of double verification by the Accounts Unit and Accounts Department, followed by a review carried out by the company's Management Control Unit and final verification by the Finance Department.

Financial results are reported to the Audit and Control Committee each month.

Before the approval of quarterly financial information by the Board of Directors and its subsequent publication, the Audit and Control Committee meets each quarter to review and authorize said financial information. This information is provided sufficiently in advance to allow a reasonable margin for analysis.

The Internal Audit Department reviews the efficiency and effectiveness of the FIICS on an annual basis, reporting its findings to the Audit and Control Committee.

At the close of the year, the company had 254 procedures / policies and manuals, non-compliance with which could have a direct or indirect impact on the financial statements. The General Finance Department is responsible for 29 such procedures, covering the Department's principal functions such as accounting, the financial information control system, guarantees, financial debt, payments and collections, receipt of invoices, dividends, bank reconciliations and cash flow, among others.

In the area of closing procedures, Neinor Homes has established a schedule sitting out key milestones and dates to be met in each monthly accounting close. In this regard, the Accounts Department closes out accounting periods sequentially by working group in line with the schedule dates in order to avoid errors in the accounting information. Meanwhile, the management system used does not allow the members of the working groups to make accounting entries where they were themselves responsible for closing the accounting period concerned. Each person responsible for making accounting entries verifies that the closing checklist has been properly followed.

Also, specific individual control measures exist to ensure supervision of the calculations made in relation to estimates and provisions (e.g. provisions for bonuses and accrued salaries payable, for legal contingencies and for tax contingencies). The financial information collected independently by the different departments and units involved is then subjected to an overall review, in which it is validated by the Management Control Department before being passed onto the Accounts Department. An analytic review is also carried out by the Strategic Financial Planning Department and by the Internal Audit Department.

F.3.2. **Internal control policies and procedures relating to the information systems supporting relevant corporate processes involved in the preparation and publication of financial information (e.g. access security, change tracking, system operation, operational continuity and segregation of functions).**

Most of Neinor Homes' business activities are supported by information systems, which provide

the basic support for its internal operations, services management and marketing operations. The information handled by the different systems and applications, as well as the communications infrastructure, represent the principal asset used in the normal conduct of business operations, together with the company's people.

In this connection, the company has prepared a Security Policy, which covers the organizational structure, human and technical resources, processes, plans, procedures and protocols related with prevention and response measures to combat relevant physical, logical, compliance and good governance risks.

Security requirements and objectives are determined by the Information Security Committee based on the criteria established in Neinor Homes' policies and the needs detected by the officers responsible for information assets and for business processes. Their scope takes in all activities related with physical and information security, focusing especially on logical security. These requirements and objectives are applicable not only to the Organization's own Security activities and services directly, but also to third-party providers, who follow the guidelines and instructions provided from the standpoint of an advanced, all-round and integrated approach.

The purpose of this policy is to ensure adequate protection of Neinor Homes' information assets within the scope defined by the Information Security Management System, applying the following security principles:

- Confidentiality: ensure that information can be accessed only by authorized persons. The procedures established relate to:
 - o Physical and logical access controls
 - o Information marking
 - o Supports management and Destruction
- Integrity: assure the accuracy and completeness of information and processing methods.
 - o Management of ERP patches and vulnerabilities
 - o Change management procedures (new developments, mobility applications, etc.)
 - o Security of development and support processes
- Availability: ensure that authorized users can access systems when they require information and associated assets. The scope of procedures yes associated with the availability guarantee comprises:
 - o Backup Plan
 - o Contingency Plan
 - o Business Continuity Plan
 - o Sundry Detection, Evaluation and Response procedures relating to disruptive incidents
- Privacy: ensure appropriate treatment of personal data

These basic principles must be protected and assured whatever the format of the information, whether electronic, printed, visual or verbal, regardless whether processing is carried on at Neinor Homes' facilities or elsewhere.

The company has established high levels of security for access, continuous training in cybersecurity, reviews of information sent, protocols for the use of mobile devices, daily security copies of servers, restriction of access to external devices, etc.

Neinor Homes has established authorization processes for the approval of the invoices and payments, which are parameterized in the IT tool utilized, allowing identification of the persons involved in each Department and determination of the segregation of functions.

Neinor Homes held ISO 27001 Information Security certification in 2018. This certification was recently renewed until 2021 in the month of December 2018.

F.3.3. Internal control policies and procedures relating to supervision of the management of activities subcontracted to third parties, as well as assessments, calculations and evaluations entrusted to independent experts, where the same could materially affect the financial statements.

Neinor Homes has established a procedure for the selection, approval and assessment of providers / third parties (e.g. architects, construction firms, marketing firms, advisors and so on). This procedure allows an objective appraisal of external firms for the purposes of selection and contracting of those considered most suitable for the provision of services in accordance with the law and the company's own internal procedures (which include appropriate processing of financial information and the prohibition of disclosure without authorization, among other matters).

Neinor Homes understands that the scope of the internal control procedures applicable to third parties should include material providers, strategic providers having a potentially significant impact on financial information or at the reputational level, providers using confidential information or providing relevant professional services, as well as external auditors, independent asset appraisers and so forth, all of whom must be required to show their experience, independence and reputation in the market.

The reports issued by independent experts are reviewed by company personnel with relevant experience and technical expertise relating to the matters concerned.

The company has a Code of Conduct for third parties, which establishes the ethical standards that significant business partners are required to maintain when they provide services of any kind to Neinor Homes. These principles include compliance with legal and tax obligations, and the avoidance of any criminal offences, fraud or corruption. This Code is accepted and signed by all strategic parties with whom the company works.

F.4 Information and communication

Explain whether the entity has at least the following, describing key characteristics:

F.4.1. A specific department responsible for defining accounting policies and keeping them up to date (accounting policy unit or department), and for the resolution of concerns or conflicts arising in relation to their interpretation, maintaining fluid communication with the organization's operational managers, as well as a current manual of accounting policies duly issued to all of the entity's business units.

The General Finance Department (GFD) of Neinor Homes establishes the applicable accounting processes, policies and rules, and it is responsible for coordinating with the various departments involved in the preparation of financial information. Meanwhile, the GFD's Administration and Accounting Unit is responsible for defining accounting policies and resolving any concerns arising with respect to their interpretation.

In this regard, Neinor Homes has an Accounting Policy Manual prepared internally but checked by independent accounting experts. This Manual is periodically reviewed and defines the classification and measurement criteria applicable in the preparation of the financial statements.

The staff involved in the preparation and review of the financial information are kept constantly abreast of changes in accounting and tax rules by means of ongoing communication with the company's tax advisers, its external auditor and via the alerts and notifications received from leading audit firms and professional services providers.

The Audit and Control Committee is charged with supervising and reviewing the annual accounts in conformity with prevailing legislation and with generally accepted accounting principles.

Where the application sheet of regulations involves interpretation of a certain complexity, the company seeks the advice of its external auditor and other advisers, or of the regulatory authority.

F.4.2. Mechanisms for the collection and preparation of applicable standard format financial information for use by all of the company's departments and by the group to support the financial statements and the explanatory notes thereto, as well as the FIICS information.

The process concerned in the preparation of financial information is duly defined in Neinor Homes, including a description of all standardized activities involved in the accounting close and in the preparation of the financial statements, as well as the officers assigned to the preparation and review of the same.

A common IT tool (ERP) this is used to process the financial information reported by all of the group companies, which facilitates subsequent consolidation.

Furthermore, a single Chart of Accounts is used, which has been implemented for the preparation and management of accounting functions in all of the group companies.

F.5 Supervision of the system's functioning

Explain at least the following, describing key characteristics:

F.5.1. Supervisory activities undertaken in relation to the FIICS by the audit committee, and whether the entity has internal audit unit whose competences include supporting said committee in its supervision of the internal control system including the FIICS. Also, explain the scope of the FIICS evaluation carried out in the year and the procedure by which the party responsible for such evaluation reports its findings, whether the entity has an action plan establishing eventual corrective measures, and the consideration given to the possible impact on the financial information.

As explained in section F.1.1 above, the Board of Directors of Neinor Homes oversees the implementation and the application of the FIICS with the support of the Audit and Control Committee (ACC), which in turn delegates monitoring tasks to the Internal Audit Department.

The Internal Audit Department is thus an objective unit which is independent of all other departments, inasmuch as it reports directly to the Audit and Control Committee and indirectly but functionally to the Board of Directors.

The functions assigned to the Internal Audit Department include supervision of the functioning of the FIICS in order to assess the effectiveness of the internal control system and obtain reasonable assurance of the efficiency with which resources are used, the reliability of the financial information and compliance with applicable laws and regulations, and internal policies and procedures.

The internal audit department has carried out an evaluation of FIICS compliance as it does every year.

Each year the FIICS review addresses the design and efficacy of controls and the integrity of the evidence supporting said controls.

The following matters were verified in 2018:

- The integrity and accuracy of the information reported in section F of the ACGR
- Compliance in relation to the execution of certain controls for a sample of periods and group companies
- Alignment between the design of the controls included in the matrix and the risks which they are intended to mitigate or remove, in order to obtain reasonable assurance of the fulfilment of design purposes
- Integrity of the evidence supporting the controls

Based on the review procedures carried out in 2018, the company has made certain improvements to the FIICS in line with the recommendations expressed by the Internal Audit Department.

F.5.2. Whether the entity has a discussion procedure allowing the auditor (in accordance with technical audit standards or NTA in the Spanish acronym), the internal audit department and other experts to communicate with senior management, the audit committee and the directors to report any significant internal control weaknesses observed in the course of their review procedures carried out in relation to the annual accounts and any other matters required of them. Also, report whether there is any action plan in place to correct or mitigate the weaknesses observed.

Neinor Homes prepares a quarterly report for Senior Management and the Audit and Control Committee, in which the Internal Audit Department presents its analysis and follow-up on the internal control and risk management system implemented, as well as the key issues identified and the action plans drawn up.

This report also includes the findings from other mandatory regulatory compliance audits carried out in partnership with the Compliance Department (e.g. data protection, money laundering, etc.).

The external auditors also report their findings on the interim and annual financial statements, as well as any weaknesses observed during the 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 discuss the functioning of control systems.

In addition to their presence at the committee meetings held in 2018, the external auditors also held two meetings with the ACC without the presence of senior management, and the internal audit department maintained an ongoing flow of communication with the audit committee, reporting on various issues such as demands received from supervisory bodies, the risks identified and the audit carried out, as well as analyses of new legislation and training imported.

Various protocols and policies are in place to deal with weaknesses and incidents of non-compliance related with ethical issues and fraud.

Finally, compliance is analysed and supervised in relation to conflicts of interest and related parties, as well as compliance with the Internal Code of Conduct established by the entity as a public company. These matters are periodically reported to the Audit and Control Committee for its information and approval, when applicable.

F.6 Other relevant information

Not applicable

F.7 External auditor's report

Report of Deloitte, S.L., see annex I.

F.7.1. Whether the FIICS information published in the markets was subjected to a review by the external auditor, in which case the entity should include the pertinent report in an annex. Otherwise, explain the reasons.

With a view to assuring the greatest possible transparency in relation to the preparation of the financial statements presented to all stakeholders, Group Management has opted to subject the FIICS information contained in section F of the Annual Corporate Governance Report for 2018 to review by the external auditor. The auditor's Report on the information relating to the financial information internal control system (FIICS) of Neinor Homes, S.A. for the year ended 31 December 2018 is attached to this Annual Corporate Governance Report in an annex.

The external auditor's strategy since 2016 to focus the audit is based on reliance on controls, and information is therefore collected to establish how the entity addresses the risk of errors in relation to each of the significant business cycles (e.g. procurements, sales, stocks, etc.).

G. IMPLEMENTATION OF CORPORATE GOVERNANCE RECOMMENDATIONS

State the degree of implementation by the company with respect to the recommendations contained in the Code of Good Governance for listed companies.

Provide a detailed explanation of the reasons if any recommendation is not followed, or is only partially followed, so that the shareholders, investors and markets in general are provided with sufficient information to evaluate and assess the company's actions. General explanations will not be considered acceptable.

1. **The bylaws of listed companies should not limit the maximum number of votes which may be cast by a single shareholder, or contain any other restrictions which might hinder a takeover of the company by means of the acquisition of shares in the market.**

In compliance Explain

2. **When the parent company and an affiliate are listed, both should publicly define the following with precision:**

a) **The respective areas of business and possible business relations between group companies, and the nature of the listed affiliate's business with other group companies.**

b) **The mechanisms you established to resolve any potential conflicts of interest that could arise.**

In compliance Partially in compliance Explain Not applicable

3. **During the annual general meeting, the chairman of the Board of Directors should supplement the published annual corporate governance report with a sufficiently detailed verbal report to the shareholders on key corporate governance issues in the company, including in particular the following:**

a) **Changes occurring since the last annual general meeting.**

b) **The specific reasons why the company does not follow any of the Corporate Good Governance recommendations, and whether any alternative rules are applied to the matters in question.**

In compliance Partially in compliance Explain

4. **The company should define and promote a policy of communication and contact with shareholders, institutional investors and proxy advisors which fully respects insider trading rules and accords equal treatment to all shareholders who are in the same position.**

The company should publish this policy on its website, including information regarding the ways in which it is put into practice and identifying interlocutors and the officers responsible for implementation.

In compliance Partially in compliance Explain

5. **The Board of Directors should not seek the delegation from annual general meetings**

of powers to issue shares or convertible bonds where such issues exclude preferential subscription rights and exceed 20% of share capital at the time of delegation.

Where the board of directors approves any issue of shares or convertible securities involving the exclusion of preferential subscription rights, the company should immediately publish the reports on such exclusion required in accordance with prevailing companies legislation on its website.

In compliance Partially in compliance Explain

6. Listed companies preparing the reports mentioned below, whether on a mandatory or voluntary basis, should publish the same on their corporate website sufficiently in advance of the date of the annual general meeting, even where publication is not mandatory:

- a) Report on auditor independence
- b) Reports on the functioning of the audit and appointments and Remunerations Committees
- c) Audit committee report on related-party transactions
- d) Report on the corporate social responsibility policy.

In compliance Partially in compliance Explain

7. The company should broadcast shareholders' general meetings live on its website.

In compliance Explain

8. The audit committee should ensure as far as possible that the auditor's report on the financial statements presented by the board of directors for approval by the shareholders at their annual general meeting is free of scope limitations or qualifications, and that in exceptional cases where the auditor's report is qualified to ensure that both the chairman of the audit committee and the auditors themselves clearly explain to the shareholders the content and scope of any such scope limitations or qualifications;

In compliance Partially in compliance Explain

9. The company should publish the requirements and procedures required to establish ownership of shares, the right of attendance at shareholders' general meetings and arrange proxy votes on its website on a permanent basis.

Such requirements and procedures should be designed to foster attendance and the exercise of voting rights by shareholders, and they should be applied on a non-discriminatory basis.

In compliance Partially in compliance Explain

10. Where any shareholder may legitimately have exercised the right to make any addition to the agenda or to present new proposals for resolutions before the date of the annual general meeting, the company should:

- a) Immediately publish such additional agenda items and new proposals for resolutions.

- b) Publish the form of the attendance card, proxy voting form or remote voting form containing the necessary changes to allow voting on the new points on the agenda and alternative proposals, in accordance with the terms proposed by the board of directors.
- c) Submit all such agenda items or alternative proposals to a vote applying the same voting rules as in the case of proposals made by the board of directors, including in particular any assumptions or deductions with regard to the nature of votes.
- d) After the General Shareholders Meeting, the company should provide a breakdown of votes cast on any such additional agenda items or alternative proposals.

In compliance Partially in compliance Explain Not applicable

11. If the company intends to pay any premiums for attendance at the annual general meeting, it should establish a general policy regarding such premiums in advance and apply said policy on a stable basis.

In compliance Partially in compliance Explain Not applicable

12. The board of directors should perform its duties with unity of purpose and independence, according all shareholders the same treatment. It shall be guided at all times by the company's best interest, to be understood as establishing a profitable business that is sustainable in the long run, promoting business continuity and maximizing the company's value.

In pursuit of the corporate interest, the company should not only abide by applicable laws and regulations and act in good faith, ethically and with due respect for custom and generally accepted best practice, but also seek to reconcile said corporate interest with the legitimate interests of its employees, suppliers, customers and other stakeholders potentially affected by the conduct of affairs, and with the impact of the company's activities on the community as a whole and on the environment.

In compliance Partially in compliance Explain

13. The Board of Directors should be of an appropriate size to ensure effective functioning and participation, and in this light it is advisable that it should have between five and fifteen members.

In compliance Explain

14. The board of directors should approve a policy for the selection of directors which:

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or reelection of members are based on a prior analysis of the board's needs.
- c) Favours diversity of expertise, experience and gender.

The result of the prior analysis of the board's needs should be set out in a report of the appointments committee, which should be published on the occasion of the call to the general meeting at which the ratification, appointment or reelection of each board member is to be proposed to the shareholders.

The policy for the selection of board members should contribute to the objective of ensuring that at least 30% of the total directors are female by 2020.

The appointments committee should verify compliance with the policy for the selection of board members on an annual basis and should explain its findings in the annual corporate governance report.

In compliance Partially in compliance Explain

15. Proprietary and independent directors should represent an ample majority on the board of directors, and the number of executive directors should be the lowest possible taking into consideration the complexity of the corporate group and the percentage of shares in the company held by the executive directors.

In compliance Partially in compliance Explain

16. The percentage of proprietary directors out of the total non-executive directors should not be greater than the proportion between the shares in the company represented by said proprietary directors and the rest of the share capital.

This criterion may be relaxed in the following circumstances:

- a) In companies with significant capitalization in which there are very shareholdings that would legally be defined as significant.
- b) In the case of companies where numerous unrelated shareholders are represented on the board of directors.

In compliance Explain

17. Independent directors should make up at least half of the total number of directors.

Nevertheless, where a company is not a large capitalization concern, or if it is, where a single shareholder or several acting in concert control more than 30% of share capital, the number of independent board members should represent at least one third of the total board members.

In compliance Explain

18. Companies should publish the following information about directors on their corporate websites, keeping said information up to date at all times:

- a) Professional and biographical profile.
- b) Other boards of which directors are members, whether or not in listed companies and any other remunerated activities undertaken, whatever their nature.
- c) Indication of the category of director to which each board member belongs, stating the shareholder represented or with whom a director has links in the case of proprietary directors.
- d) Date of first appointment as a director of the company, and dates of any subsequent reappointments.
- e) Shares and stock options held in the company.

In compliance Partially in compliance Explain

19. Subject to verification by the appointments committee, the annual corporate

governance report should explain the reasons for the appointment of proprietary board members at the request of shareholders holding equity interests of less than 3% of share capital. Likewise, the reasons for the refusal, where applicable, of any formal requests for seats on the board made by shareholders holding interests of equal size or greater than the interests owned by other shareholders at whose request proprietary board members were appointed.

In compliance Partially in compliance Explain Not applicable

20. Proprietary directors should tender their resignation whenever the shareholder represented transfers its interest in share capital. An appropriate number of proprietary directors should also do so where the shareholder represented lowers its shareholding to a level requiring a reduction in the number of proprietary directors.

In compliance Partially in compliance Explain Not applicable

There were two members of the board of directors classed as “other external directors” during the year concerned in this report. In the prior year, these directors held office as proprietary directors appointed by the former sole shareholder Neinor Holdings, S.L. (Lone Star). However, the shareholder left the company and these two directors resigned from their positions in said shareholder. In these circumstances, the Board of Directors was concerned to ensure the continuity of both as persons of value given the expertise they brought to the company and the fact that they had been involved with it since its inception. In this light, the appointments and Remunerations Committee resolved to keep them in office and reclassified them as other external directors at its meeting of 22 January 2018. It was because of this that these directors did not tender their resignations.

21. The Board of Directors should not propose the removal of any independent director before the end of the statutory term of office for which the same was appointed, except with good cause established by the board subject to a report of the appointments committee. In particular, good cause shall be deemed to exist where the director takes up any new office or contracts new obligations which would prevent him/her from dedicating the time necessary to discharge the functions proper to the office of director, or fails to discharge the duties inherent in his/her office, or is affected by any circumstances in view of which he/she might lose the condition of independence within the meaning of applicable legislation.

The removal of independent directors may also be proposed as a consequence of any public takeover bid, merger or similar corporate transactions which would entail a change in the company’s capital structure, where such changes in the make-up of the board of directors are obey the principle of proportionality mentioned in recommendation 16.

In compliance Explain

22. Companies should establish rules obliging directors to report and, where applicable, to resign in any circumstances that could detrimentally affect the credit and reputation of the company, and requiring them to notify the board of directors of any criminal charges that may be brought against them and explain the progress of trial proceedings.

Where a director may be prosecuted, or where he/she may be brought to trial for any of the offences mentioned in corporate legislation, the Board of Directors should examine the case as soon as may be and should decide whether or not the director, in view of the specific circumstances. The board of directors should provide reasoned explanations of any such case in the annual corporate governance report.

In compliance Partially in compliance Explain

23. All directors should clearly express their objections when they consider that any

proposal submitted to the board for a decision is contrary to the corporate interest. In particular, the independent and other directors who are not affected by a potential conflict of interests should likewise object wherever they consider that any decisions might be detrimental to the interests of other shareholders not represented on the board of directors.

Where the board of directors adopts any significant decision in relation to which a director may have expressed serious reservations, or where it may repeat any such decision, the director concerned should consider their position and, if they opt to resign, they should explain their reasons in the letter mentioned in the next recommendation.

This recommendation also applies to the secretary to the board of directors, even where the same is not a director.

In compliance Partially in compliance Explain Not applicable

24. Where a director resign from office or leave before the end of their mandate for any other reason, they should explain the reasons in a letter addressed to all members of the board of directors. Notwithstanding reporting of such resignation as a relevant event, the reasons for the director's resignation should be included in the annual corporate governance report.

In compliance Partially in compliance Explain Not applicable

25. The appointments committee should ensure that non-executive directors have sufficient time available for the appropriate discharge of their duties.

The Board's Regulations should establish a maximum number of other companies' boards on which the directors may hold seats.

In compliance Partially in compliance Explain

26. The board of directors should meet as often as necessary to perform its functions effectively and at least eight times per year, following a schedule of dates and issues established at the start of the year. However, each director may also individually propose other initially unscheduled items for inclusion in the agenda.

In compliance Partially in compliance Explain

The Company's Board met five times in 2018, four times physically and once voting by letter, and it has proposed to increase its membership by an additional one or two directors next year to debate strategic issues and risks. The company considers that the number of meetings held was appropriate given its activity during the year.

27. Failure on the part of board members to attend meetings should be confined to unavoidable cases and non-attendance should be quantified in the annual corporate governance report. Proxies should be arranged with instructions in the event of inability to attend.

In compliance Partially in compliance Explain

28. Where the directors or the secretary express any concerns over a proposal, or in the case of directors, over the conduct of the company's affairs, and such concerns are not resolved at a meeting of the board of directors, the concerns raised shall be recorded in the minutes at the request of the party expressing the same.

In compliance Partially in compliance Explain Not applicable

29. The company should establish appropriate channels to allow the directors to obtain the necessary advice to discharge their duties, including external advisory services

payable by the company where circumstances so require.

In compliance Partially in compliance Explain

30. Irrespective of the expertise required of directors for the discharge of their duties, companies should offer the directors training programmes to refresh their knowledge and skills, where circumstances so require.

In compliance Partially in compliance Explain

31. The agenda for board meetings should indicate clearly the points on which the board of directors is required to adopt a decision or resolution, so that the directors can examine or obtain the necessary information in advance.

Where the chairman may wish in exceptional circumstances and for reasons of urgency to propose decisions or resolutions which are not included in the agenda for approval by the board of directors, the express prior consent of the majority of the board members present shall be required and shall be recorded in the minutes.

In compliance Partially in compliance Explain

32. Board members should be periodically informed of changes in the shareholder structure and of the opinions of the company held by significant shareholders, investors and credit rating agencies.

In compliance Partially in compliance Explain

33. As the officer responsible for the effective functioning of the board of directors, the chairman shall exercise the functions attributed by law and the bylaws, and should prepare and submit to the board of directors a schedule of dates and an agenda, organize and coordinate periodic assessments of the board, and where appropriate, of the company's chief executive officer. The chairman should likewise direct the work and effective functioning of the board, ensuring that sufficient time is given over to the discussion of strategic issues, and agreeing and reviewing the programmes established to refresh the knowledge of each director where circumstances so require.

In compliance Partially in compliance Explain

34. Where there is a coordinating director, the bylaws or Board's Regulations should attribute the following functions to said officer in addition to the powers legally assigned to the same: to chair the board of directors in the absence of the chairman and deputy chairs, where applicable; to take note of the concerns voiced by non-executive directors; to maintain contacts with investors and shareholders in order to learn their points of view and form an opinion of their concerns, in particular with regard to corporate governance of the company; and to coordinate the plan for succession of the chairman.

In compliance Partially in compliance Explain Not applicable

35. The secretary to the board of directors should oversee the board's actions and decisions, ensuring that they are based on the good governance recommendations applicable to the company as set forth in the Code of Good Governance.

In compliance Explain

36. The board of directors shall meet once per year in full session to evaluate and, where appropriate, adopt an action plan to correct any weaknesses identified with respect to:

- a) The quality and effectiveness of the board's functioning.
- b) The functioning and membership of its committees.
- c) The diversity of the board's membership and competences.
- 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, focusing in particular upon the directors responsible for each of the Board committees.

Assessments of the different committees should be based upon the reports submitted by the same to the board of directors, while the evaluation of the board itself shall be based on the report submitted by the appointments committee.

Every three years, the board of directors should be assisted in its evaluation by an external consultant, whose independence should be verified by the appointments committee.

Business relations maintained by the company or any group company with the consultant or any company forming part of the consultant's group shall be duly disclosed in the annual corporate governance report.

The processes and areas evaluated should be described in the annual corporate governance report.

In compliance Partially in compliance Explain

37. Where an executive committee exists, the membership structure of the different categories of director shall be similar to that of the board of directors, and its secretary shall be the secretary to the board.

In compliance Partially in compliance Explain Not applicable

38. The board of directors should at all times be apprised of the matters debated and decisions taken by the executive committee, and all directors should receive copies of the minutes to meetings of the executive committee.

In compliance Partially in compliance Explain Not applicable

39. The members of the audit committee, and in particular its chairman, should be appointed in view of their knowledge and expertise in accounting, audit and risk management matters, and the majority of the committee members should be independent directors.

In compliance Partially in compliance Explain

40. A unit should be set up under the supervision of the audit committee to perform the internal audit function and oversee the proper functioning of information and internal control systems. The internal audit unit should report functionally to the non-executive chairman of the board or to the audit committee.

In compliance Partially in compliance Explain

41. The head of the internal audit unit should submit an annual work plan to the audit committee and should report directly on any matters arising in the course of the procedures carried out, as well as presenting an annual report on activities at the end of each financial year.

In compliance Partially in compliance Explain Not applicable

42. In addition to those established by law, the audit committee should perform the following functions:

1. In relation to information systems and internal control:

- a) To supervise the preparation and integrity of the company's, and where applicable the group's, financial information, reviewing compliance with regulatory requirements and ensuring the adequacy of the scope of consolidation defined and appropriate application of accounting criteria.
- b) To oversee the independence of the internal audit unit; propose the selection, appointment, reelection and removal of the head of the internal audit department; propose the unit's budget; approve its orientation and work plans, ensuring that activities are directed principally towards key risks for the company; receive regular information on activities; and ensure that senior management takes the findings and recommendations of internal audit reports into consideration.
- c) To establish and oversee a whistle-blowing mechanism allowing employees confidentially and, if possible and where deemed appropriate, anonymously to report any potentially material irregularities, especially of a financial or accounting nature, which they may observe in the company.

2. In relation to the external auditor:

- a) To examine the circumstances and reasons in the event the external auditor should resign.
- b) To ensure that the external auditor's fees for its work do not compromise quality or its independence.
- c) To oversee reporting by the company of any change of auditor to the CNMV, and to ensure that it is accompanied by a statement with regard to the possible existence of disagreements with the outgoing auditor, if any, and the contents thereof.
- d) To ensure that the external auditor holds an annual meeting with the whole of the board of directors to report on the audit work carried out and on the evolution of accounting matters and the risks to which the company is exposed.
- e) To ensure that the company and the external auditor respect prevailing regulations governing the provision of non-audit services, the limits on the concentration of the auditor's business and the terms of other regulations governing auditor independence in general.

In compliance Partially in compliance Explain

43. The audit committee should be able to call any employee or executive of the company, and even to require attendance without the presence of any other executive.

In compliance Partially in compliance Explain

44. The audit committee should be informed of all transactions involving structural or

corporate changes which the company plans to carry out. The committee shall examine such information and report in advance to the board of directors on the financial terms and accounting impact of such transactions, and in particular on the exchange ratio proposed, if any.

In compliance Partially in compliance Explain Not applicable

45. The risk control and management policy should define at least:

- a) The different types of financial and non-financial risks to which the Company is exposed (e.g. operational, technological, legal, corporate, environmental, political and reputational risk), including contingent liabilities and other off-balance sheet risks among its financial and business exposures.
- b) The level of risk which the company considers acceptable.
- c) The measures established to mitigate the impact of the risks identified, in the event any should materialize.
- d) The information and internal control systems used to control and manage risks, including contingent liabilities and off-balance sheet risks.

In compliance Partially in compliance Explain

46. An internal control and risk management function headed up by an internal unit or department of the company should be set up under the direct supervision of the audit committee or, where appropriate, of a specialized board committee to take charge of the following functions:

- a) To ensure the proper functioning of risk control and management systems and, in particular, to ensure that the same adequately identify, manage and quantify all significant risks to which the company may be exposed.
- b) To participate actively in the preparation of the risk strategy and significant decisions with regard to risk management.
- c) To ensure that risk control and management systems adequately mitigate risks within the framework of the policy defined by the board of directors.

In compliance Partially in compliance Explain

47. The members of the appointments and Remunerations Committee (or of the appointments committee and remuneration committee where separate) should be appointed in view of their expertise, skills and experience with regard to the functions they are required to discharge, and the majority should be independent board members.

In compliance Partially in compliance Explain

48. Large capitalization companies should establish a separate appointments committee and remuneration committee.

In compliance Explain Not applicable

49. The appointments committee should consult with the chairman of the board and the company's chief executive officer, in particular on matters relating to executive board members.

Any director should be able to request that the appointments committee take potential candidates to cover vacancies in the board into consideration, where they understand the same to be suitable.

In compliance Partially in compliance Explain

50. The remuneration committee should exercise its functions independently. In addition to those attributed by law, said functions shall comprise the following:

- a) To propose the basic terms of senior management contracts to the board of directors.
- b) To verify compliance with the remuneration policy established by the company.
- c) Periodically to review the remuneration policy applied to directors and senior executives, including share-based remuneration systems and their application, if any, and to provide assurance that individual remuneration is proportionate and in line with the compensation paid to other directors and senior executives of the company.
- d) To ensure that potential conflicts of interest do not adversely affect the independence of external advice provided to the committee.
- e) To verify information on the remuneration of directors and senior executives contained in corporate documents, including the annual report on directors' remuneration.

In compliance Partially in compliance Explain

51. The remuneration committee should consult with the chairman of the board and the company's chief executive, in particular on matters relating to executive directors and senior management personnel.

In compliance Partially in compliance Explain

52. The rules governing the membership and functioning of supervisory and control committees should be set out in the Board's Regulations and should be consistent with those applicable by law to mandatory committees in accordance with the foregoing recommendations, including:

- a) Membership should comprise exclusively non-executive directors and a majority should be independent board members.
- b) Committee chairpersons should be independent directors.
- c) The board of directors should appoint the members of committees in view of the expertise, skills and experience of directors and the duties entrusted to each committee and should debate their proposals and reports. Each committee should likewise be held to account for its activity and work at the first full meeting of the board held after each of committee meeting.
- d) Committees should seek external advice where considered necessary for the due discharge of their functions.
- e) Minutes should be kept of each meeting and should be provided to all of the directors.

In compliance Partially in compliance Explain Not applicable

53. Compliance with the rules of corporate governance, internal codes of conduct and corporate social responsibility policy should be supervised by one or more board committees, which may be the audit committee, the appointments committee, the corporate social responsibility committee, if any, or a specialized ad hoc committee set up by the board of directors in the exercise of its powers of self-organization and

vested with at least the following minimum competences:

- a) To supervise compliance with internal codes of conduct and with the company's corporate governance rules.
- b) To supervise the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically to assess the adequacy of the company's corporate governance system to ensure that it fulfils its mission of furthering the corporate interest and takes the legitimate interests of all stakeholder groups into account as appropriate.
- d) To review the Company's corporate responsibility policy, ensuring that it is oriented to the creation of value;
- e) To monitor corporate social responsibility strategy and practices, and to assess the level of compliance.
- f) To supervise and evaluate processes relating to different stakeholder groups.
- g) To assess all matters connected with the non-financial risks to which the company is exposed, including operational, technological, legal, corporate, environmental, political and reputational risks.
- h) To coordinate procedures for reporting non-financial information and on matters of diversity in accordance with applicable legislation and the relevant international standards.

In compliance

Partially in compliance

Explain

54. The corporate social responsibility policy should include the principles and undertakings voluntarily assumed by the company in its relations with stakeholders and should determine at least:

- a) The objectives of the corporate social responsibility policy and the instruments developed to support the same.
- b) Corporate strategy in relation to sustainability, the environment and social issues.
- c) Specific practices in matters relating to: shareholders, employees, customers, suppliers, corporate issues, the environment, diversity, fiscal responsibility, human rights and the prevention of wrongdoing.
- d) The methods and monitoring systems applicable to the specific practices referred to in point c) above, the associated risks and their management.
- e) Supervisory mechanisms for non-financial risks, ethics and business conduct.
- f) Channels established for communication, participation and dialogue with stakeholders.
- g) Responsible communication practices to prevent the manipulation of information and safeguard personal integrity and character.

In compliance

Partially in compliance

Explain

55. The company should report on matters relating to corporate social responsibility in a separate document or in the management report, applying internationally accepted methodologies for this purpose.

In compliance

Partially in compliance

Explain

- 56. Directors' remuneration should be set at the necessary levels to attract and retain directors with the desired profile, and to reward the dedication, qualifications and responsibility required by their office, but it should not be set so high as to compromise the independence of non-executive directors.**

In compliance Explain

- 57. Variable remuneration linked to the company's results and personal performance should be confined to the executive directors, as should remuneration systems based on the allocation of shares, options or rights over shares or other instruments linked to the share price, and long-term savings systems such as pension plans or retirement and other prudential schemes.**

Share-based remuneration may be considered for non-executive directors subject to the condition that any securities delivered by held until the director concerned leaves office. This condition shall not apply to any securities which the board member concerned may need to dispose of, where applicable, to settle acquisition costs.

In compliance Partially in compliance Explain

- 58. In the case of variable pay, remuneration policies should establish the necessary limits and technical precautions to ensure that such rewards relate to the professional performance of beneficiaries and do not accrue merely as a result of the general evolution of the markets, the industry in which the company operates or other similar circumstances.**

In particular, variable pay components should:

- a) Be linked to predetermined, measurable performance criteria, and such criteria should take into account the risks assumed to obtain results.
- b) Promote the sustainability of the company and include non-financial criteria related to long-run value creation, as well as compliance with the company's internal rules and procedures, and with its risk control and management policies.
- c) Be structured on the basis of balance between the attainment of objectives in the short, medium and long term, so as to remunerate ongoing success and performance over a sufficient period of time to appreciate the contribution made to the sustainable creation of value and ensure that the performance variables measured do not refer only to one-off, occasional or extraordinary events.

In compliance Partially in compliance Explain Not applicable

59. Payment of a relevant part of variable remuneration components should be deferred over a minimum timespan to allow verification that the performance conditions established have actually been fulfilled.

In compliance Partially in compliance Explain Not applicable

60. Compensation that is tied to the company's earnings should take into account the qualifications, if any, contained in the external auditor's report where the same reduce earnings.

In compliance Partially in compliance Explain Not applicable

61. A relevant percentage of the variable remuneration paid to executive directors should be linked to the delivery of shares or financial instruments indexed to the share price.

In compliance Partially in compliance Explain Not applicable

62. Once shares, options or rights over shares have been assigned in remuneration systems, the board members shall not transfer ownership of a number shares equal to twice the amount of their fixed annual remuneration, nor shall they exercise any options or rights, until a period of at least three years has elapsed since the allocation was made.

This condition shall not apply to any shares which the director concerned may need to dispose of, where applicable, to settle acquisition costs.

In compliance Partially in compliance Explain Not applicable

The Regulation governing the Long-Term Incentive Plan for 2017-2021 obliges the Executive Directors of the Company to hold the shares received (net of personal income tax paid on account) for a period of one year following delivery.

63. Contractual agreements with directors should include a clause allowing the company to claim reimbursement of variable remuneration items where payment was not in line with the performance conditions established, or where payment was made in view of data later found to be inaccurate.

In compliance Partially in compliance Explain Not applicable

64. Severance payments made on the termination of contracts should not exceed two years' total annual remuneration, and they should not be made until the company has been able to verify that the director concerned fulfils the performance criteria established.

In compliance Partially in compliance **Explain** Not applicable

H. OTHER MATTERS OF INTEREST

- 1. Briefly describe any other relevant corporate governance matters in the company or its group entities that are not considered in the preceding sections of this report and require inclusion to complete the reasoned information offered on the governance structure and practices of the entity and its group.**
- 2. You may also include in this section any other information, clarification or qualification related with the preceding sections of this report, to the extent that such explanations are not repetitious.**

Specifically, state whether the company is subject to any corporate governance legislation other than Spanish law and, where applicable, include any information that you are under the obligation to provide other than that required in this report.

- 3. The company may also state whether it has voluntarily adhered to any other international, industry or other ethical or best practice codes. Indicate the code in question and the date of adhesion, where applicable. In particular, you should mention whether the company has adhered to the Code of Best Tax Practice of 20 July 2010.**

H.1

Neinor Homes is fully aware of its significance as a business, institutional and social reality and as a benchmark company in the area of residential development in Spain, and in this light it cannot ignore the importance of conducting its entire business with the maximum diligence in terms of Good Governance, ethics and transparency.

We consider it necessary to provide the following information to ensure a proper understanding of the company from a Good Governance standpoint, and of the efforts it has made to progress in this area.

Neinor Homes relies principally on its own proprietary Code of Conduct, which sets out the main mandatory guidelines and criteria governing the conduct of all Neinor Homes employees. This code is communicated to and acknowledged by all employees on an annual basis.

According to the previous paragraph, then, Neinor Homes' Corporate Governance rules are established in its Corporate Bylaws, in the Regulations of the Board of Directors and the General Shareholders Meeting, in the Regulations of all of the Board Committees, in the Internal Regulations Governing Conduct in the Securities Markets, all of which have been duly approved by the Board of Directors and have applied since the first day's trading of the company's shares on the Spanish Stock Exchanges.

In this connection, Neinor Homes has prepared a series of mandatory policies and regulations monitored by the integrated control system and designed to underpin and provide support in matters of Good Governance for the regulations of its Governing Bodies, some of which are published online in the corporate website:

- Code of Conduct for Third Parties
- Procedure for conflicts of interest and related-party transactions
- Code of Best Practice for Real Estate Intermediation
- Criminal corporate liability prevention system
- Director selection policy
- Tax Policy and Text Best Practices
- Compliance Unit Regulation
- Internal Audit Manual
- Policy for the provision of non-audit services by the external auditor
- Employment policy for former auditors
- Rules of functioning for the Shareholders' Digital Forum

We would also stress that the company's Board of Directors has given much thought since the day of its incorporation to its relations with all stakeholder groups in its role as a leader in the transformation that we are determined to effect in the real estate sector, eschewing a narrow focus on the shareholders and the financial community. We have implemented numerous initiatives and measures which we wish to see reflected in our way of doing business, and which we trust will benefit our human team, our suppliers, our customers, the environment, the regulatory authorities, the media and society in general, including:

1. **Continuous Internal Control and Risk Management System.** See section F
2. **Continuous Corporate Governance Advancement System,** resting basically on the following to pillars:
 - The company has created a continuous tracking and monitoring system to assess progress with its goal of continuous improvement in non-financial projects in the areas of environment, innovation, etc.
 - The company has implemented a Continuous Good Governance Management System to monitor good governance activities over the course of the year. For this purpose it has made an in-depth analysis of both Spanish and international regulations, establishing the obligatory activities that must be included in the agenda of the Board and of each Committee, and it prepares annual diagnoses of compliance with the recommendations of the CUBG, LSC, new Spanish Audit Act, and best international practices (King IV, Federal Sentencing Guidelines, etc.).
3. **White Book.** Neinor Homes has created the first residential sector White Book, consisting of a design and construction manual that seeks to standardize the quality, sustainability and design parameters defining all real estate developments. The White Book systematizes and details all of the processes required throughout the lifecycle of Neinor Homes' products so that both architects and builders are able to apply the relevant parameters to the high standards defined by the company.
4. **Certification BREEAM.** Certification procedures are in place at the majority of Neinor Homes' developments. BREEAM fosters sustainable construction offering economic, environmental and social benefits for all concerned over the life of a building (tenants, users, developers, owners, managers, etc.) and at the same time it clearly and straightforwardly displays the company's Corporate Social Responsibility commitment both to society in general and to the market.
5. **Certification of Neinor Homes' integrated management system.** The company holds the following certificates: Quality Management (ISO 9001), Environmental Management (ISO 14001), R&D Management (UNE 166002) and Information Security Management (ISO 27001). All of these certificates were obtained in prior years and have been renewed in 2018. Neinor Homes is the first new cycle real estate developer to obtain these four certificates.
6. **Preparation of the Corporate Social Responsibility report based on GRI standards,** publicly reflecting the resources applied and efforts made by the company in the field of corporate responsibility. The report includes a materiality analysis, which is highly valuable from a strategic standpoint because it focuses on those corporate, environmental and economic issues that are most relevant to the company's business and that most influence stakeholder value creation.

It also reveals the enormous opportunity offered by the transformation and consolidation of the real estate sector in terms of the generation of sustainable value for all interested parties. Our principal objective is to generate margins and returns in line with the development and risks assumed, building homes for people, establishing stable relations with our suppliers and increasing value for our employees.

7. **EFQM 300+ European Seal of Excellence.** Neinor Homes was awarded the EFQM 300+ European Seal of Excellence by the Management Excellence Club in December 2017. As a result, Neinor Homes became the first company in the industry in Spain to sign up to this business management and assessment system, a benchmark throughout Europe, strengthening its role as a driver of change in the real estate sector.

The EFQM System provides an integrated tool for objective, structural analysis of the company's operations in relation to the goal of excellence in all management processes involved in the business, and for the prioritization of initiatives. The system criteria are based on the results achieved in relation to customers, people, the company and the business.

The EFQM certificate forms part of Neinor Homes' ambition to become an excellent company in terms of business management. The changes we are driving in real estate development in Spain require maximum levels of excellence in quality processes and practices. We believe that submitting organizations to this kind of examination can only help improve results and foster sustainable growth. It is our hope that our adhesion to that EFQM system will prove an inspiration for other firms in the industry so that we can together make the final push to enter a new era of residential development.

During the Management Excellence Club certification process, Neinor Homes scored highest in the areas of alliance and resource management, for its commitment to industrialization and for its integrated compliance and risk management system.

That EFQM system is based on its Excellence Values, comprising eight essential steps to achieving sustained excellence over time:

1. Add value for customers by understanding and anticipating needs and opportunities
2. Create a sustainable future by improving economic, social and environmental conditions in the company's world
3. Develop the organization's capacity to become more effective
4. Leverage creativity and innovation

5. Lead with vision, inspiration and integrity
6. Address opportunities and threats swiftly
7. Seek success via the talent of people
8. Maintain outstanding results over time

Neinor Homes will submit our implementation of the EFQM an excellence system to external evaluation every two years, and we therefore already working to achieve continuous improvements in order to raise our levels of excellence.

We also wish to make clear that Neinor Homes is fully committed to sustainability and its impact on our society, and although it is not directly subject to the Law on non-financial and diversity reporting approved on 13 December 2018, the company fully complies with its provisions and publishes a sustainability report in line with old disclosure requirements contained in the new legislation. The integrity and accuracy of this report is further verified in a review carried out by an independent third party.

By way of an additional example of our commitment over and above the information provided in the sustainability report, we may mention that Neinor Homes arranged a 'green loan' with Bankia in December 2018 to finance the Amara Homes development in Las Rozas (Madrid), which has been awarded a BREEAM sustainability certificate resulting in an agreement for rebates in the price of the loans granted to home buyers.

Hence, the development loan arranged will be subrogated in the form of cheaper retail mortgages for customers purchasing the homes that will be built in this suburb of Madrid, who will receive a rebate of up to 20 basis points on the interest rate.

This agreement is a further reflection of Neinor Homes' commitment to sustainability and of our certainty that the future of housing development is bound up with this principle.

H.2

Neinor Homes adheres to the Code of Best Tax Practice promoted by the Spanish Large Companies Forum and Tax Service, which was first approved by the Board on 26 July 2017, and it is careful to comply with its provisions.

This annual corporate governance report was approved by the company's board of directors at its meeting held on 27 February 2019.

State whether any directors voted against the approval of this Report or abstained.

Yes

No

Names of directors who did not vote in favour of approving this report	Type of vote (against, abstention, absence)	Explain the reasons

ANNEX I: 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 2018.

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 2018

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 January 14, 2019, 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 2018, which summarizes the Company's internal control procedures regarding annual financial information.

The Board of Directors is responsible for adopting the necessary 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 2018 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.

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

The following procedures were applied:

1. Reading and understanding the information prepared by the Company in relation to the ICFR –as disclosed in the Directors' Report- and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICFR, in the model of Annual Corporate Governance Report, as established in Circular nº 5/2013 of the National Securities Market Commission dated June 12, 2013, which has been modified by Circular 7/2015 of the National Securities Market Commission dated 22 Decembes 2015 and the Circular 2/2018 of the National Securities Market Comission dated 12 June 2018 ("the Circulars of the NSMC").
2. Making enquiries 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 Company.
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. Comparison of 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. Reading the minutes of the Board Meetings, Audit Committee, and other committees of the Company, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICFR and the information described in section 1 above.
6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in section 1 above.

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 has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and "the Circulars of the NMSC", for the purposes of describing the ICFR in Annual Corporate Governance Reports.

DELOITTE, S.L.



Alicia Izaga Goicoechea
February 27, 2019

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 27, 2019, 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, 2018, drawn up by the Board of Directors on the referred meeting of February 27, 2019 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 27, 2019

Mr. Ricardo Martí Fluxá

Ms. Anna M. Birulés Bertran

Mr. Alfonso Rodés Vilà

Mr. Juan José Pepa

Mr. Felipe Morenés Botín-Sanz de Sautuola

Mr. Juan Velayos Lluís

Mr. Jorge Pepa

Mr. Francis Btsh