Grupo Empresarial San José, S.A.

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

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

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

Other Information: Directors' Report

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Report to the Audit Committee

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

Engagement Period

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

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

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

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

28 February 2019

Appendix I to our auditor's report

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Grupo Empresarial San José, S.A.

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

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

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

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

(Thousand of Euros)

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

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

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

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

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

INCOME STATEMENTS FOR YEARS 2018 AND 2017

(Thousand of Euros)

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

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

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

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

A) STATEMENTS OF RECOGNISED INCOMES AND EXPENSES

(Thousand of Euros)

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

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

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

B) STATEMENTS OF CHANGES IN EQUITY

(Thousand of Euros)

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

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

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

CASH FLOW STATEMENTS FOR YEARS 2018 AND 2017

(Thousands of Euros)

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

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

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

Grupo Empresarial San José, S.A.

Notes for the year ended 31 December 2018

1. Incorporation, legal framework and business activities

Incorporation

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

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

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

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

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

Legal framework

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

Activities

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

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

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

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

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

2. Basis of presentation of the Financial Statements

a) Legal framework on financial information applicable to the Company

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

i) Code of Mercantile Law and similar.

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

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

iv) Applicable Spanish regulation on the issue.

b) Fair view

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

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

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

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

d) Non-compulsory accounting principles applied

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

e) Associated items

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

f) Comparative information

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

g) Working capital and assets

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

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

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

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

h) Consolidation

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

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

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

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

3. Distribution of profit/(loss)

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

4. Accounting principles and measurement basis

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

a) Intangible assets

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

Goodwill:

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

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

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

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

Computer software:

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

b) Property, plant and equipment

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

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

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

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

c) Asset impairment

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

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

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

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

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

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

d) Financial Instruments

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

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

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

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

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

Financial Assets

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

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

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

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

Initial recognition

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

Subsequent recognition

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

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

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

Financial liabilities and net equity

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

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

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

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

e) Income tax

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

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

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

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

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

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

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

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

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

f) Revenue and expenditure

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

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

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

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

g) Provisions and contingencies

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

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

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

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

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

h) Termination benefits

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

i) Transactions with associates

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

j) Treasury shares

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

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

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

k) Environmental issues

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

l) Current and non-current items

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

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

m) Cash flow statement

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

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

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

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

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

5. Intangible assets

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

Year 2018:

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

Year 2017:

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

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

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

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

6. Property, plant and equipment

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

Year 2018:

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

Year 2017:

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

This item includes mainly equipment for the treatment of information.

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

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

7. Group companies and associates

7.1 Long-term investments in Group companies and associates

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

Year 2018:

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

Year 2017:

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

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

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

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

Year 2018:

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

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

Year 2017:

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

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

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

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

Year 2018:

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

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

Year 2017:

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

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

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

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

7.2 Long-term investments in Group companies and associates

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

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

8. Cash and cash equivalents

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

Information on the nature and level of risk of financial instruments

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

a) Credit risk

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

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

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

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

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

b) Liquidity risk

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

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

c) Market risk

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

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

9. Net Equity

9.1 Share Capital

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

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

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

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

11.2).

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

9.2 Issuance rights

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

9.3 Legal reserve

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

9.4 Restrictions on the distribution of dividends

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

9.5 Treasury shares

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

9.6 Goodwill reserves

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

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

9.7 Equity

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

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

10. Provisions and contingencies

10.1 Long-term provisions

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

Year 2018:

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

Year 2017:

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

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

Breakdown, by associate, is as follows:

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

10.2 Short-term provisions

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

10.3 Contingencies

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

11. Financial debt

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

Year 2018:

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

Year 2017:

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

11.1. Other financial liabilities

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

11.2. Syndicated credit facilities

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

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

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

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

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

Tranche A: for a total amount of EUR 250 million and having a maturity of five years, renewable for another year (provided certain terms are satisfied), with a progressive payment schedule. At 31 December 2018, the amount recorded amounts to EUR 191.5 million. During years 2018 and

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

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

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

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

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

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

Quarterly settlement of accrued financial interest is established.

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

- Trade and financial discount tranche amounting to EUR 49 million
- "Confirming" tranche amounting to EUR 28.8 million
- Guarantees for the bidding and execution of works amounting to EUR 241.4 million.
- Financial bank guarantees amounting to EUR 98 million for recurrent financial bank guarantees, and USD 8 million of non-recurrent financial bank guarantees.
- Tranche B: additional credit facilities in the event of execution of guarantees amounting to EUR 10 million.

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

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

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

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

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

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

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

Conversion shall take place at market price of shares of Grupo San José by reference to the weighted average price of the previous 20 sessions prior to the maturity date. Warrants will not be listed on any secondary markets and shall only be transferable with debt of Grupo San José. Consequently, and to the extent that the execution price is referenced to the market value of the share, its fair value is zero, both at the time of initial recognition and subsequent valuation.

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

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

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

12. Taxation

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

12.1. Tax receivables and payables

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

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

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

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

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

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

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

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

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

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

12.3. Deferred tax assets and liabilities

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

Year 2018:

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

Year 2017:

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

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

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

Year 2018:

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

Year 2017:

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

Loss carry-forwards

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

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

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

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

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

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

Projections used are in line with the Strategic Plan of Group SANJOSE, appropriately reviewed and updated by the directors of the Group according to the most recent trade projections, which take into account the historical evolution in recent years, and the financial stability achieved after the restructuring of the financial debt of the Group completed in 2014. Likewise, revenue and margin projections have been draft using external resources from recognised international prestige, such as the International Monetary Fund, and information regarding plans for public investment in infrastructure in the coming years of the main countries where the Group operates.

Forecasts of the Group are based on profits, which have, in fact, already been obtained in the last years. The most significant assumptions used to apply such Tax Plan at 31 December 2018, regarding construction activity, are as follows:

- Regarding construction activity:

  - Sales: total construction revenue is distributed among countries where the Group operates, based on the current activity and contracted portfolio (short and medium term) and the guidelines established in the business plan Group (medium and long term), assuming an 9% annual growth of total construction activity for the period 2019-2028.
  - A relatively margin EBITDA standing at 6.5%.
  - Potential capital gains from the sale of real estate assets or income and benefits of urban development activity have not been considered in this cash generating unit.

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

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

As a result of the Tax Plan made, it is concluded that the Group generates sufficient taxable income to offset the amount of deferred tax assets recorded at 31 December 2018, in a given period of 9 years.

Tax credits

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

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

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

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

12.4. Years open for review

Years open for review are as follows:

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

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

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

12.5. Transactions under the special tax neutrality regime

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

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

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

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

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

12.6 Subrogation of the Company of tax liabilities of absorbed companies

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

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

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

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

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

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

13. Revenue and expenditure

13.1 Net Revenue and other operating income

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

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

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

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

13.2 Social security costs

Breakdown for years 2018 and 2017 is as follows:

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

13.3 Staff costs

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

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

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

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

13.4 External services

Breakdown for years 2018 and 2017 is as follows:

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

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

13.5 Audit fees

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

Year 2018:

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

Year 2017:

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

14. Transactions and balances with associates

14.1. Transactions with associates

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

Year 2018:

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

Year 2017:

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

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

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

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

14.2. Balances with associates

Breakdown of balances with associates is as follows:

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

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

Year 2017:

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

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

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

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

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

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

15. Other disclosure

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

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

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

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

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

15.2. Remuneration of Directors and Executives

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

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

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

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

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

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

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

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

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

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

16. Events after the reporting period

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

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

GRUPO EMPRESARIAL SAN JOSE, S.A.

Directors' Report for the year ending 31 December 2018

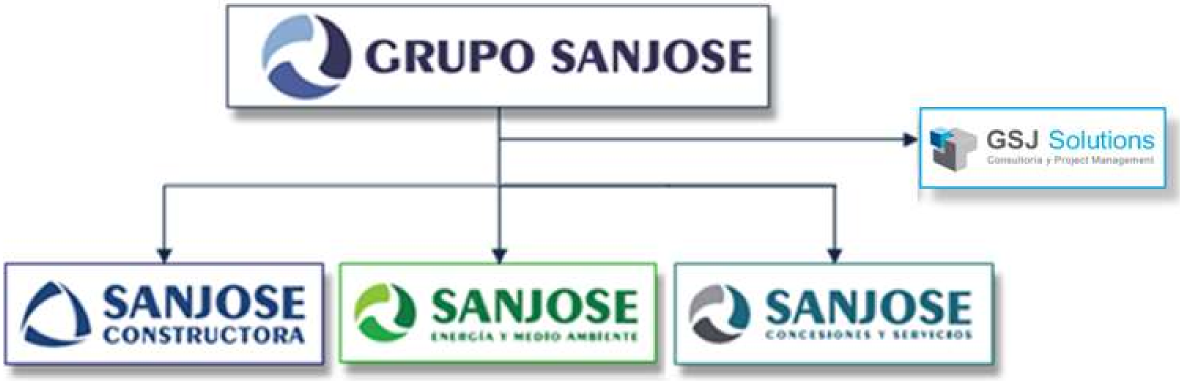
1. Situation of the Company

1.1. Organisational Structure

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

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

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



Likewise, due to the diversification policy of the Group, the Group is present in other lines of activity, such as real estate, trade, stockbreeding and agriculture.

1.2. Performance

The business model of the Group is to create a diversified group regarding both, geographic distribution and lines of activity as a way of being less exposed to the risk inherent to a single activity. The Group has a clear international vocation, becoming increasingly important activities developed overseas, with a higher significance in the turnover of the Group. In 2018, 50.8% total revenue of the Group comes from overseas (56.4% in 2017).

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

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

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

2.1. Market performance

The economic and financial crisis since the end of 2007 has resulted in an abrupt reduction in the level of activity from 2007 to present date, not only in Spain but worldwide. In the last two years, signs of a slight improvement have begun to appear.

Since 2013, there has been a turning point in the domestic economy, technically coming out of recession. During 2014 and 2015, an upward trend was maintained. In the 2017, according to data from the National Institute of Statistics (INE), gross domestic product (GDP) reached 3.0%. The Gross Domestic Product (GDP) grew by 0.8% in the first three months of 2018, which implies exceeding, for the first time, the 1,116 billion registered in 2008. In that year, the last production record of goods and services was recorded in Spain. This means that the economy has accelerated compared to the last quarter of 2016 when it grew by 0.6%. The gross domestic product of Spain in the fourth quarter of 2018 reached an increase of 2.5% with respect to year 2017. This rate is 0.5% less than in the previous year. In 2018, the GDP figure was EUR 1,207 billion, wat involves that the absolute value of GDP in Spain grew by 0.41 trillion compared to 2017.

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

Gross Domestic Product. GPD

Source: INE

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

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

The change of trend in the country has been perceived abroad. As a consequence, the risk perception of foreign investors, which is translated into the risk premium (the difference between the 10-year Spanish bond with regards to the German bond for the same term, the most used indicator to quantify the risk), which has closed year 2018 in 118 points, staying at levels of 2017, confirming the improvement of the international perception already experimented therein.

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

With regard to employment, in 2018 the unemployment decline of previous years was maintained, being the unemployment figure 14.55%:

Labour Force Survey. Unemployment rate (%)

Source: INE

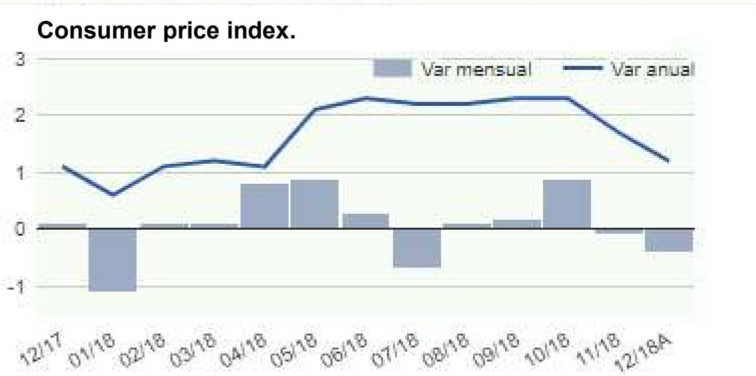
The number of unemployed fell in 2018. The total number of unemployed registered in the offices of public employment services stood at the end of the third quarter of 2018 at 3.33 million people, after falling by 290,193 unemployed people in the year as a whole (-10.87%). Thus, 2018 added a sixth consecutive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

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

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

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

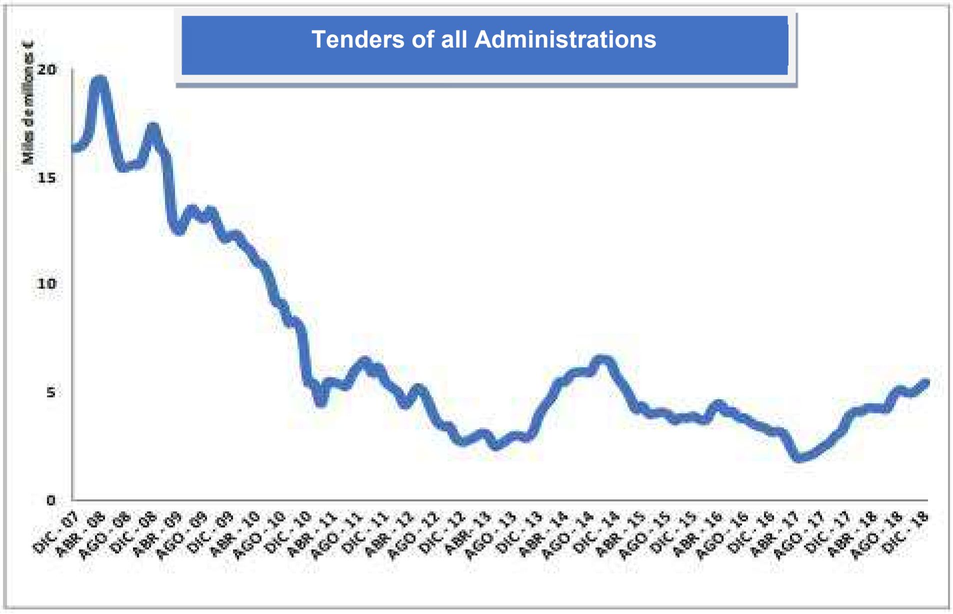
The CPI stood at December 2018 at 1.2%, five tenths less than in the month of November:



Source: INE

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

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



Source: SEOPAN

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

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

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

The Group develops its activities in sectors, countries and socio-economic and legal environments that assume the assumption of different levels of risk caused by these conditions. Thus, it controls such risks in order to prevent them from causing a loss to the profitability of its shareholders or a problem for its customers. For this control task, it has instruments that allow them to be identified sufficiently in advance or avoided minimizing the risks.

The Group maintains a portfolio of EUR 1,630 million, ensuring its medium and long-term future, both in the execution of work, and in the realisation and provision of services in concession and energy projects.

2.2. Main figures of the GROUP

Main consolidated figures of Grupo SANJOSE for year 2018 are as follows:

Consolidated Management Balance Sheet

Thousands of euros

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

Thousands of euros

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

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

Consolidated Management Income Statement

Thousands of euros

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

Alternative Performance Measures (APM):

In the consolidated financial statements for the year ending 31 December 2018, the Group presents its results in accordance with generally accepted accounting standards (IFRS - see Note 2.1 of the accompanying consolidated notes). However, directors of the Group believe that certain alternative performance measures (APMs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and therefore must be considered to adequately assess the performance of the group.

Among others, the Group identifies the following APMs:

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

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

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

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

Revenue

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

The main activity of Grupo SANJOSE is Construction, which represents 89% of the total revenues for the period, and 70% of the total portfolio of the Group at the end of 2018. Revenue from this line of activity in 2018 it stood at 676.0 million euros, experiencing an increase of 12.5% with respect to the figure obtained in the previous year.

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

Thousands of euros

	Grupo SANJOSE				
Revenues by activity	**Dic. 18**		**Dic. 17**		**Var.(%)**
Construction	675,961	89.1%	600,994	87.9%	12.5%
Real estate and property development	3,761	0.5%	6,769	1.0%	-44.4%
Energy	9,711	1.3%	11,165	1.6%	-13.0%
Concessions and services	50,875	6.7%	47,740	7.0%	6.6%
Adjustment and other	18,115	2.4%	16,200	2.4%	
TOTAL	**758,423**		**682,868**		**11.1%**

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

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

Thousands of euros

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

Profit:

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

EBITDA from the Construction activity, recorded in year 2018 36.7 million euros, representing 71% of the Group's EBITDA.

It should also be noted the good evolution experienced in the lines of activity of Energy and Concessions and Services, where at 2018 year-end an increase in EBITDA of 42.3%, is evident.

Breakdown of EBITDA by sector for 2018 is as follows:

Thousands of euros

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

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

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

Net equity

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

At 31 December 2018, the Group's Net Equity is composed of 65.0 million shares, what involves a participation of EUR -0.44 per share in said equity.

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

Management Cash Flow

Thousands of Euros

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

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

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

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

Backlog

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

Millions of euros

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

Millions of euros

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

Millions of euros

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

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

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

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

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

Analysis by sector

Construction

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

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

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

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

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

Thousands of euros

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

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

Thousands of euros

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

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

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

Real estate

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

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

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

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

Thousands of euros

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

Energy

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

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

Thousands of euros

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

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

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

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

Concessions & Services

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

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

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

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

Thousands of euros

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

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

2.4. Average payment term to supplies

The Group has paid their national suppliers during year 2018 with an average payment term of 44 days. This figure is within the average legal period established by law 15/2010 which is 30 days, extended to 60 days in those cases with agreements between the parties.

A significant number of the Company's transactions are with public-sector clients, such as States, autonomous communities, municipalities, local governments and other public bodies, which settle payment obligations in longer term that those established by law. Due to these circumstances, there are one-off payments to suppliers which would exceed the legal limits. However, the group applies standard practices in the industry, and any one-off payments out of term can be considered an objective reason and non-abusive character in accordance with article 3 of the law 3/2004.

3. Liquidity and capital resources

Liquidity

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

Treasury is administered centrally in order to optimise resources through a "cash pooling" system. In the event of cash surplus, short-term investments are held in safe highly liquid deposits.

During 2018, net cash position is as follows:

Thousands of euros

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

(*) Regardless of the actual date of repayment, accounting financial debt that is affecting the financing of goods or assets classified in the consolidated balance sheet also as "current" (real estate developments) is classified as "current".

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

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

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

Capital Resources

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

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

Future contractual obligations

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

4. Main risks

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

Operational risks

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

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

Likewise, the Group has an International Tax and Legal Department, which analyses the impact of the different regulations, tax framework, etc. on the Group's activity, given its increasing international presence, as a way to avoid risks arising from local regulations.

Financial risks

Due to its activity, the Group faces the following risks arising from payment and collection rights of business transactions:

Interest rate risk: This is the main risk to which the Group is exposed as a result of the bank borrowings described in the notes to the consolidated financial statements. In order to minimise exposure to this risk. The Group's financial management has arranged cash flow hedges to protect the Company against foreseeable interest rate increases in the future.

Foreign currency risk: The Group's policy is to borrow in the same currency as that of the cash flows of each business. Consequently, there is currently no significant foreign currency risk. However, noteworthy in this connection are the exchange rate fluctuations arising in translating the financial statements of foreign companies whose functional currency is not the Euro. In view of the Group's geographical expansion over the last few years, exposure to foreign currency risk may arise in the future. Should this risk arise, the best solution will be analysed in order to minimise it by arranging hedges, provided such instruments conform to the Group's corporate criteria.

Credit risk: rick which arises from customer defaults, is managed by means of the preventive assessment of the solvency rating of the Group's potential customers at the beginning of the relationship and throughout the duration of the contract, evaluating the credit rating of the outstanding amounts receivable and reviewing and segregating the estimated recoverable receivables from doubtful receivables.

Liquidity risk: Dealt with in detail in section 3 of this report.

5. Events occurred after the reporting period

On 31 January 2019, the Group company "Constructora San José, S.A." has voluntarily amortised an amount of EUR 7,000 thousand, corresponding to part of the syndicated loan that this company has in force.

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

6. Future outlook

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

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

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

- Maintenance of the level of contracting in domestic market.

- Continuation of the international activity, through geographical diversification, and by business line:

    - Taking advantage of the value acquired in countries where it is present (Abu Dhabi, Chile, Mexico, etc.) to increase its presence.

- o Taking advantage of new expansion opportunities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. R&D Activities

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

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

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

8. Treasury share transactions

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

9. Other disclosure

Stock exchange information

The shares of Grupo SANJOSE trade on the Madrid Stock Exchange. The main indicators and the evolution of the shares are as follows:

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

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

Source.: Bolsas y Mercado Españoles (BMEX)

Dividend Policy

As a result of the terms and conditions of the contractual financing framework the syndicated loan in Spain, there are restrictions on the distribution of dividends.

Proposed distribution of profit

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

10. Non-Financial Information

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

11. Annual Corporate Governance Report

In accordance with the provisions of the trade regulation, the Annual Corporate Governance Report of the SANJOSE Group, which is available on the Group's website, is also attached by reference, as well as on the website of the National Stock Market Commission, and which forms an integral part of the Consolidated Management Report of the SANJOSE Group for the year ending 31 December 2018.

DIRECTORS' SIGNATURES

For the purposes of R.D. 1362/2007 on 19 October (Article 8.1.b and Article 10), the undersigned Directors of Grupo "Grupo Empresarial San José, S.A." hereby make the following statement of liability:

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

These Financial Statements consisting of the Balance Sheet, Income Statement, Statement of Changes in Equity, Cash Flow Statement and Notes to the Financial Statements for the year ending on 31 December 2018, issued on 41 sheets of common paper, as well as the Directors' Report, issued on 19 sheets of officially stamped single-sheet paper were prepared by the Company's Board of Directors on 28 February 2019.

Mr. Jacinto Rey González

Mr. Jacinto Rey Laredo

Mr. Sunil Kanoira

Mr. Enrique Martín Rey

Ms. Altina de Fátima Sebastián González

Mr. Ramón Barral Andrade

Mr. José Manuel Otero Novas

Mr. Roberto Alvarez Álvarez

Mr. Javier Rey Laredo

Mr. Nasser Homaid Salem Ali Alderei

Mr. Guillermo E.Nielsen

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

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

The Secretary to the Board

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

NEGATIVE CLEARANCE REGARDING ENVIRONMENTAL INFORMATION IN FINANCIAL STATEMENTS

Company`s identification:

GRUPO EMPRESARIAL SAN JOSÉ, S.A.

Company`s details:

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

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

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

Signature and name of the Directors:

Mr. Jacinto Rey González

Mr. Jacinto Rey Laredo

Mr. Sunil Kanoira

Mr. Enrique Martín Rey

Ms. Altina de Fátima Sebastián González

Mr. Ramón Barral Andrade

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

Mr. José Manuel Otero Novas

Mr. Roberto Alvarez Álvarez

Mr. Javier Rey Laredo

Mr. Nasser Homaid Salem Ali Alderei

Mr. Guillermo E.Nielsen

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

Grupo Empresarial San José, S.A. and Subsidiaries

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

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

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Grupo Empresarial San José, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, consolidated statement of recognized income and expenses, consolidated statement of changes in equity, consolidated cash flow statement 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.

Recognition of revenue from long-term construction contracts

Description	Procedures applied in the audit
The Group uses the percentage of completion method to recognise revenue from certain long-term contracts. This revenue recognition method was a key matter in our audit, as it affects a highly significant amount of total consolidated revenue, as well as the measurement of the amounts to be billed for work performed, and requires Group management to make highly significant estimates relating mainly to the expected outcome of the contract, the amount of costs to be incurred at the end of the construction work, the work completed in the period and the recognition of variations in the initial contract, all within the framework of the criteria established by IFRS 15 "Revenue from contracts with customers" that the Group has applied for the first time with effect from January 1, 2018 (See Note 2.1). These judgements and estimates are made by the persons in charge of performing the construction work, are subsequently reviewed at the various levels of the organisation, and are submitted to controls designed to ensure the consistency and reasonableness of the criteria applied.	Our audit procedures consisted, among others, the performance of substantive analytical procedures related to the evolution of the margins of the works and in the analysis of a sample of works, based on qualitative and quantitative factors. Furthemore, we performed a detailed analysis of a sample of projects in order to evaluate the reasonableness of the assumptions and hypotheses used by the Group. We also reviewed the consistency of the estimates made by the Group in 2017 with the actual data for the contracts in 2018. Regarding the amounts to be billed for work performed, we analysed the recognition of revenue from work in progress and its recoverability on the basis of a sample of contracts. Lastly, we focused our work on verifying that the accompanying consolidated financial statements include the related disclosures required by the applicable financial reporting framework. In this connection, Note 4.11 discloses the fact that the percentage of completion method is used to recognise revenue from long-term contracts, and Note 13.1 includes additional disclosures in relation to balances recognised corresponding to amounts to be billed for work performed.

Other Information: Consolidated Directors' Report

The other information comprises only the consolidated directors' report for 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 consolidated directors' report. Our responsibility relating to the information contained in the consolidated directors' report is defined in the audit regulations in force, which establish two distinct levels thereof:

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

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

Based on the work performed, as described above, we have checked that the non-financial information described in section a) above is presented in the separate report "Consolidated non-financial information" which is referenced in the consolidated director's report, that the Annual Corporate Governance Report mentioned in that section is included in the consolidated director's report, and that the other information contained in the consolidated director's report is aligned with the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

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

Engagement Period

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

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

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

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

28 February 2019

Appendix I to our auditor's report

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Conclude on the appropriateness of the use by the Parent's directors of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

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

Grupo Empresarial San José, S.A. and Subsidiaries

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

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

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

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiairies

Consolidated balance sheet at 31 December 2018 and 31 December 2017

(Thousand of Euros)

ASSETS	Note	31-12-2018	31-12-2017	EQUITY AND LIABILITIES	Note	31-12-2018	31-12-2017
NON-CURRENT ASSETS:				**EQUITY:**			
Intangible assets	10	**18,079**	**19,581**	**Share capital**		**1,951**	**1,951**
Goodwill on consolidation	9	**9,984**	**9,984**	**Issurance premium**		**155,578**	**155,578**
Property, plant and equipment	7	**71,033**	**45,349**	**Reserves**		**(197,226)**	**(197,627)**
Land and buildings		53,766	27,459	Legal and statutory		263	263
Plant and other equipment		17,267	17,890	Other reserves		(197,489)	(197,890)
Investment property	8	**10,731**	**3,297**	**Reserves in consolidated companies**		**47,004**	**39,855**
Investments in associates and joint ventures	11	**40,422**	**50,373**	**Translation differences**		**(51,053)**	**(60,365)**
Equity investments in associates		40,422	49,918	**Equity-Valuation adjustments**		**154**	**(67)**
Loans to related companies	13.4	-	455	**Profit for the year attributable to the parent company**		**13,198**	**11,440**
Long-term investments	11 y 13.4	**87,738**	**123,481**	**Equity attributable to shareholders of the Parent**		**(30,394)**	**(49,235)**
Equity instruments		2,941	3,169	**Minority interests**		**24,262**	**20,866**
Loans to third parties		83,986	118,428	**TOTAL EQUITY**	14	**(6,132)**	**(28,369)**
Other financial assets		811	1,884				
Deferred tax assets	20	**36,558**	**35,135**	**NON-CURRENT LIABILITIES:**			
TOTAL NON-CURRENT ASSETS		**274,545**	**287,200**	**Long-term provisions**	15	**40,121**	**30,313**
				Long-term debt	16	**252,435**	**420,096**
				Bonds and other securities		66,476	102,463
				Bank loans and overdrafts		180,940	314,009
				Other financial liabilities		5,019	3,624
				Deferred tax liabilities	20	**25,635**	**19,541**
				Long-term advances		**865**	**904**
				TOTAL NON-CURRENT LIABILITIES		**319,056**	**470,854**
				CURRENT LIABILITIES:			
				Short-term provisions	22.10	**31,227**	**37,895**
				Current bank borrowings	16	**177,149**	**65,828**
				Bonds and other securities		32,714	33,426
CURRENT ASSETS:				Bank loans and overdrafts		141,935	29,069
Inventories	12	**114,885**	**104,704**	Other financial liabilities		2,500	3,333
Trade and other receivables		**259,865**	**258,412**	**Payable to related companies**	23	**12**	**5,838**
Trade receivables for sales and services	13.1	231,942	227,314	**Trade and other payables**	18	**469,068**	**406,579**
Related companies receivables	23	3,301	234	Trade payables		327,221	260,458
Sundry accounts receivable		3,055	5,639	Suppliers Group and associated companies		-	-
Public administrations	20	21,567	25,225	Sundry creditors		6,352	3,481
Investments in associates and joint ventures		**1,938**	**8,471**	Staff, remuneration payable		5,044	4,446
Short-term investments	13.3	**56,228**	**82,735**	Tax payables	20	19,915	19,524
Short-term accruals		**4,902**	**2,720**	Advances from customers	13.1	110,536	118,670
Cash and cash equivalents	13.2	**283,434**	**220,134**	**Short-term accruals**		**5,417**	**5,751**
TOTAL CURRENT ASSETS		**721,252**	**677,176**	**TOTAL CURRENT LIABILITIES**		**682,873**	**521,891**
TOTAL ASSETS		**995,797**	**964,376**	**TOTAL EQUITY AND LIABILITIES**		**995,797**	**964,376**

Accompanying Notes 1 to 26, as well as the Appendix I, II and III, are part of the consolidated balance sheet as 31 December 2018.

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiairies

Consolidated income statement for years 2018 and 2017

(Thousand of Euros)

	Note	Year 2018	Year 2017
CONTINUING OPERATIONS			
Revenue	22.1	**758,423**	**682,868**
Change in inventories of finished goods and work	22.11	**1,351**	**(2,200)**
Work performed by the Group for its property, plant and equipment	7	**3**	**547**
Procurements	22.2	**(507,455)**	**(464,147)**
Cost of raw materials and other consumables used		(167,083)	(198,062)
Works performed by other companies		(340,696)	(263,972)
Impairment of goods held for resale, raw materials and other supplies		324	(2,113)
Other operating income		**11,863**	**8,871**
Non-core and other current income		11,813	8,827
Operating grants taking to income		50	44
Staff costs	22.3	**(116,801)**	**(103,034)**
Wages and salaries		(91,762)	(81,968)
Social charges		(25,039)	(21,066)
Other operating expenses		**(103,975)**	**(85,274)**
Outside services		(86,910)	(72,665)
Tributes		(6,455)	(5,571)
Impairment losses and changes in provisions for trade		(8,061)	(6,586)
Other operating expenses		(2,549)	(452)
Depreciation and amortisation charge	7, 8 y 10	**(5,040)**	**(6,762)**
Excessive provisions		**580**	**88**
Impairment and gains or losses on disposal of non-current assets	22.9	**(26)**	**106**
Gains or losses on negative consolidation differences	2.4.d	**2,108**	**-**
PROFIT FROM OPERATIONS		**41,031**	**31,063**
Finance income	22.7	**12,913**	**16,298**
Finance costs	22.8	**(21,679)**	**(22,455)**
Change in fair value of financial instruments		**-**	**27**
Exchange differences		**7,606**	**(392)**
Adjustment for inflation in hyperinflationary economies	2.3	**(6,385)**	**-**
Impairment and gains or losses on disposal of financial instruments	22.12	**(6,578)**	**(1,936)**
FINANCIAL PROFIT		**(14,123)**	**(8,458)**
Profit/(Loss) of companies accounted for using the equity method	11	**88**	**(210)**
PROFIT/ (LOSS) BEFORE TAXES		**26,996**	**22,395**
Income Tax	20	(8,828)	(10,127)
PROFIT/ (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**18,168**	**12,268**
PROFIT / (LOSS) ATTRIBUTABLE TO EXTERNAL PARTNERS		**4,970**	**828**
PROFIT / (LOSS) FOR THE YEAR		**13,198**	**11,440**

Accompanying notes 1 to 26 to the Annual Report and Appendix I, II and III form an integral part of the Consolidated Income Statement at 31 December 2018.

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSES
FOR YEARS 2018 AND 2017
(Thousand of Euros)

	Note	31/12/2018	31/12/2017
CONSOLIDATED PROFITS / (LOSSES) OF THE YEAR		**18,168**	**12,268**
Income and expenses recognised directly in equity		**14,427**	**(17,952)**
-For cash flow hedges		27	(43)
-Translation differences		2,456	(17,919)
	2.3	11,954	-
-Other		(5)	-
-Tax effect		(5)	10
Transfer to income statement		**(6,075)**	**257**
-For cash flow hedges		321	354
-Translation differences	3	(6,318)	-
-Other		(18)	(12)
-Tax effect		(60)	(85)
TOTAL RECOGNISED INCOMES / (EXPENSES)		**26,520**	**(5,427)**
a) Attributable to Parent		22,731	(5,333)
b) Attributable to minority interests		3,789	(94)

Accompanying notes 1 to 26 to the Annual Report and Appendix I, II and III form an integral part of the consolidated statement of recognized income and expenses at 31 December 2018.

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR YEARS 2018 AND 2017

(Thousand of Euros)

	Note	Share Capital	Issurance premium	Legal Reserve	Other reserves of the parent	Consolidated Reserves: In consolidated companies	Consolidated Reserves: In associated companies	Translation differences	Equity Adjustments	Profit of the year	Total Equitty attributable to parent	Minority interests	Total Equity
Balance at December 31, 2016		**1,951**	**155,578**	**263**	**(156,231)**	**(15,774)**	**3,888**	**(43,421)**	**(262)**	**10,082**	**(43,926)**	**21,297**	**(22,629)**
Distribution of profit for year 2016:													
-To reserves		-	-	-	(41,659)	50,788	953	-	-	(10,082)	**-**	-	**-**
-Dividend payment		-	-	-	-	-	-	-	-	-	**-**	(1,030)	**(1,030)**
Variation of the consolidation perimeter		-	-	-	-	(398)	398	-	-	-	**-**	693	**693**
Other equity movements		-	-	-	-	-	-	-	24	-	**24**	-	**24**
Total recognized income/expenses year 2017		-	-	-	-	-	-	(16,944)	171	11,440	**(5,333)**	(94)	**(5,427)**
Balance at December 31, 2017		**1,951**	**155,578**	**263**	**(197,890)**	**34,616**	**5,239**	**(60,365)**	**(67)**	**11,440**	**(49,235)**	**20,866**	**(28,369)**
Adjustments for the first application IFRS 15 y IFRS 9	2.2	-	-	-	-	(3,890)	-	-	-	-	**(3,890)**	(6)	**(3,896)**
Balance at January 1, 2018		**1,951**	**155,578**	**263**	**(197,890)**	**30,726**	**5,239**	**(60,365)**	**(67)**	**11,440**	**(53,125)**	**20,860**	**(32,265)**
Distribution of profit for year 2017:													
-To reserves		-	-	-	401	11,249	(210)	-	-	(11,440)	**-**	-	**-**
-Dividend payment		-	-	-	-	-	-	-	-	-	**-**	(261)	**(261)**
Variation of the consolidation perimeter	3	-	-	-	-	(3,291)	3,291	-	-	-	**-**	(126)	**(126)**
Other equity movements		-	-	-	-	8,641	(8,641)	-	-	-	**-**	-	**-**
Total recognized income/expenses year 2018		-	-	-	-	-	-	9,312	221	13,198	**22,731**	3,789	**26,520**
Balance at December 31, 2018		**1,951**	**155,578**	**263**	**(197,489)**	**47,325**	**(321)**	**(51,053)**	**154**	**13,198**	**(30,394)**	**24,262**	**(6,132)**

Accompanying notes 1 to 26 to the Annual Report and Appendix I, II and III form an integral part of the Consolidated Statement of Changes in Equity at 31 December 2018.

GRUPO EMPRESARIAL SAN JOSÉ, S.A. and Subsidiairies

CONSOLIDATED CASH FLOW STATEMENTS FOR YEAR 2018 AND 2017

(Thousand of Euros)

	Note	Year 2018	Year 2017
Cash flows from operating activities:			
(+) Profit (Loss) before tax		26,996	22,395
(+) Depreciation and amortisation charge	7, 8 y 10	5,040	6,762
(+/-) Changes in operating allowances		7,739	8,689
(-) Imputation of subsidies for the year		50	
(-) Financial income	22.7	(12,913)	(16,298)
(+) Financial costs		21,679	22,455
(+/-) Exchange differences		(1,221)	392
(+/-) Result of changes in value of financial instruments		-	(27)
(+/-) Result of companies accounted for using the equity method		(88)	210
(+/-) Impairment and gains or losses on disposals of financial investments	22.12	6,578	1,936
(+/-) Other gains or losses		2,692	3,360
Total Cash Flows from operating activities		**56,552**	**49,874**
Other adjustments			
(-) Income tax paid in the year		(8,910)	(2,345)
(+/-) (Increase) / Decrease in working capital			
a) (Increase)/Decrease in inventories		(3,037)	(2,963)
b) (Increase)/Decrease in debtors and other receivables		(7,319)	(26,296)
c) (Increase)/Decrease in other current assets		(6,243)	2,527
d) (Increase)/Decrease in trade payables		57,439	8,995
e) (Increase)/Decrease in other current liabilities		450	(419)
(+/-) Other collections / (payments) due to operating activities		(3,557)	(5,861)
1. TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES		**85,375**	**23,512**
Investments:			
(-) Intangible assets		(316)	(600)
(+) Property, plant and equipment		(3,005)	(3,497)
(-) Shares and other financial assets		(5,326)	(2,080)
Total Investments		**(8,647)**	**(6,177)**
Dividends received		**1,507**	**1,995**
Disposals:			
(+) Property, plant and equipment		185	790
(+) Shares and other financial assets		2,226	3,520
Total Disposals		**2,411**	**4,310**
Other collections / (payments) due to financing activities		**55,026**	**34,205**
2. TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES		**50,297**	**34,333**
		(261)	**(1,030)**
Increase / (decrease) in borrowings		**(63,215)**	**(67,566)**
Non current		(404)	(361)
Current		(62,811)	(67,205)
Net interests:		**(7,180)**	**(6,410)**
Received		5,045	6,536
Paid		(12,225)	(12,946)
Other collections / (payments) due to financial activities		**(1)**	**(14,544)**
3. TOTAL NET CASH FLOWS FROM FINANCIAL ACTIVITIES		**(70,657)**	**(89,550)**
4. TOTAL NET CASH FLOWS FROM FINANCIAL ACTIVITIES		**(1,715)**	
TOTAL CASH FLOWS FOR THE YEAR		**63,300**	**(31,705)**

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**220,134**	**251,839**
Changes in the year		63,300	(31,705)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**283,434**	**220,134**

Acompanying notes 1 to 26 to the Annual Report and Appendix I, II and III form an integral part of the Consolidated Cash Flow Statement for year 2018

These consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.1). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Grupo Empresarial San José, S.A. and Subsidiaries

Consolidated notes
for the year ended 31 December 2018

1. Activities of the Group

Incorporation

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

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

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

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

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

Activities

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

1. Development of all forms of real estate construction.

2. Performance of all manner of public or private construction work, mainly buildings, road networks and hydraulic works.

3. Purchase and sale, administration, operation and any other similar activities in relation to all manner of rural or urban property.

4. Lease of all manner of assets.

5. Design, construction and management of electricity and renewable energy facilities.

6. Storage, distribution, purchase and sale and import of manufactured products.

7. Management and recruitment of personnel for all types of company, association and organisation.

8. Study, design, development and purchase and sale of all manner of electronic, computer, telecommunications and audio-visual components, products and systems.

9. Full maintenance of hospital facilities, maintenance of operating theatres and electro medical equipment, and manufacture and sale of integrated systems for operating theatres, ICUs and patient rooms.

10. Study, design and installation of air conditioning, heating, industrial cooling and plumbing facilities; purchase and sale or manufacture of all kinds of related mechanisms; to sell and act as representative for third-party products.

11. Healthcare: construction of hospital facilities and public and private healthcare maintenance services; electro medicine and gas facilities and maintenance.

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

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

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

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

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

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

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

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

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

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

2.1 Regulatory framework and accounting principles

These consolidated financial statements for 2018 of Grupo Empresarial San Jose, S.A. and Subsidiaries ("Grupo San Jose " or "the Group") are formally prepared by the Parent's directors, in accordance with International Financial Reporting Standards as adopted by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council ("EU-IFRSs"), taking into account all the mandatory accounting principles and rules and measurement bases in IFRSs, and, accordingly, they present fairly the Grupo San Jose's consolidated equity and financial position at 31 December 2018 and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

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

The consolidated financial statements of Grupo SANJOSE and Subsidiaries for 2017, prepared in accordance with EU-IFRSs, were approved by the shareholders at the Annual General Meeting of Grupo Empresarial San Joes, S.A. (formerly named Udra, S.A.) held on 21 June 2018 and deposited in the Trade Registry of Pontevedra. Further, 2018 consolidated financial statements of the Group and the individual financial statements of the Group companies for the year have not yet been approved by the shareholders at the respective Annual General Meetings. However, the Parent's directors consider that the aforementioned consolidated financial statements will be approved without any changes.

Standards and interpretations applicable for the year

During year 2018 the following standards and interpretations, compulsory as from year 2018 onwards and adopted by the European Union, became in force and have been applied by the Group for the elaboration of the accompanying consolidated financial statements for the year ended at 31 December 2018:

Adopted for use within the EU		**Compulsory application as from**:
New standards		
IFRS 15 income from contracts with clients (released in May 2014)	New income recognition standard (It replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	1 January 2018
IFRS 9 Financial instruments (released in June 2014)	It replaces former classification requirements, evaluation of assets and liabilities, accounting hedges of IAS 39.	1 January 2018
IFRS 15 Revenue from contracts with customers, clarifications (released in April 2016)	Deals with the identification of the performance obligations, principal versus agent, the granting of licenses and their accrual at a point of time or over time, as well as some clarifications to the transition rule.	1 January 2018
Amendments and/or understanding		
Amendment of IFRS 2 Classification and assessment of share-based payments (released in June 2016)	Limited modifications that clarify specific issues such as the effects of accrual conditions on share-based payments to be settled in cash, the classification of share-based payments when it has net settlement clauses and some aspects of changes in the type of payments based on shares.	1 January 2018
Amendment to IFRS 4 Insurance Contracts (released in September 2016)	It allows entities within the scope of IFRS 4 the option of applying IFRS 9 ("overlap approach") or its temporary exemption.	1 January 2018
Amendment to IFRS 40 Reclassification of real estate investments (released in December 2016)	The amendment clarifies that a reclassification of an investment from or to real estate investment is only permitted when there is evidence of a change in its use.	1 January 2018
IFRS 1, Adoption of IFRS for the first time (released in December 2016)	Elimination of some short-term exemptions (improvements to IFRS 2014-2016 cycle).	1 January 2018
IAS 28 on Investments in associates or joint ventures (released in December 2016)	Qualification in terms of fair value (improvements to IFRS 2014-2016 cycle).	1 January 2018
IFRIS 22 – Transaction and advances in foreign currencies (released in December 2016)	It sets the date of the transaction, in order to determine the exchange rate applicable in transactions with foreign currency advances.	1 January 2018

Overall, the entry into force of these standards and interpretations has not led to significant impacts in these consolidated financial statements.

IFRS 15 and IFRS 9 establish the new model for the recognition of income derived from contracts with customers, as well as new criteria relating to the recognition and valuation of financial assets. The detailed impact for items under the consolidated balance sheet of the first application of the aforementioned IFRS 15 and IFRS 9 is as follows:

	Thousands of Euros			
	Balance at 31 December 2017	**Impact first application IFRS 15**	**Impact first application IFRS 9**	**Balance at 1 January 2018**
Non-current assets	**287,200**	**-**	**274**	**287,474**
Deferred tax assets	35,135	-	274	35,409
Current assets	**677,176**	**(3,075)**	**(1,095)**	**673,006**
Trade and other receivables	258,412	(3,075)	(1,095)	254,242
Total Assets	**964,376**	**(3,075)**	**(821)**	**960,480**
Net Equity	**(28,369)**	**(3,075)**	**(821)**	**(32,265)**
Net equity of the Parent Company	(49,235)	(3,071)	(819)	(53,125)
Interest of minority shareholders	20,866	(4)	(2)	20,860

The application of IFRS 15 "Revenue from contracts with customers" as of 1 January 2018 has had a negative impact on the consolidated reserves of the Group for an amount of EUR 3,075 thousand, mainly as a result of the reestimation of the Income previously recognised under IAS 11 "Construction Contracts" and IAS 18 "Revenue" that did not meet the requirements to be recognised as income under the new standard, which establishes more restrictive criteria for income recognition as of 1 January 2018 , mainly for demanding the existence of approval by the client.

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

In the event that IFRS 15 had not became applicable as from 1 January 2018, the effect in the consolidated summary financial statements as of 31 December 2018 would be as follows: a) Increase in reserves amounting to EUR 3,075 thousands, and; b) Increase of the item "Customers for sales and provision of services" under current assets, for the same amount, and c) The effect on the profit and loss account for the year 2018 would be zero, or in any case, insignificant.

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

With respect to IFRS 9, the impact derived from the first application had a negative effect on reserves amounting to EUR 821 thousand. This impact comes, fundamentally, from the application of the impairment model of financial assets that the new regulations establish must be estimated based on the expected credit loss instead of the credit loss incurred, as included in IAS 39 "Financial Instruments: recognition and valuation. "

In the event that IFRS 9 had not became applicable as from 1 January 2018, the effect in the consolidated financial statements as of 31 December 2018 would be an increase in reserves amounting to EUR 821 thousand, and an income of EUR 58 thousand, mainly.

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

Non-applicable issued standards and interpretations

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

Adopted for use within the EU		**Compulsory application as from**:
New standards		
IFRS 16 Leases (released in January 2016)	New leasing standard which replaces IAS 17. Lessees shall include all leases under the balance sheet as financed purchases.	1 January 2019
Amendments and/or understanding		
Amendment to IFRS 9 Features of the early repayment to offset loss carry-forwards (released in October 2017)	This amendment will allow the valuation at amortised cost of some financial assets prepayable in advance for an amount less than the outstanding amount of principal and interest on said principal.	1 January 2019
Amendment IAS 28 on Long-term interest in associates or joint ventures (released in October 2017)	It clarifies that IFRS 9 must be applied to long-term interests in an associate or joint venture if the equity method is not applied.	1 January 2019
IFRIC 23 Uncertainty about tax treatments (published in June 2017)	This interpretation clarifies how to apply the registration and measurement criteria of IAS 12 when there is uncertainty about the acceptability by the tax authority of a specific tax treatment used by the entity.	1 January 2019
Improvements on IFRS, period 2015-2017 (released in December 2017)	Amendments of a series of standards.	1 January 2019
Amendment of IAS 19 – Amendment - reduction or liquidation of a plan (released in February 2018)	It details how to calculate the cost of the service for the current period and the net interest for the remainder of an annual period when a modification, reduction or liquidation of a defined benefit plan occurs.	1 January 2019
Non-Adopted for use within the EU		
New standards		
IFRS 17 Insurance Contracts (released in May 2017)	It replaces IFRS 4 and reflects the principles of registration, valuation, presentation and disclosure of insurance contracts so that the entity provides relevant and reliable information for allowing users to determine the effect that contracts have on financial statements.	1 January 2021

Amendments and/or understanding		
Improvements on IFRS, period 2015-2017 (released in December 2017)	Amendments of a series of standards.	1 January 2019
Amendment of IAS 19 – Amendment - reduction or liquidation of a plan (released in February 2018)	It details how to calculate the cost of the service for the current period and the net interest for the remainder of an annual period when a modification, reduction or liquidation of a defined benefit plan occurs.	1 January 2019
Amendment of IFRS 10 and IAS 28 - sale or contribution of assets between an investor and its associate / joint venture (published in September 2014)	Clarification in relation to the outcome of these operations if it is business or assets.	No date defined.

IFRS 16 "Leases", which is first applied on 1 January 2019, establishes that for the lessor all leases (except for certain exceptions for being of reduced amount or duration) generate the accounting for an asset for the right of use and a liability for future payment obligations incurred into. Impact of the first application of IFRS 16 at 31 December 2018 is as follows: i) Increase in intangible assets for EUR 2,861 thousand; ii) Increase in current and non-current financial liabilities, amounting to EUR 1,318 and EUR 1,543 thousand, respectively. Further, if its application had been as of 1 January 2018, the depreciation allowance recorded in the consolidated income statement for year 2018, would be increased by EUR 4,926 and EUR 200 thousand, respectively, reducing the leasing amount by the same amount, recorded under "Other current management expenses".

In general, the Group expects that the entry into force of the other standards and interpretations should not have a significant impact on the consolidated financial statements.

2.2 Responsibility for the information and use of estimates

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

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

1. The useful life of the property, plant and equipment and intangible assets (see Notes 4.2 and 4.3).
2. Measurement of goodwill arising on consolidation (see Note 4.1).
3. The budgetary estimates which are considered for the recognition of results on contracts to which the percentage of completion method is applied (construction and industrial areas, see Note 4.11).
4. The assessment of potential impairment losses of certain assets (see Notes 4.1, 4.2, 4.3, 4.4, 4.6, 4.7, and 4.8).
5. The probability of occurrence and the amount of uncertain or contingent liabilities (see Note 4.16 and 4.17).
6. The fair value of certain financial instruments (see Note 4.8).
7. The fair value of assets and liabilities acquired in business combinations (see Notes 2.4 and 9).

8. The assessment of the recoverability of tax credits (see Note 4.15).

9. Management of financial risk (Note 19).

Although these estimates were made on the basis of the best information available at 31 December 2018 on the events analysed, events that might take place in the future might make it necessary to significantly change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the consolidated income statements for the years affected.

2.3 Currency

These consolidated financial statements are presented in Euros, since this is the functional currency of the main economic environment where Grupo SANJOSE operates. Foreign operations are recognised in accordance with the policies established in Note 4.13.

The breakdown of the closing and average exchange rates of the period used to prepare the consolidated financial statements for 2018 is as follows:

Country	Currency	Year-end exchange rate	Average exchange rate
The United States /East-Timor	US Dollar (USD)	1.144	1.181
Argentina	Argentine Peso (ARS)	42.714	33.143
Mexico	Mexican Peso	22.464	22.727
Cape Verde	Cape Verde Escudo	110.265	110.265
Panama	Panamanian Balboa	1.144	1.181
Uruguay	Uruguayan Peso	36.927	35.958
Paraguay	Guaraní	6,765.070	6,706.970
Peru	Peruvian Sol	3.819	3.869
Chile	Chilean Peso (CLP)	794.750	755.523
Brazil	Brazilian Real	4.437	4.296
India	Indian Rupee	79.781	80.384
Nepal	Nepalian Rupee	128.690	128.545
United Arab Emirates	UAE Dirham	4.200	4.337
Colombia	Colombian Peso	3,712.030	3,500.490
Morocco	Morocco Dirham	10.903	11.054
Bolivia	Boliviano	7.770	8.041

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

None of these countries, with the exception of Argentina, are considered to be hyper-inflationary economies as defined by IAS 29.

Hyper-inflationary economies

On 1 July 2018, as a result of reaching cumulative inflation in the year exceeding 100% during the last three years, Argentina has been declared a hyper-inflationary economy. Consequently, the provisions of IAS 29 apply.

The first application of IAS 29 in the financial year 2018, in the preparation of the consolidated annual accounts of Grupo SANJOSE for the year 2018, was carried out in accordance with the following criteria:

- The comparative figures for the year 2017 have not been modified.

- Hyperinflation accounting has been applied to all assets and liabilities of Argentine consolidated companies before conversion.

- The exchange rate applied for the conversion of the financial statements of the Group's companies in Argentina has been the closing rate as 31 December 2018.

- The historical cost of non-monetary assets and liabilities and the different items of equity of these companies from their date of acquisition or incorporation to the consolidated balance sheet until the end of the year has been adjusted to reflect the changes in purchasing power of currency derived from inflation.

- The initial net equity presented in the stable currency is affected by the cumulative effect of re-expression for inflation of non-monetary items from the date they were first recognized and the effect of converting those balances to the closing rate at the beginning. The exercise. The Group has chosen to recognize the difference between the net assets at the end of the previous year and the net equity at the beginning of the current year in translation differences.

- The Group has adjusted the income statement for 2018 to reflect the financial loss corresponding to the impact of inflation on net monetary assets.

- The different items in the income statement and in the statement of cash flows for the 2018 fiscal year have been adjusted by the inflationary index since its generation, with a balancing entry in financial results and exchange differences, respectively.

- The inflation considered for this calculation in the year 2018 has been 47.7%. This index is extracted from the information published by the National Institute of Statistics and Censuses (INDEC), a public body, through the publication of the Consumer Price Index that measures the variation in the prices of goods and services representative of consumer spending. of homes.

Its movement during the 2018 and 2017 exercises is as follows:

	31.12.2016	31.12.2017	31.12.2018
Price Index	100	124.8	184.3
Changes	n/a	24.8%	47.7%

The main impacts on the different items of the Group's consolidated balance sheet, as of 1 January 2018, related to the restatement of the financial statements of companies of the Group in Argentina, as well as the conversion and consolidation in the Consolidated financial statements of Grupo SANJOSE are the following:

	Thousands of Euros
Non-current assets:	
Property, plant and equipment	14
Investment property	11,134
Other non-current assets	(65)
Current assets:	
Inventories	9,129
Other current assets	1
Liabilities	
Deferred tax liabilities	8,248
Other liabilities	11
Equity adjustment	**11,954**

Re-expression profits/(loss) recorded in the financial statements of companies with Argentine peso functional currency are included in the consolidated income statement under "Adjustment for inflation in hyper-inflationary economies". -The effect on profits/(loss) of the re-expression for year 2018 amounts to a loss of EUR 6,385 thousand. Further, under "Income tax" in the income statement for year 2018, an expense of EUR 1,772 thousand is included, corresponding to the increase in the associated deferred tax year (see Note 20).

The effect on equity of the revaluation of non-monetary items, as well as the translation differences generated when the restated financial statements of subsidiaries in Argentina are converted into Euros, are recorded under "Translation differences in consolidated companies" under consolidated net assets of the Group.

2.4 Basis of Consolidation

a) *Subsidiaries*

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

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are recognised at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recognised as goodwill. Any deficiency in the cost of acquisition with respect to the fair values of the identifiable net assets acquired, that is, discount in the acquisition, is charged to income on the date of acquisition.

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

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

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

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

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

b) Joint ventures

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

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

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

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

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

Financial information provided by consolidated financial statements of the Group by multi-group companies, in aggregate, at 31 December 2018 and 2017 is as follows:

	Millions of Euros	
	31.12.2018	**31.12.2017**
Non-current assets	3.2	2.9
Current assets	283.2	268.8
Non-current liabilities	6.3	0.1
Current liabilities	284.6	264.9
Total income	220.6	191.0
Total expense	(204.8)	(183.0)

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

c) Associates

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

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

Any excess of the acquisition cost with respect to the portion of the fair values of the identifiable net assets of the associated company attributable to the Group at the acquisition date is recognised as goodwill. Any deficiency in the cost of acquisition with respect to the portion of the fair value of identifiable net assets of the associated company own on the acquisition date is recognised under the income statement in the acquisition period

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

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

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

d) Changes in the scope of consolidation

The main changes in the scope of consolidation in 2018 were as follows:

Partial spin-off of the associate “Cresca, S.A.”. - On 29 January 2018, the Extraordinary Shareholders' Meeting of the investee company rectified and definitively approved the partial spin-off of the company in favour of its shareholders, having been made public and duly registered on 9 February 2018.

With the improvement of the spin-off transaction, the Group, as a 50% recipient of the assets and liabilities derived from the spin-off, has obtained control over the agricultural business, based on its percentage of participation, previously carried out by the associate, over which it did not have control. The Group has identified this transaction as a business combination in the terms of IFRS 3. Main changes as a result of this transaction are as follows:

a) Reduction in the cost for which the Group had recorded its participation in the associate "Cresca, S.A." as of 31 December 2017, amounting to EUR 9,810 thousand (see Note 11).

   In the business combination, the fair value of the counterpart corresponds to the interest held to date by the Group in Cresca, SA, for an amount of EUR 18,345 thousand, corresponding to the fair value of 50% of the total net assets of the participated company, calculated taking into account the valuation of an independent expert of the net assets delivered in the combination. At the date of ownership, the Group kept its participation in Cresca registered for an amount of EUR 14,918 thousand. The variation with respect to the amount recorded as of 31 December 2017 corresponds, mainly, to the result of the investee and conversion differences recognized during said period.

b) The main asset received in the spin-off process corresponds to land for agricultural use, the main business object, with a fair value of EUR 21,745 thousand. Likewise, current assets and liabilities have been received for a net amount of EUR 733 thousand, as well as a financial debt for an amount of EUR 4,133 thousand (eliminated at the consolidated level, as the creditor is a Group company), being registered by its fair value.

IFRS 3 requires the Group to recognize the identifiable assets acquired, as well as the liabilities assumed, at their fair value on the date of the takeover (9 February 2018), establishing a measurement period of a maximum of one year during which the acquirer can adjust the provisional amounts recognized in a business combination.

After reviewing the valuation and allocation process, and by virtue of valuation reports from independent third parties, it has been concluded that this effect is focused on the valuation of the land received in the spin-off process, and an additional cost increase has been recorded. amount of EUR 2,108 thousand, recognizing a benefit for said amount, recorded under the heading "Impacts resulting from negative consolidation differences" in the accompanying consolidated income statement (see Note 22.9).

c) Arising from this operation, the Group recorded a total profit of EUR 8,402 thousand, corresponding to the effect of the adjustment to fair value, as well as to the recycling of the conversion differences, net of the tax effect. According to the provisions of IAS 28, paragraph 23, and IAS 21, paragraph 48, the Group has recycled consolidated equity from the accompanying income statement, the amount of the translation differences that were associated with the participation in "Cresca, SA", are considered as a result of the operation. A positive result for the amount of EUR 6,294 thousand has been shown, and is recorded under the heading "Exchange differences" in the accompanying consolidated income statement.

From the moment of its acquisition, until 31 December 2018, the unit acquired has contributed the following results to the Group: (i) ordinary income = EUR -420 thousand; (ii) result of the fiscal year = EUR -690 thousand. In the event that the business combination had taken place on 1 January 2018, the figures of results contributed would not vary substantially from those indicated in the previous section.

The main asset received in the spin-off process is the investment in lands for agricultural use. In order to determine the fair value of the lands received, an independent expert was served: Mr. José A. Saldivar Meza, accounting expert, appraiser and appraiser.

Said independent expert has issued a valuation report dated June 25, 2018, following a comparative method in the area of influence of the land subject to valuation, taking as main source of information companies engaged in the sale of rural land. The expert valuation report includes habitual conditions in this type of valuations, like the fact that the real estate properties meet normal conditions of use and productivity and that they are free of charges that can affect to their value. The Group has estimated that these conditions have no impact on the valuation.

With respect to the rest of the assets received and liabilities assumed, it is assumed that the fair value coincides with the accounting cost recorded.

Main changes in the scope of consolidation in 2017 were as follows:

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

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

   On 25 May 2017, and after completion of the verification and closing procedures established in the agreement of intent, the sale operation was perfected, by which the Group has fully sold its stake in the company Group "Eskonel Company, SA", whose main activity is the holding of shares in the share capital of the companies "Vengano, SA", "Fingano, SA" and "Drilpen, SA", all related to the development of activity In construction and management of wind farms in Uruguay. The established price amounted to EUR 3,370 thousand, showing a positive result for the Group amounting to EUR 1,619 thousand.

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

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

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

6. On 26 July 2017, “San Jose Colombia, S.A.S" has been settled. Arising from said transaction, the company recorded a profit amounting to EUR 334 thousand.

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

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

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

10. During the month of December 2017, the subsidiary "Constructora San José, SA" has sold its stake in the company "San José Congo, SA", recording a profit amounting to EUR 1,847 thousand.

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

2.5 Comparison of information

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

2.6 Changes in the accounting criteria

Accounting criteria applied during year 2018 is the same as that implemented in year 2018.

During year 2018, no significant changes have been applied compared to those applied in year 2017.

3. Distribution of the Parent's profit

The Directors of the Parent Company will propose the General Shareholders' Meeting the recognition of EUR 490 thousand as 2018 profit to offset against "Loss of previous years".

4. Accounting principles and policies and measurement bases

The accounting principles and policies and measurement bases used in preparing the Group's consolidated financial statements for 2018 were as follows:

4.1 Goodwill

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

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

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

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

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

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

Goodwill acquired on or after 1 January 2005 is measured at acquisition cost and that acquired earlier is recognised at the carrying amount at 31 December 2004. In both cases, at the end of each reporting period goodwill is reviewed for impairment (i.e. a reduction in its recoverable amount to reduce its carrying amount) and, if there is any impairment, the goodwill is written down with a charge to "Impairment or Gains or Losses on Disposals of Non-Current Assets" in the consolidated income statement. Under IAS 36, Impairment of Assets, an impairment loss recognised for goodwill must not be reversed in a subsequent period.

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

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

Negative differences between the cost of equity investments of consolidated and associates with respect to the corresponding theoretical-accounting values acquired, adjusted on the date of first consolidation, qualify as negative goodwill and are recorded as follows:

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

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

4.2 Other intangible assets

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

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

In both cases, the consolidated companies recognise any impairment loss on the carrying amount of these assets with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years is similar to those used for property, plant and equipment (see Note 4.4).

Administrative concessions and patents

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

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

Main features to be taken into consideration are as follows:

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

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

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

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

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

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

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

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

Computer software

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

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

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

Usage rights

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

Likewise, the Group has also included under this item the construction rights of Carlos Cisternas de Calama Hospital, which were acquired during 2016 as part of the acquisition of the company Consorcio Hospital Carlos Cisternas de Calama, S.A..

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

4.3 Property, plant and equipment and investment property

Property, plant and equipment

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

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

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

Borrowing costs are only capitalised when significant investments in qualifying assets are made, which are those that take a substantial period of time to get ready for their intended use (see Note 4.12). Borrowing costs incurred to acquire property, plant and equipment for own use are charged to the consolidated income statement on an accrual basis and are not capitalised.

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

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

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

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

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

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

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

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

Items of property, plant and equipment are recorded at their cost price less accumulated depreciation and any impairment loss recognised.

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

Property investment

"Investment Property" in the consolidated balance sheet reflects the net values of land, buildings and other structures (whether they are owned by the Group or are being used by the Group under a finance lease) held either to earn rentals or for capital appreciation. At 31 December 2018, assets recognised under "Property Investment " relate mainly to office buildings, hotels, leisure centres, land and parking spaces and the items of property, plant and equipment associated with them, such as machinery and furniture, whether owned by the Group or held under finance lease.

The Group does not take part in the management of the lessee, nor in the risks associated therein. Otherwise, they qualify as tangible fixed assets.

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

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

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

Borrowing Costs

The accounting treatment of borrowing costs is described in Note 4.12.

In 2018 and 2017, the Group has not capitalised borrowing costs under "Property, plant and equipment" and "Investment Property" in the attached consolidated balance sheet.

4.4 Asset impairment

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

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

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

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

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

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

With regards to the recoverable value of real estate assets, the Group uses the assessment of independent valuers (see Notes 4.6, 8 and 12).

As of 31 December 2018, and 2017, the Group has contracted the services of "Instituto de Valoradores, SA", issuing a valuation report of the Group's real estate assets (tangible fixed assets, real estate investments and real estate stocks), being its main features the following:

- Date of issuance 19 February 2019 and 6 February of 2018, respectively.

- The valuation criterion used depends on the nature and situation of each of the real estate assets valued. Specifically:

  - Real estate investments: sale value and rental value in the market are taken as a basis, which consist mainly of capitalising the current and / or potential net income of each property and updating future flows.

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

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

In any case, valuation criteria were performed as defined by the Royal Institution of Chartered Surveyors (RICS) and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), which group together international and European asset valuation institutions. For the calculation of the current value, acceptable discount rates are used for a potential investor, reasonable with those applied by the market for properties of similar features, use and location.

During the last few years, there have been no significant changes in the assessment criteria used.

No valuation limitations are contemplated other than those usual in this type of valuation reports.

In accordance with IFRS 13, in relation to the valuation hierarchy, in general, the real estate assets held by the Group are classified under Level 2 During 2018, there were no transfers of assets between the different classification levels.

The fair value of real estate assets depends, among others, on the exchange rate at the valuation date, as well as on the interest rate curve (mainly the Euro and the Argentine peso) At 31 December 2018, changes in the value of financial instruments of the Group due to changes in interest rates is not significant, However, as a result of the sharp devaluation of the Argentine peso during year 2018 (see Note 2.3), the valuation of the Group's real estate assets in Argentina has been affected: the total amount of the valuation of the Group's real estate assets in Argentina has been reduced during 2018 by EUR 14.1 thousand.

4.5 Leases

4.5.1 Finance Leases

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

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

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

4.5.2 Operating Leases

In operating lease transactions, ownership of the leased asset and all the risks and benefits that fall on the asset remain with the lessor.

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

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

4.6 Inventories

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

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

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

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

Agricultural inventories

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

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

Property inventories

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

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

"Developments under construction" includes the land development costs incurred up to year-end and the costs of construction or acquisition of real estate developments, increased by the expenses directly allocable to them (costs of construction subcontracted to third parties, fees inherent to construction and project management fees), in addition to the reasonable portion of the costs indirectly allocable to the related assets, to the extent that these costs correspond to the development period, and the borrowing costs incurred during the construction period. During years 2018 and 2017, no borrowing costs have been capitalised to "Inventories".

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

Further, at 31 December 2018 and 2017, "Inventories" includes advances to suppliers for the purchase of inventories amounting to EUR 15,651 thousand and EUR 22,842 thousand, respectively (see Note 12).

Issuance rights

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

Initial recognition -

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

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

Subsequent recognition -

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

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

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

4.7 Trade receivables and customer advances

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

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

4.8 Financial Instruments

Financial instruments are recognized when the Group becomes an obligated party of the legal contract or business in accordance with its provisions. At 1 January 2018, the Group classifies its financial assets as developed in IFRS 9 "Financial Instruments".

The criteria for classifying financial assets will depend both on the way in which an entity manages its financial instruments (its business model) and on the existence and characteristics of the contractual cash flows of financial assets. Based on the foregoing, the asset will be measured at amortized cost, at fair value through changes in other comprehensive income or at fair value with changes in profit or loss, as follows:

- If the objective of the business model is to maintain a financial asset in order to collect contractual cash flows and, according to the terms of the contract, cash flows are received on specific dates that exclusively constitute principal payments plus interest on said principal, the financial asset will be valued at amortized cost.

- If the business model is aimed both at obtaining contractual cash flows and their sale and, according to the terms of the contract, cash flows are received on specific dates that exclusively constitute payments of the principal plus interest on said principal, the assets Financial assets will be valued at fair value through changes in other comprehensive income (equity).

Outside of these scenarios, the rest of the assets will be valued at fair value with changes in profit and loss. All equity instruments (for example, stocks) are valued by default in this category. This is because their contractual flows do not comply with the characteristic of being only payments of principal and interest. Financial derivatives are also classified as financial assets at fair value through profit or loss, unless they are designated as hedging instruments.

For the purposes of their valuation, financial assets must be classified in one of the following categories, with the accounting policies of each of them being the following:

1. Financial assets at amortized cost: these assets are recorded after their initial recognition at amortized cost according to the effective interest rate method. Said amortized cost will be reduced by any impairment loss. They will be recognized in the consolidated profit and loss account for the period when the financial asset is derecognized or has been impaired, or due to exchange differences. Interest calculated using the effective interest method is recognized in the income statement under the heading of "financial income".

2. Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss are recognized initially and subsequently at fair value, without including transaction costs, which are charged to the consolidated income statement. Gains or losses arising from changes in fair value are presented in the profit and loss account under "Changes in the fair value of financial instruments" in the period in which they originated. Any dividend or interest is also carried to financial results.

3. Debt instruments at fair value with changes in other comprehensive income: These are subsequently accounted for at their fair value, recognizing the changes in fair value under "Other comprehensive income". Interest income, impairment losses and foreign exchange differences are recognized in the consolidated income statement. When sold or derecognized, the cumulative fair value adjustments recognized in "Other comprehensive income" are included in the consolidated income statement as "other financial income / (expense)".

4. Equity instruments at fair value with changes in other comprehensive income: Their subsequent measurement is at fair value. Only dividends are taken to results, unless those dividends clearly represent a recovery of the cost of the investment. Other losses or gains are carried to "Other comprehensive income" and are never reclassified to results.

Impairment of financial assets

The impairment model is applicable to financial assets valued at amortized cost that include the item "Customers and other accounts receivable".

The impairment model is based on a dual valuation approach, under which there will be a provision for impairment based on the expected losses over the next 12 months or based on the expected losses over the entire life of the asset. The fact that determines the passage from the first approach to the second is that there is a significant worsening in the credit quality.

Financial liabilities

The main financial liabilities held by the Group companies are financial liabilities at maturity that are valued at their amortized cost. The financial liabilities held by the Group companies are classified as:

1. Bank loans and other loans: loans obtained from banks and other lenders are recorded at the amount received, net of the costs incurred in the transaction.

   Subsequently, the financial debts are valued at amortized cost. Any difference between the income obtained (net of the transaction costs) and the reimbursement value is recognized in results over the life of the debt according to the effective interest rate method.

   The financial debt is eliminated from the consolidated balance sheet when the obligation specified in the contract has been paid, canceled or expired. The difference between the carrying amount of a financial liability that has been canceled or assigned to another party and the consideration paid, including any assigned asset different from the cash or liability assumed, is recognized in the income statement as other financial income or expenses.

The exchange of debt instruments between the Group and the counterparty or the substantial modifications of the liabilities initially recognized, are accounted for as a cancellation of the original financial liability and the recognition of a new financial liability, provided that the instruments have substantially different conditions. The Group considers that the conditions are substantially different if the present value of the discounted cash flows under the new conditions, including any commission paid net of any commission received, and using the original effective interest rate to make the discount, differs at least at 10 percent of the discounted present value of the cash flows that still remain of the original financial liability.

If the exchange is recorded as a cancellation of the original financial liability, the costs or fees are recognized in the consolidated income statement forming part of its profit or loss. Otherwise, the modified cash flows are discounted at the original effective interest rate, recognizing any difference with the previous carrying amount in profit or loss. In addition, the costs or commissions adjust the carrying amount of the financial liability and are amortized by the amortized cost method during the remaining life of the modified liability.

The Group recognizes the difference between the carrying amount of the financial liability or a part of it that is canceled or assigned to a third party and the consideration paid, including any assigned asset different from the cash or liability assumed in profit or loss.

2. Trade payables and other accounts payable: accounts payable originated by traffic operations are initially recorded at fair value and, subsequently, are valued at amortized cost using the effective interest rate method.

The Group derecognizes financial liabilities when the obligations that generated them are extinguished.

4.9 Treasury Shares of the Parent

Equity instruments are classified according to the content of the contractual agreements agreed upon. The equity instruments issued by the parent company are recorded in consolidated equity for the amount received, net of direct issuance costs.

Grupo SANJOSE did not hold any treasury shares at 31 December 2018 and 2017. Likewise, no transactions involving treasury shares were carried out during years 2018 and 2017.

4.10 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge the risks to which its activities, operations and future cash flows are exposed. Fundamentally, these risks are from variations in interest rates. Within the framework of these operations, the Group contracts financial instruments for economic hedging.

Derivatives are initially recognized at fair value on the date on which the derivative contract is signed and subsequently they are revalued at their fair value on the date of each balance. The accounting for subsequent changes in fair value depends on whether the derivative has been designated as a hedging instrument and, if so, on the nature of the item being hedged.

At the beginning of the hedge relationship, the Group documents the economic relationship between the hedging instruments and the hedged items, including whether changes in the cash flows of the hedging instruments are expected to compensate for the changes in the cash flows of the hedging instruments. the games covered. The Group documents its risk management objective and strategy for undertaking its hedging transactions.

The effective part of the changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The loss or gain relating to the ineffective part is immediately recognized in the result of the consolidated year within other gains / (losses).

Gains or losses corresponding to the effective portion of the change in the intrinsic value of option contracts are recognized in the cash flow hedge reserve in equity. Changes in the time value of option contracts that are related to the hedged item ("aligned time value") are recognized within other comprehensive income in the costs of the hedge reserve in equity.

When forward contracts are used to hedge forecasted transactions, the Group generally designates only the change in the fair value of the forward contract related to the cash component as the hedging instrument. Gains or losses related to the effective portion of the change in the cash component of forward contracts are recognized in the cash flow hedge reserve in equity. The change in the term element of the contract related to the hedged item is recognized in other comprehensive income in the costs of the hedge reserve within equity. In some cases, the gains or losses corresponding to the effective part of the change in the fair value of the full-term contract are recognized in the cash flow hedge reserve in equity.

- Cash flow hedges: In this type of hedging, the part of the gain or loss of the hedging instrument that has been determined as effective coverage is temporarily recognized in equity, being charged to the profit and loss account therein. period in which the item that is being hedged affects the result, unless the coverage corresponds to a projected transaction that ends in the recognition of a non-financial asset or liability, in which case the amounts recorded in equity will be included in the cost of the asset or liability when it is acquired or assumed.

- The accounting for hedges is interrupted when the hedging instrument expires, or is sold, terminated or exercised, or fails to meet the criteria for accounting for hedges. At that time, any cumulative profit or loss, corresponding to the hedging instrument that has been recorded in equity, remains within equity until the anticipated transaction occurs. When the operation that is being hedged is not expected to occur, the accumulated net gains or losses recognized in equity are transferred to the net results of the period.

Implicit derivatives in other financial instruments or in major contracts are recorded separately as derivatives only when their risks and characteristics are not closely related to the main contracts and provided that those principal contracts are not valued at fair value through recognition in the statement of financial position. Consolidated comprehensive result of changes in fair value.

In the case of the derivative financial instruments arranged by the Group that meet the aforementioned requirements for classification as a cash flow hedge, the changes in the fair value in 2018 were recognised under "Equity - Valuation Adjustments" in the accompanying consolidated balance sheet (see Note 14.6).

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

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

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

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

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

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

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

Possibility of default has been based on credit spread of financing of Grupo SANJOSE, verifying it is similar to that of similar companies and therefore it is a market reference.

Furthermore, for the adjustment of credit risk, total exposure of the Company to counterparties has been taken into consideration. In the event of counterparties with credit information. credit spreads are provided by CDS (Credit Default Swaps) listed on the stock exchange; companies lacking credit information use reference information available. At 31 December 2018 and 2017, the Group held interest rate swaps (IRSs and collars) for a total notional amount of EUR 17,565 thousand million and EUR 15,835 million, respectively, with maturity dates in 2018 and 2021. The negative impact on the consolidated net equity of the Group of the fair value resulting from these arrangements at the end of 2018 and 2017 was EUR 167 thousand and EUR 497 thousand, respectively.

4.11 Revenue recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.12 Borrowing Costs

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

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

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

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

4.13 Currency

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

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

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

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

3. Equity is translated at the historical exchange rates.

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

Goodwill arising on the acquisition of a foreign company is treated as an asset of the foreign company and is translated at the closing rate. The goodwill adjustments and the fair value generated in the acquisition of a foreign entity qualify as assets and liabilities of the foreign entity and are converted according to the current rate at the end of the period.

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

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

Branch office of Constructora San José, S.A. in Peru	Peru	Construction
Branch office of Constructora San José, S.A. in Abu Dhabi	Abu Dhabi	Construction
SJ Contracting, LLC.	Abu Dhabi	Construction
Consorcio Hospital Carlos Cisternas de Calama, S.A.	Chile	Construction
Sociedad Concesionaria Rutas del Loa	Chile	Construction
San José Nuevos Proyectos Salud	Chile	Construction

None of these countries, with the exception of Argentina (see Note 2.3), are considered to be hyper-inflationary economies as defined by IAS 29.

4.14 Profit (Loss) from operations

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

4.15 Income tax

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

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

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

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

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

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

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

Notwithstanding the foregoing:

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

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

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

Since 1 January 2006, the Parent forms an integral part of the consolidated tax group. At 31 December 2018, the following SANJOSE group companies filed consolidated tax returns, acting "Grupo Empresarial San Jose, S.A." as the head of the consolidated tax group:

- Constructora San José, S.A.
- Cartuja Inmobiliaria, S.A.U.
- Desarrollos Urbanísticos Udra, S.A.U.
- Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.
- Tecnocontrol Instalaciones, S.L.U.
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Basket King, S.A.U.
- Arserex, S.A.U.
- Comercial Udra, S.A.U.
- Udramedios, S.A.U.
- Cadena de Tiendas, S.A.U.
- Trendy King, S.A.U.
- Outdoor King, S.A.U.
- Athletic King, S.A.U.
- Vision King, S.A.U.
- Running King, S.A.U.
- Enerxías Renovables de Galicia, S.A.
- Xornal de Galicia, S.A.U.
- San José Concesiones y Servicios, S.A.U.
- San José Energía y Medioambiente, S.A.U.
- Poligeneraciones parc de L´Alba, S.A.
- Xornal Galinet, S.A.U.
- Gestión de Servicios de Salud, S.A.U.
- GSJ Solutions, S.L.U.
- Fotovoltaica El Gallo 10, S.L.

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

4.16 Provisions

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

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

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

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

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

4.16.1 Provisions for urban development costs

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

4.16.2 Provisions for completion of construction projects and warranty costs

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

4.16.3 Litigation and/or claims in process

At the end of 2018 certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and the Parent's directors consider that the outcome of litigation and claims will not have a material effect on the consolidated financial statements for the years in which they are settled.

4.17 Termination benefits

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

Also, the Company has recognised sufficient provisions under "Other Current Liabilities" on the liability side of the accompanying consolidated balance sheet at 31 December 2018 to meet the contract termination costs of temporary employees in accordance with legal provisions.

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

4.18 Classification of current assets and liabilities

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

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

4.19 Transactions with associates

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

4.20 Assets of natural environment

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

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

4.21 Consolidated cash flow statements

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

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

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

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

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

5. Earnings per share

Basic earnings per share

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

	Year 2,018	Year 2,017	Changes
Net profit/(loss) for the year attributable to the Parent (thousands of Euros)	13,198	11,440	1,758
Weighted average number of shares (shares)	65,026,083	65,026,083	-
Basic profit/(loss) per share (Euros/Share)	0.20	0.18	0.02

5.2 Diluted earnings per share

There is no potential dilutive effect derived from stock options, warrants, convertible debt or other instruments as of 31 December 2018. With regards to the warrants that the parent company has issued (see Note 16.3), its expiration will be in October 2019 and, if it is carried out, the price will be the average price of the last 20 sessions, not anticipating economic dilution of current shareholders arising from the conversion.

The dilutive effect of the warrants issued on the profit per share attributed to the Group for the year 2018 is as follows:

	Year 2,018	Year 2,017
Adjusted profit/(loss) for the year attributable to the Parent (thousands	15,828	13,855
Convertible shares	22,759,129	22,759,129
Total number of shares for calculating	87,785,212	87,785,212
Diluted earnings per share (Euros/Share)	0.18	0.16

6. Segment information

6.1 Basis of segmentation

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

Primary business segments

The business lines described below were established on the basis of the organisational structure of Constructora San Jose, S.A and Subsidiaries at 2018 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

In years 2018 and 2017, Grupo engaged mainly in the following major lines of business, which were the basis for the Group's primary segment reporting:

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

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

Secondary geography segments

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

6.2 Basis and methodology for segment reporting

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

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

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

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

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

Segment information about these businesses is presented below.:

Year 2018:

	Thousands of Euros					
	Construction	**Real estate and property development**	**Energy**	**Concessions and Services.**	**Adjustments and other**	**TOTAL**
Net Revenues:						
External sales	675,961	3,761	9,711	50,875	18,115	**758,423**
Inter-segment sales	9,371	-	-	946	(10,317)	-
Net Revenues:	**685,332**	**3,761**	**9,711**	**51,821**	**7,798**	**758,423**
EBITDA	**36,695**	**27**	**2,705**	**2,297**	**9,956**	**51,680**
Amortisation	(2,364)	(461)	(1,187)	(813)	(215)	**(5,040)**
Provisions	(7,126)	(199)	46	92	1,604	**(5,583)**
Impairment and Profit/(Loss) after disposal	91	-	(118)	-	1	**(26)**
Effect on the profit/(loss) of negative consolidation diffe	-	-	-	-	2,108	**2,108**
PROFIT/(LOSS) FROM OPERATIONS	**27,296**	**(633)**	**1,446**	**1,576**	**11,346**	**41,031**
Financial income	15,785	1,143	-	10,263	(14,278)	**12,913**
Financial costs and similar expenses	(13,994)	(62)	(532)	(6,467)	(624)	**(21,679)**
Translation differences and other	(6,249)	2,072	-	564	4,641	**1,028**
Adjustment for inflation in hyperinflationary economies	13	(3,614)	-	-	(2,784)	**(6,385)**
Profit/(loss) from associates	5,852	(5,217)	-	-	(547)	**88**
Profit/(Loss) before tax	**28,703**	**(6,311)**	**914**	**5,936**	**(2,246)**	**26,996**

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

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

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

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

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

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

Year 2018:

	Thousands of Euros					
	Construction	Real estate and property development	Energy	Concessions and Services.	Adjustments and other	TOTAL
Balance sheet:						
Non-current assets:						
Intangible assets	1,601	1,601	15,710	1,597	7,554	**28,063**
Property, plant and equipment	14,432	4	9,644	614	46,339	**71,033**
Real estate investments	581	10,147	-	-	3	**10,731**
Deferred tax assets	18,837	1,503	2,038	2,267	11,913	**36,558**
Other	15,838	32,196	3	69,424	10,699	**128,160**
Current assets:						
Inventories	68,118	39,789	-	810	6,168	**114,885**
Receivables	234,911	1,858	1,383	12,409	9,304	**259,865**
Other current assets	5,409	312	44	320	755	**6,840**
Short-term financial investments	6,611	34	1	49,101	481	**56,228**
Cash and cash equivalents	215,306	27,662	3,304	24,096	13,066	**283,434**
Total Assets						
In Spain	254,773	41,182	32,127	10,939	28,079	**367,100**
In foreign countries	326,871	73,924	-	149,699	78,203	**628,697**
Total Assets	**581,644**	**115,106**	**32,127**	**160,638**	**106,282**	**995,797**
Non-current liabilities:						
Long-term payables	174,882	2,831	6,678	66,554	1,490	**252,435**
Deferred tax liabilities	5,417	4,875	1,414	10,507	3,422	**25,635**
Other non-current liabilities	19,145	1,368	1,211	4,803	14,459	**40,986**
Current liabilities:						
Short-term debts	26,544	3,610	940	32,743	113,312	**177,149**
Trade payables	444,341	4,905	1,581	7,481	10,760	**469,068**
Other current liabilities	19,500	5,291	1,071	6,241	4,553	**36,656**
Total Liabilities						
In Spain	409,240	8,053	12,895	4,987	136,281	**571,456**
In foreign countries	280,589	14,827	0	123,342	11,715	**430,473**
Total Liabilities	**689,829**	**22,880**	**12,895**	**128,329**	**147,996**	**1,001,929**
Additions to fixed assets:						
In Spain	905	-	42	4	29	**980**
In foreign countries	1,809	-	-	13	520	**2,342**
	2,714	**-**	**42**	**17**	**549**	**3,322**

Year 2017:

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

There are no significant non-operating assets.

Information on secondary segments:

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

	Thousands of Euros					
	Net Revenue		Total asets		Additions to property, plant and aquipment and investment property	
	2018	2017	2018	2017	2018	2017
Spain	372,893	297,444	367,100	347,318	980	1,702
Portugal	78,463	68,705	48,946	31,505	73	19
Cape Verde	21,138	27,561	24,325	20,786	32	924
Argentina	6,511	3,929	41,412	22,339	470	1
Paraguay	5,720	5,106	50,553	41,699	340	388
Bolivia	-	-	12	-	-	-
The United States	-	-	2,365	911	3	1
Peru	16,186	9,274	67,396	57,125	313	17
Brazil	-	-	6,156	8,119	-	-
Panama	-	-	75	548	-	-
France	-	-	309	402	-	-
Germany	-	-	38	41	-	-
Chile	73,584	98,179	216,723	274,298	342	101
India	9,416	19,039	7,800	5,570	3	35
Abu Dhabi	166,920	139,360	143,598	127,785	764	907
Nepal	-	-	7,986	11,181	-	-
Timor	3,580	121	4,659	3,462	-	-
Morocco	-	-	72	69	-	-
Mozambique	-	-	84	76	-	-
Colombia	-	-	4	-	-	-
Mexico	3,135	7,385	5,541	6,960	2	-
Malta	877	6,765	641	4,182	-	-
TOTAL	**758,423**	**682,868**	**995,797**	**964,376**	**3,322**	**4,095**

Note 2.3 of the accompanying consolidated Notes includes a list of the main countries where the Group operates in a currency other than the Euro. From total assets at 31 December 2018 and 2017, EUR 578,762 thousand and EUR 580,928 thousand, respectively, correspond to assets in foreign currency. Likewise, from total revenue for years 2018 and 2017 the activity developed in said countries amounts to EUR 306,190 thousand and EUR 309,954 thousand, respectively.

7. Property, plant and equipment

Changes in 2018 and 2017 under "Property, Plant and Equipment" in the consolidated balance sheet were as follows:

Year 2018:

	Thousands of Euros							
	Balance at 31/12/2017	Adjustment for inflation at 01.01.2018 (Note 2.3)	Additions / Provisions	Disposals	Transfers (Note 8)	Change in the scope of consolidation	Exchange rate differences and other	Balance at 31/12/2018
Cost:								
Land and buildings	**32,735**	14	323	(38)	1	25,744	388	**59,167**
Plant and machinery	**32,558**	65	1,218	(348)	1,293	304	143	**35,233**
Other items of property, plant and equipment	**30,416**	228	1,645	(106)	(961)	97	102	**31,421**
Ongoing property, plant and equipment	**1,470**	-	94	-	(106)	(300)	(818)	**340**
Total expense	**97,179**	**307**	**3,280**	**(492)**	**227**	**25,845**	**(185)**	**126,161**
Accumulated amortisation:								
Land and buildings	**(5,252)**	-	(958)	38	185	-	609	**(5,378)**
Plant and machinery	**(18,660)**	(65)	(1,686)	281	(2,107)	-	(208)	**(22,445)**
Other items of property, plant and equipment	**(27,894)**	(228)	(914)	99	1,702	-	(47)	**(27,282)**
Total Accumulated Amortisation	**(51,806)**	**(293)**	**(3,558)**	**418**	**(220)**	**-**	**354**	**(55,105)**
Total Accumulated Impairment (Note 22.9)	**(24)**	-	(15)	-	-	-	16	**(23)**
Net carrying amount	**45,349**	**14**	**(293)**	**(74)**	**7**	**25,845**	**185**	**71,033**

Year 2017:

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

Additions occurred in year 2018 correspond mainly to investment in machinery and technical facilities incurred into by the Group for the development of construction activity.

Main derecognitions during 2018 refer mainly to already amortised materials and facilities, recording a total net befit of EUR 107 thousand, recorded under "Impairment and disposal of property, plant and equipment" in the accompanying profit and loss account for year 2018 (see Note 22.19).

During the year, mainly as a consequence of the partial spin-off transaction of the investee "Cresca, SA" (see Note 2.4.d), the Group is integrated as the main asset related to the agricultural business received in the spin-off, land, technical facilities and machinery, for a total amount of EUR 25,853 thousand.

Year 2017:

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

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

Main derecognitions during 2017 refer mainly to already amortised materials and facilities, recording a total net befit of EUR 219 thousand.

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

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

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

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

At 31 December 2018 and 2017, investment hold in foreign countries by the Group, detailed by associate is as follows:

	Thousands of Euros			
	31/12/2018		31/12/2017	
	Cost	Accum. Amort.	Cost	Accum. Amort.
Portugal	2,388	(2,320)	2,314	(2,273)
Argentina	1,830	(523)	543	(5)
Paraguay	44,759	(322)	18,681	(80)
Cape Verde	4,000	(2,388)	4,023	(1,939)
Chile	1,079	(308)	828	(246)
India	92	(43)	100	(36)
Perú	1,962	(1,498)	1,448	(1,420)
Timor	-	-	30	(21)
Abu Dhabi	4,321	(3,510)	3,621	(2,774)
Nepal	224	(199)	41	(26)
México	11	(4)	6	(3)
Other countries	16	(11)	5	(8)
TOTAL	**60,682**	**(11,126)**	**31,640**	**(8,831)**

"Land and buildings" mainly includes a net amount of EUR 44,889 thousand and EUR 18,447 thousand as of 31 December 2018 and 2017, respectively, corresponding to lands of the "Carlos Casado, SA" group, mainly agricultural land in the Paraguayan Chaco. The increase in year 2018 with regards to 2017 is mainly due to the partial spin-off transaction of the company Cresca, S.A. (Note 2.4.d).

At 31 December 2018 and 2017, the cost of the land upon which property for own use is located amounted to EUR 1.8 million and EUR 1.3 million, respectively.

At 31 December 2018 and 2017 there are specific property acting, with a carrying amount of approximately EUR 8,570 thousand and EUR 8,147 thousand, respectively, as collateral for part of the loan syndicated by the Group which amounted to EUR 25.1 and 23.4 million, respectively (see Note 16.3).

Fair value of own use buildings at 31 December 2018 and 2017 amounts to EUR 22.7 million and EUR 20.2 million, respectively, according to estimates carried by independent valuers (“Instituto de Valoraciones, S.A.”). Carrying net cost at 31 December 2018 and 2017 amounts to EUR 9.5 million and EUR 9.1 million, respectively.

Fully amortised items at 31 December 2018 and 2017 amount to EUR 30.5 million and EUR 28.7 million, respectively.

At year-end 2018 the Group does not hold significant investment commitments in property, plant and equipment.

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

Finance Leases

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

8. Property investment

The detail of "Investment Property" and changes therein in 2018 and 2017 is as follows:

Year 2018:

	Thousands of Euros				
	Balance at 31/12/2017	Adjustment for inflation at 01.01.2018 (Note 2.3)	Additions / Provisions	Exchange rate differences	Balance at 31/12/2018
Cost:					
Land and buildings	**4,886**	31,916	-	(7,517)	**29,285**
Plant and machinery	**778**	3,278	-	(822)	**3,234**
Furniture, tools and other items	**88**	541	-	(135)	**494**
Total expense	**5,752**	**35,735**	-	**(8,474)**	**33,013**
Accumulated amortisation:					
Buildings	**(1,572)**	(20,812)	(77)	3,913	**(18,548)**
Technical facilities	**(771)**	(3,255)	(2)	808	**(3,220)**
Furniture, tools and other items	**(87)**	(534)	-	132	**(489)**
Total Accumulated Amortisation	**(2,430)**	**(24,601)**	**(79)**	**4,853**	**(22,257)**
Total Accumulated Impairment (Note 22.9)	**(25)**	-	-	-	**(25)**
Net carrying amount	**3,297**	**11,134**	**(79)**	**(3,621)**	**10,731**

Year 2017:

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

The cost of the investment property at 31 December 2018 and 2017 includes approximately EUR 8.6 million and EUR 1.5 million, relating to the carrying amount of the land relating thereto.

Use or nature of the investment property

Substantially all of the Group's investment property relates to properties earmarked for lease, mainly in Argentina. The detail of the use or nature of the Group's investment property devoted to leasing purposes at 31 December 2018 and 2017 is as follows:

	2018		**2017**	
Lease purpose	**Surface for lease (m2)**	**Percentage**	**Surface for lease (m2)**	**Percentage**
Adminsitrative buildings	287	0%	287	0%
Shopping Centres	178,288	99%	177,875	99%
Other	1,549	1%	1,549	1%
	180,124	**100%**	**179,711**	**100%**

Mortgaged investment property

At 31 December 2018 and 2017, the Group does not have real estate assets as collateral for mortgage investments.

At 31 December 2018 and 2017 there are specific property acting, with a carrying amount of approximately EUR 585 thousand and EUR 602 thousand, respectively, as collateral for part of the loan syndicated by the Group which amounted to EUR 781 thousand (see Note 16.3).

Income and expenses from rental of investment property

At 31 December 2018 commercial premises, office building and car park spaces had been leased out to third parties under operating leases.

The detail, by maturity, of the lease payments payable to the Group under the operating leases and subleases contracted for by the Group with third parties at 31 December 2018 is as follows:

Term	Thousands of Euros	
	Year 2018	**Year 2017**
Up to a year	3,251	4,879
From one to five years	4,436	8,352
More than five years	2,195	2,558
	9,882	**15,789**

The reduction is due to the application of the exchange rate in Argentina, which has the highest percentage of leases.

The increase was mainly due to the fact that during year 2018 the investee "Argentimo, S.A." has formalized with new clients multi-year rental contracts for commercial spaces related to the commercial centres of its property in Buenos Aires, Argentina. Likewise, it has proceeded to the renewal and revision of existing contracts.

Calculation has not taken into consideration increase of CPI and, regarding variable rate contracts, amount for year 2018 has been considered.

Total investment property rental income of the Group for years 2018 and 2017 excluding potential costs charged to clients, amounts to EUR 2,812 thousand and EUR 4,046 thousand recorded under "Provision of services" in the accompanying consolidated income statement for year 2018.

Insurance policy

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

Fair value of investment property

Each year the Group commissions studies from independent valuers to determine the fair values of its investment property at the balance sheet date. During 2018, no significant variation of the fair value of real estate investments was revealed.

In view of the aforementioned valuation report, in 2018 no valuation adjustments of assets registered by the Group as real estate investments was disclosed.

At 31 December 2018 and 2017, the fair value of real estate investments of the Group arising from the above-mentioned studies amounts to EUR 72.1 million and EUR 86.3 million, respectively. Said amount, at 31 December 2018 and 2017, includes EUR 35.5 million and EUR 37.4 million, respectively, corresponding to real estate investments of investees of the Group.

9. Goodwill

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

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Cartuja Inmobiliaria, S.A.U.	600	600
San José Perú Inmobiliaria, S.A.	1,601	1,601
Constructora San José, S.A.	7,662	7,662
Others	121	121
Total	**9,984**	**9,984**

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

The most important goodwill is that referring to the associate “Constructora San José, S.A", representing 77% total goodwill of the Group. At 31 December 2018, the key assumptions on which the Group's management has based its cash flow projections for the valuation of the cash generating unit (CGU) representing this society, are as follows:

- Consolidation of economic recovery in the target areas.
- Diversification of the portfolio at geographical level: consolidation of the increase in the international market in the coming years.

  Sales: total construction revenue is distributed among countries where the Group operates, based on the current activity and contracted portfolio (short and medium term) and the guidelines established in the business plan Group (medium and long term), assuming a 10% annual growth of total construction activity, stabilizing at an average growth of approximately 5% in the long term.
- For the discount of the projected cash flows a rate based on the weighted average cost of capital (WACC) is calculated. The Group uses a risk-free rate taking as reference the 5-year bond, depending on the location, and a market premium based on recent studies of long-term premiums used by analysts for the business and geographical areas where it operates. At 31 December 2018, the discount rate used by the Group in the UGE of “Constructora San José, S.A.” is 6.5%.
- A 0% growth rate envisaged in perpetuity is considered.
- EBITDA margin relatively stable in the short term, standing at levels of 5.5%, increasing in the medium and long term, stabilising at levels of 7%
- Potential capital gains from the sale of real estate assets or income and benefits of urban development activity have not been considered in this cash generating unit.

Forecasts used by the Management are in accordance with the Business Plan of Grupo SANJOSE, in accordance with the most recent business projections, which take into account the situation of the contracted portfolio, the historical evolution of the last years, as well as the situation of financial stability that characterises the Group upon the restructuring of the Group's financial debt completed in 2014 (see Note 16).

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

The result of the impairment test of goodwill associated with CGU, conducted by the Group's management team at year-end 2018, shows a significant surplus of the recoverable amount over the carrying amount of the CGU, and basis said calculation in pessimistic scenarios that contemplate a reduction of 3 and 2.5 percentage points in growth and margin for the coming years, respectively, and an increase in the applied discount rate of 0.5 percentage points, without having to record any deterioration.

Further, the Group has recorded under the consolidated balance sheet at 31 December 2018 the following consolidation differences arising from the purchase operations with a position of dominance:

- Derived from the purchase of the group company "Carlos Casado SA" in 2008, and the subsequent domain position, the Group recorded as increased value of land under "Property, plant and equipment" of the consolidated balance sheet, the surplus with respect to the price paid compared to the carrying value in books of the purchased stake (price purchase allocation - PPA). At 31 December 2018, the amount recorded amounts to EUR 17,532 thousand.

- During year 2018, the partial spin-off of Cresca was carried out, distributing the agricultural business carried out by it, in an equitable manner among the partners (see Note 2.4.d). Said transaction complies with the requirements of IFRS 3 "Business combination", recording the assets received at fair value, having registered a profit for EUR 2,108 thousand under "Impairment and profit/(loss) on the disposal of items of property, plant and equipment in the accompanying consolidated income statement for year 2018, (see Note 22.9).

- The Group also records a PPA, as higher cost of inventories, as a result of the operations related to the takeover of the investee companies, "Zivar, Investimentos Inmobiliarios, SA" and "Cartuja Inmobiliaria, SA" amounting to EUR 4,911 thousand and EUR 1,543 thousand. At 31 December 2018, said assets have an associated impairment amounting to EUR 1,060 thousand and EUR 1,543 thousand, respectively.

- During 2016, as a result of the purchase transaction to reach 100% of the share capital of the Group "Consorcio Hospital Carlos Cisternas de Calama, SA", the Group recorded as "Other intangible assets" in the consolidated balance sheet, the amount of the price paid exceeding the book value of the acquired share, which at 31 December 2018 amounted to EUR 2,220 thousand (see Note 10). During year 2018, the Group recorded an amortisation charge associated with this asset for an amount of EUR 459 thousand, and was fully amortised as of 31 December 2018 (see Note 10).

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

10. Intangible assets

This item includes investments associated to the Group's concessions and licences.

The detail in the consolidated balance sheets at 31 December 2018 and 2017 is as follows:

Year 2018:

	Thousands of Euros					
	Balance at 31/12/2017	**Adjustment for inflation at 01.01.2018** (Note 2.3)	**Additions / Provisions**	**Disposals**	**Exchange rate differences**	**Balance at 31/12/2018**
Concessions	27,042	-	42	(3,000)	-	**24,084**
Patents, licences and trade marks	82	-	-	-	-	**82**
Other intangible assets	7,771	1	-	-	(331)	**7,441**
Total expense	**34,895**	**1**	**42**	**(3,000)**	**(331)**	**31,607**
Concessions	(11,969)	-	(689)	3,000	-	**(9,658)**
Patents, licences and trade marks	(17)	-	(16)	-	-	**(33)**
Other intangible assets	(3,328)	(1)	(698)	-	190	**(3,837)**
Total Accumulated Amortisation	**(15,314)**	**(1)**	**(1,403)**	**3,000**	**190**	**(13,528)**
Net carrying amount	**19,581**	**-**	**(1,361)**	**-**	**(141)**	**18,079**

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

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

During 2018, the maintenance and sale of energy concessions referring to the hospital of Torrecardenas has expired. As a result, the Group has proceeded to write off the cost of these concessions, fully amortised.

During 2018, no significant changes arising from additions or withdrawals of items of the "Other intangible assets" have taken place.

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

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

Additions under "Concessions" are mainly due to the expenses incurred into by the Group's "Polygeneration Parc de l'Alba ST-4, SA" company in the pipelines and adjustments made to provide energy supply to new customers, amounting in 2017 to a total of EUR 42 thousand.

Additionally, at 31 December 2018, main intangible assets of the Group are as follows:

- Construction elements and technical installations constituting the polygeneration plant for the production of electric power, cold and heat, of the company of the Group Polygeneration Parc de l'Alba ST-4, SA, located in the Partial Plan "Centro Direcional de Cerdanyola del Valles "(Barcelona), for a net cost at 31 December 2018 of EUR 14,327 thousand.

- Leasing rights for a period of 25 years, arising from the stake of the Group in “Fotovoltaica el Gallo 10, S.L." referred to the use of land where the PV plant is located are recorded at 31 December 2018 for a total amount of EUR 2,316 thousand.

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

At 31 December 2018 there are no significant investment commitments in intangible assets.

Finance Leases

The Group has financial lease contracts referring mainly to technical facilities and vehicles.

Breakdown at 31 December 2018 is as follows:

	Thousands of Euros
Term of contract (years)	4
Outstanding instalments (Note 16.1):	
Non-current	81
Current	28

The rent paid in 2018 amounted to EUR 8 thousand, which included a finance charge of EUR 0.4 thousand.

At year-end 2018 and 2017, total items pending amortisation corresponding to finance leases amounted to EUR 109 thousand and EUR 162 thousand (see Note 16).

11. Investments accounted for using the equity method

Investments in associates.

The Group's most significant investments in associates at 31 December 2018 and 2017 were as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Cresca, S.A (Note 2.4.d.)	25	10,360
Pinar de Villanueva, S.L.	2,792	5,541
Distrito Castellana Norte, S.A. (DCN)	31,299	27,797
Panamerican Mall, S.A. (PM)	877	6,220
CSJ GVK Projects and Technical SS. P.L.	5,429	-
Total net	**40,422**	**49,918**

The changes, by company, in "Investments Accounted for Using the Equity Method" in 2018 and 2017 are as follows:

Year 2018:

	Thousands of Euros							
	Balance at 31/12/2017	Adjustment for inflation at 01.01.2018 (Note 2.3)	Changes scope / Transfers	Profit/(Loss) for the year	Additions	Dividends received	Exchange rate differences	Balance at 31/12/2018
Cresca, S.A.	10,360	-	(9,810)	(547)	-	-	22	25
Pinar de Villanueva, S.L.	5,541	-	-	(2,749)	-	-	-	2,792
Distrito Castellana Norte, S.A.	27,797	-	-	(1,122)	4,624	-	-	31,299
Panamerican Mall, S.A.	6,220	(110)	-	(1,346)	-	(1,084)	(2,803)	877
CSJ GVK Projects ´n Technical SS. P.L.	-	-	-	5,852	-	(423)	-	5,429
Total	**49,918**	**(110)**	**(9,810)**	**88**	**4,624**	**(1,507)**	**(2,781)**	**40,422**

Year 2017:

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

The main addition of 2018 corresponds to the investee "Castellana Norte District, S.A." whose Shareholders' Meeting approved a capital increase for a total amount of EUR 18,871 thousand, granted through public deed on 1 February 2018. The Group, through its associate “Desarrollos Urbanísticos Udra, S.A.U.”, has subscribed and paid up the totality of its shares, for a total value of EUR 4,624 thousand. Therefore, it keeps its 24.46% participation within the share capital of “Distrito Castellana Norte, S.A.”.

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

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

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

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

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

During year 2018, the City Council of Madrid has been working proactively on the main modification of its PGOU i) On 20 September 2018, it initially approved the specific amendment of the PGOU; ii) According to news on the media last 5 December, the spokeswoman of the municipal government said that the City Council would approve this urban project before the elections in May.

On 28 December 2018, the agreement between the investee company and ADIF was renewed, by which the PGOU's specific amendment is assumed.

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

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

<u>*At 31 December 2018*</u>

	Millions of Euros		
	DCN	**PM**	**GSJ GVK**
Non-current assets	6.3	299.5	0.0
Current assets	140.7	12	26.4
Total Assets	**147.0**	**311.5**	**26.4**
Non-current liabilities	11.8	96.8	0.0
Current liabilities	7.3	5.7	15.8
Total Liabilities	**19.1**	**102.5**	**15.8**
Income from ordinary activities	0.0	14.1	58.8
Profit/(Loss) from continued operations	(4.5)	25.3	11.8
Profit/(Loss) for the year	(4.5)	25.3	11.8

At 31 December 2017

	Millions of Euros		
	DCN	PM	Cresca
Non-current assets	4	289	2.9
Current assets	124.1	16.5	44
Total Assets	**128.1**	**305.5**	**46.9**
Non-current liabilities	7.5	66.6	0
Current liabilities	7	11.9	18.2
Total Liabilities	**14.5**	**78.5**	**18.2**
Income from ordinary activities	0	26.4	0
Profit/(Loss) from continued operations	(2.8)	66.7	(1.5)
Profit/(Loss) for the year	(2.8)	66.7	(1.5)

A summary of the financial information of the main investees included within the accounting records of the Group is provided next:

At 31 December 2018

	Millions of Euros		
	DCN	PM	CSJ GVK
Total net equity	127.5	209.0	10.6
% ownership of Grupo SANJOSE	24.46%	20.00%	50.00%
Net carrying amount of the stake (NCV)	31.2	41.8	5.3
Amendments of the NCV and other	-	(40.9)	-
Cost of the Groups' stake	**31.2**	**0.9**	**5.3**

At 31 December 2017

	Millions of Euros		
	DCN	PM	Cresca
Total net equity	113.6	227.0	28.8
% ownership of Grupo SANJOSE	24.46%	20.00%	50.00%
Net carrying amount of the stake (NCV)	27.8	45.4	14.4
Amendments of the NCV and other	-	(39.2)	(4.0)
Cost of the Groups' stake	**27.8**	**6.2**	**10.4**

During year 2017, the investee "Panamerican Mall, S.A." changed the valuation criteria of its investment assets, adopting the "fair value" criterion. This effect has been reversed prior to their integration in the Group's consolidated financial statements.

Non-current loans to related companies

At 31 December 2017 this item in the consolidated balance sheet included an amount of EUR 455 thousand, corresponding to the equity loan granted by the company "Constructora San José, SA" to its investee "Pinar de Villanueva, SL". During year 2018, the entire amount was repaid and the loan was cancelled (see Notes 13.4 and 23).

12. Inventories

The detail in the consolidated balance sheets at 31 December 2018 and 2017 is as follows:

Year 2018:

	Thousands of Euros						
	Balance at 31/12/2017	**Adjustment for inflation at 01.01.2018** (Note 2.3)	**Additions**	**Disposals**	**Transfers**	**Exchange rate differences and other**	**Balance at 31/12/2018**
Acquired property	**9,723**	-	-	(1,039)	-	-	**8,684**
Land and plots of land	**69,623**	8,926	4,713	(1,848)	(15,342)	(1,224)	**64,848**
Raw materials and other supplies	**5,259**	-	5,243	(2,477)	231	(1,126)	**7,130**
Developments under construction							
- Short-cycle developments under construction	-	-	5,803	(215)	15,420	588	**21,596**
Completed construction works	**9,066**	-	759	(1,037)	417	(572)	**8,633**
Advances to suppliers	**22,842**	203	4,972	(12,875)	-	509	**15,651**
Issuance rights	**(90)**	-	888	(908)	110	-	-
Impairment losses on inventories	**(11,719)**	-	(795)	324	13	520	**(11,657)**
Total	**104,704**	**9,129**	**21,583**	**(20,075)**	**849**	**(1,305)**	**114,885**

Year 2017:

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

12.1 Acquired property

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

- Car parking spaces, commercial premises and housing units in Legazpi, Madrid.
- Housing units in Promópolis, in Seville
- Car parking spaces and housing units in Puerto Llano, Ciudad Real.
- Car parking spaces and housing units in Mairena de Aljarafe, Seville.

During year 2018 the sale of the "Manilva Residencial Pueblo Paloma" development in Malaga, acquired in previous years by the Group in a debt collection operation, was carried out, obtaining profits. During 2017 no significant additions took place.

12.2. Lands and plots of land

This account balance corresponds to the acquisition price of several plots of land in their final phase or under urban management at 31 December 2018 basically for residential purposes (even though there are also institutional or industrial plots). The Group has planned to allocate them to direct sale or property development by Group companies.

In the month of June 2018, the Group has signed a purchase agreement for a rustic plot of land located in Herdade da Palheta, in the Concello de Redondo (Portugal), for a cost of EUR 3,585 thousand, with an outstanding payment amounting to EUR 2,868 thousand. This transaction was carried out in the context of a customer debt collection management transaction, and no additional disbursements were planned.
The main change during year 2018, corresponds to the transfer of the land located in the district of Bellavista (Peru) to "works on progress", since construction works of this new Condominium have begun, amounting to EUR 13,736 thousand.

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

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

At 31 December 2018, this item includes mainly the following plots of land:

1. Plot of land in La Tablada, Seville, with a total surface of 149,619 sqm.
2. Urban plots of land Las Arenas and RP-9 Jalón industrial, both in Valladolid, with a surface amounting to 68,290 and 6,215 m^2.
3. Two plots of land of 3,965 and 9,532 m^2, La Catalana and Pueblo Mediterráneo, located in Vicalvaro (Madrid) and Manilva (Malaga).
4. A plot of land in Salvador de Bahía, Brazil, devoted to residential purposes, with a total surface amounting to 30.285 $m^{2.}$
5. La Tablada, located in Buenos Aires – Argentina, for residential and commercial purposes, with as total surface amounting to 808,102 sqm and a buildable surface amounting to 1,650,000 sqm.
6. Rustic plot of land in Herdade da Palheta, in the Concello de Redondo (Portugal) of 2,997,750 m^2 of surface.

At 31 December 2018 and 2017, the Group did not have lands acting as collateral of mortgage loans.

In addition, several assets recorded under this item at 31 December 2018 and 2017 for a total net cost amounting to EUR 4,740 thousand act as collateral, in both years, for part of the loan syndicated by the Group (see Note 16.3) for EUR 4,561 thousand in both years, At 31 December 2018, the Group owned land with a total area of 4,783,276 square meters, of which 27% amounting to 1,281,553 square meters are qualified as buildable land. The detail, by location, of the Group's land is as follows:

	Total m²	
	31.12.2018	**31.12.2017**
Spain	723,140	723,140
Peru	20,000	20,000
Portugal	2,997,750	-
Argentina	1,012,101	1,012,101
Brazil	30,285	30,285
TOTAL	**4,783,276**	**1,785,526**

12.3 Land purchase commitments

At 31 December 2018 and 2017, the Group had entered into various memorandums of understanding or agreements with purchase options for land totalling approximately EUR 2.4 million, of which the Group had paid EUR 651 thousand, amount recognised under "Advance payments to suppliers" in the accompanying consolidated balance sheet. Final purchase price shall depend upon final purpose of the same.

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

The rest of the advances correspond to advances to suppliers associated with the group's construction activity, mainly in Abu Dhabi, Chile and India, for amounts of EUR 9.6 and EUR 2.7 million, respectively.

12.4 Ongoing property, plant and equipment

The main element under this item at 31 December 2018 is the urban development "Condominio NUEVAVISTA" in the District of Bellavista, located in Lima, Peru, whose construction began in year 2018 by the company of the Group "San José Inmobiliaria Perú, S.A.C." (company registered in Peru).

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

12.5 Completed construction works

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

- 111 housing units in Larrein" located in Vitoria- Gasteiz property of the Group company "Alexin XXI, S.L.U".
- Items under "Borinbizcarra" and "62 housing units in Mariturri", for "Eraikuntza, Birgaikuntza Artapena, S.L.U." (EBA).
- Promociones Quinta do Moleao (Lagos) of the branch office in Portugal of "Constructora San José, S.A.".

During 2016, the company "San José Inmobiliaria Perú, S.A.C.", has commissioned the last stage of the construction works of the urban development Feria Internacional del Pacífico, located in Lima, Peru, started in year 2008 by the Group company "San José Perú, S.A.C.". Said urban development consists of a total surface of 102 thousand sqm which shall house over 3,000 homes. In year 2018, 3 housing units and two car parks and 57 housing units in 2017 were commissioned and delivered, for a total amount of EUR 241 thousand and EUR 2,080 thousand, respectively.

Additionally, during year 2018 there were sales for a total amount of EUR 882 thousand, of housing units and car park spaces of the Larrein and Boronbizkarra urban development (Vitoria).

At 31 December 2018 and 2017, certain real estate assets are recorded under "Completed Construction Work" in the accompany consolidated balance sheet for a total net cost amounting to EUR 7,507 thousand and EUR 7,026 thousand, respectively, which act as mortgage hedge for banking borrowings amounting to EUR 4,532 thousand and EUR 4,318 thousand (see Note 16.2).

At 31 December 2018 and 2017 the Group hold completed developments for a total net cost amounting to EUR 4,365 thousand and EUR 4,504 thousand which guarantee the syndicated debt for EUR 3,683 (see Note 16.3).

12.6 Commitments to sell property developments in progress and completed buildings

At 31 December 2018 and 2017, the Group had entered into private agreements and reservation documents for the sale of property developments in progress and completed buildings at that date, for a total amount of EUR 12,535 thousand and EUR 6,694 thousand, for which the Group had received advances from the related customers totalling EUR 3,197 thousand and EUR 171 thousand, respectively (see Note 18.3).

12.7 impairment of inventories

Each year the Group commissions studies from independent valuers to determine the fair values of its investment property at the balance sheet date (see Note 4.4).

At 31 December 2018 and 2017, the fair value of the Company's inventories based on the aforementioned study amounted to EUR 157.9 thousand and EUR 159.4 million, respectively, recording an impairment in 2018 amounting to EUR 349 thousand and EUR 2,113 thousand in 2017. In addition, during the year 2018, the Group reversed the impairment of investments as a result of sales during the year, as well as of merchandise, for a total amount of EUR 91 thousands (see Note 22.2).

12.8 Insurance policy

The Group's policy is to enter into insurance policies to cover the potential risks which all its inventories are subject to. The Parent's Directors consider insurance coverage arranged to be sufficient.

12.9 Issuance rights

At 31 December 2018, "Inventories" includes the emission rights of greenhouse gases received by the company of the Group "Polygeneration Parc de l'Alba ST-4, SA" which are pending redemption against the Public Administration, with a total cost amounting to EUR 282 thousand, being fully assigned to issues made during the year.

Further, at of 31 December 2018, the Group recorded a short-term provision amounting of EUR 204 thousand, corresponding to the issues made during the year 2018 for which, at that date of theses consolidated financial statements, it did not have acquired emission rights yet (see Note 22.10).

During the year 2018, the Group has redeemed to the Public Administration the emission rights corresponding to CO2 emissions for the year 2017, for a total amount of EUR 300 thousand.

13. Financial Assets

13.1 Trade and other receivables

This item of the accompanying consolidated balance sheet includes the present value of uncollected revenue, measured as indicated in Note 4.7, contributed by the Group's various lines of business and which form the basis of the profit or loss from operations.

The detail of "Trade receivables for sales and services" at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	31.12.2018	31.12.2017
Progress billings receivable and trade receivables		
for sales and provision of services	171,030	178,345
Executed works pending billing (OEPC)	43,383	37,204
Retentions for guarantees	36,182	21,164
Customers, discounted instruments	13,072	21,158
Impairment (Note 22.10)	(31,725)	(30,557)
Total	**231,942**	**227,314**
Advances (Note 18.3)	(110,536)	(118,670)
Total net accounts receivable	**121,406**	**108,644**

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

"Amounts to be billed for executed works (OEPC)" includes the work performed during the year but not yet billed to customers, which is recognised as period revenue in accordance with the method of recognition of revenue for completed construction work (completion of the works), based on the percentage of completion method used by the Group detailed in Note 4.11. To the extent that the accounting criterion adopted by the Group for the recording of sales revenue, for the purpose of calculating the degree of progress, takes into account as total revenue budget of the work / project only the justified and approved part, the amount of the OEPC corresponds entirely to production executed to date associated with properly signed and valid contracts.

As of 31 December 2017, and as an exception to the aforementioned rule, the Group partially recorded a claim file amounting to EUR 3,071 thousand, to the extent that there was negotiation with the client and the forecast of approval was positive. On 1 January 2018, and according to IFRS 15, said amount was adjusted to said amount with a charge to reserves. During year 2018, the amount recognised by the client regarding said file has been higher.

The current liabilities "Advances" item from the consolidated balance sheet at 31 December 2018 and 2017 include EUR 51,888 thousand and EUR 86,064 thousand corresponding to "Amounts to be billed for work performed", which is recognised as the Group's lowest period revenue in accordance with the method of recognition of revenue based on the percentage of completion method (see Note 18.3).

In some cases, Group companies sell trade receivables to banks, without the possibility of recourse against them in the event of default. The receivables sold at year-end, which were deducted from the balance of accounts receivable, totalled EUR 600 thousand and EUR 6,120 thousand at 31 December 2018 and 2017, respectively. This amount is fully derived from investments from Constructora San Jose, S.A. in joint ventures (see Appendix III). These transactions bear interest at normal market rates. Group companies continue to manage collection.

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

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

Breakdown of trade receivables from Public Sector Customer and Private Sector Customers at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Public Sector Customers	91,566	72,279
Private Sector Customers	140,376	155,035
	231,942	**227,314**

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

Average collection period for trade receivables is approximately 112 and 123 days for years 2018 and 2017, slighting reduced in 2018.

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

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

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

Proper compliance with the internal risk control process means that the amount of financial assets in arrears not impaired at the end of the year 2018 and 2017 is very irrelevant.

13.2 Cash and cash equivalents

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

Breakdown at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Other cash equivalents	98,555	67,182
Cash	295	239
Banks and credit entities	184,584	152,713
Total cash and other cash equivalents	**283,434**	**220,134**

Out of the total balance of this item, EUR 18,708 thousand and EUR 18,016 thousand correspond to joint ventures (see Annex III) for year 2017 and 2017, respectively.

13.3 Other current financial assets

This item includes deposits at banks, short-term deposits and other receivables maturing in over three months.

At 31 December 2018, it mainly includes the following:

- the amounts derived from short-term deposits, amounting to EUR 16,387 thousand.
- further, it includes short-term payments to be collected from the Ministry of Public Works of Chile, for the certificates issued by the Group company "Sociedad Concesionaria San Jose-Tecnocontrol, S.A.", for a total value of EUR 37,879 thousand and EUR 39,760 thousand at 31 December 2018 and 2017 for the construction of the Hospitals of Maipu and La Florida, in Santiago de Chile. During years 2018 and 2017, finance income arising from the update of said items amounting to EUR 2,527 thousand and EUR 2,547 thousand, respectively, were recorded (see Note 22.7).

At 31 December 2017, this item includes the amount receivable from the company "Sociedad Concesionaria San José Rutas del Loa, SA" for an amount of EUR 5,766 thousand, as a result of the termination of the contract and execution of the guarantees to first requirement. During year 2018, and as a result of the fact that there are no resolution expectations in the short term, the Group has reclassified it as a higher amount under "Other non-current financial assets" in the accompanying consolidated balance sheet (see Note 13.4).

13.4 Non-current financial assets and loans to related companies

The detail of "Loans to related companies" and "Other financial assets" in the accompanying consolidated balance sheet at 31 December 2018 is as follows:

	Thousands of Euros					
	Other financial assets, with changes in income statment (Note 11)	**Loans to related companies**	**Investments available for sale**	**Investments until maturity**	**Impairment**	**Total**
Balance at 31 December 2016	**52,666**	**455**	**10,547**	**152,785**	**(12,385)**	**204,068**
Entries or provisions	2,087	-	-	7,215	(1,332)	7,970
Change in the scope of consolidation (Note 2.4)	-	-	-	-	-	-
Transfers	-	-	-	(25,040)	(5,723)	(30,763)
Translation differences	(2,630)	-	(232)	(3,331)	977	(5,216)
Disposals, withdrawals or redundancies	(2,205)	-	-	-	-	(2,205)
Balance at 31 December 2017	**49,918**	**455**	**10,315**	**131,629**	**(18,463)**	**173,854**
Adjustment for inflation at 1.01.2018 (Note 2.3)	(110)	-	13	-	-	(97)
Entries or provisions	4,624	-	382	(2,135)	(4,396)	(1,525)
Transfers	(9,810)	-	-	(40,549)	10,097	(40,262)
Translation differences	(2,680)	-	(598)	3,918	356	996
Disposals, withdrawals or redundancies	(1,520)	(455)	(3,159)	(1,732)	2,060	(4,806)
Balance at 31 December 2018	**40,422**	**-**	**6,953**	**91,131**	**(10,346)**	**128,160**

13.4.1 Investments available for sale

This item includes basically representative investments in equity securities of unlisted entities. From total impairment recorded at 31 December 2018 and 2017, EUR 4,963 thousand and EUR 7,146 thousand, respectively, correspond to investments held for sale (see Note 22.12).

Net cost at which interest ownership of the Group is recorded, by associate, at 31 December 2018 and 2017, is as follows:

Company	Thousands of Euros 31.12.2018	Thousands of Euros 31.12.2017
Bodegas Altanza, S.A.	994	994
Unirisco SCR, S.A.	407	407
Filmanova, S.A.	-	-
Editorial Ecoprensa, S.A.	725	835
Oryzon Gernomics, S.A. (*)	657	693
Otros	158	240
	2,941	**3,169**

(*) company listed in the Stock Exchange Market

13.4.2 Held-for-trading financial assets

This item includes mainly loans and receivables due to certifications issued by "Sociedad Concesionaria San José-Tecnocontrol, S.A.”, for a total amount of EUR 69,582 thousand and EUR 105,446 thousand at 31 December 2018 and 2017, respectively, as payment of the execution works of the Hospitals of Maipu and La Florida, in compliance with IFRIC12 (see Note 2.1) for concessions with no demand risk.

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

On 10 and 15 November 2013, certifications for the implementation of El Carmen Hospital and La Florida Hospital in Santiago de Chile, opened on 7 and 28 December 2013 and with a total built surface of nearly 70 thousand sqm each, were received. Eventually, on 13 February 2015, definitive implementation certificates have been issued, expiring any risks from construction stage. The payment of the Chilean Ministry of Public Works is arranged into 8 annual instalments of UF 1.1 million each, having collected instalments on 31 March 2014, 2015, 2016 and 2018. The Group records said amount deducting the financial effect of the deferred payment. Main changes during years 2018 and 2017 are as follows:

- Short-term transfer of receivables in March 2019 and 2018, respectively, for amounts of EUR 39,622 thousand and EUR 40,111 thousand.

- Increase due to the recognition of financial income derived from the updating of long-term receivables, amounting to EUR 5,110 thousand and EUR 7,215 thousand, respectively (see Note 22.7).

- Record of exchange differences due to fluctuations between the exchange rate of the UF with respect to the euro, insofar as the nominal amount of the collection right is in UF currency, resulting in a reduction of EUR 1,587 thousand and EUR 2,115 thousand in years 2018 and 2017, respectively.

Likewise, this item includes the Group's collection right against customers, derived from long-term debt renegotiation procedures, or due to discrepancies outstanding the resolution in a judicial or arbitration proceeding. Special mention deserves the following:

- Collection right for a total amount of EUR 10,434 thousand and EUR 5,451 thousand, as of 31 December 2018 and 2017, respectively, against the Chilean Ministry of Public Works, as a result of the termination of the contract and execution of the guarantees at the first request, which it was maintained with the company of the Group "Sociedad Concesionaria San Jose Rutas del Loa, SA", in Chile.

  During year 2018, and as a result of the fact that there are no resolution expectations in the short term, the Group has reclassified EUR 5,766 thousand as a higher amount under "Other non-current financial assets" in the accompanying consolidated balance sheet at 31 December 2018 (see Note 13.1).

  At 31 December 2017, the Group had recorded an impairment associated to these assets for EUR 5,451 thousand. Based on the analysis of the recoverability of said debt carried out by the Group, the impairment recorded associated with the same at 31 December 2018 amounts to EUR 1,905 thousand. Further, as of 31 December 2018 and 2017, the Group has recorded a provision for possible liabilities that may arise from contract, for EUR 9,238 thousand and EUR 4,524 thousand, respectively (see Note 15).

- Right of collection for a total amount of EUR 13,150 thousand and EUR 13,911 thousand, as of 31 December 2018 and 2017, respectively, against the Civil Aviation Authority of Nepal (CAAN), as a result of the unilateral termination of the contract by the client and execution of the guarantees at the first request, referred to the construction contract for the improvement of the infrastructures in the Simikhot and Rara airports, in Nepal

  Based on the analysis of the recoverability of said debt carried out by the Group, the impairment recorded associated with the same at 31 December 2018 amounts to EUR 8,069 thousand and EUR 5,779 thousand, respectively. Further, as of 31 December 2018 and 2017, the Group has recorded a provision for possible liabilities that may arise from contract, for EUR 3,595 thousand and EUR 772 thousand, respectively (see Note 15).

The Group considered that the reasons alleged by the client lacked a legal basis, setting in motion all the mechanisms contemplated in the contract for the effective defence of its interests. Its resolution is not expected in the short-term.

14. Net Equity

14.1 Share capital

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

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

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

On 30 December 2014, the Group has entered into with a majority of the creditor banking entities a novation agreement of its syndicated credit loan in Spain, pursuant to which it commits to issue Warrants for 35% of its social capital, whose execution shall depend on the level of performance of the Group of the amortisation of the participating loan granted as on said date, for a total amount of EUR 100 million (see Note 16.3). The AGM at its meeting held on 24 June 2015, resolve to issue the above-mentioned warrants, with execution date on October 2019 (see Note 16.3).

The Company's directors foresee that financial creditors will proceed to execute the right granted to them by the warrants issued, proceeding to the full capitalisation of said amount (see Note 16.3.b) This transaction will be carried out at market value, taking as reference the average share price in the last 20 sessions prior to the execution date. Consequently, no economic dilution effect is expected for current shareholders.

14.2 Issuance fee

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

14.3 Legal reserve

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

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

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

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

14.4 Restrictions on the distribution of dividends

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

14.5 Consolidated reserves

Breakdown at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	31.12.2018	31.12.2017
Reserves of the Parent	(197,226)	(197,627)
Consolidation reserves		
-From consolidated companies	47,325	34,616
-From companies considered equivalent	(321)	5,239
TOTAL	**(150,222)**	**(157,772)**

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

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

	Thousands of Euros			
	2018		2017	
	Reserves	Profit/(Loss) for the year	Reserves	Profit/(Loss) for the year
Grupo Empresarial San José, S.A.	(227,881)	(12,230)	(216,499)	(1,624)
SJB Melrose	(5,822)	14	(5,836)	14
Constructor subgroup	89,307	23,365	63,087	12,726
Comercial subgroup	8,502	1,463	10,384	391
Udra Medios subgroup	(13,457)	(156)	(13,450)	(7)
San José Concessions y Servicios subgroup	2,724	1,532	2,594	132
San José Energía y Medio Ambiente subgroup	(4,764)	115	(4,731)	(33)
Cadena de Tiendas, S.A.U.	1,489	(5)	1,477	12
GSJ Solutions, S.L.U.	2	(988)	(37)	39
	(149,901)	**13,110**	**(163,011)**	**11,650**

Net profit/(loss) and reserves attributable to the Parent by companies accounted for valued using the equity method:

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

	Thousands of Euros			
	2018		2017	
Company	Reserves	Profit/(Loss) for the year	Reserves	Profit/(Loss) for the year
Distrito Castellana Norte, S.A.	(3,315)	(1,122)	(990)	(690)
Panamerian Mall, S.A.	3,873	(1,346)	9,239	1,585
Pinar de Villanueva, S.L.	(879)	(2,749)	(757)	(125)
Cresca, S.A.	-	(547)	(2,311)	(980)
CSJ GVK Projects' n Technical SS.PL.	-	5,852	-	-
Other	-	-	58	-
	(321)	**88**	**5,239**	**(210)**

14.6 Valuation adjustments

"Valuation adjustments" in the consolidated balance sheet includes the net amount of fair value adjustments of certain derivative instruments (see Notes 4.8, 4.10 and 17) due to the application of IAS 32 and 39.

14.7 Treasury Shares of the Parent

At 31 December 2018 and 2017, the Group did not hold any treasury shares.

In year 2018, no transactions with treasury shares took place.

14.8 Minority interests

At 31 December 2018 the of "Minority Interests" and "Profit (Loss) Attributable to Minority Interests" of consolidated companies is as follows:

	Thousands of Euros	
Company	Total minority interests	Profit/(Loss) for the year attributed to minority
Constructor subgroup	22,712	5,025
Comercial Udra subgroup	(5)	(84)
Udra Medios subgroup	(227)	3
San José Energía y Medio Ambiente subgroup	1,782	26
	24,262	**4,970**

Changes under this item during years 2018 and 2105 are as follows:

	Thousands of Euros	
	2018	**2017**
Opening balance	**20,866**	**21,297**
Change in the scope of consolidation (Note 2.4)		693
Profit/(Loss) for the year	4,970	828
Exchange rate differences	(1,071)	(975)
Dividends	(261)	(1,030)
Adjustments attributable to minority interests and other	(242)	53
Closing balance	**24,262**	**20,866**

14.9 Capital management

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

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

At 31 December 2018 and 2017, the amount mentioned is as follows:

	Thousands of Euros	
	31.12.2018	**31.12.2017**
Non-current bank borrowings and other financial liabilities (Note 16)	252,435	312,213
Current bank borrowings and other financial liabilities (Note 16)	65,759	65,828
Other current financial assets (Note 13.3)	(56,228)	(91,206)
Cash and cash equivalents (Note 13.2)	(283,434)	(220,134)
Total net	**(21,468)**	**66,701**
Corrected net equity (*)	**105,258**	**91,266**
Leverage (%)	**-**	**73.08%**

(*) The Group does not include as bank financial debt that arising from the syndicated loan agreement of " Grupo Empresarial San José, S.A." , amounting to EUR 111.390 thousand and EUR 107.883 thousands at 31 December 2018 and 2017. Due to its participative nature, the Group considers this amount as equity as for management purposes.

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

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

14.10 Equity situation of the Parent

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

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

At 31 December 2018, the parent records a negativeg net equity amounting to EUR 39,207 thousand, wich is under the subscribed and paid up capital. However, it is not in the situation of equity imbalance set forth in Articles 327 and 363 of the Companies Act, to the extent that the Parent has a participative loan granted by financial entities that, as of 31 December 2018, amounts to a total of EUR 111,390 thousand (see Notes 14.1 and 16.3), thereby strengthening its asset situation. As a result, the resulting net worth is well above the subscribed and paid-in capital.

15. Non-current provisions

Changes under this item in the accompanying consolidated balance sheet during years 2018 and 2017 are as follows:

	Thousands of Euros	
	2018	2017
Opening balance	**30,313**	**28,963**
Provisions for the year	6,131	4,822
Reversals	(4,784)	(566)
Applications	(115)	(2,302)
Change in the scope of consolidation	-	(651)
Exchange rate differences	(2,325)	(1,745)
Reclassifications and other	10,901	1,792
Closing balance	**40,121**	**30,313**

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

It is worth noting the provisions that the Group has recorded in relation to the judicial and / or arbitration proceedings related to construction contracts resolved unilaterally by clients, for a total amount of EUR 12,833 thousand and EUR 5,296 thousand, as of 31 December 2018 and 2017, respectively. Regarding the existing procedure for the unilateral termination by the client of the construction contract for the improvement of infrastructures in the airports of Nepal (see Note 13.4.2), it is currently in the initial phase of an international arbitration process.

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

16. Bank borrowings and debt instruments and other marketable securities

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

Year 2018:

	Thousands of Euros		
	Debts and accounts payable	**Derivatives**	**Total**
Non-current financial liabilities:			
Obligations and other securities (Note 16.4)	66,476	-	**66,476**
Bank borrowings (Note 16.1)	180,589	-	**180,589**
Derivatives (Note 17)	-	351	**351**
Other financial liabilities	5,019	-	**5,019**
Total non-current	**252,084**	**351**	**252,435**
Current financial liabilities:			
Obligations and other securities (Note 16.4)	32,714	-	**32,714**
Bank borrowings (Note 16.1)	141,920	-	**141,920**
Derivatives (Note 17)	-	15	**15**
Other financial liabilities	2,500	-	**2,500**
Total current	**177,134**	**15**	**177,149**

Year 2017:

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

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

The detail of the variation existing in year 2018 in the total amount of financing received is as follows:

	Thousands of Euros						
	31.12.2017	Cash flows	Transfers	Changes in fair value	Changes in the scope	Translation differences	31.12.2018
Non-current financial liabilities:							
Obligations and other securities	**102,463**	-	(34,037)	3,408	-	(5,358)	**66,476**
Bank borrowings	**313,418**	(134)	(136,201)	3,506	-	-	**180,589**
Derivatives	**591**	(281)	-	41	-	-	**351**
Other financial liabilities	**3,624**	2	1,403	-	-	(10)	**5,019**
Total non-current	**420,096**	**(413)**	**(168,835)**	**6,955**	**-**	**(5,368)**	**252,435**
Current financial liabilities:							
Obligations and other securities	**33,426**	(37,601)	34,037	5,348	-	(2,496)	**32,714**
Bank borrowings	**29,066**	(27,557)	136,201	4,264	-	(54)	**141,920**
Derivatives	**3**	(3)	-	15	-	-	**15**
Other financial liabilities	**3,333**	(2,200)	-	1,386	-	(19)	**2,500**
Total current	**65,828**	**(67,361)**	**170,238**	**11,013**	**-**	**(2,569)**	**177,149**

16.1 Bank borrowings

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

	Thousands of Euros	
	31.12.2018	31.12.2017
Non-current:		
Finance leasing (Notes 7 and 10)	81	-
Bank loans and credit facilities	6,306	13,516
Syndicated loan “Grupo Empresarial San José, S.A.” (Note 16.3)	-	107,883
Syndicated loan “Constructora San José, S.A” (Note 16.3)	174,202	192,019
Total non-current	**180,589**	**313,418**
Current:		
Finance leasing (Notes 7 and 10)	28	162
Syndicated loan “Grupo Empresarial San José, S.A.” (Note 16.3)	111,390	-
Syndicated loan “Constructora San José, S.A” (Note 16.3)	18,273	20,700
Payables from discounted notes and bills	261	-
Bank loans and credit facilities	7,436	2,832
Total mortgage loans secured by inventories (Notes 12 y 16.2)	4,532	5,372
Total current	**141,920**	**29,066**
TOTAL	**322,509**	**342,484**

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

"Bank loans and credit facilities" from non-current liabilities includes mainly at 31 December 2018, EUR 5,761 thousand corresponding to Project finance, granted for the construction, commissioning and operation of the Plant and the facilities of the Group company Poligeneraci Parc de LAlba ST-4, S.A.'s Policy Project (see Notes 10 and 10). Said plant acts as collateral for credit facilities.

"Bank loans and credit facilities" from current liabilities of the attached consolidated balance sheet at 31 December 2018 and 2017 includes EUR 1,074 thousand and EUR 1,185 thousand, respectively, for financial expenses pending settlement at year-end close. EUR 973 thousand (EUR 1,081 thousand at 31 December 2017) refer to the syndicated credit of the company (see Note 16.3).

16.2 Mortgage loans

The Group provides as collateral for mortgage loans real estate assets for a total net cost amounting to EUR 7,507 thousand.

Mortgage loans secured by investment property

The Group does not hedge mortgage loan on real estate investments at 31 December 2018.

Mortgage loans secured by inventories

As indicated in Note 4.19, all the bank borrowings associated with "Inventories" (regardless of the maturity thereof) are presented in the consolidated balance sheet under "Current Liabilities". Mortgage loans secured by inventories at 31 December 2018 have a long-term maturity and concern entirely on subsidiaries.

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

The outstanding principal of these loans at 31 December 2018 matures approximately as follows:

Thousands of Euros				
Year 2019	Year 2020	Year 2021	Year 2022 and followings	TOTAL
315	323	332	3,562	**4,532**

16.3 Syndicated financing

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

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

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

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

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

Tranche A: for a total amount of EUR 250 million and having a maturity of five years, renewable for another year (provided certain terms are satisfied), with a progressive payment schedule. At 31 December 2018, the amount recorded amounts to EUR 191.5 thousand. During years 2018 and 2017, the Group has made prepayments amounting to EUR 516 thousand and EUR 6,265 thousand, respectively.

As of 31 January 2019, the Group has carried out an additional early repayment for EUR 7 million (see Note 26).

Although maturity date for this stretch is 31 October 2019, according to the termas of the contact, "Constructora San José, SA" has the possibility of extending the maturity of this loan until 31 October 2020, in accordance with the following requirements: i) Repayment or full conversion of the debt related to the "Grupo Empresarial San José, SA" Contract (see Note 16.3.b); ii) Full compliance by "Constructora San José, S.A." with its payment obligations for Tranche A and with the rest of the terms of the contract; iii) That "Constructora San José, S.A." has sufficient working capital facilities for the development of its activity.

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

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

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

Quarterly settlement of accrued financial interest is established. At 31 December 2018 and 2017, accrued finance expense pending payment amounts to EUR 973 thousand and EUR 1,081 thousand (see Note 16.1).

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

- Trade and financial discount tranche amounting to EUR 49 million
- Confirming tranche amounting to EUR 28.8 million
- Guarantees for the bidding and execution of works amounting to EUR 241.4 million.
- Financial bank guarantees amounting to EUR 98 million for recurrent financial bank guarantees and USD 8 million for non-recurrent financial bank guarantees.
- Tranche B: an additional line of financing for the case of the execution of guarantees amounting to EUR 10 million.

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

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

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

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

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

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

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

Conversion shall take place at market price of shares of Grupo San José by reference to the weighted average price of the previous 20 sessions prior to the maturity date. Warrants will not be listed on any secondary markets and shall only be transferable with debt of Grupo San José. Consequently, and to the extent that the execution price is referenced to the market value of the share, its fair value is zero, both at the time of initial recognition and subsequent valuation.

The Company's directors foresee that financial creditors will proceed to execute the right granted to them by the warrants issued, proceeding to the full capitalisation of said amount (see Note 14.1.b)

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

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

16.4 Obligations and other securities

On 24 March 2015 the Group issued bond in the capital market of Chile, through its associate "Sociedad Concesionaria San José-Tecnocontrol, S.A." relying on Banco Itaú Chile as finance advisor. Total emission amounted to EUR 6,302 thousand UF (nearly EUR 223,684 thousand). Said bonds were used for the early repayment of the syndicated loan granted to the Group in Chile in 2011 for the financing of the construction of the hospitals of Maipú and La Florida in Chile (see Note 13.4). Further, the surplus has been used to partially settle the syndicated loan of "Constructora San José. S.A." amounting to EUR 7 million (see Note 16.3), and the settlement of derivative financial instruments, property of "Sociedad Concesionaria San José-Tecnocontrol S.A.".

It is repaid on an annual basis by equal instalments of 1,014 thousand UF, with maturity on 30 June 2021, with an average interest rate amounting to 3.1%. Said transaction had been guaranteed, with an average annual rate of 4.0%. During June 2018, the Company has paid the third instalment.

There are no other additional guarantees from said financing transaction.

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

Thousands of Euros (*)			
Year 2019	**Year 2020**	**Year 2021**	**Total**
32,714	32,736	33,740	**99,190**

(*) Gross amounts prior to deducing borrowing costs, amounting to EUR 1,697 thousand at 31 December 2018.

17. Derivative Financial Instruments

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

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

At 31 December 2018, derivative financial instruments of Grupo SANJOSE are mainly Interest Rate Swaps and cross-currency swaps.

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

Interest rate derivatives contracted by the Group and effective at 31 December 2018 and 2017, together with their fair values at said date, are the following:

Year 2018:

Company	Financial Instrum.	Maturity	Thousands of Euros		
			Initial par value	Remaining par value at 31.12.2018	Balance at 31.12.2018 (Note 16.1)
Effcient Hedges:					
Trendy King, S.A.U.	CCS-usd	15/01/2019	1,428	1,428	56
Trendy King, S.A.U.	CCS-gbp	15/01/2019	204	204	(4)
Trendy King, S.A.U.	CCS-gbp	20/06/2019	263	263	(3)
Trendy King, S.A.U.	CCS-usd	15/01/2019	109	109	(4)
Trendy King, S.A.U.	CCS-usd	15/01/2019	85	85	(3)
Trendy King, S.A.U.	CCS-usd	15/01/2019	17	17	(1)
Trendy King, S.A.U.	CCS-usd	15/01/2019	8	8	-
Poligeneraciò Parc de l´Álba ST-4, S.A.	IR Swap	15/12/2021	15,451	4,046	(351)
TOTAL			**17,565**	**6,160**	**(310)**

Year 2017:

Company	Financial Instrum.	Maturity	Thousands of Euros		
			Initial par value	Remaining par value at 31.12.2017	Balance at 31.12.2017 (Note 16.1)
Effcient Hedges:					
Trendy King, S.A.U.	CCS-usd	15/06/2018	112	112	1
Trendy King, S.A.U.	CCS-usd	17/09/2018	182	182	(3)
Poligeneraciò Parc de l´Álba ST-4, S.A.	IR Swap	15/12/2021	15,541	5,475	(591)
TOTAL			**15,835**	**5,769**	**(593)**

Assets and liabilities as hedge financial instruments include the changes in the measurement of fair value of hedge financial instruments. At 31 December 2018, instruments hold by the Group company "Poligeneració Parc De L'Alba, S.A. (ST4)" and the commercial subgroup are Interest Rate Swaps and cross-currency swaps linked to assets and liabilities of the consolidated balance sheet, as well as to potential transactions in compliance with requirements established by IAS 30 so as to be classified as hedge accounting.

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

The Group records as equity the change in fair value of hedge accounting financial instruments. At 31 December 2018 and 2017 the change in fair value of Derivative Financial Instruments allocated as Hedge Elements for their effective portion accumulated in Equity amounts, in negative, to EUR 167 thousand and EUR 497 thousand, respectively

During 2018 and 2017, EUR 321 thousand and EUR 354 thousand before tax have been recycled from Equity to Interests costs as financial liabilities' interests being hedged pursuant to allocated Hedging Relationships were registered.

Classification of financial instruments

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

> Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
>
> Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
>
> Level 3 inputs are unobservable inputs for the asset or liability.

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

Derivatives of the Group are classified as Level 2. On a residual basis, as of 31 December 2018, the Group classified as Level 1 the investment made in shares of an investee (see Note 13.4).

No transfers from Level 1 to Level 2 have taken place during year 2018. Neither had taken place inputs or outputs of Level 3 at 31 December 2017.

Sensitivity analysis of interest rate and exchange rate

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

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

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

At 31 December 2018, changes in the value of financial instruments of the Group due to changes in interest rates are not significant,

18. Trade and other payables

18.1 Trade payables

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

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

Information on deferred payments to suppliers. Third supplementary provision. "Information duties" of Act 15/2010 on 5 July.

Regarding information required by the supplementary third provision of Act 15/2010 on 5 July, detailed below is the average payment term to suppliers of the Parent Company and its domestic subsidiaries during year 2018, as well as the balance of payments to suppliers at 31 December 2018:

	Year 2018	Year 2017
Average payment term to suppliers (days)	**44**	**48**
Ratio of paid transactions (days)	45	44
Ratio of outstanding transactions (days)	43	59
Total payments made (Thousands of Euros)	312,698	288,233
Total outstanding payments (Thousands of Euros)	178,678	112,309

According to Act 15/2010 as of 5 July, amendment of Act 3/2004 on 29 December on default payment measures, maximum payment time in 2012 is 60 days as from 1 January 2013.

Finance costs arising from such deferment will be assumed by the Group as stated on the agreements reached with suppliers.

A significant part of the Group's transactions is with public sector customers, such as States, Autonomous Communities, City Halls, Local Agencies and other public authorities, which usually pay in longer periods than the established by Law. Due to this, the Group sometimes has payment deadlines which exceed the payment periods set out by law. However, the Group follows the overall practices within the sector, following common sense and not abusing their powers pursuant to Article 3 Act 3/2004.

18.2 Other current liabilities

Other current liabilities" includes mainly the accounts payable relating to joint ventures. It also includes the provisions totalling EUR 5,044 thousand and EUR 4,446 thousand, at 31 December 2018 and 2017, respectively, for remuneration payable.

18.3 Customer advances

This item relates fundamentally to the advances received from the buyers of the properties relating to the developments in progress or advances for the sale of real estate assets.

Real estate advances at 31 December 2018 and 2011 amount to EUR 3,197 thousand and EUR 171 thousand, respectively, and relate fundamentally to the advances received from the buyers for the properties relating to the developments in progress or completed developments at year-end, the completion and/or delivery of which are scheduled for subsequent years (see Note 12).

At 31 December 2018 and 2017 this item includes "Amounts Billed in Advance for Construction Work" totalling EUR 51,888 and thousand and EUR 86,064 thousand, respectively, (see Note 13.1) which relates to progress billings issued during the year for construction work yet to be performed and which are not recognised as revenue for the period in accordance with the method of recognition of revenue for completed construction work, based on the percentage of completion method used by the Group, described in Note 4.11.

Advances received from customers are recorded to finance the advancement of the works amounting to EUR 55,451 thousand and EUR 32,435 thousand at 31 December 2018 and 2017.

19. Risk exposure

19.1 Exposure to credit risk

The Group is not exposed to significant credit risk, since its customers and the institutions in which cash placements are made or with which derivatives are arranged are highly solvent entities, in which counterpart risk is not significant.

The Group's main financial assets are cash and cash equivalents, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is mainly attributable to trade receivables. The amounts presented in the consolidated balance sheet are net of allowances for doubtful debts, estimated by Group management based on past experience and its assessment of the current economic climate. The amount of financial assets recognised in the consolidated financial statements, net of possible impairment losses, represents the Group's maximum exposure to credit risk, excluding guarantees or other credit improvements provided.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparts are banks with high credit ratings assigned by international credit rating agencies.

The Group does not have a significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group, depending on the business sector, took out credit insurance enabling it to reduce commercial credit risk arising from transactions with debtors.

The Group monitors credit management and has specific procedures in place in this connection, setting terms and conditions for the acceptance of orders and regularly monitoring orders.

19.2 Exposure to interest rate risk

Interest rate risks arises from changes in the future cash flows from variable rate borrowings (or with current maturity) as a result of changes in market interest rates.

The objective of interest rate risk management is to mitigate the impact on borrowing costs arising from fluctuations in interest rates. Financial derivatives which guarantee fixed interest rates or rates with caps and floors are for a substantial portion of the borrowings that may be affected by this risk. (see Notes 16 and 17).

The sensitivity of profit and equity of the Group to changes in the interest rate at 31 December 2018, considering the existing hedging instruments and financing fixed rate is as follows (considering fluctuations of fifty basic points in applicable interest rates):

	Variation scenarios	
(in Millions of Euros)	**- 50 pb**	**+ 50 pb**
Impact on the total profit/(loss) for the year	1.6	(1.6)
Impact on Equity	(0.1)	0.1

19.3 Exposure to exchange rate risk

The policy of the Group is to use its own currency for activity developed abroad. However, whenever this may not be possible, the Group hedges exchange rate risk with financial derivatives.

Its foreign currency risk exposure relates to its investments in the companies detailed in Note 4.13, and which are financed in local currency.

Exchange rate and equity sensitivity at 31 December 2018, considering the existing hedging instruments and a fixed interest rate, is as follows (considering fluctuations of fifty basic points in applicable interest rates):

(in Millions of Euros)		Impact on the profit/(loss) for the year		Impact on Equity	
Country	**Currency**	**-5%**	**5%**	**-5%**	**5%**
Chile	CLP	0.5	(0.6)	(2.1)	2.3
Argentina	ARS	-	-	(3.3)	3.7
Mexico	MEX	-	-	(0.1)	0.2
Peru	PEN	0.1	(0.1)	(2.1)	2.4
Abu Dhabi	AED	0.1	(0.1)	(0.1)	0.1
TOTAL		**0.7**	**(0.8)**	**(7.7)**	**8.7**

19.4 Exposure to liquidity risk

The Group pursues the prudent management of the liquidity risk based on the maintenance of sufficient cash and marketable securities, availability of financing through s sufficient level of committed credit facilities and sufficient capacity to settle market positions. The Group calculates its cash requirements through a 12-month cash budget.

On 30 December 2014 the Group has entered into the modifying novation agreement of the syndicated credit facilities, as well as bilateral liabilities with a large majority of its financial creditors. Due to this transaction, the Group has a stable financing status in the medium and long term, since it does not have to face significant amortisation commitments until year 2020.

During year 2019:

- During October the "Grupo Empresarial San José, S.A." Contract expires with an outstanding amount at 31 December 2018 amounting to EUR 111,390 thousand recorded under current consolidated liability (see Note 16.3.b). This is a debt convertible by virtue of the issuance of warrants by the parent company (see Note 14.1). The Group expects that, when due, the financial entities will exercise the rights granted to them by the existing warrants, proceeding to the integrated capitalisation of the amount of the debt at that date.

- During year 2019, as established in the financing agreement, the Group will exercise its right to extend the expiration of the "Constructora San José, SA" contract for an additional year, with an outstanding amount of EUR 191,502 thousand at 31 December 2018, recorded under non-current consolidated liability (see Note 16.3.a).

The detail of payment obligations derived from the Group's financial liabilities as of 31 December 2018, based on their maturity, using undiscounted amounts, is as follows:

	Thousands of Euros (*)				
	Year 2019	**Year 2020**	**Year 2021**	**Year 2022 and followings**	**Total**
Obligations and other securities	36,682	35,395	35,090	-	**107,167**
Bank borrowings	31,726	181,156	1,628	7,567	**222,077**
Finance leasing	29	41	42	-	**112**
Other financial liabilities	1,650	850	-	-	**2,500**
Total financial debt	**70,087**	**217,442**	**36,760**	**7,567**	**331,856**
Derivatives	202	120	53	-	**375**
Debts with related entities	-	-	-	-	-
Total	**70,289**	**217,562**	**36,813**	**7,567**	**332,231**

-

At 31 December 2018 and 2017, the Group records a positive working capital amounting to EUR 38.4 million and EUR 155.3 million, what guarantees its feasibility regarding all current financial liabilities included within the accompanying consolidated balance sheet.

The reduction during year 2018 is mainly due to the classification as a current liability of the syndicated financial debt referred to the "Grupo Empresarial San José, S.A." contract, on which there is a capitalisation forecast.

20. Taxation

The Group companies file individual tax returns in accordance with the tax legislation in force in each country. With regard to Spain, the San Jose Group, composed of Grupo Empresarial San Jose, S.A. as the Parent and all the Spanish subsidiaries in which it holds a direct or indirect ownership interest of at least 75%, files income tax statements under the special taxation regime with number 002/06 (See Note 4.15).

For each of the consolidated companies, income tax is calculated on the basis of the accounting profit or loss determined by application of generally accepted accounting principles, which does not necessarily coincide with the taxable profit or tax loss.

At 31 December 2018, the following SANJOSE group companies filed consolidated tax returns, acting "Grupo Empresarial San Jose, S.A." as the head of the consolidated tax group:

- Constructora San José, S.A.
- Cartuja Inmobiliaria, S.A.U.
- Desarrollos Urbanísticos Udra, S.A.U.
- Inmobiliaria Americana de Desarrollos Urbanísticos, S.A.U.
- San José Concesiones y Servicios, S.A.U.
- Tecnocontrol Instalaciones, S.L.U.
- Tecnocontrol Sistemas de Seguridad, S.A.U.
- Tecnocontrol Servicios, S.A.U.
- Gestión de Servicios de Salud, S.A.U.
- Comercial Udra, S.A.U.
- Basket King, S.A.U.
- Arserex, S.A.U.
- Trendy King, S.A.U.

- Outdoor King, S.A.U.
- Athletic King, S.A.U.
- Vision King, S.A.U.
- Running King, S.A.U.
- Udramedios, S.A.U.
- Xornal de Galicia, S.A.U.
- Xornal Galinet, S.A.U.
- San José Energía y Medioambiente, S.A.U.
- Poligeneraciones parc de L´Alba, S.A.
- Enerxías Renovables de Galicia, S.A.
- Cadena de Tiendas, S.A.U.
- GSJ Solutions, S.L.U.
- Fotovoltaica El Gallo 10, S.L.

Further, as from 1 January 2015, the associate “Erainkuntza Birgaikuntza Artapena, S.L.U.” has become the Parent of a consolidation tax group under the tax regime of the Basque Country, which also includes the following company within its scope of consolidation: Alexín XXI, S.L.U.

20.1 Years open for review by the tax authorities

Grupo Empresarial San Jose, S.A. and the subsidiaries forming the consolidated tax group have the last four years and 2013 open for review.

Except for these companies and periods, the other Group companies have the last four years open for review for all the main taxes applicable to them.

With regard to corporation tax, according to the new regulations the right of the Spanish administration to initiate the verification procedure of the paid, offset or outstanding quotas or any deductions applied or to be applied in future is extended to ten years as from the day following that on which the statutory deadline for filing them or for the year or taxable period in which the right was generated to offset such quotas or apply such deductions, being therefore only subject to review deductions and tax losses generated since 2006.

With respect to the other subsidiaries that are either not domiciled in Spain or do not form part of the consolidated tax group, the years open for review are in accordance with the maximum periods established in the legislation applicable in each country of residence, not having undergone tax inspections during 2018.

Pursuant to available information, the Parent's Directors consider that no additional material liabilities will arise as a result of future audits of the years open for review.

20.2 Income tax

Income tax is calculated for each unit integrating the Group, in compliance with tax regulations for each country. Applicable tax rates for each country where the Group operates are as follows:

Country	Applicable tax rate
Spain	25%
Peru	29.5%
Cape Verde	25.5%
Portugal	21%
Chile	25%
Mexico	30%
India	34.6%
Abu Dhabi	0%
Malta	35%
Argentina	30%

The balance of "Income Tax" in the accompanying consolidated income statement for 2018 and 2017 was determined as follows:

	Thousands of Euros	
	2018	2017
Profit/(Loss) before tax	**26,996**	**22,395**
Increases at individual companies	18,354	27,008
Decreases at individual companies	(17,476)	(14,358)
Elimination trade consolidation	(5,732)	15,648
Non recorded losses tax credit	12,149	1,887
Adjustment for inflation in hyperinflationary economies	6,385	-
Equity method	(88)	210
Offset of prior years' tax losses	(124)	(15,525)
Taxable profit	**40,464**	**37,265**
Less taxable profit of companies not resident in Spain	(25,495)	(15,278)
Less taxable profit excluded from accounting records	-	-
Tax loss of consolidated group resident in Spain	**15,329**	**21,987**
Gross tax payable	**3,832**	**5,497**
Plus-deductions	(1,537)	(1,478)
Accrued tax expense	**2,295**	**4,019**
Regularisation previous year and change of tax rate	839	(1,491)
Adjustment for inflation in hyperinflationary economies	1,772	-
Non resident tax expense	3,922	7,599
Tax expense	**8,828**	**10,127**

Royal Decree Law 3/2016 on 2 December 2016, approving tax measures, introduces significant limitations in fiscal legislation regarding the ability of large companies to offset the negative tax bases that could have been generated in previous years, as well as the application of deductions.

The impact of this regulatory change in the Group's consolidated financial statements as of 31 December 2018 has been negligible

20.3 Tax loss carry forwards

At 31 December 2018 total tax loss carry forwards pending Offset amounts to EUR 582,399 thousand, The Group records under "Deferred tax assets" in the accompanying consolidated balance sheet at 31 December 2017 a tax credit arising from said tax loss carry forwards amounting to EUR 10,174 thousand.

The Directors of the Group have assessed the recovery of assets for deferred taxes based on the activities developed by the Group for the term 2018-2027, including the applicable Tax Plan.

The projections used by the top management are in line with the Strategic Plan of Group SANJOSE, which was submitted to an Independent Business Review (IBR) in years 2013 and 2014 by an independent third party, having been updated according to recent trade projections, taking into account the historical evolution in recent years, and the financial stability achieved after the restructuring of the financial debt of the Group completed in 2014. Likewise, revenue and margin projections have been draft using external resources from recognised international prestige, such as the International Monetary Fund, and information regarding plans for public investment in infrastructure in the coming years of the main countries where the Group operates.

Forecasts are based on profits, which have, in fact, already been obtained in 2017. The most significant assumptions used to apply such Tax Plan at 31 December 2018, regarding construction activity, are as follows:

- Regarding construction activity:

  - Sales: total revenues of the construction business are distributed among the countries where the Group operates, based on the current activity and the contracted portfolio (short and medium term), as well as the guidelines established in the business plan of the Group (medium and long term), assuming an annual growth of the total construction activity for the period 2018-2025 around 10%.
  - A relatively margin EBITDA standing at 7%.
  - Potential capital gains from the sale of real estate assets or income and benefits of urban development activity have not been considered in this cash generating unit.

- Regarding the other activities: energy, commercial, services and maintenance. They are secondary with regards to the main construction business,

  - Sales: overall growth in line with inflation rate for the period (1.6%).
  - EBITDA margin: it keeps in line with the average margins of the last years.

As a result of the Tax Plan made, it is concluded that the Group generates sufficient taxable income to offset the amount of deferred tax assets recorded at 31 December 2018, in a given period of nine years.

The detail of the tax loss carry-forwards of the consolidated companies at 31 December 2018 is as follows:

Company	Year of inclusion	Thousand of Euros
Grupo Empresarial San José S.a. and subsidiaries Tax consolidated group	2002-2015	526,470
Spanish companies not included within the consolidated tax group	2006-2015	831
Foreign companies	1997-2016	55,098
TOTAL		**582,399**

In the case of the Spanish companies and under current legislation, the tax losses of a given year since 1997 can be carried forward for tax purposes for an indefinite period of time. Tax loss carry forwards of companies for offset when becoming an integral part of the group, may be forwarded for the parent with the limit of the individual company. However, the final amount of the tax losses to be offset may be modified as a result of the review by the tax authorities of the years in which the losses were incurred into.

Directors' of the parent consider that the Tax Group, in accordance with the existing Business Plan, will be able to generate positive results in order to offset the recorded tax credits.

20.4 Deferred tax assets and liabilities

The deferred tax assets recognised in the accompanying consolidated balance sheet at 31 December 2018 and 2017 arose as a result of the following:

Year 2018:

	Thousands of Euros				
	31.12.2017	Changes affecting profit/(loss) for the year	Equity adjustements	Reclassifications and other	31.12.2018
Assets from deductible temporary differences:	21,170	4,700	13	(7,092)	18,791
Tax credit carry forwards	3,791	778	-	(5)	4,564
Tax credits to offset loss (Note 21.3)	10,174	(2,525)	-	5,554	13,203
	35,135	2,953	13	-1,543	36,558

Year 2017:

	Thousands of Euros				
	31.12.2016	Changes affecting profit/(loss) for the year	Equity adjustements	Reclassifications and other	31.12.2017
Assets from deductible temporary differences:	14,069	7,047	(69)	123	21,170
Tax credit carry forwards	4,639	(855)	-	7	3,791
Tax credits to offset loss (Note 21.3)	14,131	(3,819)	-	(138)	10,174
	32,839	2,373	(69)	(8)	35,135

The balance of "Deferred tax liabilities" at 31 December 2018 relates basically to the following items:

1. Acknowledgement of tax credits arising from negative tax bases declared by companies of the Group.
2. Tax credit carry forwards pending application
3. Difference between concessions and projects in progress in certain countries.

4. The differences between accounting and fiscal criteria within the Spanish regulation regarding receivables, financial profit/(loss) and amortisations.

The deferred tax assets recognised in the accompanying consolidated balance sheet at 31 December 2018 and 2017 arose as a result of the following:

	Thousands of Euros	
	2018	2017
Opening balance	**19,541**	**15,491**
Changes with effect on the result of the year	1,576	2,861
Equity adjustments	21	-
Regularizations and others	4,497	1,189
Closing balance	**25,635**	**19,541**

The balance of "Deferred tax liabilities" at 31 December 2018 relates basically to the following items:

1. Different criteria of projects in progress in different regulations.

2. Elimination of the outcome of intergroup transactions within the consolidable tax Group pending incorporation.

3. Different accounting and tax criteria for the amortisation of assets.

4. Investment commitments of deferred income arising from property, plant and equipment sales made in the period from 1997 to 2001, inclusive, was reinvested in full before 31 December 2006.

20. 5 Tax credits

Tax credits earned in the year in excess of the applicable legal limits may be deducted from the income tax payable in the coming years, subject to the limits and deadlines established in this connection by the related tax legislation. The Group availed itself of the tax benefits provided for in the aforementioned legislation and recognised EUR 628.7 thousand as an increase in the income tax asset accrued in 2018, as follows:

Concepto	Year of inclusion	Thousands of Euros
Earned by the consolidated tax group Grupo Empresarial San Jose S.A.		
Double taxation tax credit	2017	1,846.50
Deduction for reversal of temporary amortisation DT 37ª	2017	3.3
Tax credits for donations	2017	8.2
		1,858.0

At 31 December 2018 the following tax credits remain outstanding:

Earned by the consolidated tax group Grupo Empresarial San José S.A.	Year of inclusion	Thousands of Euros
Deduction for reversal of temporary amortisation DT 37ª	2018	3.3
Double taxation tax credit	2018	1,846.5
Tax credits for donations	2018	8.2
Deduction for reversal of temporary amortisation DT 37ª	2017	9.3
Double taxation tax credit	2017	520.8
Tax credits for donations	2017	8.3
Deduction for R&D	2016	29.2
Double taxation tax credit	2016	349.2
Tax credits for donations	2016	13.0
Deduction for reversal of temporary amortisation DT 37ª	2016	9.3
Tax credits for donations	2015	4.0
Deduction for reversal of temporary amortisation DT 37ª	2015	10.0
Tax credits for donations	2014	72.0
Tax credits for donations	2013	3.7
Tax credits for donations	2012	9.5
Deduction for R&D	2012	14.0
Deduction for R&D	2011	125.2
Tax credit for environmental actions	2010	354.0
Total		**3,389.5**

The tax credit carry-forwards for the year were recognised as tax assets.

20.6 Tax receivables and payables

The detail of the Group's tax receivables and payables at 31 December 2018 is as follows:

	Thousands of Euros			
	31.12.2018		31.12.2017	
	Current	Non-current	Current	Non-current
Tax assets:				
Deferred tax assets	-	36,558	-	35,135
Tax receivables				
VAT receivables	11,187	-	13,172	-
Sundry receivables	10,380	-	12,053	-
	21,567	-	25,225	-
Total tax assets	**21,567**	**36,558**	**25,225**	**35,135**
Tax liabilities:				
Deferred tax liabilities	-	25,635	4,115	19,541
Tax payables				
VAT payables	6,163	-	9,872	-
Personal income tax payable	4,844	-	1,653	-
Sundry payables	2,342	-	2,056	
Social Security payables	6,566	-	1,828	-
	19,915	-		-
Total tax liabilities	**19,915**	**25,635**	**19,524**	**19,541**

20. 7 Restructuring transactions

The following restructuring transactions have been executed pursuant to the provisions of the Structural Modifications Act 3/2009 and according to the provisions of the tax regulations applicable during the years which they took place in, that is Chapter VIII of Title VII on the Special Regime of mergers, spin-off and exchange of shares established by the Legislative Royal Decree 4/2004 on 5 March approving the Consolidated Spanish Corporation Tax Law in force until 2015.

Transactions executed within the previous years:

1.- The company Parquesol Inmobililaria y proyecto S.L. was incorporated on 3 February 2000 by the absorption of several companies (Parquesol Alquileres S.l., Parquesol Inmuebles S.L., Parquesol Inmobiliaria MMM SA and Parquesol Residencial y Desasarrollo S.L.) and the incorporation of two new companies, one of them Grupo Parquesol MM SL. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2000 of Grupo Parquesol MM S.L.

2.- Merger trough absorption of the company Parquesol Inmobiliaria y Proyectos S.L. (former Miralepa Cartera) as absorbing company and Parquesol Inmobiliaria y Proyectos S.L. and Miralepa Cartera S.L. as absorpbed companies on 2 March 2006, with full effect as of 31 October 2005. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2006 of Parquesol Inmobiliaria y Proyectos S.L.

3.- As of 29 December 2008, Constructora San José S.A. absorbed the subsidiaries Alcava Mediterranea S.A., Constructora Avalos S.A., Balltagi Mediterriani SA and Construcción, Rehabilitación y Conservación S.A. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2008 of Constructora San José S.A.

4.- On 30 January 2009, the merger by absorption by Sanjose Tecnologías S.A. of its dominated entities Artel Ingenieros S.L., Sefri Ingenieros S.A. Instal 8 S.A. and S.M.Klima S.A. In order to obtain a greater detail of the goods, rights and obligations of a fiscal nature transmitted, all the accounting information required in the fiscal regulations is detailed in the Annual Accounts Report for the year ended 31 December 2009 of Sanjose Tecnologias S.A.

5.- On 16 June 2009, the merger by absorption by Parquesol Inmobiliaria y Proyectos, S.A. of its investees Parzara, S.L.U., Guadalmina Inversiones, S.L.U., Fomento Inmobiliario de Gestión, S.A.U., Parquesol Promociones y Desarrollos Inmobiliarios, S.L.U. y Parque Usera, S.L. In order to obtain a greater detail of the assets, rights and obligations of a fiscal nature transmitted, all the accounting information required in the tax regulations is detailed in the Annual Accounts Report for the year ended 31 December 2009 of Grupo Empresarial Sanjose S.A.

6.- On 16 June 2009, the merger of "Udra, S.A." (current GRUPO EMPRESARIAL SAN JOSÉ, S.A.) was carried out with "Grupo Empresarial San José, S.A.", “San José Infraestructuras y Servicios, S.A.”," Udramed, S.L.U."," Parquesol Inmobiliaria y Proyectos, S.A. "and" LHOTSE Desarrollos Inmobiliarios, S.L. ". In order to obtain a greater detail of the assets, rights and obligations of a fiscal nature transmitted, all the accounting information required in the fiscal regulations in the Annual Accounts Report for the year ended 31 December 2009 of Grupo Empresarial Sanjose S.A.

7.- On 28 December 2009 took place the merger trough absorption of Sanjose Tecnologías S.A. as absorbing company and Tecnocontrol S.A.U. as absorbed company. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Sanjose Tecnologias, S.A.

8.- On 28 December 2009 Tecnocontrol transferred its branch of activity of maintenance of mechanical facilities in favour of Tecnocontrol Servicios SA. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2009 of Tecnocontrol Servicios, S.A.

9.- As of the 30 July 2010, segregation of the real estate branch of activity of Grupo Empresarial San Jose, S.A. (formerly, Udra, S.A.) in favour of "San Jose Desarrollos Inmobiliarios, S.A." (formerly, Inmobiliaria Udra, S.A.) and capital increase of the beneficiary company. *Segregation of the real estate activity* in order to obtain a greater detail of the assets, rights and obligations of a fiscal nature transmitted, all the accounting information required in the fiscal regulations is detailed in the Financial Statements for year ended 31 December 2010 of San José Desarrollos Inmobiliarios, SA

10.- Spin-off of "Sanjose Tecnologias, S.A.U." in favour of "Constructora San Jose, S.A.", "Sanjose Energia y Medio Ambiente, S.A." and "Sanjose Concesiones y Servicios, S.A.U." on 27 December 2010. More details of property, rights and obligations can be found on the Notes to the Financial Statements for year ending 31 December 2010 of Constructora San José, S.A.”, “Sanjosé Energía y Medio Ambiente, S.A.” and “Sanjose Concesiones y Servicios, S.A.U.

11.- On 3 December 2013 took place the merger trough absorption of the company Inmobiliria Europea de Desarrollos Urbanisticos S.A. of the companies Inversiones Patrimoniales Guadaiza S.L, Iniciativas Galebal S.L. and San pablo Plaza S.L. Merger has accounting effects as of 1 January 2013.

12.- On 21 December 2016, the Sole Shareholder of the company "Desarrollos Urbanísticos Udra, SAU" adopted the decision to dissolve its investee "Inmobiliaria Europea de Desarrollos Urbanísticos, SAU" in order to proceed to its absorption, without liquidation, by transferring all its assets, rights and obligations to the absorbing company, which acquires and assumes them as universal succession, being surrogated in all rights and obligations of the absorbed companies, which are dissolved without liquidation once granted through public deed the merger agreement on 21 December 2016, and filed and registered at the Trade Registry of Companies of Pontevedra on 28 December 2016.

21. Guarantee commitments to third parties

At 31 December 2018 and 2017, the Group had received from banks and insurance companies guarantees provided to third parties amounting to EUR 393 million and EUR 338 million (mainly project and definite tender and performance bonds to public and private bodies). EUR 0.04 million of which correspond to the parent company and the rest to the subsidiaries at the previous years.

Of the total of guarantees provided to third parties by the Group, EUR 278 million (approximately 71 %) relate to the international activity of the Group, mainly in Abu Dhabi and India, amounting to EUR 145.8 million and EUR 58.1 million, respectively

In addition, some associates have guarantee commitments to third parties, related to the corresponding business for EUR 12,298 thousand, which correspond to a guarantee registered by "Desarrollo Urbanístico Chamartín, S.A." before the Community of Madrid Tax Department to guarantee the suspension of the collection proceeding in order to file a claim before the Regional Tax Appeal Board in Madrid against the liquidation derived from the payment record and receipt received on 23 December 1998 for Estate and Property Transfer Tax for the tender agreement for the urban development of the RENFE rights at the Chamartín railroad building.

Parent Company and subsidiaries Directors do not consider there will be any liability in connection to the committed guarantees.

22. Revenue and expenditure

22.1 Revenue

The detail of "Revenue" in the accompanying consolidated income statements for 2018 and 2017 is as follows (in thousands of Euros):

	Thousands of Euros	
	2018	**2017**
Construction:		
-Civil works	59,620	39,151
-Residential	189,593	119,129
-Non Residential	425,437	428,736
-Industrial	10,682	13,978
	685,332	**600,994**
Real Estate	3,761	6,769
Concessions and services	51,821	47,740
Energy	9,711	11,165
Consolidation adjustments and other	7,798	16,200
Net turnover	**758,423**	**682,868**

54.02% and 45.98 of construction revenues refer to sales to the public sector in years 2018 and 2017, respectively.

In year 2018, EUR 201.4 million of the more than EUR 758.4 million of net revenue relate to joint ventures (see Annex III).

All the work was mainly performed as prime contractor.

The contracted backlog as of 31 December 2018 and 2017 amounts to EUR 1,916 million and EUR 1,630 million, respectively, and its breakdown is as follows:

	Millions of Euros	
	2018	2017
Construction:		
-Civil works	168.8	175.8
-Residential	331.4	194.7
-Non Residential	829.3	537.3
-Industrial	4.8	7.9
Subtotal construcción	**1,334.3**	**915.7**
Concessions and services (*)	187.2	218.0
Energy	394.7	496.0
Total Backlog	**1,916.2**	**1,629.7**
Details by type of client:		
-Public-sector	42.25%	56.20%
-Private-sector	57.75%	43.80%
Details by geographical area:		
-Domestic market	57.31%	55.80%
-International market	42.69%	44.20%

(**) According to concession regime economic model.

The Group presents its results in accordance with generally accepted accounting standards (see Note 2.1). However, directors believe that certain alternative performance measures (APMs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and that shall be considered to adequately assess performance of the group.

Among others, the Group identifies the portfolio as APM, defining it as the total amount of sales contracted by Group companies with customers, discounting the part realised and recognised as income in the income statement. In concession contracts, the total amount of sales is identified with the best estimate made by the Group, which is included in the economic-financial business plan of the concession.

22.2 Procurements and other external expenses

"Supply" in the accompanying consolidated income statement for years 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Procurement of raw materials and other supplies	167,083	198,062
Change in impairment of inventories (Note 12)	(324)	2,113
Works performed by other companies	340,696	263,972
Total procurement	**507,455**	**464,147**

“Works performed by Other Companies” includes work that forms part of the Group’s own production process but is commissioned from subcontractors or other companies.

"Other current management expense" in the accompanying consolidated income statement for years 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
R&D expenses	3	41
Utilities	9,856	9,910
Repair and maintenance services	1,569	2,334
Transport and freight costs	1,311	1,251
Insurrance premiums and banking services	3,903	2,408
Independent professional services	16,141	15,643
Leases	20,620	17,412
Advertising and publicity	2,457	1,983
Other services	31,050	21,658
Taxes and income tax	6,455	5,569
Other operating expense	2,549	479
Total	**95,914**	**78,688**

22.3 Staff costs

The detail of "Staff costs" and changes therein in 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	**2017**
Wages and salaries	90,380	80,508
Termination benefits	1,382	1,460
Employer social security costs	19,019	16,610
Other social costs	6,020	4,456
Total	**116,801**	**103,034**

The average workforce by professional category is as follows:

	2018		2017	
Categoría	**Men**	**Female**	**Men**	**Female**
University graduates	530	112	379	92
University three-year degree graduates	337	72	347	79
Clerical staff	92	80	127	108
Officers and technical personnel	1,813	134	1,666	80
	2,772	**398**	**2,519**	**359**

The number of employees at 31 December 2018 was 3,689, of which 3,226 were men and 463 women, being the distribution by type similar to that of the year.

The average number of people employed in the course of the year with a disability greater than or equal to 33% is 9 workers at year-end 2018 and 2017, mainly diploma graduates. The Company, taking into account the specific risk involved in its activity, has recognised the exception of hiring disabled workers, fulfilling it by contracting services with different special employment centres. These contracts are on an annual basis, incurring into an average expense higher than the minimum required by law.

22.4 Compensation in kind

At 31 December 2018 there was no significant compensation in kind.

22.5 Share-based payment

There are no share-based payments.

22.6 Leases

Operating Leases

At the reporting date the Group did not have any operating leases of a material amount and had not assumed any future minimum lease payment obligations.

Finance Leases

At 31 December 2018, the Group had acquired future lease payment obligations under finance leases entered into amounting to EUR 109 thousand, to be amortised in the next years, until 2022. Said balance is included under "Bank borrowings" (see Note 16.1).

22.7 Financial Income

Breakdown in the accompanying consolidated income statement is as follows:

	Thousands of Euros	
	2018	**2017**
Interest on receivables	12,886	16,277
Income from equity envestments	27	21
	12,913	**16,298**

"Interests on receivables" for years 2018 and 2017 includes mainly includes mainly the financial revenues from updating the accounts receivable from the Chilean Ministry of Public Works as a result of the deferral of payment for the construction of hospitals in Chile, amounting approximately to EUR 7,637 thousand and EUR 9,762 thousand, respectively. (see Note 13.4.2)

"Interests on receivables" for year 2018 and 2017 includes approximately EUR 0.8 million and EUR 1 million corresponding to late interest for deferral of collection of customers. The outstanding amount corresponds mainly to late interest for deferral of collection to customers and settlement of exchange rate hedge instruments.

22.8 Financial Expense

Breakdown is as follows.

	Thousands of Euros	
	2018	2017
Interest on receivables	14,275	15,418
Expense for finance update	-	-
Other finance expense	7,404	7,037
	21,679	**22,455**

At 31 December 2018, under this item there are EUR 9,608 thousand arising from the settlement of interests of the syndicated credit (see note 16.3).

22.9 Impairment and gains or losses on disposals of non-current assets

The detail is as follows:

	Thousands of Euros	
	2018	2017
Gains/Losses on write-offs of fixed assets (Note 7)	107	219
Other	(133)	(113)
	(26)	**106**

22.10 Changes in operating provisions

Changes under this item in the accompanying consolidated balance sheet during years 2018 and 2017 are as follows:

Year 2018:

	Thousands of Euros		
	Operating insolvences (Note 13)	**Other operating provisions**	**Total**
Balance at 31 December 2017	**30,557**	**37,895**	**68,452**
Provisions	1,464	10,985	12,449
Applications	-	(3,442)	(3,442)
Reversals	(695)	(7,490)	(8,185)
Transfers and other	399	(6,721)	(6,321)
Balance at 31 December 2018	**31,725**	**31,227**	**62,953**

Year 2017:

	Thousands of Euros		
	Operating insolvencies (Note 13)	**Other operating provisions**	**Total**
Balance at 31 December 2016	**34,657**	**42,386**	**77,043**
Allocations	1,344	13,528	14,872
Applications	(2,918)	(3,555)	(6,473)
Reversals	(1,263)	(8,377)	(9,640)
Change in the scope of consolidation	(591)	(671)	(1,262)
Transfers and other	(672)	(5,416)	(6,088)
Balance at 31 December 2017	**30,557**	**37,895**	**68,452**

Current provisions classified under "Short-term provisions" include estimated amounts to face possible business contingencies.

Likewise, it is included the amount of the Group's CO2 gas emissions during the year 2018, for which it does not have emission rights purchased at of 31 December 2018, for a total amount of EUR 204 thousand (see Note 12.9).

22.11 Change in inventories of finished goods and in progress

Breakdown of the item "Changes in inventories" is as follows:

	Thousands of Euros	
	2018	**2017**
Changes in inventories for recorded expenses/sales	(1,933)	2,235
Change in impairment of inventories (Note 12)	582	(35)
Total	**(1,351)**	**2,200**

22.12 Impairment and gains or losses on disposal of financial investments

This item includes the impairment of assets and financial interests held by the Group, amounting to EUR 6,601 thousand in 2018 (EUR 5,886 thousand in 2017), as well as the profits or losses that may have been derived from its realization against third parties, which in the year 2018 amounts to a profit of EUR 23 thousand (EUR 3,950 thousand profit in the year 2017).

During year 2018, impairment related to long-term collection rights with customers, amounting to EUR 7,008 thousand was recorded (see Note 13.4.2). Additionally, related to other financial assets, during the year 2018 the Group has recorded a net reversal of the recorded impairment amounting to EUR 407 thousand.

22.13 Audit fees

In 2018 and 2017 the expense corresponding to the financial audit services and other services provided to the Group by Deloitte, S.L. and companies associated of the same, as well as fees for audit services for independent financial statements of associated and related companies was as follows:

Year 2018:

Description	Thousands of Euros	
	Services provided by the main auditor	**Services provided by other auditing firms**
Audit services	246	195
Other verification services	66	12
Total audit services and related services	**312**	**207**
Tax and fiscal advice services	-	31
Other services	-	-
Total	**312**	**238**

Year 2017:

Description	Thousands of Euros	
	Services provided by the main auditor	**Services provided by other auditing firms**
Audit services	213	193
Other verification services	43	20
Total audit services and related services	**256**	**213**
Tax and fiscal advice services	-	41
Other Services	-	-
Total	**256**	**254**

23. Balances and transactions with non-consolidated associates and joint ventures

All the material balances at year-end between the consolidated companies and the effect of the transactions performed between them during the year were eliminated on consolidation. The detail of the most significant balances between the Group and the non-consolidated associates and joint ventures and the effect of the transactions performed with them on the consolidated income statements are as follows:

	Thousands of Euros	
	2018	2017
Assets:		
Cresca, S.A. (Note 13)	-	8,470
Pinar de Villanueva, S.L. (Note 11)	-	455
Other	5,239	234
Liabilities:		
Other	12	5,838
Transactions:		
Revenue	4,766	2,043
Expenses	934	36,023

The income amount corresponds mainly to the services provided to the associated company "CSJ GVK Projects and Technical SS. P.L." up to EUR 4,155 thousand. Additionally, the Group has accounts receivable from this company amounting to 959 thousand euros.

The “Other" asset amount at 31 December 2018, corresponds mainly to commercial current accounts with entities and persons related to the Group in joint ventures in which it participates.

24. Remuneration

24.1 Remuneration of Directors

The detail of the remuneration of all kinds earned in 2018 and 2017 by the Directors of Grupo Empresarial San José, S.A., 10 men and 1 woman, and of the Group company, jointly controlled entity or associated obliged to pay such remuneration are as follows:

Type of Directors	Thousands of Euros	
	2018	**2017**
Executive board members	2,495	2,533
Independent board members	207	230
Other external board members	16	18
Total	**2,718**	**2,781**

Breakdown according to type is as follows:

Type of compensation	Thousands of Euros	
	2018	**2017**
Salary	2,341	2,440
Allowance	269	203
Other items	108	138
Total	**2,718**	**2,781**

The amount for 2018 and 2017 includes Directors’ remunerations for the furtherance of their duties as Senior Management for EUR 2,341 thousand and EUR 2,440 thousand, respectively.

At 31 December 2018 and 2017, no advances, loans or other types of guarantees had been granted to the former or current directors and there were no additional pension or life insurance obligations to them. In addition, the Group does not have any other kind of transactions with related parties.

The directors of the Company are covered by the "Corporate Liability Insurance Policies of Directors and Officers" contracted by the parent company of Grupo SANJOSE, in order to cover possible damages that may be claimed, and that they arise as a result of an error of management committed by its managers or directors, as well as those of its subsidiaries, in the exercise of their positions. Net value of the business activity branch amounts to EUR 88,5 thousand.

Breakdown of ownership interest in companies with similar activities and activities and functions of Directors and associates.

In connection with the participation of the Directors of the Company or persons linked to them, in the share capital of companies alien to the same; or if they perform the same business activity or any other similar activity on their own account; or if the same in their own name or any third parties acting on their behalf have performed with the Company or any Group company transactions other than those in the normal course of business or under non-usual market conditions must indicate that the Directors or any other persons linked to them:

- Have not performed on their own account or for any other third parties the same business activity or any other similar activity.

- Have no interest in the capital of entities with the same, analogous or complementary type of activity to the corporate purpose of the parent company.

- Have not performed with the Company or any Group company transactions other than those in the normal course of business or under non-usual market conditions.

At year-end 2018 neither the members of the Board of Directors of the Company or any third parties related to them, as defined in the Companies Act, have reported to the other members of the Board of Directors any conflict of interests, either direct or indirect, with the interests of the Company.

24.2 Remuneration and other benefits of senior executives

Total remuneration accrued for all items, from those employees who are considered Top Management in the Group, - excluding those who simultaneously have the status of member of the Board of Directors (whose remuneration has been detailed above) - during the years 2018 and 2017, can be summarised as follows:

Number of people	Thousands of Euros
Year 2018:	
10 directors	1,433
Year 2017:	
9 directors	1,314

Additionally, the Company does not have any pension or life insurance obligations to these executives.

25. Information on the environment

In view of the business activity carried on by the Company, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

26. Events after the reporting period

On 31 January 2019, the Group made a voluntary partial repayment of the syndicated financing agreement of the company "Constructora San José, SA", for an amount of EUR 7 million (see Note 16.3.a).

There are no other significant events occurred after 31 December 2018 which may have impacted on the accompanying financial statements

Appendix I

Consolidated subsidiaries

Company	Company Auditor	Address	Activity	% of voting rights controlled by Parent companies		Cost of the Group's ownership interest (Thousands of Euros)
				Direct	Indirect	
Alexin XXI, S.L.U.	-	Bilbao (Vizcaya).	Real Estate Development	-	100	3
Aprisco Salvador Inv. Hoteleiros e Imobiliários, Ltda.	-	Brazil	Construction and Real Estate Development	-	100	4,424
Argentimo, S.A.	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	22,035
Arserex, S.A.U.	-	Madrid	Trade and distribution of sport items	-	100	2,844
Basket King, S.A.U.	-	Madrid	Trade and distribution of sport items	-	100	977
Cadena de Tiendas, S.A.U.	-	Pontevedra	Trade, distribution, import and export of clothes	100	-	60
Carlos Casado, S.A.	Auren	Buenos Aires (Argentina)	Real Estate Development	-	52.19	18,25
Casado Agropecuaria, S.A.	-	Paraguay	Agropecuaria	-	99.99	21,725
Agropecuaria del Chaco, S.A.	-	Paraguay	Agropecuaria	-	100	1,922
Cartuja Inmobiliaria, S.A.U.	Deloitte	Seville	Construction	-	100	3,884
Centro Comercial Panamericano, S.A	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	10,612
Tecnoartel Argentina, S.A.	Auren	San Luis (Argentina)	Civil works	-	100	7
Comercial Udra, S.A.U.	-	Pontevedra	Trade	100	-	1,748
Sanjose Panamá, S.A.	BDO Audit, S.A.	City of Panama (Panama)	Construction	-	100	270
Constructora San José Argentina, S.A.	Auren	Buenos Aires (Argentina)	Construction	-	96.947	2,786
Constructora San José Brasil Limitada	-	Salvador de Bahía (Brazil)	Construction and Development	-	100	483
Constructora San José Cabo Verde, S.A.	Deloitte	Cape Verde	Construction	-	100	453
Constructora San José, S.A.	Deloitte	Pontevedra	Construction	99.79	-	92,510
Constructora San José Timor, Unipessoal Lda.	-	Timor	Construction	75	-	3
Constructora Udra Limitada	Deloitte	Monaco (Portugal)	Construction, maintenance and repair	7	70	270
Desarrollos Urbanísticos Udra, S.A.U.	-	Pontevedra	Real Estate Development	-	100	75,000

Company	Company Auditor	Address	Activity	% of voting rights controlled by Parent companies		Cost of the Group's ownership interest (Thousands of Euros)
				Direct	Indirect	
Eraikuntza Birgaikuntza Artapena, S.L.U.	Deloitte	Vitoria Gasteiz	Construction	-	100	435
Enerxías Renovables de Galicia, S.A.	-	Pontevedra	Energy	-	100	2,649
Athlelic King S.A.U.	-	Madrid	Manufacturing, storage and distribution of goods	-	100	316
Fotovoltaica el Gallo 10, S.L.	-	Burgos	Energy	-	82.97	8,374
Gestión de servicios de la Salud S.L.	-	-	Hospital services	-	100	90
GSJ Solutions, S.L.	Deloitte	Madrid	Engineering services	100	-	338
Hospes Brasil Participaciones e Empreendimientos Lda.	-	Brazil	Construction and Development	-	100	460
Inmobiliaria 2010, S.L.	Deloitte	Lima (Peru)	Construction and Development	-	100	1,448
Inmobiliaria Americana de Desarrollos Urbanisticos, S.A.U.	-	Pontevedra	Real Estate Development	-	100	2,640
Inmobiliaria Sudamericana de Desarrollos Urbanísticos, S.A.	Auren	Buenos Aires (Argentina)	Real Estate Development	-	100	716
Inversión SanJose Chile Limitada	-	Santiago de Chile (Chile)	Investment and real estate	-	100	22
Inversiones San Jose Andina Ltda.	Deloitte	Santiago de Chile (Chile)	Investment and real estate	-	100	14,970
Sociedad Educacional Andina Lda. (antes Inversiones Hospitalarias Ltda.)	-	Santiago de Chile (Chile)	Capital investment	-	100	1
Inversiones Viales Andina Ltda.	-	Santiago de Chile (Chile)	Capital investment	-	100	1
Outdoor King, S.A.U.	-	Madrid	Manufacturing, storage and distribution of goods	-	100	60
O&M Parc de LÀlba ST-4, S.A.	-	Barcelona	Construction, remodelling and maintenance of facilities	-	65	39
Parsipanny Corp. S.A.	Moore	Uruguay	Real estate and agriculture and livestock	-	51.72	2,966
Poligeneraciones parc de L´Alba ST-4	Deloitte	Barcelona	Construction, implementation and maintenance of electric energy power stations	-	76	4,560
Puerta de Segura, S.A.		Uruguay	Industrial, Trade	-	51.72	6,174
San José Constructora Perú S.A.	Deloitte	Lima (Peru)	Construction	-	100	542
Rincon S.A.G.	Moore	Paraguay	Development of a tourist project in Alto Paraguay and agriculture activities in the same area.	-	51.72	2,133
Running King, S.A.U.	-	Pontevedra	Trade, distribution, import and export of clothes	-	100	75
Sociedad Concesionaria Rutas del Loa, S.A.	-	Santiago de Chile (Chile)	Construction	-	100	6,920
San José BAU GmBH	Wisbert & Partner	Berlin (Germany)	Construction	-	84	435

Company	Company Auditor	Address	Activity	% of voting rights controlled by Parent companies		Cost of the Group's ownership interest (Thousands of Euros)
				Direct	Indirect	
San José Concesiones y Servicios, S.A.U.	-	Pontevedra	Provisions of health care and social services	100	-	2,446
San José Construction Group, Inc	Dixon Hughes Goodman	Washington (USA)	Construction	-	100	24,654
San José France, S.A.S.	-	Le Haillan (France)	Holding company	-	100	982
San José Maroc, S.A.R.L.A.U.	-	Rabat (Morocco)	Construction	-	100	1
San José Perú Inmobiliaria, S.A.C.	Deloitte	Lima (Peru)	Construction	-	100	9,075
Sáo José Mozambique, Sociedade Limitada	-	Mozambique	Construction	-	100	70
José Tecnologías Chile Ltda.	-	Santiago de Chile (Chile)	Construction	99.9	-	1
San Jose India Infraestructure & Construction Private Limited		New Delhi (India)	Development, construction and operation of Infrastructure	-	99.99	2,420
Sanjose Mahavir Supreme Building One Private Limited		New Delhi (India)	Construction	-	51	-
San José Real Estate Development, LLC	Dixon Hughes	Delaware (USA)	Real Estate Development	-	100	-
San José Energía y Medio Ambiente, S.A.U.	-	Pontevedra	Energy production	99.99	0.01	7,564
SanJosé Nuevos Proyectos Salud, Limitada	-	Chile	Construction	-	100	1
SanJosé Contracting, L.L.C.	EY	Abu Dhabi (UAE)	Construction	-	85%	8,013
Sefri Ingenieros Maroc, S.A.R.L.	-	Morocco	Engineering and installations	-	75	258
Sociedad Concesionaria Chile Tecnocontrol	Deloitte	Santiago de Chile (Chile)	Infrastructure Concessions	-	100	14,035
San José Constructora Chile Ltda.	Deloitte	Santiago de Chile (Chile)	Construction	-	100	18
Constructora San José Colombia, S.A.AS.	-	Bogota (Colombia)	Construction	-	100	97
SJB Mullroser	Wisbert & Partner	Mullroser (Germany)	Construction	100	-	730
Tecnoartel Argentina, S.A.	Auren	Buenos Aires (Argentina)	Maintenance and facilities	-	100	23,465
Tecnocontrol Mantenimiento, S.L.U.	-	Tres Cantos (Madrid)	Maintenance and collection of public telephone services	-	100	19
Tecnocontrol Servicios, S.A.U.	Deloitte	Tres Cantos (Madrid)	Maintenance services	-	100	1,668
Tecnocontrol Sistemas de Seguridad, S.A.U.	-	Tres Cantos (Madrid)	Maintenance of security systems	-	100	120
Tecnocontrol Chile Ltda.	-	Santiago de Chile (Chile)	Construction	99.9	-	1
Top Brands, S.A. (under stetlement)	-	Argentina	Trade	-	65	729
Trendy King, S.A.U.	-	Madrid	Trade and distribution of sport items	-	100	1,515
Udra Medios, S.A.U.	-	Pontevedra	Edition, production, reproduction and release of books, newspapers, magazines and video	100	-	1,500
Udra Mexico S.A. de C.V.		Mexico	Construction		100	5,407
Udra Obras Integrales S.A. de CV	-	Mexico	Construction		100	1
Vision King S.A.U.	-	Madrid	Trade, distribution, import and export of clothes	-	100	514
Xornal de Galicia, S.A.	-	Galicia	Press	-	92.73	5,653
Xornal Galinet, S.A.U.	-	A Coruña.	Press	-	100	1,100
Zivar, investimentos inmobiliarios C.	-	Portugal	Real Estate	-	52.5	2,608

Appendix II
Associates and companies included in the scope of consolidation

Company	Company Auditor	Address	Activity	% of voting rights controlled by Parent companies		Cost of the Group's ownership interest (Thousands of Euros)
				Direct	Indirect	
Associates:						
Distrito Castellana Norte, S.A.	Deloitte	Madrid	Real Estate Development	-	24.459	31,114
Panamerican Mal, S.A.	PWC	Buenos Aires (Argentina)	Real Estate Development	-	20	17,914
Associates:						
31-121	EY	Misiones esquina Perú No 593, Asunción, Paraguay	Sale of any type of mix farming product and sale, rental and construction of urban and rural property	-	50	12,214
CSJ GVK Projects and Technical SS.Pl.	HN Patel&Co	India		-	50	
Pinar de Villanueva, S.L.	-	Valladolid	Real Estate Development	-	50	6,422

(1) Company that has been subject to a spin-off during 2018, distributing the business carried out in favour of its shareholders (see Note 2.4.d)

Appendix III

1. Joint ventures:

Joint ventures	Ownership %	Net revenue (*) (Thousands of Euros)
UTE PISTA AEROPUERTO ALICANTE	50.00%	-
UTE PROYECTO Y OBRAS DE LA EDAR ARANJUEZ NORTE	50.00%	-
Fondo Operativo Ute Hospital Asturias	42.50%	-
UTE PARQUE DE BOMBEROS	51.00%	-
UTE CIUDAD DE LA CULTURA	50.00%	-
UTE MOV.TIERRAS, IKEA GC FASE II	55.00%	-
UTE CONSERVACION LORCA	50.00%	990
UTE CONSERVACION MURCIA	50.00%	1,076
UTE REGADIO CANAL DEL PÁRAMO BAJO	50.00%	-
UTE HOSPITAL DE PLASENCIA	81.81%	1,119
EL REGUERON	33.33%	8,763
UTE NUEVA TERMINAL AEROP.DE BARCELONA (CEN)	33.33%	-
UTE CENTRAL ELECTRICA AE. SANTIAGO	60.00%	-
UTE TRAUMA V.HEBRON	0.00%	-
UTE CYMITEC SERV.CENTRALES CIUDAD DE LA CULTURA SANTIAGO	50.00%	-
UTE POLIGENERACION CERDANYOLA DEL VALLES	95.00%	-
UTE TECNO-ELECNOR CABILDO INSULAR	50.00%	-
UTE IMHUCA HOSPITAL DE OVIEDO	53.66%	-
UTE ENLACE THADER	50.00%	-
Ute S.Jose-Cimsa-Rodio O/Montijo	90.00%	-
Ute "Santa Marta Magasca"	60.00%	-
Ute Barrio Bajo	100.00%	-
UTE U60 HOSPITAL XERAL DE LUGO	50.00%	-
UTE VVDAS DEHESA VIEJA	50.00%	-
UTE U67 NUEVA SEDE DIPUTACIÓN DE MALAGA	50.00%	-
UTE U77 Almanjayar	75.00%	-
UTE A.I. LA NAVA	100.00%	-
UTE U88 AEROPUERTO DE MENORCA	50.00%	-
UTE U90 PROLONGACION AVENIDA ALVARO DOMECQ	100.00%	-
UTE NUEVA ESTACION PINAR DEL REY	100.00%	-
UTE U93 AVENIDA DE EUROPA JEREZ	100.00%	-
UTE U94 LA GRANJA-JEREZ	100.00%	-
UTE U96 PISCINA PARLA	100.00%	-
UTE U98 VIVIENDAS ALCOSA	80.00%	-
UTE VALDEBEBAS LOTE 6	50.00%	-
UTE ARROYO DE LA VEGA AMPLIACION EDAR	50.00%	-

UTE NUEVA CIUDAD DEPORTIVA DE UMBRETE EN SEVILLA	100.00%	-
UTE EL PUERTO	100.00%	-
UTE AUTOVÍA A-50 SALAMANCA	100.00%	-
UTE O/ URBANIZ. BARRIO SAN ISIDRO	100.00%	-
UTE O/ PARQUE LINEAL RIVAS	75.00%	-
C/C UTE CSJ-EL EJIDILLO (FONDO OPERATIVO)	60.00%	-
UTE W22 AUTOVIA ENCINAS REALES CORDOBA	70.00%	-
UTE EMBALSE CONTRERAS	50.00%	-
UTE CEIP SAN JOSE CALASANZ - BIGASTRO	100.00%	-
UTE CENTRO DE SALUD LUCERO EN MADRID	100.00%	-
UTE HOSPITAL VALLE DE LOS PEDROCHES	100.00%	-
UTE HOSPITAL DE GUADIX	100.00%	-
UTE OCAÑA	70.00%	-
UTE COLEGIO ALAMEDA DE OSUNA	65.00%	-
UTE RONDA SUROESTE TOLEDO	50.00%	-
UTE W50 EL TEJAR	70.00%	-
C/C UTE W52 ESCUELA UNIVERSITARIA DE MAGISTERIO	100.00%	-
UTE ETSI UNIVERSIDAD VALENCIA	100.00%	-
HOTEL COLON SEVILLA	70.00%	-
UTE HOSPITAL GANDIA	100.00%	-
UTE PALACIO JUSTICIA PATERNA	60.00%	-
UTE ZONAS VERDES FERROL	60.00%	-
UTE REHABILITACION TEATRO SAN FERNANDO	100.00%	-
REHABILITACION POBOADO MINEIRO FONTAO	100.00%	-
UTE CASCO HISTORICO CARTAGENA	60.00%	-
UTE SAN JOSE EL EJIDILLO PASEO DE EUROPA	70.00%	-
UTE KULTUR ETXEA HONDARRIBIA	100.00%	-
UTE FACULTAD DE CIENCIAS (PUERTO REAL)	100.00%	-
UTE REFORMA RADIOTERAPIA H.VIRGEN DEL ROCIO	50.00%	-
UTE CLINICA IMQ BILBAO	100.00%	-
UTE EL EJIDILLO PLAZA CASTILLA	60.00%	-
UTE MIAMAN PONTE AMBIA	70.00%	-
UTE AMPLIACION AEROPUERTO VIGO	50.00%	-
UTE SAN JOSE EL EJIDILLO VALLADOLID	60.00%	-
UTE EDIFICIO AERONAUTIC SUPPLIERS VILLAGE	80.00%	-
UTE HOSPITAL ALBACETE	37.50%	-
UTE VILLANUEVA DE LA JARA	50.00%	-
UTE 200 VVDAS NUEVO AMATE	100.00%	-
UTE VARIANTE PAJARES - LOTE SUR	60.00%	-
UTE CONSULTORIO CRUZ ROJA BILBAO	100.00%	-
UTE CEIP TIPO C2 HUERTO DEL PRADO	60.00%	-
UTE ALCALÁ DE HENARES	60.00%	-
UTE EDIFICIO TRANSFERENCIA CONOCIMIENTO	80.00%	-
UTE EDIFICIO LUCÍA	100.00%	-

UTE PROYECTO MEJORA CARRETERA DESTRIANA	60.00%	-
UTE SAN JOSE EL EJIDILLO ZONA D	60.00%	-
UTE SAN JOSE EL EJIDILLO DASOTEC	60.00%	-
UTE SAN JOSE EJIDILLO IFEMA2	60.00%	-
UTE COLEGIO DOS HERMANAS	50.00%	-
UTE EDAR GANDARÍO	50.00%	-
XARDINS DE FERROL	60.00%	587
UTE CAMPUS HUMANIDADES	85.00%	-
UTE HOSPITAL CABRA	100.00%	-
UTE FEDERACION FUTBOL CEUTA	100.00%	-
UTE PARQUE NORTE	60.00%	-
UTE SAN JOSE EL EJIDILLO ALCOBENDAS	60.00%	205
UTE PATRIMONIO JARDINES	40.00%	520
UTE CONSERVACION RENEDO DE ESGUEVA	60.00%	44
UTE ABASTECIMIENTO BURGOS	55.00%	-
UTE PONTESUR	50.00%	778
UTE OFICINAS SUBILLABIDE	50.00%	(1)
UTE EL EJIDILLO SS.REYES	60.00%	2,028
UTE EL EJIDILLO ARROYO DE LA VEGA	60.00%	-
UTE HOSPITAL TXAGORRITXU DEL HUA	80.00%	-
UTE CANAL OCTUBRE 2015	60.00%	52
UTE ANT.FABRICA TABACOS	100.00%	277
UTE REPOSICION ALUMBRADO BARCELONA	75.00%	-
UTE HOSPITAL CACERES	60.00%	4,537
UTE CENTRO SALUD AMURRIO	80.00%	6
UTE CENTRO COMERCIAL TAMARACEITE	60.00%	1,871
UTE AREA GENERACION URBANA DE JINAMAR	49.00%	-
UTE EL EJIDILLO SUR-ESTE VALLADOLID	60.00%	1,058
UTE EL EJIDILLO PARACUELLOS DEL JARAMA	60.00%	419
UTE MARGEN IZDO RIO PISUERGA	60.00%	-
UTE CONSERVACION DE CACERES	50.00%	966
UTE AMPLIACION PARQUE LINEAL DEL MANZANARES	60.00%	-
UTE DESBROCES PAREACUELLOS	60.00%	13
UTE CORREOS CATALUÑA	100.00%	106
UTE GALERIA DE FOLLEDO	60.00%	390
UTE MANT. PATRI. VEGETAL CANAL ISABEL II	60.00%	66
UTE CONSERVACION INVERNAL PATRIMONIO NACIONAL	40.00%	114
UTE SER MAS VERDE	25.00%	540
UTE PINAR COLONIA LOS PINOS	50.00%	269
UTE VIA CICLISTA CADIZ CASCO HISTORICO	100.00%	170
UTE HUERTOS URBANOS ALCOBENDAS	60.00%	44
UTE SAN JOSE EL EJIDILLO ALCOBENDAS 2	60.00%	-
UTE SAN JOSE EL EJIDILLO ALCOBENDAS 3	60.00%	20
UTE PLANTACION MORUS ALBA	60.00%	-

UTE EDIFICIO FONTAN	50.00%	2
UTE CONSTRUCCION DE VIVIENDAS EN LA CALLE IRUN	50.00%	-
UTE CONTORNO GRAN VIA	60.00%	-
UTE AL LAIN (1)	50.00%	95,935
UTE LOUVRE (1)	33.33%	8,938
UTE AL MAMSHA PROJECT (1)	50.00%	52,858
UTE HOTEL FAMILY (1)	50.00%	10,802
UTE AYSA	50.00%	2,996
UTE EMTE SERVICE-TECNOCONTROL	50.00%	-
UTE MANTENIMIENTO PS MAR	50.00%	1,026
UTE SERV ENERGETICOS CANARIAS	50.00%	474
UTE SERVICIOS MANTENIMIENTO LAS PALMAS	50.00%	-
UTE TXOMIN	50.00%	1,347
Otras		
		201,403

GRUPO EMPRESARIAL SAN JOSE, S.A. AND SUBSIDIARIES

Consolidated Directors’ Report for the year ending 31 December 2018

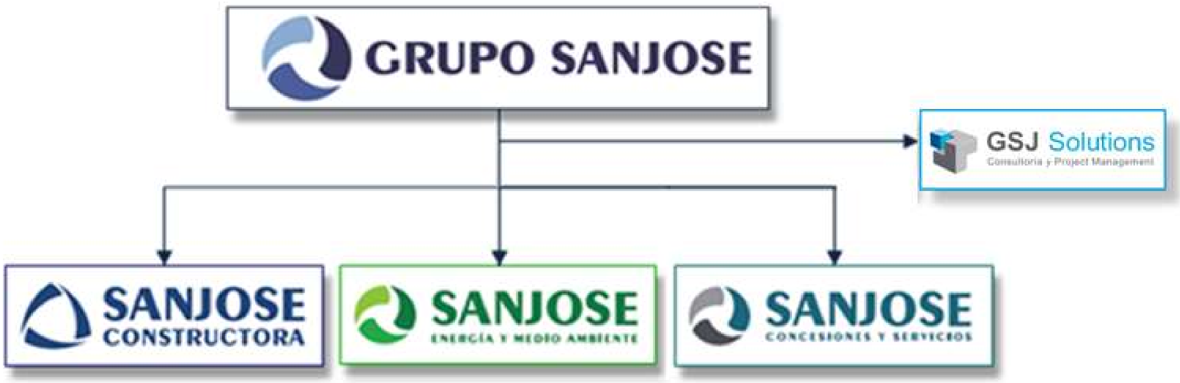
1. <u>Situation of the Company</u>

1.1. Organisational Structure

Grupo SANJOSE is arranged as a group of companies operating in different sectors. Since its foundation, the main business activity of the Group is construction, becoming even more important during the last years.

The main lines of activity developed by Grupo SANJOSE are the following:

- Construction
- Concessions and services
- Energy and environment
- Engineering and Project management



Likewise, due to the diversification policy of the Group, the Group is present in other lines of activity, such as real estate, trade, stockbreeding and agriculture.

1.2. Performance

The business model of the Group is to create a diversified group regarding both, geographic distribution and lines of activity as a way of being less exposed to the risk inherent to a single activity. The Group has a clear international vocation, becoming increasingly important activities developed overseas, with a higher significance in the turnover of the Group. In 2018, 50.8% total revenue of the Group comes from overseas (56.4% in 2017).

The Group is present in more than 20 countries all around the world, especially in the Middle East and Latin America.

The main objective of the Group is to continue balancing the turnover, taking the construction activity as the main engine, increasing the weight in the international arena -powering the development in the countries where we are already present and in those of future penetration-, maintaining the levels of quality in the production and customer’s and supplier’s satisfaction, that have positioned Grupo SANJOSE as a reference in the market, analysing and encouraging the application of innovations and technological progress, and maintaining a reduced level of costs that guarantees the profitability of the projects.

2. Evolution of the market

2.1. Market performance

The economic and financial crisis since the end of 2007 has resulted in an abrupt reduction in the level of activity from 2007 to present date, not only in Spain but worldwide. In the last two years, signs of a slight improvement have begun to appear.

Since 2013, there has been a turning point in the domestic economy, technically coming out of recession. During 2014 and 2015, an upward trend was maintained. In the 2017, according to data from the National Institute of Statistics (INE), gross domestic product (GDP) reached 3.0%. The Gross Domestic Product (GDP) grew by 0.8% in the first three months of 2018, which implies exceeding, for the first time, the 1,116 billion registered in 2008. In that year, the last production record of goods and services was recorded in Spain. This means that the economy has accelerated compared to the last quarter of 2016 when it grew by 0.6%. The gross domestic product of Spain in the fourth quarter of 2018 reached an increase of 2.5% with respect to year 2017. This rate is 0.5% less than in the previous year. In 2018, the GDP figure was EUR 1,207 billion, wat involves that the absolute value of GDP in Spain grew by 0.41 trillion compared to 2017.

A slow-down in GDP growth can be observed compared to previous years. The International Monetary Fund, which in October estimated a 2.7% GDP advance for this year, has reduced this forecast to 2.5% at its last meeting at the beginning of 2019, and keeps it unchanged for 2019, at 2.2%, and 1.9% for year 2020. The Spanish economy continues to recover the lost ground during the crisis, according to the IMF, although it points out that the growth rate will be moderate in the coming years to converge with the growth of potential GDP.

Gross Domestic Product. GPD

Source: INE

The main reasons of this growth have been the increase in tourism, the moderate increase in domestic consumption and the progressive de-indebtedness of Spanish families. The creation of jobs is precisely the main driver of GDP. However, the fall in external demand moderated this growth.

The influence of the construction sector on the cycle of global economic activity in Spain is very significant. Over the past few years, its role has been reduced by the current situation. Its importance lies in the drag effect of the construction sector on the whole economy, for the impact on suppliers and because it provides the country with the necessary measures to enable the economy infrastructure, thus contributing to the increase the productivity and the long-term growth capacity of the economy in general.

The change of trend in the country has been perceived abroad. As a consequence, the risk perception of foreign investors, which is translated into the risk premium (the difference between the 10-year Spanish bond with regards to the German bond for the same term, the most used indicator to quantify the risk), which has closed year 2018 in 118 points, staying at levels of 2017, confirming the improvement of the international perception already experimented therein.

Therefore, economic activity shows signs of recovery although these signs are not sufficient for the country to be fully recovered. So that the change tendency that has taken place in the domestic economy consolidates, the improvement of aspects such as employment, public debt and public deficit must be maintained.

With regard to employment, in 2018 the unemployment decline of previous years was maintained, being the unemployment figure 14.55%:

Labour Force Survey. Unemployment rate (%)

Source: INE

The number of unemployed fell in 2018. The total number of unemployed registered in the offices of public employment services stood at the end of the third quarter of 2018 at 3.33 million people, after falling by 290,193 unemployed people in the year as a whole (-10.87%). Thus, 2018 added a sixth consecutive annual decline. For the first time in 10 years, the unemployment rate has fallen below 15%. The first two EPAs of the year had anticipated the expected news but it was the third quarter that confirmed it, with the quarterly average standing at 14.55%. At 2018 year-end, the unemployment rate stood at 14.45%, with the total number of unemployed, in any case, at minimum since 2008. The figure stood at the end of 2018 at 3.3 million people, recording the creation of 433,900 new positions for the year.

At 2018 year-end, public debt has grown compared to 2017, so that it has increased from EUR 1,144 billion to EUR 1,171 billion. Thus, public debt closed the year at 97% of GDP.

As for the public deficit, the figure for 2017 stood at 3.1%. According to data from the Ministry of Finance, it is estimated that Spain closed 2018 with a figure of 2.7%, meeting the EU's deficit target.

The deficit and the public debt are two of the outstanding issues for the budgetary stability of Spain. The debt is around 97% of GDP and begins to fall, yet at a very slow pace. The deficit-building factor is the deficit, which remains at a high level a decade after the financial crisis. In fact, Spain is the EU country with the highest budgetary mismatch. Despite this alarming panorama in public accounts, the Government makes progress. It is one step away from the excessive deficit procedure (PDE), the Brussels corrective protocol for countries with red numbers above 3% of GDP. Spain closed 2018 with a deficit close to 2.7% of GDP, with a correction of four tenths over the figure of the previous year.

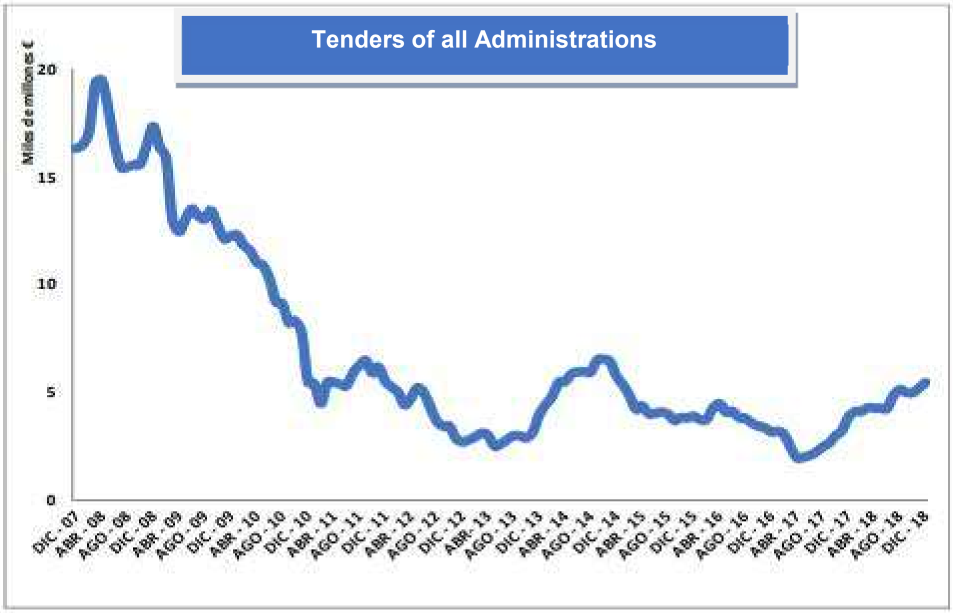
The CPI stood at December 2018 at 1.2%, five tenths less than in the month of November:

Consumer price index.

Source: INE

This decrease in the increase in prices is related to the price of fuels. In November and a good part of December, the price of crude oil continued to fall, down to 53 dollars, with which the CPI in Spain, a country very dependent on oil, has plummeted to 1.2%, its lowest level since April.

The main national market where the Group operates, construction, continues to be very affected by the crisis, although there are indications of the country's economic recovery. During 2018, a level of tenders has been somewhat higher than in 2017 (there has been an increase of 31%), as part of the greater investment of public expenditure, although within the austerity framework of the Administrations (16.843 million-SEOPAN- data).



Source: SEOPAN

In addition to the domestic market. Grupo SANJOSE is also present in the markets of the Middle East, South America and Asia. At the end of 2018 year, the foreign business volume stood at 50.8% compared to 56.4% in 2017.

The world economy will grow by an average of 3.7% in 2018, two tenths less than in previous revisions of the IM, due to commercial measures announced by the United States, and the tariffs applied to China's exports. The IMF is now betting that in the emerging market and developing economies, the growth prospects of many energy exporters are favoured by the rise in oil prices, but the growth of Argentina, Brazil, Iran and Turkey, among other countries, has been revised downwards as a result of specific domestic factors, the constriction of financial conditions, geopolitical tensions and the rising cost of oil imports. Further, following the recently announced trade measures, China and several Asian economies are projected to experience a weaker growth in 2019.

In view of this macroeconomic situation, the Group keeps as basic lines of its activity the effort to improve profitability, being flexible in adapting its structure to the reality existing in Spain, and also strengthening business with diversification and increasing internationalisation.

The Group develops its activities in sectors, countries and socio-economic and legal environments that assume the assumption of different levels of risk caused by these conditions. Thus, it controls such risks in order to prevent them from causing a loss to the profitability of its shareholders or a problem for its customers. For this control task, it has instruments that allow them to be identified sufficiently in advance or avoided minimizing the risks.

The Group maintains a portfolio of EUR 1,630 million, ensuring its medium and long-term future, both in the execution of work, and in the realisation and provision of services in concession and energy projects.

2.2. Main figures of the GROUP

Main consolidated figures of Grupo SANJOSE for year 2018 are as follows:

Consolidated Management Balance Sheet

Thousands of euros

	Dic. 18		Dic. 17		
	Amount	%	Amount	%	Var.
Intangible assets	18,079	1.8%	19,581	2.0%	-7.7%
Property, plant and equipment	71,033	7.1%	45,349	4.7%	56.6%
Real state investments	10,731	1.1%	3,297	0.3%	225.5%
Investments accounted for using the equity method	40,422	4.1%	50,373	5.2%	-19.8%
Long term finantial investments	87,738	8.8%	123,481	12.7%	-28.9%
Deferred taxes assets	36,558	3.7%	35,135	3.6%	4.1%
Goodwill on consolidation	9,984	1.0%	9,984	1.0%	0.0%
TOTAL NON-CURRENT ASSETS	**274,545**	**27.6%**	**287,200**	**29.8%**	**-4.4%**
Inventories	114,885	11.5%	104,704	10.9%	9.7%
Trade and other receivables	259,865	26.1%	258,412	26.8%	0.6%
Other short term finantial investments	58,166	5.8%	91,206	9.5%	-36.2%
Short-term accruals	4,902	0.5%	2,720	0.3%	80.2%
Cash and cash equivalents	283,434	28.5%	220,134	22.8%	28.8%
TOTAL CURRENT ASSETS	**721,252**	**72.4%**	**677,176**	**70.2%**	**6.5%**
TOTAL ASSETS	**995,797**	**100.0%**	**964,376**	**100.0%**	**3.3%**

Thousands of euros

	Dic. 18		Dic. 17		
	Amount	%	Amount	%	Var.
Equity attributable to shareholders of the parent	80,996	8.1%	58,645	6.1%	38.1%
Minority interest (*)	24,262	2.4%	20,866	2.1%	16.3%
TOTAL EQUITY (*)	**105,258**	**10.6%**	**79,511**	**8.2%**	**32.4%**
Long term provisions	40,121	4.0%	30,313	3.1%	32.4%
Long term finantial liabilities	252,084	25.2%	311,625	32.3%	-19.1%
Long term derivative finantial contracts	351	0.0%	591	0.1%	-40.7%
Deferred taxes liabilities	25,635	2.6%	19,541	2.0%	31.2%
Long-term accruals	865	0.1%	904	0.1%	-4.3%
TOTAL NON CURRENT LIABILITIES	**319,056**	**32.0%**	**362,974**	**37.6%**	**-12.1%**
Short term provisions	31,227	3.1%	37,895	3.9%	-17.6%
Short term finantial liabilities	65,759	6.6%	65,828	6.8%	-0.1%
Trade accounts and other current payables	474,497	47.6%	418,168	43.5%	13.5%
TOTAL CURRENT LIABILITIES	**571,483**	**57.4%**	**521,891**	**54.2%**	**9.5%**
TOTAL EQUITY & LIABILITIES	**995,797**	**100.0%**	**964,376**	**100.0%**	**3.3%**

(*) **Management Net Equity**: EUR 111.4 million have been recorded under this item as shareholder loan of Grupo Empresarial San José, S.A.

Consolidated Management Income Statement

Thousands of euros

	Grupo SANJOSE				
	Dic. 18		Dic. 17		
	Amount	%	Amount	%	Variac.
Revenue	**758,423**	**100.0%**	**682,868**	**100.0%**	**11.1%**
Other operating income	11,816	1.6%	9,382	1.4%	25.9%
Change in i nventories	1,933	0.3%	-2,235	-0.3%	--
Procurements	-507,779	-67.0%	-462,034	-67.7%	9.9%
Staff costs	-116,801	-15.4%	-103,034	-15.1%	13.4%
Other operating expenses	-95,912	-12.6%	-78,688	-11.5%	21.9%
EBITDA	**51,680**	**6.8%**	**46,259**	**6.8%**	**11.7%**
Amortisation chargue	-5,040	-0.7%	-6,762	-1.0%	-25.5%
Imparment on inventories	-258	0.0%	-2,078	-0.3%	-87.6%
Changes in trade provisions and other imparment	-5,351	-0.7%	-6,357	-0.9%	-15.8%
EBIT	**41,031**	**5.4%**	**31,063**	**4.5%**	**32.1%**
Ordinary finantial results	-8,766	-1.2%	-6,158	-0.9%	42.4%
Foreign exchangue results and others	-5,357	-0.7%	-2,328	-0.3%	130.1%
NET FINANTIAL RESULT	**-14,123**	**-1.9%**	**-8,459**	**-1.2%**	**67.0%**
Results on equity method	88	0.0%	-210	0.0%	--
PROFIT BEFORE TAX	**26,996**	**3.6%**	**22,395**	**3.3%**	**20.5%**
Income tax	-8,828	-1.2%	-10,127	-1.5%	-12.8%
CONSOLIDATED PROFIT	**18,168**	**2.4%**	**12,268**	**1.8%**	**48.1%**

Alternative Performance Measures (APM):

In the consolidated financial statements for the year ending 31 December 2018, the Group presents its results in accordance with generally accepted accounting standards (IFRS - see Note 2.1 of the accompanying consolidated notes). However, directors of the Group believe that certain alternative performance measures (APMs) reflect the true and fair view of its financial information and provide useful additional financial information used in the management of the business and therefore must be considered to adequately assess the performance of the group.

Among others, the Group identifies the following APMs:

- **EBITDA**: gross operating result, calculated from operating income, excluding from this figure the amount of depreciation, provisions and impairment provided or reversed during the period, as well as the result from disposal of property, plant and equipment.

- **Net financial debt** (NFD): total amount of bank and non-bank financial debt, including finance lease creditors and the valuation of obligations associated with financial derivative instruments, discounting the amount recorded under "Other current financial assets" And "Cash and cash equivalents" under current assets in the balance sheet.

  (*) The Group does not include as bank financial debt that arising from the syndicated loan agreement of "Grupo Empresarial San José, SA", amounting to EUR 111.4 million and EUR 107.8 million at 31 December 2018 and 31 December 2017, respectively. Due to its participatory nature, it is recorded as equity.

- **Backlog**: total amount of sales contracted by Group companies with customers, discounting the part realised and recognised as income in the income statement. With regards to concessions, the total amount of sales has been identified with the best estimate made by the Group, which is included in the economic-financial business plan of the concession.

Revenue

The net amount of the revenues of Grupo SANJOSE for year 2018 rises to 758.4 million euros, which supposes an increase of 11.1% over the previous year.

The main activity of Grupo SANJOSE is Construction, which represents 89% of the total revenues for the period, and 70% of the total portfolio of the Group at the end of 2018. Revenue from this line of activity in 2018 it stood at 676.0 million euros, experiencing an increase of 12.5% with respect to the figure obtained in the previous year.

Revenue of Grupo SANJOSE by type of activity is as follows:

Thousands of euros

Revenues by activity	Grupo SANJOSE Dic. 18		Dic. 17		Var.(%)
Construction	675,961	89.1%	600,994	87.9%	12.5%
Real estate and property development	3,761	0.5%	6,769	1.0%	-44.4%
Energy	9,711	1.3%	11,165	1.6%	-13.0%
Concessions and services	50,875	6.7%	47,740	7.0%	6.6%
Adjustment and other	18,115	2.4%	16,200	2.4%	
TOTAL	**758,423**		**682,868**		**11.1%**

As it has been happening in recent years, turnover from international markets shows great strength and remains of great importance for Grupo SANJOSE. In 2018, it contributed 51% of the Group's total turnover, maintaining the same volume as in the previous year 2017.

Likewise, there is an important growth in the domestic market turnover, experiencing a 25.4% increase with respect to year 2017.

Thousands of euros

Revenues by geography	Grupo SANJOSE Dic. 18		Dic. 17		Var.(%)
National	372,893	49%	297,444	44%	25.4%
International	385,530	51%	385,424	56%	0.0%
TOTAL	**758,423**		**682,868**		**11.1%**

Profit:

The operating profit (EBITDA) of Grupo SANJOSE for year 2018 amounts to 51.7 million euros, representing a margin of 6.8% over the net amount of the turnover.

EBITDA from the Construction activity, recorded in year 2018 36.7 million euros, representing 71% of the Group's EBITDA.

It should also be noted the good evolution experienced in the lines of activity of Energy and Concessions and Services, where at 2018 year-end an increase in EBITDA of 42.3%, is evident.

Breakdown of EBITDA by sector for 2018 is as follows:

Thousands of euros

EBITDA by activity	Grupo SANJOSE Dic. 18		Dic. 17		Var.(%)
Construction	36,695	71.1%	32,695	70.8%	12.2%
Real estate and property development	27	0.1%	1,784	3.9%	-98.5%
Energy	2,705	5.2%	3,576	7.7%	-24.3%
Concessions and services	2,297	4.4%	1,614	3.4%	42.3%
Adjustment and other	9,956	19.3%	6,590	14.2%	51.1%
TOTAL	**51,680**		**46,259**		**11.7%**

The net operating profit (EBIT) of Grupo SANJOSE for year 2017 amounts to 34.0 million euros, representing a margin of 5.4% over the net amount of the turnover and recording a 32.1% increase with regards to the previous year.

The **Profit after tax** of Grupo SANJOSE at the end of 2018 amounts to 18.2 million euros, which is a positive result that grows 48.1% with that recorded the previous year.

Net equity

The net equity of Grupo SANJOSE at 31 December 2018 stands at -6.1 million euros, being the main variation with respect to the amount shown for December 2016 that corresponding to the profit/(loss) for the period.

At 31 December 2018, the Group's Net Equity is composed of 65.0 million shares, what involves a participation of EUR -0.44 per share in said equity.

The stock market evolution and any other related information may be seen in note 9 of the accompanying directors' report.

Management Cash Flow

Thousands of Euros

CASH FLOW	Grupo SANJOSE Dic. 18	Dic. 17
Cash flow from operating activities	56,552	49,874
Working capital	41,290	-18,154
Others adjustments	-12,467	-8,206
Operating cash flow	**85,375**	**23,512**
Divestments / (Investments)	-6,236	-1,867
Others adjustments	56,533	36,200
Investment cash flow	**50,297**	**34,333**
Free cash flow	**135,672**	**57,845**
Capital flow & Minorities	-261	-1,030
Increase / (Decrease) in borrowings	-63,215	-67,565
Net interest	-7,180	-6,410
Others adjustments	-1	-14,544
Financing cash flow	**-70,657**	**-89,550**
Diferences due to changes in exchange rates	**-1,715**	**0**
Total cash flow	**63,300**	**-31,705**

In year 2018, the resources generated by operations amounted to 56.6 million euros.

There was a significant improvement in net operating cash flow, which increased from 23.5 million euros in 2017 to 85.4 million euros in 2018.

The decrease in financial indebtedness should be noted: a reduction of EUR 63.2 million and EUR 67.6 million in 2018 and 2017, respectively.

Backlog

The backlog of Grupo SANJOSE, indicating the Group's future contracted business, amounts to EUR 1,916 million at 31 December 2018. The detail is as follows:

Millions of euros

BACKLOG by segment	Grupo SANJOSE				
	Dic. 18		Dic. 17		Var.(%)
Construction	**1,334**	**70%**	**916**	**57%**	**45.7%**
Civil works	169	8.8%	177	10.9%	-4.5%
Non residential building	829	43.2%	537	33.1%	54.3%
Residential building	331	17.3%	195	12.0%	70.3%
Industrial	5	0.2%	8	0.7%	-40.3%
Energy	**395**	**21%**	**496**	**30%**	**-20.4%**
Concessions and services	**187**	**10%**	**218**	**13%**	**-14.1%**
Maintenance	18	0.9%	19	1%	-7.9%
Concessions	169	8.5%	200	12%	-15.2%
TOTAL BACKLOG	**1,916**	**100%**	**1,630**	**100%**	**17.6%**

Millions of euros

BACKLOG by geography	Grupo SANJOSE				
	Dic. 18		Dic. 17		Var.(%)
National	**1,098**	**57%**	**909**	**56%**	**20.8%**
International	**818**	**43%**	**721**	**44%**	**13.4%**
TOTAL BACKLOG	**1,916**		**1,630**		**17.6%**

Millions of euros

BACKLOG by client	Grupo SANJOSE				
	Dic. 18		Dic. 17		Var.(%)
Public client	**820**	**43%**	**916**	**56%**	**-10.5%**
Private client	**1,097**	**57%**	**714**	**44%**	**53.6%**
TOTAL BACKLOG	**1,916**		**1,630**		**17.6%**

At 31 December 2018, the Group's total backlog amounted to EUR 1,916 million, showing a growth of 17.6% with respect to that obtained at the end of 2017.

This increase in the backlog compared to 2017 year-end is shown both in the domestic market, where the Group's contracting grew by 20.8%, and in the international market, where growth was 13.4%.

Similarly, there is a shift in contracts towards private customers versus public customers, as has been shown in recent quarters.

The Construction backlog, main activity of the Group, represents 70% of the total backlog.

2.3. Analysis by sector

Construction

The construction line of activity has generated revenue for EUR 676.0 million, representing a 12.5% increase compared to the previous year.

EBITDA for 2018 stands at EUR 36.7 million, representing a 5.4% margin on sales.

The net operating profit reached EUR 27.3 million, achieving a 17.8% increase with respect to that obtained in 2017.

Likewise, profit before tax grew 113.0% with respect to the previous year and stood at EUR 28.7 million.

At the end of 2018, project backlog for this line of activity amounts to EUR 1.334 million versus the EUR 916 million at 2017 year-end (45.7% improvement).

Thousands of euros

	Grupo SANJOSE		
CONSTRUCTION	**Dic. 18**	**Dic. 17**	**Var.(%)**
Revenue	675,961	600,994	12.5%
Earnings before interest, taxes, D&A (EBITDA)	36,695	32,695	12.2%
EBITDA margin	5.4%	5.4%	
Earnings before interest and taxes (EBIT)	27,296	23,179	17.8%
EBIT margin	4.0%	3.9%	
Earnings before tax	28,703	13,474	113.0%

Revenue breakdown for this line of activity of Grupo SANJOSE, taking into consideration the main types of business, as well as the geographical distribution, is as follows:

Thousands of euros

DETAIL OF CONSTRUCTION REVENUES	**National**		**Internac.**		**Total**	
Civil works	26,007	8.1%	33,613	9.4%	59,620	8.8%
Non residential building	196,665	61.4%	221,380	62.1%	418,045	61.8%
Residential building	85,681	26.8%	100,055	27.9%	185,735	27.5%
Industrial	10,601	3.3%	80	0.0%	10,682	1.6%
Others	1,271	0.4%	606	0.2%	1,877	0.3%
TOTAL	**320,227**	**47%**	**355,734**	**53%**	**675,961**	

Construction revenue at international level for 2018 stands at EUR 355.7 million, recording a slight increase compared to the same period of the previous year, and representing 53% total revenue of this line of activity.

On the other hand, sales at domestic market stood at EUR 320.2 million compared to EUR 245.8 million for year 2017, recording a 30.3% increase. Domestic sales represent 47% total sales of this line of activity.

Real estate

The main Real Estate activity carried out by the Group during the year 2018 was the one corresponding to the "Condominio Nuevavista" promotion in Lima, Peru. During 2018, the Group has begun the construction work, which includes the construction of a total of 1,104 homes distributed in 10 buildings.

Stages I and II of the aforementioned development are currently underway, stage I has reached a commercialisation level of 92%, and commercialisation of stage II has been very well welcomed.

Stage I is expected to be delivered during the year 2019, allowing Grupo SANJOSE to progressively recover the turnover and EBITDA figures obtained in previous periods for this line of activity.

Turnover for year 2018 for the Real Estate business of Grupo SANJOSE stands at EUR 3.8 million.

Thousands of euros

REAL ESTATE AND PROPERTY DEVELOPMENT	Grupo SANJOSE Dic. 18	Dic. 17	Var.(%)
Revenue	3,761	6,769	-44.4%
Earnings before interest, taxes, D&A (EBITDA)	27	1,784	-98.5%
EBITDA margin	0.7%	26.4%	
Earnings before interest and taxes (EBIT)	-633	1,418	-144.6%
EBIT margin	-16.8%	21.0%	
Earnings before tax	-6,311	3,217	-296.2%

Energy

Revenue for this line of activity in year 2018 stands at EUR 9.7 million.

EBITDA corresponding to year 2018 of this line of activity amounts to EUR 2.7 million.

Thousands of euros

ENERGY	Grupo SANJOSE Dic. 18	Dic. 17	Var.(%)
Revenue	9,711	11,165	-13.0%
Earnings before interest, taxes, D&A (EBITDA)	2,705	3,576	-24.3%
EBITDA margin	27.9%	32.0%	
Earnings before interest and taxes (EBIT)	1,446	1,924	-24.9%
EBIT margin	14.9%	17.2%	
Earnings before tax	914	1,434	-36.3%

EBITDA percentage on sales of this business activity corresponding to 2018 stands at 27.9%.

The reduction of the backlog with respect to the one existing at the end of 2016 is derived mainly from the normal production and exploitation of contracts in force maintained by Grupo SANJOSE, as well as by the periodic review carried out by the Group due to the effect of the regulatory and financial modifications, the estimated demand and occupation levels.

Grupo SANJOSE has in this line of activity, at 2018 year-end, a contracted backlog amounting to EUR 395 million, that will be materialised as greater activity for a period of approximately 25 years.

Concessions & Services

Revenue for year 2018 stands at EUR 50.9 million, resulting in an increase of 6.6% with respect to the revenue for year 2017.

EBITDA increased by 42.3% with respect to the previous year, which stood at EUR 2.3 million, representing a margin of 4.5% on sales (3.4% in year 2017).

The net operating result (EBIT) experienced a 90.3% increase and reached EUR 1.6 million for the year.

Likewise, profit before tax for year 2018 amounted to EUR 5.9 million.

Thousands of euros

CONCESSIONS AND SERVICES	Grupo SANJOSE Dic. 18	Dic. 17	Var.(%)
Revenue	50,875	47,740	6.6%
Earnings before interest, taxes, D&A (EBITDA)	2,297	1,614	42.3%
EBITDA margin	4.5%	3.4%	
Earnings before interest and taxes (EBIT)	1,576	828	90.3%
EBIT margin	3.1%	1.7%	
Earnings before tax	5,936	8,735	-32.0%

At the end of 2018, contracted backlog of the Group for this line of activity amounts to EUR 187 million.

2.4. Average payment term to supplies

The Group has paid their national suppliers during year 2018 with an average payment term of 44 days. This figure is within the average legal period established by law 15/2010 which is 30 days, extended to 60 days in those cases with agreements between the parties.

A significant number of the Company's transactions are with public-sector clients, such as States, autonomous communities, municipalities, local governments and other public bodies, which settle payment obligations in longer term that those established by law. Due to these circumstances, there are one-off payments to suppliers which would exceed the legal limits. However, the group applies standard practices in the industry, and any one-off payments out of term can be considered an objective reason and non-abusive character in accordance with article 3 of the law 3/2004.

3. Liquidity and capital resources

Liquidity

The Group pursues the prudent management of the liquidity risk based on the maintenance of sufficient cash and marketable securities, availability of financing through s sufficient level of committed credit facilities and sufficient capacity to settle market positions. The Company calculates its cash requirements through a 12-month cash budget.

Treasury is administered centrally in order to optimise resources through a "cash pooling" system. In the event of cash surplus, short-term investments are held in safe highly liquid deposits.

During 2018, net cash position is as follows:

Thousands of euros

NET CASH POSITION	Dic. 18 Amount	%	Dic. 17 Amount	%	Var.
Other short term finantial investments	58,166	17.0%	91,206	29.3%	-36.2%
Cash and cash equivalents	283,434	83.0%	220,134	70.7%	28.8%
Total cash	**341,600**	**100%**	**311,340**	**100%**	**9.7%**
Long term finantial liabilities (*)	252,084	79.2%	311,625	82.4%	-19.1%
Long term derivative finantial contracts	351	0.1%	591	0.2%	-40.7%
Short term finantial liabilities	65,759	20.7%	65,828	17.4%	-0.1%
Total debt	**318,194**	**100%**	**378,044**	**100%**	**-15.8%**
TOTAL NCP	**23,406**		**-66,704**		**--**

(*) Regardless of the actual date of repayment, accounting financial debt that is affecting the financing of goods or assets classified in the consolidated balance sheet also as "current" (real estate developments) is classified as "current".

The net cash position at 2018 year-end is a positive cash amounting to EUR 23.4 million, compared to the EUR 66.7 million net financial debt at the end of 2017, representing a significant improvement in the net cash position, having increased by more than EUR 90 million during the year.

This is possible, due to a combined effect of a 9.7% improvement of assets and a 15.8% reduction of liabilities, mainly due to the periodic maturity and annual amortisation of the bond issue that finances the two hospitals in Chile, as well as for the amortizations of the syndicated debt in Spain, according to the established schedules.

Net cash position at 31 December 2018 includes the funding of other non-recourse projects of Grupo SANJOSE for EUR 105.9 million.

Capital Resources

The Group estimates that in 2019, the warrants that has currently issued will be executed and, as a result, the Company's current financial creditors will proceed to capitalize the full amount of the financial debt, which at 31 December 2018 amounts to EUR 111,390 thousand.

Additionally, it is not estimated that there will be any other change in the equity and debt structure, or in the cost related to capital resources during the year 2019. On the other hand, given that the entity's objective is to reduce the debt, this will mean a reduction of its proportion in relation with the Group the equity.

Future contractual obligations

The main obligations which the Group is exposed to are those deriving from financing agreements (see Note 16 of the accompanying notes), as well as the intrinsic obligations of construction and service contracts with clients. There are no future commitments of investment or purchase of assets for significant amounts.

4. Main risks

The Group operates in sectors, countries and socio-economic and legal environments that involve the assumption of different levels of risk caused by these conditions. The Company manages these risks in order to avoid involving a loss of profitability for its shareholders or cause trouble to customers. In order to exercise this control, the Group has a risk management function through which it: i) identifies; Ii) measures; Iii) controls; Iv) monitors and, v) evaluates, the different types of risk from an integrated and global perspective.

Operational risks

Main risks arising from the Group's activity are market risks (those related to the sufficiency of the demand for services and products), regulatory and political risks, labour risks, environmental risks, maintenance of quality and adaptation to the provisions of the contractual framework with clients, etc.

In the stage of acceptance of projects, and in order to be able to guarantee their realisation according to the established contractual terms, quality standards, guaranteeing the satisfaction of the client and meeting the minimum profitability levels required, tailored studies are carried out for each project.

Likewise, the Group has an International Tax and Legal Department, which analyses the impact of the different regulations, tax framework, etc. on the Group's activity, given its increasing international presence, as a way to avoid risks arising from local regulations.

Financial risks

Due to its activity, the Group faces the following risks arising from payment and collection rights of business transactions:

Interest rate risk: This is the main risk to which the Group is exposed as a result of the bank borrowings described in the notes to the consolidated financial statements. In order to minimise exposure to this risk. The Group's financial management has arranged cash flow hedges to protect the Company against foreseeable interest rate increases in the future.

Foreign currency risk: The Group's policy is to borrow in the same currency as that of the cash flows of each business. Consequently, there is currently no significant foreign currency risk. However, noteworthy in this connection are the exchange rate fluctuations arising in translating the financial statements of foreign companies whose functional currency is not the Euro. In view of the Group's geographical expansion over the last few years, exposure to foreign currency risk may arise in the future. Should this risk arise, the best solution will be analysed in order to minimise it by arranging hedges, provided such instruments conform to the Group's corporate criteria.

Credit risk: rick which arises from customer defaults, is managed by means of the preventive assessment of the solvency rating of the Group's potential customers at the beginning of the relationship and throughout the duration of the contract, evaluating the credit rating of the outstanding amounts receivable and reviewing and segregating the estimated recoverable receivables from doubtful receivables.

Liquidity risk: Dealt with in detail in section 3 of this report.

5. Events occurred after the reporting period

On 31 January 2019, the Group company "Constructora San José, S.A." has voluntarily amortised an amount of EUR 7,000 thousand, corresponding to part of the syndicated loan that this company has in force.

Further, there are no other significant events occurred after 31 December 2018 that could have an impact on the Group.

6. Future outlook

The change of trend in the economic cycle of Spain during the last years, together with growth forecasts for 2019 and 2020, and the improvement of the GDP in 2017 and 2018, suggests that the domestic economy in 2019 will maintain the path recovery started last year, within a framework of global growth.

The Group has focused its activity on the construction and provision of services, although without neglecting the real estate opportunities, related to the real estate assets it owns.

The main lines of action of the Group's business plan are:

- Maintenance of the level of contracting in domestic market.

- Continuation of the international activity, through geographical diversification, and by business line:

    - Taking advantage of the value acquired in countries where it is present (Abu Dhabi, Chile, Mexico, etc.) to increase its presence.

    - Taking advantage of new expansion opportunities.

During year 2017, Grupo SANJOSE has been awarded several works abroad. Outstanding those awarded by the Corporación Administrativa del Poder Judicial, Ministry of Justice of Chile, and the execution of the new Judicial Centre of La Serena in the province of Coquimbo (Chile), the refurbishment of two hospitals that suffered significant earthquake damage in the states of Puebla and Morelos and the construction of the expansion of the Belgrano water treatment plant, as well as the new headquarters of the Central Bank of Cape Verde.

In this sense, in 2018, the Group has worked on the achievement of new projects, which accompany those already awarded in 2017 and that have been developed during the year.

Thus, during year 2018, the Group was awarded by Provias Nacional, the "Improvement of the Checca - Mazocruz Highway" works in the Province of El Collao, Puno region: an infrastructure of 73 kilometres in length, including the construction of four bridges that will be developed at an altitude close to 4,000 metres and which is considered of essential importance for the economic dynamisation of the area.

Further, Miral Asset Management LLC, a company of the Government of Abu Dhabi responsible for the construction of value for visitors in the Emirate, has awarded SANJOSE Contracting in joint venture with Fibrex Construction Group the execution of a 5* Hotel - Resort, including three leisure and restoration areas and sundry works associated with its integration in the Island of Yas. Overall, the construction project that SANJOSE will lead on the south of the island, involves approximately 190,000 sqm of built surface and the development of another 45,000 sqm.

Finally, it should be noted that the Ministry of Health - Health Service Valparaíso - San Antonio has awarded SANJOSE Constructora the execution works of the new San José de Casablanca Hospital (Chile) that will serve, upon completion, approximately 30,000 users. The project includes the construction and start-up of a hospital complex distributed in three attached buildings for sanitary use and a fourth isolated building for various facilities.

The trend of staying in countries where it has already operated, is reinforced by the position in Latin America. After the final delivery and commissioning of the Hospitals of Chile built by the Group in previous years, the exploitation of the non-healthcare services will continue for 15 years, providing recurring income throughout this period.

Likewise, after the good experience in the real estate development developed in Peru (of projects carried out in Lima stand out the Condominio Parques de la Huaca and the Condominio del Aire), Grupo SANJOSE bought at the end of 2016, a plot of approximately 20,000 sqm of surface in the district of Bellavista, in the province of Callao, Lima (Peru), which it intends to build more than 1,000 housing units. The term of execution is estimated to be not less than 6 years, with the development being carried out in successive stages. Construction of the first stage has begun during the year, and a large number of homes have already been committed to future sales.

During year 2017, the Group expanded its portfolio of services in the domestic market, through the award by the Ministry of Development, to the JV formed by SANJOSE Constructora and Eifagge Infraestructuras, the execution of sundry operations of conservation and exploitation of sector CC-3 of Caceres, Extremadura. The contract involves the full conservation and maintenance of 254 kilometres in length of state-owned roads for 4 years. Likewise, the award of the new building of the NH Hotel of Malaga should be highlighted. The new building will involve the construction of a ground floor and 4 floors with capacity for 115 rooms.

During year 2018, the Group has maintained the level of achievement of work in the domestic market. Highlighting the awarding by Mandarin Oriental and Olayan Group of the refurbishment works of the Rtiz Hotel in Madrid, one of the main luxury five star hotels in the capital city of Spain, which since its inauguration in 1910 by Alfonso XII, has been characterised as a benchmark for the social and cultural life of the city due to its exclusivity, its facilities and its unbeatable location in the heart of the city, Plaza de La Lealtad 5, between the Prado Museum and the Thyssen-Bornemisza Museum. The intense renovation will significantly improve the facilities and services of the hotel, maintaining its unique character, with the aim of improving the attractiveness of the property for local and international guests alike, while celebrating the pioneering spirit of César Ritz. The remodelling works that SANJOSE will execute have been designed by the architect Rafael de La-Hoz along with the collaboration of the French interior designers Gilles & Boissier. Upon completion of the works, the hotel will have reduced the total number of rooms from the current 166 rooms to 153 rooms, resulting in more spacious rooms, and will increase the number of suites to 47. Among them, stand out the exclusive Royal Suite and the Presidential Suite, with 188 sqm and 115 sqm, respectively. All spaces and meeting rooms will be refurbished to adapt the equipment to the current needs of luxury hotel guests.

Likewise, during year 2018, the Xunta de Galicia has awarded SANJOSE Constructora the execution works of the new City of Justice of Vigo designed by the architect Alfonso Penela. The project consists of the adaptation of the former Xeral Cíes Hospital of Vigo as the future City of Justice, affecting mainly the Main Body, Plaza and Annex Building. The adaptation of the complex to its new use will involve a built surface of 35,588 sqm and the development of 1.157 sqm.

It is also noteworthy the award by the Community of Mogan Mall to SANJOSE Constructora of the construction of the new Mogan Mall (44,000 sqm) located in the town of Mogan, in the south of the island of Gran Canaria, as well as the award by Global Incahuasi to the JV formed by SANJOSE Constructora and Fatecsa for the construction of the Park & Palace Residencial on Calle Irun 15 in Madrid, in a privileged environment between Parque del Oeste and the Palacio Real, for the construction of a new development, with a built surface amounting to14,000 square meters, including 110 housing units of 1, 2 and 3 bedrooms, garage, swimming pool and a roof-terraced solarium, garden and pond on the ground floor, gym and sundry facilities.

Finally, SANJOSE Constructora has been awarded the construction works for the new 4* H10 Hotel, in Benidorm, Alicante. In the first line of the Poniente beach in Benidorm, a modern hotel of 174 rooms and 15,814 sqm of built surface will be built, arranged into 8 floors above ground and 2 basements. The prestigious interior designer Lazaro Rosa-Violán has taken part in the design of the project.

A large increase in public tenders is not foreseeable in the short term in the domestic market, however, the international market, especially in emerging countries, has business opportunities for the Group that will, within its expansion policy, try to take advantage of. Likewise, it will continue working to consolidate its national presence even further, also relying on the forecast of a better behaviour in the private sector. All of the above, supported by the macroeconomic prospects of improving the economy, both nationally and internationally, are positive arguments for the future of construction, the main activity of the Group.

Taking into consideration the Group's backlog of EUR 1,916 million, its organic stability is assured, foreseeing to maintain the average size of projects, trying to take advantage of public tender opportunities, both at national and international level, especially in those where it has a presence and expertise.

Grupo SANJOSE is not estimated, based on the information available to date, to face situations of risk and/or uncertainty substantially different from those already experienced in 2016.

7. R&D Activities

Grupo SANJOSE, aware of the importance that represent the activities of Research, Development and Innovation for competitiveness and business success, wishes to become a reference in technology development. The type of activities developed by Grupo SANJOSE requires continuous innovation, due to both, the evolution of the technology surrounding the projects and the Group's strategy, which is committed to the introduction into new markets that demand high added value and technical specialisation.

During year 2018, the Group has developed sundry initiatives, notably the "R&D&investment Project for a fixed and automatic detection and dissipation system for mist precipitation by means of hygrometric agents".

R&D&investment issues are widely developed in the non-financial information and diversity information report issued by Grupo Empresarial San José, S.A. and Subsidiaries for the year ended 31 December 2018, prepared by the Group and accompanying the financial statements.

8. Treasury share transactions

The Company hand not carried out transactions involving treasury shares at 31 December 2018 and 2017.

9. Other disclosure

Stock exchange information

The shares of Grupo SANJOSE trade on the Madrid Stock Exchange. The main indicators and the evolution of the shares are as follows:

	2018	2017
*Capitalization ** *(thousands of shares)*	299,120	230,843
Nº of shares *(x 1.000)*	65,026	65,026
Last price of the period *(euros)*	4.6	3.55
Last price of the period *(euros)*	4.6	3.55
Higher price of the period *(euros)*	6.09	4.7
Lower price of the period *(euros)*	3.24	2.58
Volume *(thousands of shares)*	33,614	92,077
Actual *(thousands of euros)*	149,386	333,066

* Capitalization is calculated with listed shares and does not include shares from capital increases which have not been listed yet.

Source.: Bolsas y Mercado Españoles (BMEX)

Dividend Policy

As a result of the terms and conditions of the contractual financing framework the syndicated loan in Spain, there are restrictions on the distribution of dividends.

Proposed distribution of profit

The Directors of the Parent will propose the General Meeting of Shareholders to compensate the 2018 benefit, amounting to 490 thousand euros, with of "Negative results from previous years".

10. Non-Financial Information

According to the new Law 11/2018 on non-financial information and diversity information amending the Code of Commerce, the consolidated restated text of the Companies Act passed by Royal Decree-law 1/2010, of 2 July, and Act 22/2015, of 20 July, on Accounts Auditing, in terms of non-financial information and diversity information (deriving from Royal Decree-law 18/2017), information of this nature is developed in the non-financial information and diversity report of Grupo Empresarial San José, S.A. and Subsidiaries for the year ended at 31 December 2018, accompanying the consolidated financial statements.

11. Annual Corporate Governance Report

In accordance with the provisions of the trade regulation, the Annual Corporate Governance Report of the SANJOSE Group, which is available on the Group's website, is also attached by reference, as well as on the website of the National Stock Market Commission, and which forms an integral part of the Consolidated Management Report of the SANJOSE Group for the year ending 31 December 2018.

DISCLOSURE OF NON-FINANCIAL INFORMATION AND DIVERSITY INFORMATION OF GRUPO EMPRESARIAL SAN JOSÉ, S.A. & SUBSIDIARIES

FOR THE YEAR ENDED 31 DECEMBER 2018

Translation into English of disclosure non-financial information and diversity information for year 2018.
In the event of discrepancy, the Spanish language version prevails

GRUPO SANJOSE

DISCLOSURE OF NON-FINANCIAL INFORMATION AND DIVERSITY INFORMATION OF GRUPO EMPRESARIAL SAN JOSÉ, S.A. & SUBSIDIARIES FOR THE YEAR ENDED 31 DECEMBER 2018

According to the new Law 11/2018 on non-financial information and diversity information amending the Code of Commerce, the consolidated restated text of the Companies Act passed by Royal Decree-law 1/2010, of 2 July, and Act 22/2015, of 20 July, on Accounts Auditing, in terms of non-financial information and diversity information (deriving from Royal Decree-law 18/2017).

Purpose

The purpose of this report is to disclose non-financial information related to corporate social responsibility and to assess, monitor and manage the company's performance and its impact on Society.

The scope of the information

Grupo SANJOSE is the Parent company of Grupo Empresarial San José, S.A. and subsidiaries. For detailed information on companies within the scope of the group, please check the consolidated financial statements accompanying this report.

The information included herein corresponds to Grupo Empresarial San José, S.A. and Subsidiaries with the exception of the agricultural business whose management is carried out independently, not having aggregate information.

Due to the recent approval of Law 11/2018, this Report has exclusively included information related to 2018 without historical comparison. Future report shall consider this information.

Stakeholders

Grupo SANJOSE is fully committed to ensure the transparency of information furnished to the market through the continuous improvement of communication channels with stakeholders, based on innovative corporate information that, in addition to financial aspects, takes into account the environmental and social issues.

The Company's Stakeholders are those individuals and groups with a legitimate interest, who are impacted by current and future activities of the Group. This definition includes both, stakeholders within the chain value of the Group (shareholders, employees, investors, customers and suppliers) and external (Administrations, Governments, means of communications, analysts, unions and society as a whole).

In order to prepare this Report, criteria established by the Management have been taken into account, taking into consideration the different sensitivities across stakeholders based on a series of international standards (ISO 9.001, ISO 14.001, OSHA 18.001) implemented in the group. In turn, the Group is studying the possibility of carrying out a materiality study following both the GRI standards and the different application indicators.

Corporate policy

Grupo SANJOSE is committed to Corporate Responsibility to take part in the economic, social and environmental development of the regions where it operates. Corporate Responsibility Policy is based on the principles of the Global Compact and on internationally accepted agreements and resolutions that address matters related to Corporate Responsibility.

Grupo Empresarial San José, S.A.
Calle Rosalía de Castro, 44
36001, Pontevedra

Tres Cantos, 28 February 2019

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1 DESCRIPTION OF THE BUSINESS MODEL OF GRUPO SANJOSE

SANJOSE CONSTRUCTORA

- Building
- Civil Works
- Engineering & Industrial Construction

SANJOSE ENERGÍA Y MEDIO AMBIENTE

- Energy Efficiency
- Renewable Energy

SANJOSE CONCESIONES Y SERVICIOS

- Hospitals
- Buildings & Installations
- Energy Plants
- Conservation of parks & gardens
- Infrastructure

GSJ Solutions Consultoría y Project Management

- Architecture
- Civil Engineering / Infrastructure
- Real Estate Management
- R&D&I Technology
- Sustainable Development


Al Ain Hospital, Abu Dhabi (United Arab Emirates)


Heating & Cooling polygeneration Power Plant ST-4 at Cerdanyola del Vallés, Barcelona


El Carmen Dr. Luis Valentín Ferrada Hospital of Maipu, Santiago de Chile


Urban Transformation Parque Lagos La Matanza, Buenos Aires (Argentina)

The Group is arranged as a diversified set of companies that operate in different sectors of activity, being Construction its main business activity.

The main lines of activity developed by Grupo SANJOSE are the following:

- Construction
- Concessions and Services
- Energy and Environment
- GSJ Solutions - Consultancy & Project Management

Likewise, and as a result of the diversification policy, the Group is present in other sectors of activity, such as the real estate sector, the commercial distribution sector of sports and fashion brands for more than twenty years and the agricultural-livestock sector

The business model of the Group SANJOSE is to design a diversified group regarding both, geographic distribution and lines of activity, as a way of being less exposed to the risk inherent to a single activity or geographic concentration.

For many years, the Group has a clear international vocation, becoming increasingly important activities developed overseas, with a higher significance in the turnover of the Group.

Present in more than 20 countries, the Group's most important activity at international level is focused in the Middle East and South America.

Construction

SANJOSE Constructora is a reference in the sector for its experience in the execution of singular projects. More than 40 years of experience throughout the world have allowed the creation of own management models that generate operational efficiencies capable of improving each project in terms of quality, innovation, sustainability, profitability and safety. Key factors for the growth, competitiveness and reputation of the company.

The company relies on technically and geographically specialised teams of professionals, technological capacity and a cross-sectoral organisation structure capable of bringing together all its knowledge to provide customers with high added value both, in the short, medium and long-term. Both, the environment and diversity are key axes of the strategy of the Group's construction area.

SANJOSE has been successfully exporting its business model and know-how since the 1990s to different geographical environments.

Within the construction business line, Grupo SANJOSE carries out its business activity through three different divisions:

Building

SANJOSE has a wide record experience in the construction, enlargement and restoration of some of the most remarkable projects worldwide for their historical significance, their importance, their aesthetic value or the techniques used in their execution.

Hospitals, museums, theatres, faculties, schools, sport facilities, shopping centres, administrative buildings, hotels, great urban developments, etc. Buildings which improve the quality of life of people, generate wealth, foster sustainable growth and update both, cities and counties where they are developed, improving the quality of life of its citizens.

Civil works

SANJOSE designs and builds communication channels that unite people. Bridges and tunnels that overcome the most complex natural environments, highways, roads, railway, airport, maritime, hydraulic, etc. All of them, infrastructures that promote the development of regions and countries and improve the lives of their inhabitants.

Essential infrastructure for the progress of society and the group understands them only under economic, social and environmental sustainability criteria. These projects shall be respectful with the existing biodiversity, capable of boosting development and increasing modernisation.

Therefore, SANJOSE meticulously studies each project, based on innovative building techniques and efficient management models and executed a careful implementation. Only in this way are we able to satisfy the objectives set by the client and the needs of the users.

Engineering and Industrial Construction

Technology and innovation are two key components of SANJOSE's organisation culture and basic pieces for its competitiveness and credibility.

SANJOSE Ingeniería y Construcción Industrial provides its experience developing new energy infrastructure and avant-garde facilities which improve services provided and boost efficiency of airports, hospitals and any kind of infrastructure for top level multinational companies.

SANJOSE provides customers with a wide range of services from complete execution of turnkey projects or EPC regime projects (Engineering, Procurement & Construction) to advice or assistance for the development of any stage within a project. It adapts to specific needs and requirements of each customer and project by designing tailored projects based on avant-garde technology and multidisciplinary teams of professionals capable of facing the most complex challenges.

Concessions and Services

This line of activity boosts its diversification strategy and international expansion by developing business models which provide access to long-term contracts capable of providing recurrent income and promoting the sustainable development of the company.

The company, in its eagerness to promote sustainable growth and improve the life of people, actively collaborates in the development of new and innovative infrastructure through public / private concessionary regimes and in the provision of maintenance services capable of promoting efficiency, energy savings and citizens welfare.

As a result of its experience in sundry areas, it has multidisciplinary teams capable of optimising resources, maximising profitability, encouraging the use of new technologies and providing efficient and customised solutions to the concession or service required by its clients; among which, there are Public Administrations and top-level private companies.

Energy and Environment

The development of clean energies, the respect for the environment and the implementation of sustainable development policies and energy efficiency are the pillars of business activity of SANJOSE Energía y Medio Ambiente.

Aware of the importance of the climate change, the Group boost renewable energies and the research and development of sustainable energy solutions capable of reducing the consumption of energy and optimising the use of clean energies by the application of Avant Garde technologies.

Joining the efforts made by major companies that, in coalition with Governments around the world, are committed to curb the global warming of the planet and achieve emission reduction targets agreed upon at the COP21 Conference in 2015 in Paris.

In parallel, these measures are also important to alleviate the strong dependence on foreign energy of Europe (and particularly, of Spain). The involvement of the company in energy efficiency and energy savings is a priority, in compliance with several EU Directives on the issue.

The Group currently holds a majority stake in several clean energy projects such as the El Gallo PV solar farm in the province of Jaen and a poly-generation plant in Catalonia.

SANJOSE, as an Energy Services Company (ESE or ESCO), brings to this sector a high added value for its experience as promoter and constructor of this type of projects, professional teams of great experience, continuous innovation, and services and specialised solutions offered to each customer in all stages of this type of initiatives: Engineering (design and analysis), Operation and Maintenance and Energy Management.

GSJ Solutions - Consultancy & Project Management

Its mission is to promote responsible developments by providing integral solutions adapted to customers' needs, both regarding the design of a project and in its global management.

It is a global provider of consultancy and project management services for any its lines of specialisation. It relies on the experience and expertise necessary for promoting the optimisation of resources and, therefore, improving competitiveness and profitability of projects at any stage: planning, execution and operation.

The company's culture is based on the search for innovative solutions that add value to any activity and project with the main objective of guaranteeing its economic viability, efficiency, sustainability and completion in the agreed time and budget.

Relying on the talent and responsibility of our entire team as an engine capable of transforming society, we provide both, public and private sector clients with multidisciplinary and dynamic teams of professionals formed by consultants, economists, engineers, architects, etc. Specialised professionals who study the project from different points of view and develop the adequate business strategy intended to meet the objectives of the client and the recovery of the investment.

2 CORPORATE GOVERNANCE

Capital Structure

The share capital of Grupo Empresarial San José, S.A. (the parent company of Grupo SANJOSE) as of 31 December 2018 consists of 65,026,083 shares of € 0.03 par value each, fully subscribed and paid up, all with the same political and economic rights, and represented by in book-entry, being the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (IBERCLEAR) and its participating entities responsible for its accounting record.

DATE OF LAST AMENDMENT	SOCIAL CAPITAL (€)	NUMBER OF SHARES	NUMBER OF VOTING RIGHTS
27/06/2008	1,950,782.49	65,026,083	65,026,083

All shares representing the capital of Grupo SANJOSE are listed on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia through the stock exchange interconnection system (continuous market), since their admission to listing on 20 July 2009.

GRUPO SANJOSE	31.12.18
Capitalisation* (Thousands of Euros)	299,120
# of shares (x 1,000)	65,026
Price end of the period (Euros)	4.60
Last price of the period (Euros)	4.60
Maximum price of the period (Euros)	6.09
Minimum price of the period (Euros)	3.24
Volume (Thousands of Euros)	33,614
Cash (Thousands of Euros)	149,386

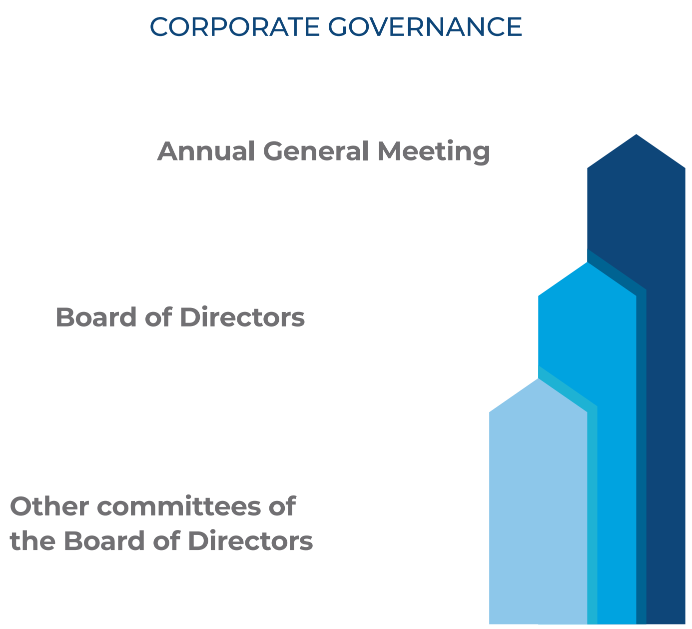
* Capitalisation is calculated with shares admitted to trading and does not include shares issued from extensions that have not yet been listed.

At 2018-year end, shareholding structure (direct and indirect) of Grupo SANJOSE is as follows:

NAME OF SHAREHOLDER	%
Mr. Jacinto Rey González	48.291%
Ms. Julia Sánchez Ávalos	7.520%
Ms. Mª de las Virtudes Sánchez Ávalos	5.240%
Ms. Mª José Sánchez Ávalos	4.010%
Other Members of the Board of Directors	0.640%

Corporate Governance Structure

The governance model implemented in Grupo SANJOSE follows the latest recommendations of the CNMV in its code of good governance of listed companies as well as the best corporate governance practices, and consists of the following bodies:



- Annual General Meeting.
- Board of Directors.
- Other committees of the Board of Directors:
    - Executive Committee
    - Audit Committee
    - Nominating, compensation and corporate governance committee
    - International Executive Committee

Annual General Meeting

The AGM is formed as the main governing body of capital companies, being therefore the expression of the will and interests of the company, and where key operating decisions of the company are made.

Decisions of the AGM shall be adopted in accordance with the provisions of the Bylaws, obliging all shareholders equally, even those absent, dissenting and absented.

The AGM is responsible for the approval of the company's financial statements, the decision regarding the application of the profit/(loss) for the year and the approval of the corporate management.

Further, is has powers over the appointment and removal of directors, as well as any other functions that may be determined by the Law or the By-Laws.

The AGM is called by means of a public announcement on the company's website, on the CNMV's website and through the corresponding announcement in one of the newspapers with the largest circulation in Spain, as well as in the Spanish Stock Exchange.

All shareholders of the Company whose shares are registered on their name in the corresponding accounting records five days prior to the date on which the meeting is to be held shall have the right to attend the meeting, and, in accordance with Article 16 of the By-Laws and Art. 8 of the AGM Regulations, all shareholders who, individually or in a group with other shareholders, are in possession of a minimum of one hundred shares, shall be entitled to attend the General Meeting.

Board of Directors

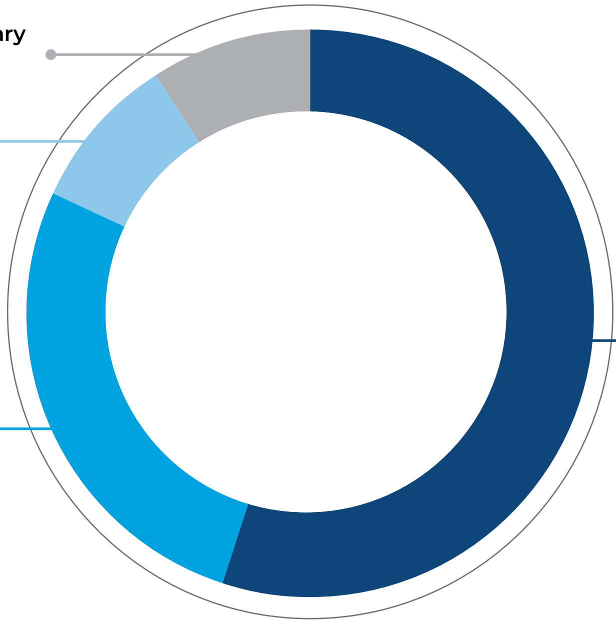
The broadest powers are vested in the Board of Directors, responsible for representing the company and managing its activity as a supervising and control body, yet, it also directly assumes all responsibilities and decision-making regarding the management of the business.

Its management is subject to the approval of the AGM.

The board of directors of Grupo SANJOSE is responsible for the management and supervision at the highest level of the information provided to shareholders, institutional investors and other market members, and must safeguard, protect and facilitate the exercise of its rights and interests in the framework of the defence of social interest.

PERSONAL OR CORPORATE NAME OF BOARD MEMBER	TYPE OF MEMBER	POSITION ON THE BOARD	DATE OF 1ST APPT.	DATE OF LAST APPT.	ELECTION PROCEDURE
Mr. Jacinto Rey González	Executive	Chairman - CEO	18/08/1987	21/06/2018	AGM Resolution
Mr. Ramón Barral Andrade	Independent	Director - Coordinator	30/06/2009	21/06/2018	AGM Resolution
Mr. Roberto Álvarez Álvarez	Independent	Director	27/06/2008	21/06/2018	AGM Resolution
Mr. Jacinto Rey Laredo	Executive	Vice chairman	30/10/2006	21/06/2018	AGM Resolution
Mr. José Manuel Otero Novas	Independent	Director	28/08/2014	24/06/2015	AGM Resolution
Mr. Enrique Martín Rey	Proprietary	Director	28/06/2013	28/06/2013	AGM Resolution
Dña. Altina de Fátima Sesbastián González	Independent	Director	27/06/2008	21/06/2018	AGM Resolution
Mr. Javier Rey Laredo	Executive	Director	28/06/2012	21/06/2018	AGM Resolution
Mr. Nasser Homaid Salem Ali Alderei	Other External	Director	17/12/2015	17/12/2015	AGM Resolution
Mr. Guillermo Emilio Nielsen	Independent	Director	23/06/2016	23/06/2016	AGM Resolution
Mr. Sunil Kanoria	Independent	Director	28/07/2015	17/12/2015	AGM Resolution

According to the By-Laws of the company, the maximum number of directors will be 15 members and the minimum number will be 5 members, at the end of 2018 the number of members of the Board of Directors is 11 members, having not suffered any variation with respect to the previous year.



Below, we list those members of the Board of Directors, who hold positions in the organisation chart of the company and thus hold the status of Executive Directors, representing 27.27% of the total of the Board of Directors:

PERSONAL OR CORPORATE NAME OF BOARD MEMBER	POSITION WITHIN THE COMPANY STRUCTURE
Mr. Jacinto Rey González	**Chairman and CEO**
Mr. Jacinto Rey Laredo	**Vice chairman**
Mr. Javier Rey Laredo	**Director**

AS Independent External Directors are:

PERSONAL OR CORPORATE NAME OF BOARD MEMBER	PERSONAL OR CORPORATE NAME OF THE SIGNIFICANT SHAREHOLDER THEY REPRESENT OR PROPOSED THEIR APPOINTMENT
Mr. Enrique Martín Rey	**Ms. Mª José and Dña. Julia Sánchez Ávalos**

Total number of Independent Directors is 1, representing 9.09% on total Members of the Board.

For its part, the total number of Independent Directors is 6 members, and they represent 54.55% of the total of the Board of Directors, and there is also a member of the Board that qualifies as “other external directors”.

The Group intends to increase the number of women who sit on the board of directors as vacancies occur. To this end, Article 18.2 of the Regulations of the Board of Directors includes, among the functions of the appointments, remuneration and good governance committee, the establishment of a representation objective for the less represented gender in the board of directors and to prepare guidelines on how to achieve said objective, and it must ensure that the selection procedure of directors favours diversity of gender, experience and knowledge and does not suffer from implicit biases that may imply any discrimination.

Both the remuneration of the Board of Directors and the Senior Management of the Group are detailed on the Corporate Governance Report and in the Remuneration Report of the Board of Directors. This information is available on the Group's website.

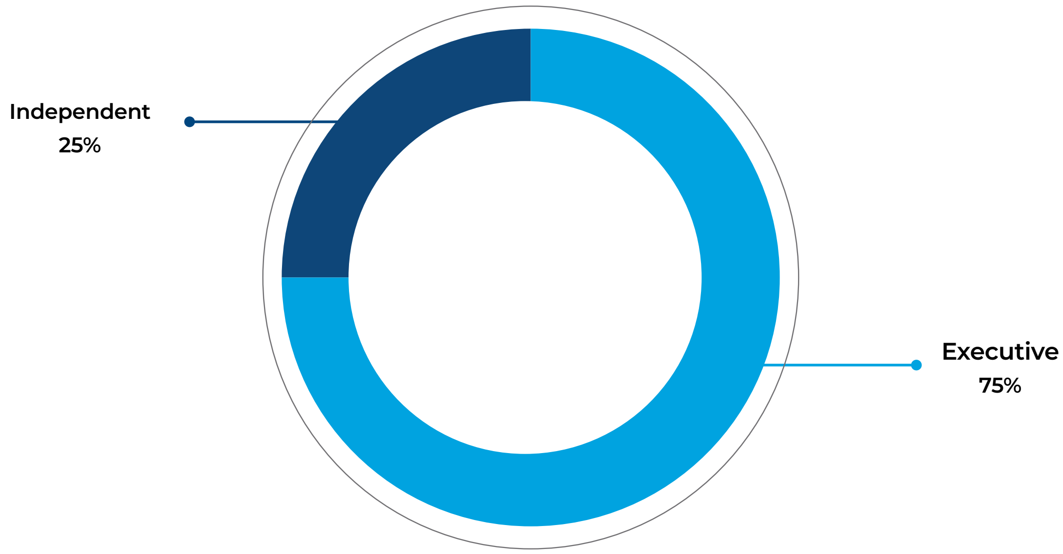
Executive Committee

The Executive Committee is dealt with in Article 31 of the By-Laws and Article 14 of The Board's Regulations.

The Executive Committee will be comprised of a minimum of three (3) and a maximum of five (5) directors, nominated by the Board of Directors among its component, for a period equal to the term in the office of each Member of the Board.

It will have the powers which may be delegated by the Board of Directors, which in turn will determine the rules for the operation of the same. The Chairman of the Board of Directors shall chair the Executive Committee.

PERSONAL OR CORPORATE NAMEOF BOARD MEMBER	POSITION	TYPE OF MEMBER
Mr. Jacinto Rey González	Chairman	Executive
Mr. Jacinto Rey Laredo	Member	Executive
Mr. Javier Rey Laredo	Member	Executive
Mr. José Manuel Otero Novas	Member	Independent



Audit Committee

The Audit Committee is dealt with in Article 33 of the By-Laws and Articles 15 and 16 of the Board's Regulations.

The audit Committee shall be composed exclusively of non-executive directors appointed by the Board of Directors, two of whom, at least, shall be independent directors and one of them shall be appointed taking into account the knowledge and experience in the field of accounting or audit or both.

The Audit Committee shall meet not less than four times a year.

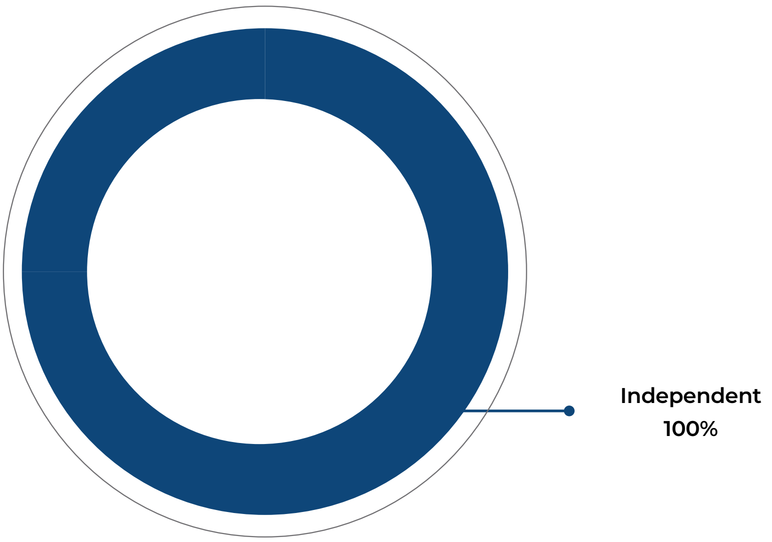
The responsibilities of the Committee are:

- To inform the General Meeting of Shareholders on the issues raised regarding matters within its competence.
- To supervise the efficiency of the internal control system of the Company, internal audit and risk management systems.
- To supervise the elaboration of financial information.
- To propose the Board of Directors the proposal for the selection, appointment, re-appointment and replacement of the of external auditors.
- To create relationships with external auditors to receive information on any issues that may jeopardize their independence and any others matters related to the development process of the auditing of accounts.
- To issue on an annual basis, prior to the issuance of the auditor's report, a report regardless the auditor's impressions.
- To inform, previously, the Board of directors of all issues applicable by law, by-laws and regulations of the Board.

In the exercise of its functions, the Audit Committee may request the assistance of experts whenever it considers that, for reasons of independence or specialisation, technical means of the company are not sufficient.

In addition, the Committee may request the collaboration of any employee or director of the company.

PERSONAL OR CORPORATE NAMEOF BOARD MEMBER	POSITION	TYPE OF MEMBER
Mr. Ramón Barral Andrade	Chairman	Independent
Ms. Altina de Fátima Sesbastián González	Member	Independent
Mr. José Manuel Otero Novas	Member	Independent



Nominating, Compensation and Corporate Governance Committee

Article 34 of the bylaws and Articles 17 and 18 of the Board of Directors' Regulations deal with the composition, standards, performance and functionality of the Nominating, Compensation and Good Governance Commission.

Nominating, Compensation and Good Governance Commission will consist of a minimum of three members and a maximum of 5

it is composed exclusively of non-executive directors appointed by the Board of Directors, two of whom, at least, shall be independent directors.

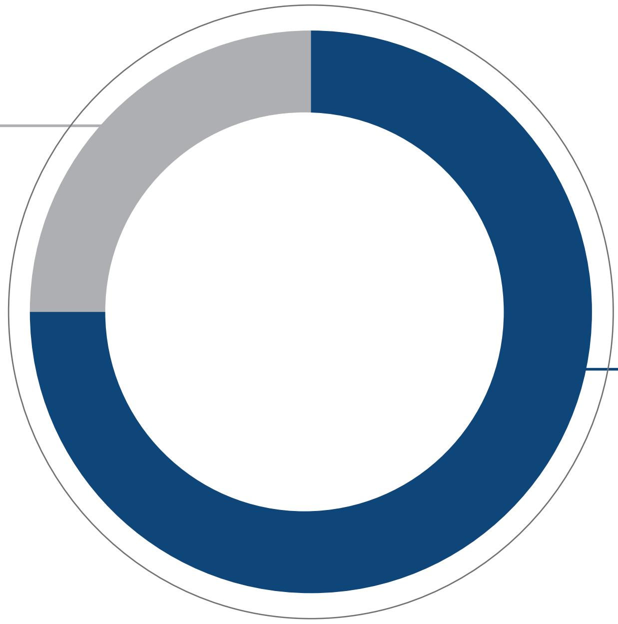
The term of office of the Chairman shall be 4 years.

A non-exhaustive list of the functions of the Commission is:

- To evaluate the competencies, knowledge and experience required for the Board of Directors. It defines the functions and skills of the candidates for each vacancy and assess the necessary time and dedication so that they can effectively play their role.
- To establish a goal of representation for the under-represented sex in the Board and draw up guidelines on how to achieve this objective.
- To raise proposals to the Board of Directors for the appointment of independent directors, for their designation by co-optation or for the submission to the decision of the general meeting of shareholders, as well as to propose candidates for re-election by the AGM.
- To inform of the proposals for appointment and cessation of senior managers and the basic terms of their contracts.
- To examine and arrange the succession of the Chairman of the Board of Directors and the Chief Executive Office and, where appropriate, make proposals to the Board of Directors of such succession in an orderly and planned manner.
- To propose the remuneration policy of directors and executives to the Board of Directors.
- To supervise and monitor transparency in social actions, compliance with the Company's rules and principles and the compliance with applicable standards of all members and directors of the company.

The Commission should ensure that procedures for the selection of advisers encourage gender diversity, and not suffer from any implicit biases that may involve any discrimination and, in particular, facilitate the selection of counsellors.

PERSONAL OR CORPORATE NAMEOF BOARD MEMBER	POSITION	TYPE OF MEMBER
Mr. Ramón Barral Andrade	**Chairman**	**Independent**
Mr. José Manuel Otero Novas	**Member**	**Independent**
Mr. Roberto Álvarez Álvarez	**Member**	**Independent**
Mr. Enrique Martín Rey	**Member**	**Proprietary**



International Executive Committee

Article 18 (2) of the regulations of the Board of Directors reflects the composition, functioning and internal regulation of the International Executive Committee.

The International Executive Committee will comprise a maximum of twelve (12) members, who shall be appointed by the Board of Directors under the unique proposal of the Chairman.

The members of the International Executive Committee shall be either members of the Board of Directors, as directors, or either technicians, with the character of international advisors or sector experts, especially appointed for this function.

The International Executive Committee is responsible for the information, monitoring, advisory and proposal of matters of its competence in the international arena.

The Chairman of the Board of Directors shall chair the Executive Committee.

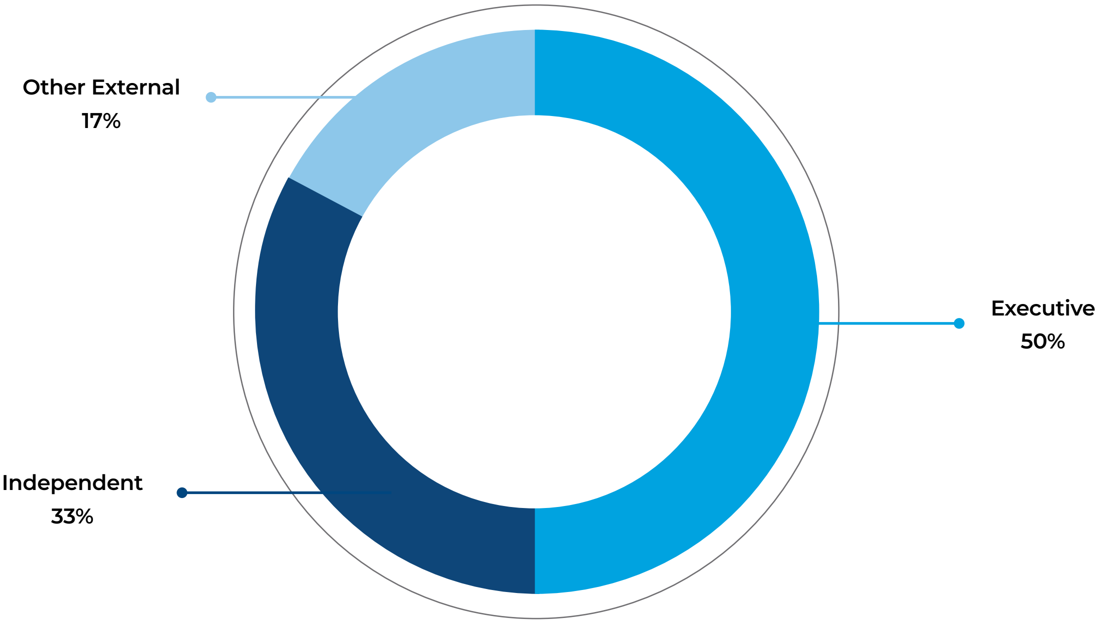
The International Executive Committee shall meet whenever the Chairman deems it appropriate.

The sessions of the Committee may be plenary or by sections, consisting the latter in private meetings with the members invited in each case by the Chairman, in response to a variety of countries, areas of specialization or sectors of activity.

Without prejudice to other tasks assigned by the Board of Directors, the International Executive Committee shall have the following powers:

- To collaborate in the development of the Group's international area in all its divisions, both in construction and in concessions, energy and real estate projects and urban or any other type of business.
- To contribute to the increase of the international relations of the Group with public and private, local and international partners.
- To search for new business opportunities and projects, elaborate proposals.
- To raise capital and investment financing for international projects.
- To propose projects with the appropriate partners.

PERSONAL OR CORPORATE NAMEOF BOARD MEMBER	POSITION	TYPE OF MEMBER
Mr. Jacinto Rey González	Chairman	Executive
Mr. Jacinto Rey Laredo	Member	Executive
Mr. Javier Rey Laredo	Member	Executive
Mr. Sunil Kanoria	Member	Other External
Mr. Nasser Homaid Salem Ali Alderei	Member	Other External
Mr. Roberto Álvarez Álvarez	Member	Independent



Relevant facts published during the year ended 31 December 2018

During year 2018, the Group has published the following relevant facts on the CNMV website in compliance with the obligations of a listed company:

- 28 February 2018: Interim financial report: financial information corresponding to the second half of the year ended 31 December 2017, as well as the consolidated and individual financial statements of Grupo Empresarial San José, S.A. for the year ended 31 December 2017. (262414).
- 28 February 2018: Summary Report for the year ending 31 December 2017 (262425).
- 28 February 2018: Annual Corporate Governance Report for the year ending 31 December 2017 (262429).
- 28 February 2018: Annual Remunerations Report for the year ending 31 December 2017 (262431).
- 10 May 2018: Interim financial report: financial information for the first quarter of year 2018. (265478).
- 10 May 2018: Call for the AGM of the Parent. (265479). [Amended by (265820)].
- 18 May 2018: Call for the AGM of the Parent. (265820). [Amended by (265479)].

- 21 June 2018: information on Resolutions adopted by the AGM of the Parent. (267054).
- 26 July 2018: Interim financial report: financial information for the first half of year 2018. (268449).
- 26 July 2018: Summary Report for the first half of year 2018 (268453).
- 08 November 2018: Interim financial report: financial information for the third quarter of year 2018. (271405).

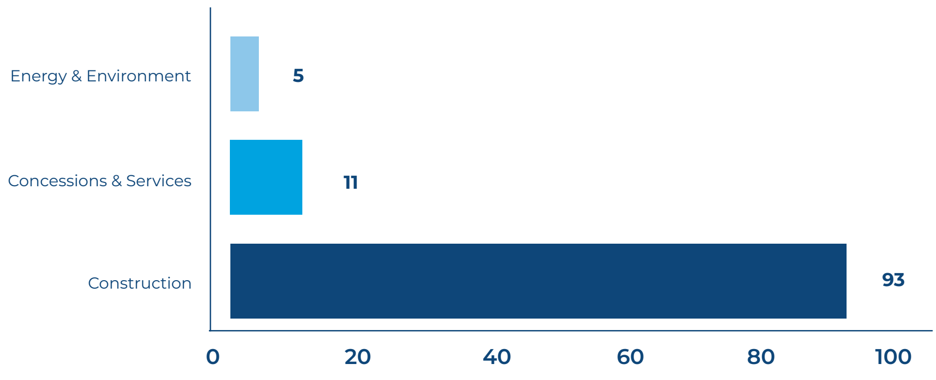
3 ENVIRONMENTAL ISSUES

The preservation of the environment is a strategic objective of the Group.

Since 1999 the Grupo has maintained a firm commitment to the environment in continuous review and adaptation to needs and expectations of the society and the environment. The implementation of its environmental management model where it operates, in order to integrate business development, the generation of social value and environmental protection is a priority for the Group.

COMPANY	CERTIFICATE NUMBER
Constructora San José, S.A.	GA-2003/0398
Cartuja, S.A.U.	GA-2006/0028
EBA, S.L.	GA-2007/0371
Tecnocontrol Servicios, S.A.	GA-2007/0395
San José Energía y Medioambiente, S.A.	GA-2007/0395-002/00
Constructora San José Portugal, S.A.	GA-2009/0351
Constructora Udra, Lda.	GA-2011/0013
Sociedad Concesionaria San José Tecnocontrol, S.A.	BVCSG5571
San José Contracting, L.L.C.	GR17300267-R1

In year 2018, a total of 109 audits were carried out, of which 85% were focused on the area of construction.



Quality

SANJOSE has as identity sign the continuous improvement of services and the adaptation to needs and expectations of customers, with the sole aim of achieving full satisfaction.

The result of this strategy is a quality, flexible and effective system appropriate to the business sectors of the Group, which provides the framework for setting and achieving improvement targets that result in the optimisation of services and adaptation to growing demands of customers.

Involvement, motivation and commitment of the entire Group with the overall quality is total. And this has been recognised through ISO 9001 certification awarded to the following Group companies:

COMPANY	CERTIFICATE NUMBER
Constructora San José, S.A.	ER-0510/1997
Cartuja, S.A.U.	ER-1363/1999
EBA, S.L.	ER-1170/2004
Tecnocontrol Servicios, S.A.	ER-1202/1998
San José Energía y Medioambiente, S.A.	ER-1202/1998-002/00
Constructora San José Portugal, S.A.	ER-0011/2002
Constructora Udra, Lda.	ER-0102/2011
Sociedad Concesionaria San José Tecnocontrol, S.A.	BVCSG5570
San José Contracting, L.L.C.	GR17300266-R1

The Company is responsible for activities subsequent to the delivery of the work or termination of the service during the period of legal guarantee, contractual obligations, regulations or other commitments acquired by the Company. For this purpose, it has the necessary means to attend, monitor and resolve incidents and customer complaints both during the execution of the work and after the delivery of the work or the end of the service, establishing the necessary corrective actions. Customer claims are managed in the corresponding regional scope of action, locally managing each country or region the claims of its competence, not having consolidated information.

Audit & Environmental Certification

SANJOSE has obtained recognition of its commitment to the environment through the certification of its management system in accordance with the requirements of ISO 14001: 2015, by accredited entities of recognised international prestige, such as AENOR International, Bureau Veritas or Gabriel Registrar.

These certificates are internationally accepted through the multilateral recognition agreements (MLA) signed between the accreditation entities.

Sustainability

SANJOSE's environmental management model focuses on its commitment to sustainable development and responds to increasingly demanding and sensitive social and environmental needs.

The Group has sound experience in the execution of works under sustainable construction principles: LEED, BREEAM, HQE and PASSIVHAUS.

Biodiversity

The effects on the natural environment, the conservation of biodiversity and the responsible use of natural heritage during the development of works and services is a strategic objective of SANJOSE.

The implementation of measures for the conservation of flora and fauna is one of the environmental criteria applied to operational control and planning of work, especially when they occur in areas of high ecological value.

Physical protection measures, transplant or transfer of vegetation and trees, as well as actions of respect to the life cycles of the affected animal species are incorporated.

In the projects that require it, the most significant impacts on biodiversity are contemplated in Environmental Impact Statements or equivalent figures according to the legal framework of the country, transferred to specific environmental monitoring plans applying the corresponding preventive, corrective and compensatory measures.

Environmental Performance

SANJOSE has a system of indicators that allow the continuous monitoring and environmental measurement of its activities through parameters for assessing the performance and effectiveness of the Group's Environmental Management System.

The Group's environmental management establishes the necessary resources and controls for the control of environmental risks, compliance with applicable regulations and the improvement of environmental performance.

In this way, an analysis and classification of environmental aspects and impacts produced during the execution of the works or the provision of the service is performed and it serves as the basis of operational control and the establishment of improvement objectives.

With regards to the identification of environmental impact, operational control procedures have been established and are replicated in all the countries where the Group operates.

Main environmental impacts of the Group are:

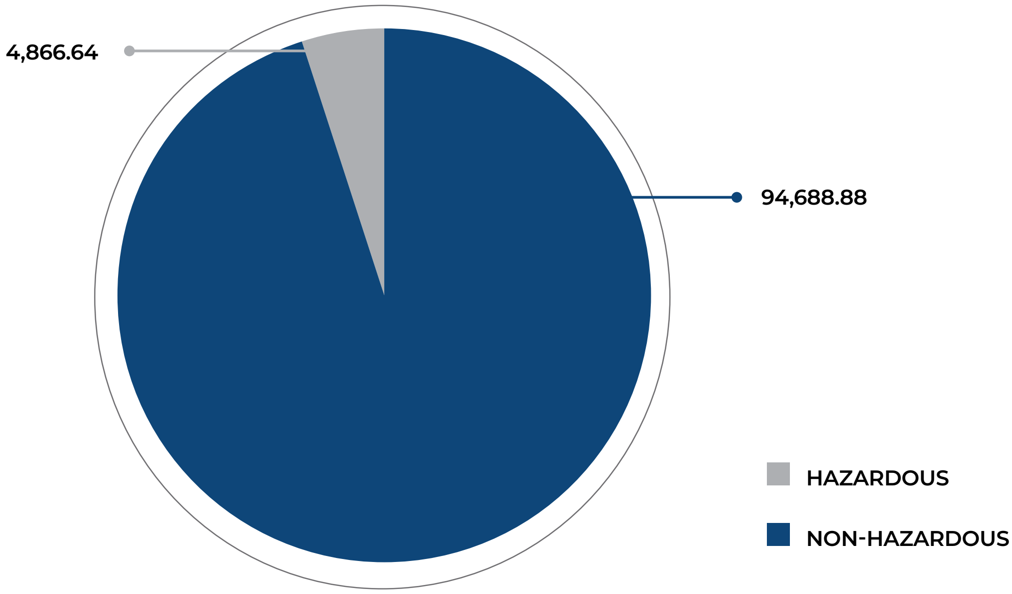
- Generation of waste.
- Atmospheric pollution: dust, noise, vibrations, etc.
- Decrease in natural resources: consumption of water, electricity, fuel, raw materials, etc.

In order to minimise the impact on the environment and improve our environmental performance, the following measures are established:

- Advance planning of activities.
- The implementation of good environmental practices.
- The provision of protection measures and reduction of environmental impacts.
- The establishment of operational controls, focused on the use of materials, reduction in the generation of waste, optimisation of consumption of natural resources and raw materials, protection of trees and plant species or protected fauna, training and awareness in environmental matters, etc.

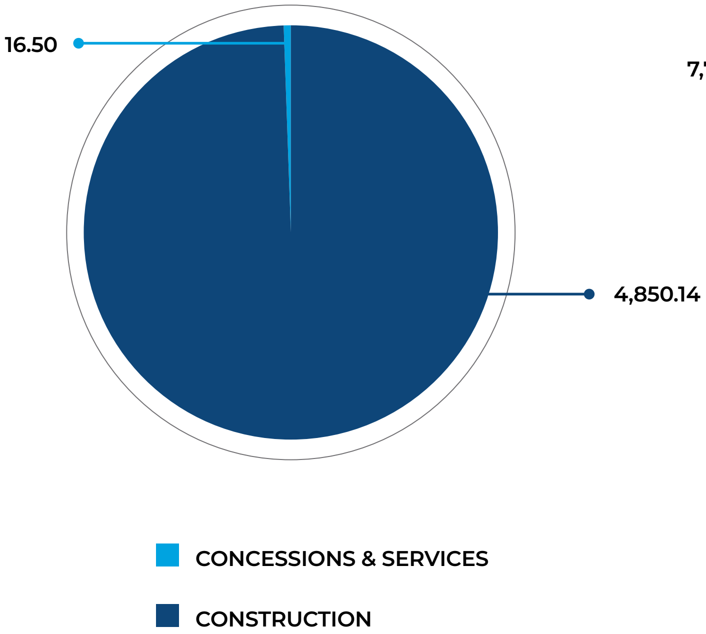
In this sense, one of the strategic objectives of the Group is to reduce of generation of waste, favouring reuse, recovery and recycling, promoting procedures aimed at preventing the generation of waste, correct segregation and treatment of waste and the development of R&D and investment projects focused on the use of recycled materials.

In year 2018, SANJOSE has managed a total of 99.6 thousand tons of waste, being the breakdown as follows:

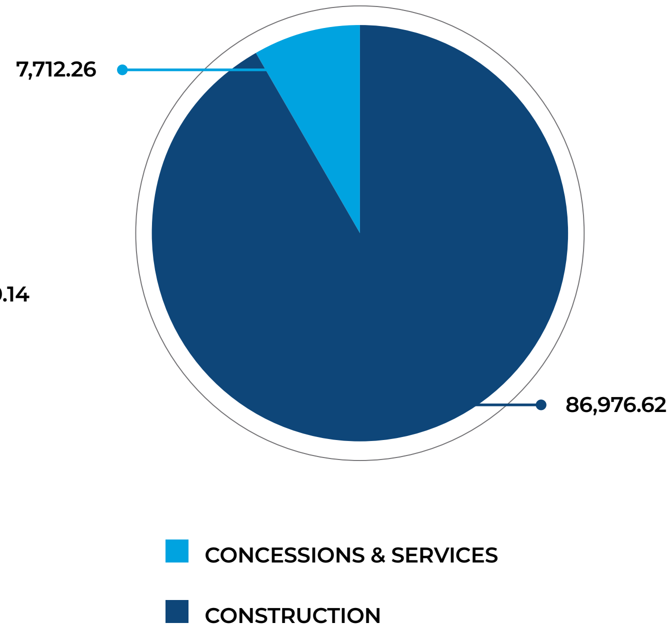


Of this total, the distribution by activity area is as follows:

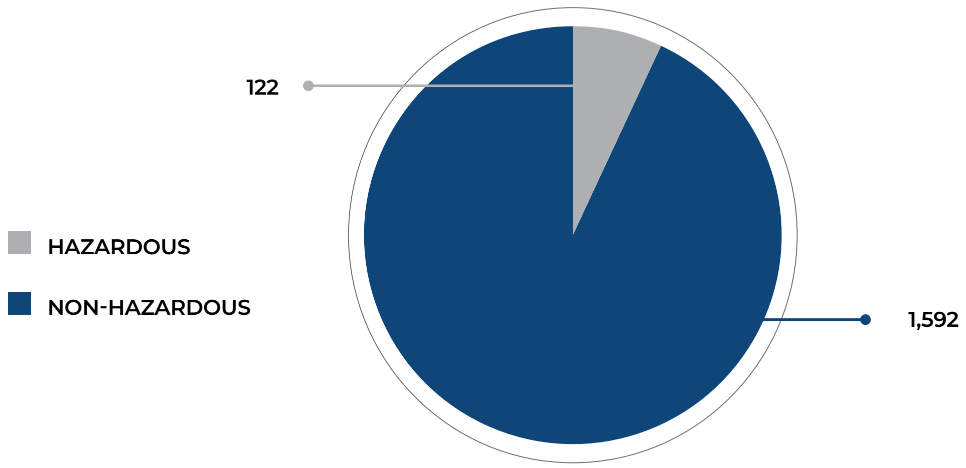
Hazardous waste (tons)



Non-hazardous waste (tons)



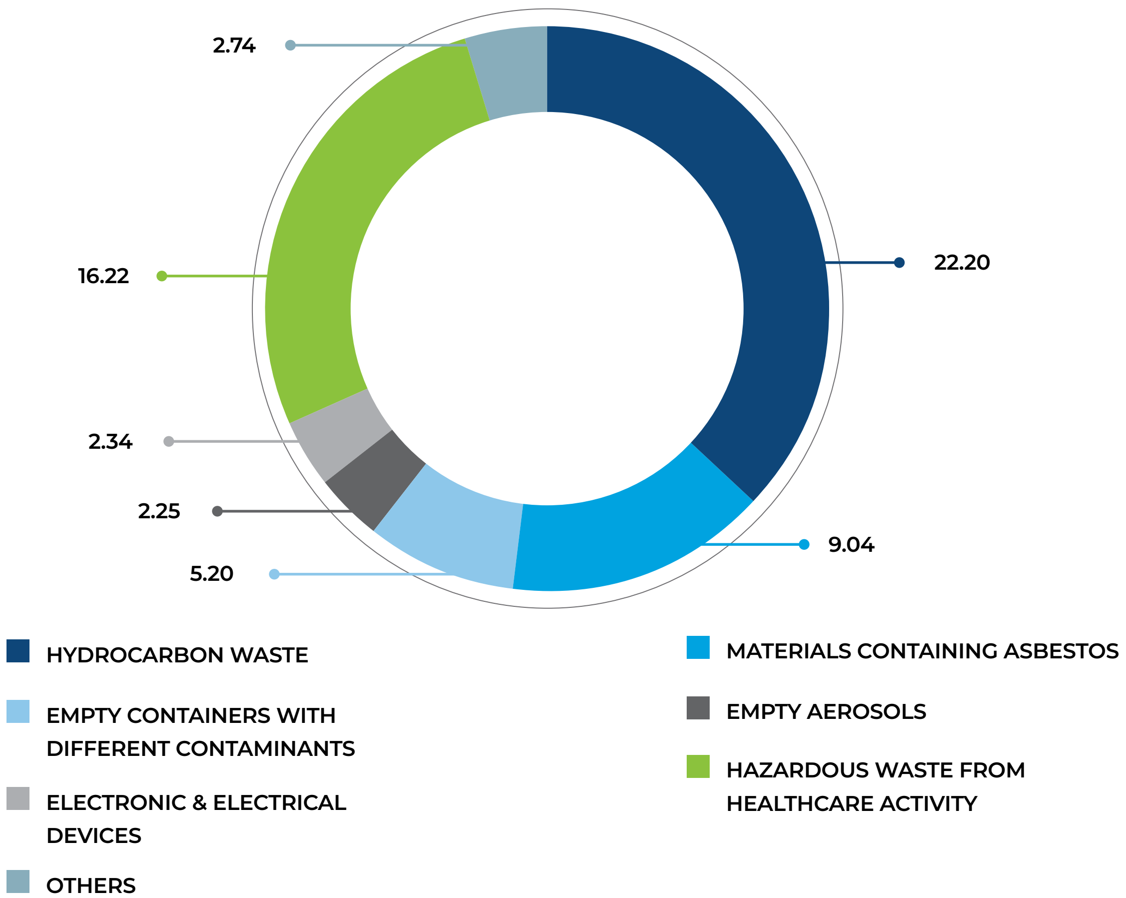
Treatment methods for this waste were the following:



Treatment methods are as follows:

	HAZARDOUS WASTE (T)	NON-HAZARDOUS WASTE (T)
Recovery/Reuse	4,839.17	72,881.84
Disposal	27.47	21,807.04
Total	**4,866.64**	**94,688.88**

By type of activity, hazardous waste was distributed as follows:

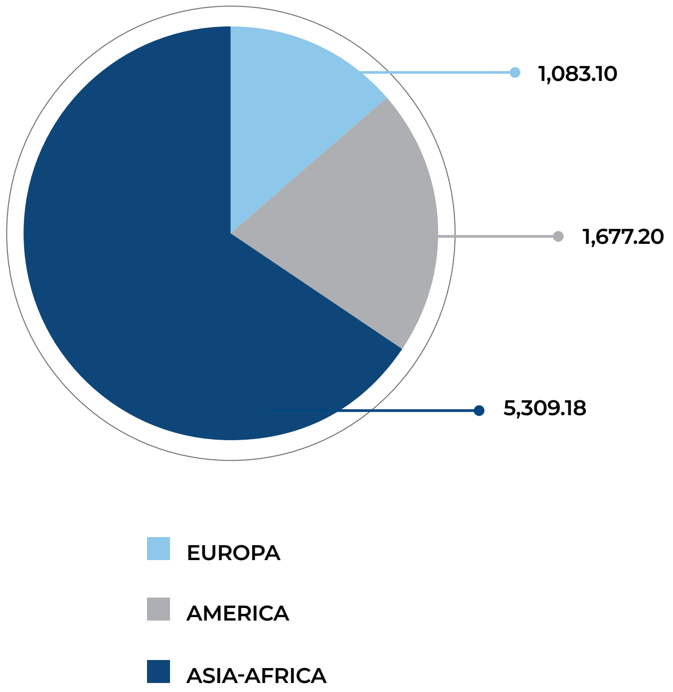


Note: The remaining hazardous waste corresponds to the typology of contaminated lands as a result of earthworks in a work owned by an oil company.

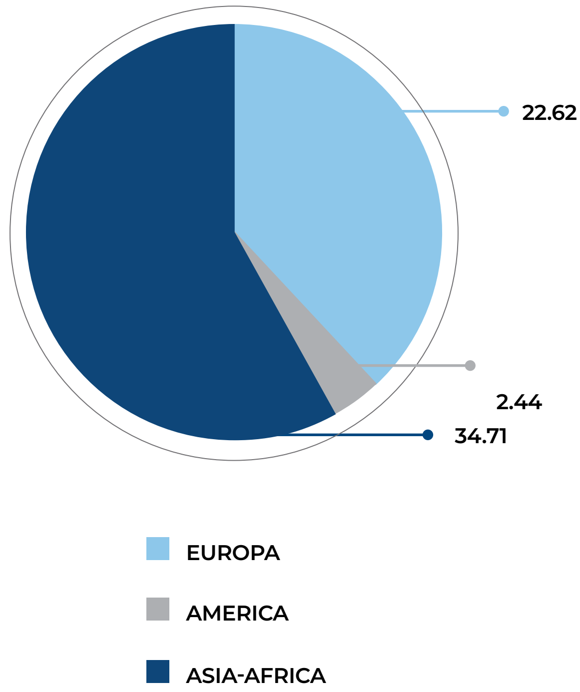
The responsible, efficient and rational consumption of natural resources are guidelines established by SANJOSE in the development of its activities. All employees are responsible for environmental performance within their professional performance and rely on two key tools, training and a specialised human support team. Thus, one of the strategic objectives of SANJOSE is to promote the ecological awareness of workers by involving them in the Group's environmental strategy.

In year 2018, SANJOSE has made the following main consumptions of raw materials for the development of its activity:

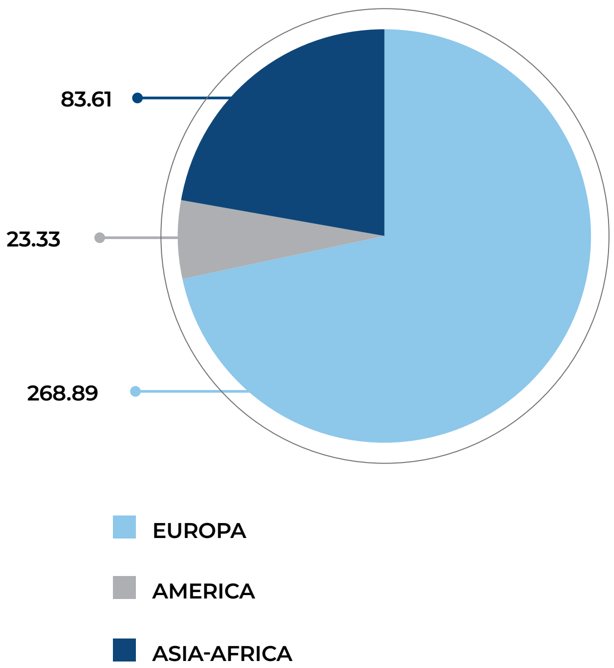
Consumption of petrol & fuel (thousands of litres)



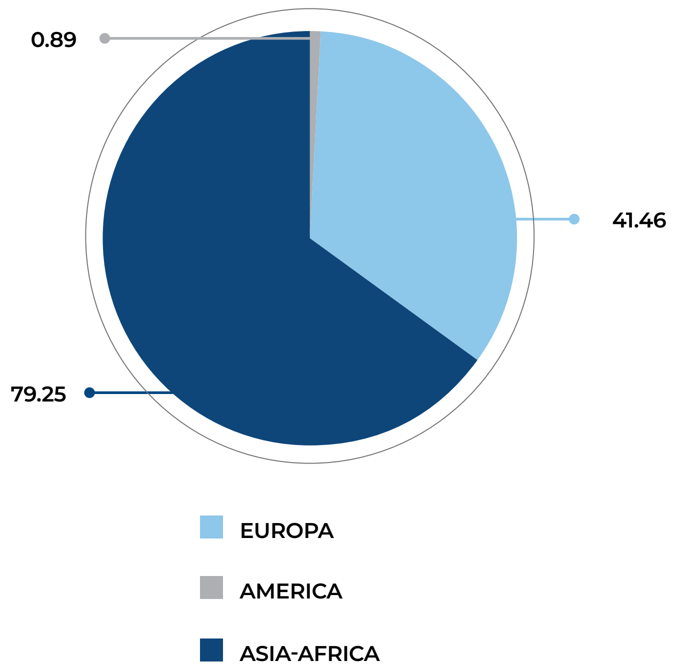
Consumption of corrugated steel (thousands of tons)

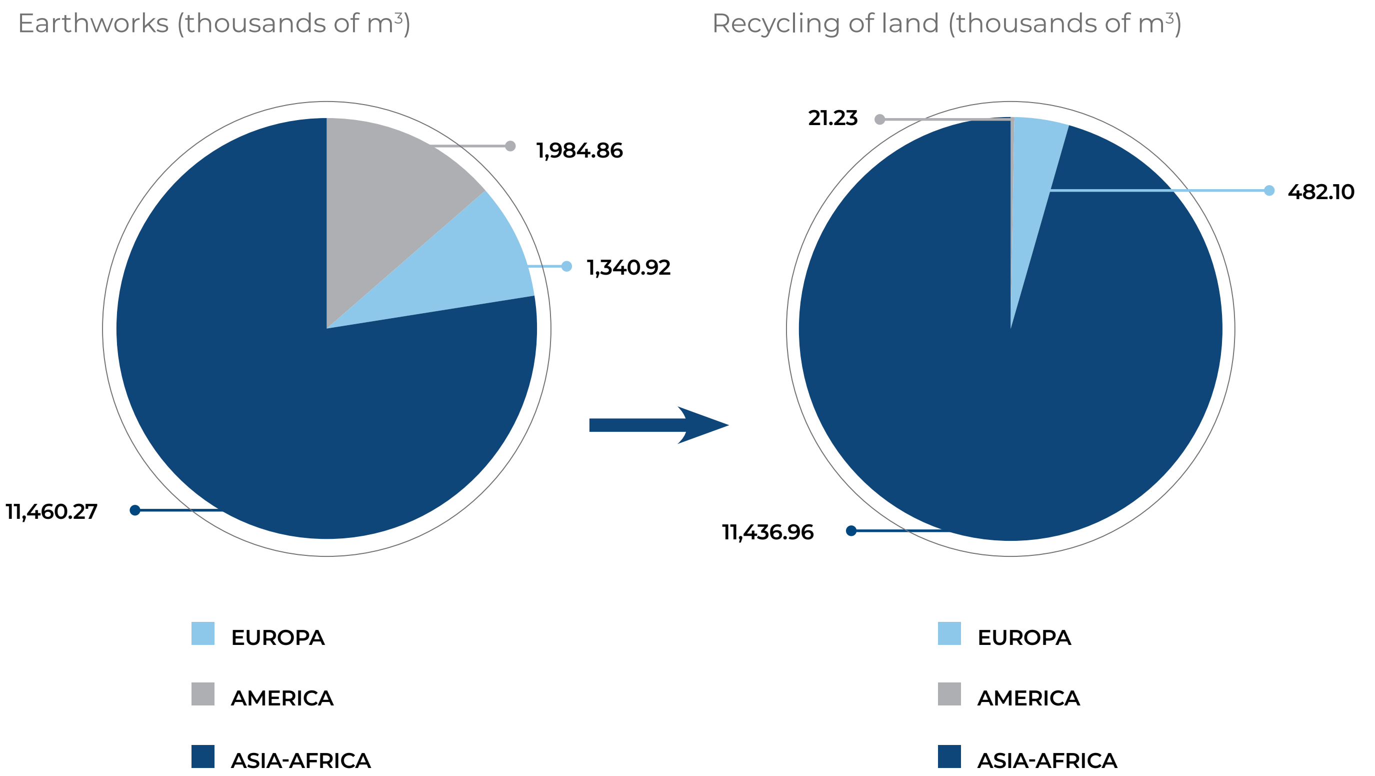


Consumption of concrete (thousands of m³)



Consumption of mortar (thousands of m³)





In 2018, SANJOSE consumed a total of 8.1 million litres of fuel, 59.8 thousand tons of corrugated steel, 359.9 thousand cubic meters of concrete and 121.6 thousand cubic meters of mortar.

In 2018, SANJOSE has moved in its different works 14.8 million cubic meters of land of which 80.8% could be reused (11.9 million cubic meters).

Water consumption information has not been included herein since it is disaggregated by areas and countries and, as it was not considered a significant environmental aspect, no tools were established for its consolidation.

Supply Chain

In accordance with the internal purchasing policy, all Group suppliers are subject to a rigorous selection and assessment procedure based, among others, on criteria of sustainability, technical feasibility, etc.

The Group strengthens environmental criteria such as the use of materials manufactured with recycled raw materials as well as recyclable products, the contracting of services with recognition of environmental management, or manufacturing processes that respect the environment.

Energy Efficiency

The Group is committed to the efficient use of energy for the development of its activities by boosting the necessary mechanisms so as to constantly improve energy performance.

SANJOSE designs and executes integral solutions adapted to customers' needs in order to guarantee the maximum energy efficiency of facilities, ensuring and developing sustainable energy solutions capable of reducing the consumption of energy and optimising its reuse. In turn, it promotes the use of renewable energies, both for its activity and its clients.

As a result of this business commitment, the Group has developed its own know-how in the field of energy efficiency that has been successfully implemented in the numerous projects executed. This methodology is complemented by the numerous accreditations, homologations and certifications obtained by companies of the Group as well as its professionals, which allow to guarantee the fulfilment of objectives with the highest quality, in strict compliance with current regulations. Among others:

- Energy Services Provider according to Royal Decree 56/2016 as of 12 February and registered in the List of Energy Services of IDAE, Registration Numbers: 2016-01152-E, 2016-01153-E and 2016-01154-E.
- Energy Services Provider according to standard UNE, 216701.
- Energy management systems according to standard UNE-EN ISO 50001.
- Certified professionals in measurement and verification of savings (CMVP).
- Professional installer license.

Grupo SANJOSE is a member of the board of directors of prestigious associations in the field of energy efficiency and renewable energy, such as AMI or ADHAC, and collaborates with public and private entities in the dissemination and development of the same.

SANJOSE takes part in the research and development of sustainable energy solutions capable of reducing the consumption of energy and optimising the use of clean energies by the application of avant-garde technologies.

COMPANY	CERTIFICATE NUMBER
Constructora San José, S.A.	**GE-2013/0010-002/1**
Tecnocontrol Servicios, S.A.	**GE-2013/0010-001/1**

As shown in the following two tables, in Spain, emissions in year 2018 amounted to 31,507.16 tons of CO_2 and the emissions avoided during the year totalled 28,563.34 tons of CO_2.

In this way, total deficit for the year amounted to 2,943.82 tons of CO_2.

CONSUMPTION IN SPAIN	ENERGY (MWH)	EMISSION FACTOR TCO_2/MWH	EMISSIONS $TNCO_2$
Consumption of electricity	**15,951.87**	**0.392**	**6,253.13**
Consumption of gas	**124,225.47**	**0.203**	**25,217.77**
Diesel	**143.87**	**0.252**	**36.26**
Total			**31,507.16**

Emission factor according to OECC year 2017

SALES IN SPAIN	ENERGY (MWH)	EMISSION FACTOR TCO_2/MWH	AVOIDED EMISSIONS $TNCO_2$
Electricity sold	62,761.49	0.392	24,602.50
Heat sold	3,746.52	0.203	845.05
Cold sold	23,845.30	0.392	3,115.79
Total			**28,563.34**

Emission factor according to OECC year 2017

The emission balance for Spain is as follows:

SPAIN	EMISSIONS $TNCO_2$
Total	**2,943.82**

With regards to Chile, emissions were as follows:

CONSUMPTION IN CHILE	ENERGY (MWH)	EMISSION FACTOR TCO_2/MWH	EMISSIONS $TNCO_2$
Consumption of electricity	3,616.31	0.336	1,216.53
Gas consumed (in Nm_3)	51,486.00	0.001985	102.20
Total			**1,318.73**

R&D and investment

SANJOSE is fully committed to technological development and innovation. Key elements for the competitiveness of the company, driving progress and being able to offer more effective solutions adapted to real needs of its customers and society.

R&D and investment is a priority of all business areas of SANJOSE. In this sense, a commitment has been made from the Top Management and an organisational structure has been developed so as to promote the generation of ideas and the most innovative practices.

R&D&I policy focuses on enhancing the generation of new technology to construction activities, highlighting applied technology, optimisation of resources and procedures and seeking continuous improvement and efficiency. Among the technology areas, highlight the following:

- Technology applicable to construction works
- Durability and safety of construction works
- New materials and execution procedures
- Renewable energy and energy efficiency
- Industrial automation
- Specialised maintenance services of facilities
- Preservation of the environment, etc.

Among the initiatives developed by the Group, highlights the R&D&I project for an automated and fixed detection and dissipation system for fog precipitation on hygroscopic data. The method designed by GSJ Solutions and proposed by SANJOSE Constructora to the Ministry of Public Works for solving out the issue on the A-8 Highway of the Cantabrico running through Alto do Fiouco, in the province of Lugo, is frequently affected by dense and persistent fog with very specific characteristics that seriously affect visibility during a 4-km-long stretch. Said highway has an annual intensity of more than 1,600,000 vehicles.

The system has been patented for use on motorways and railways, as well as airport infrastructure. This method consists in the dissipation of fog by means of an automatic diffusion system by sprinklers / diffusers of a hygroscopic material, which agglutinates water droplets in the air, giving rise to others of greater size and that by this greater size precipitate in the form of rain or snow, all lodged in a fixed structure along the roadways. For the arrangement of diffusers, a lightweight pergola (it only has to support its own weight and that of the diffusers) with sufficient clearance for the passage of vehicles, with a section equivalent to that of a road tunnel, is executed. The installation of the hygroscopic material contribution will be fully automatic.

Likewise, Grupo SANJOSE has projects in the area of R &D and investment related to the construction activity, which have been financed by the CDTI (Centre for Industrial Technological Development), included in the Law on Science, Technology and innovation as the financing agent of the General State Administration of business R&D and investment.

It is worth highlighting the following projects of Grupo SANJOSE that have been financed with funds from CDTI:

NAME OF THE PROJECT	PROJECT #	FINANCING ENTITY
Selection and evaluation of the potential of implantation of autochthonous xerophilous species in gardens of continental Mediterranean climate	**IDI-2010-0256**	**CDTI**
Research on the structural behaviour of the granular layers that make up a firm in function of humidity	**IDI-2010-1292**	**CDTI**
Acoustic insulation system using tubular screens based on the Kundt effect	**IDI-2010-1737**	**CDTI**
Use of recycled products in civil works	**IDI-2011-0109**	**CDTI**
Automated and fixed detection and dissipation system for fog precipitation on hygroscopic data	**IDI-2015-0870**	**CDTI**

SANJOSE aims to provide value in each project and positively impact society in terms of quality, sustainability, efficiency ... For this, it promotes the sustainable origin of raw materials, optimises resources, boosts the respect for the natural environment, reuse, recycling, and projects capable of reducing consumption, innovating in areas such as energy efficiency, the rational use of water, new construction systems, management models, materials, valuation, etc.

The R&D&I system implemented has obtained recognition trough the certification of UNE 166002 standard.

COMPANY	CERTIFICATE NUMBER
Constructora San José, S.A.	**IDI-0056/2010**
San José Energía y Medioambiente	**IDI-0055/2010**

4 SOCIAL & STAFF ISSUES

SANJOSE believes in the talent and responsibility of its entire human team as a driving force for the transformation of society, diversity and business success.

Self-responsibility and self-demand are part of the Group's business culture. With the aim of learning, improving and innovating in all areas, SANJOSE integrates ethics, social responsibility and sustainability throughout its formation.

SANJOSE's team is the most important capital of Group. Thus, its recruitment, training and management are a priority for the Group.

The experience, knowledge and flexibility of professionals are essential for increasing the company's competitiveness and for meeting the company's goals and objectives.

To invest in talent provides a top added value and innovative solutions on a par which customers' requirements. Grupo SANJOSE believes than investing in human resources is investing in leadership, growth, R&D&I, in the future.

Recruitment

Staff selection procedure aims to find qualified professionals who meet the requirements of the position requested in terms of training, experience, skills and competencies.

Recruitment takes place in collaboration with first-rate Universities and Training Centres and trough the incorporation of reputable professionals that provide the Group with their experience and know-how.

Human resources selection policies are based on seeking, attracting, motivating and retaining talented people, with the aim of promoting excellence and a job well done.

The following are the channels used by Grupo SANJOSE for the search of candidates, which vary according to the profile of the location (national and international) as well as according to the degree of qualification required by the vacant position:

- Interns: Universities with which a framework agreement of collaboration between the Company and said University has been established.
- Managers and foremen: employment service web sites.
- University graduates without experience: employment service web sites, employment offices of universities, school.
- University graduates with experience: Employment service websites, Master's Job Exchange (IE, IESE, ESADE, CEF, CUNEF ...), Official Schools, direct search, LinkedIn.

Similarly, in some vacancies, the use of internal resources is resorted to, and in some specific cases, internal promotion is preferred.

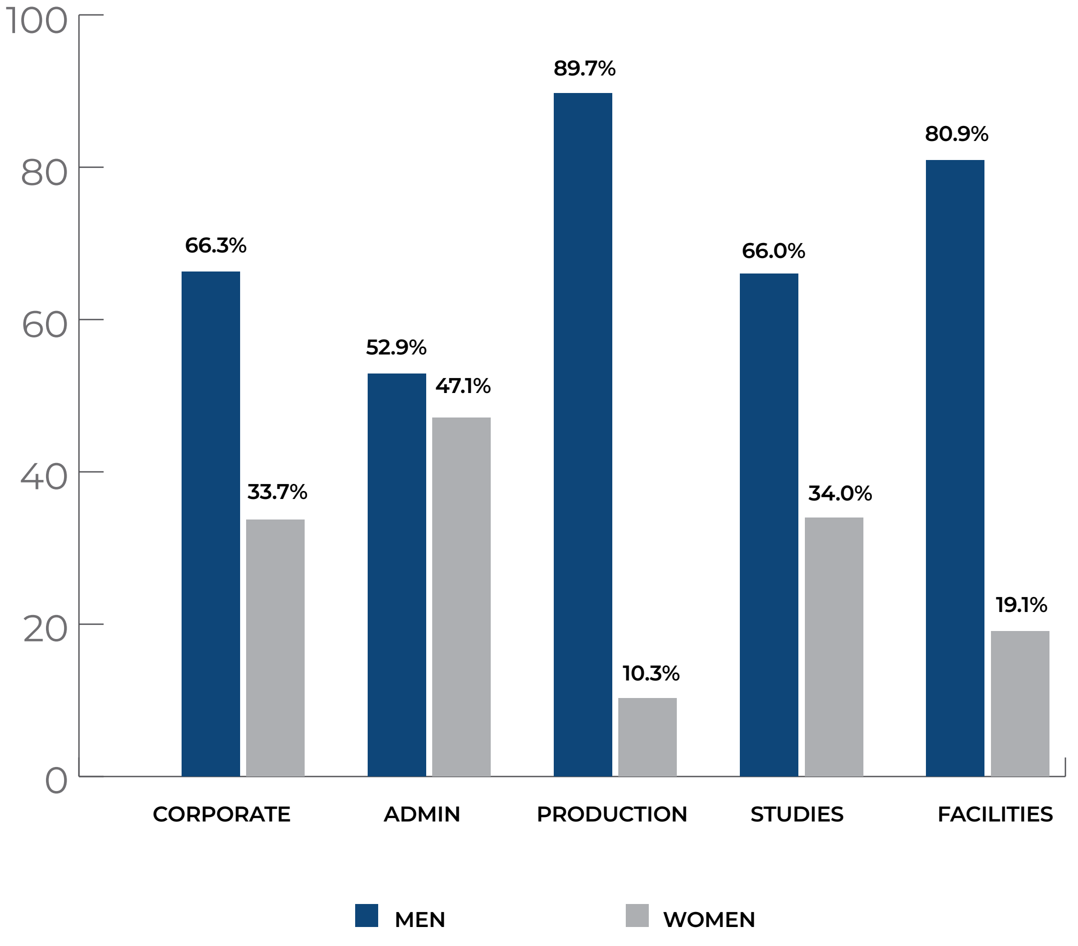
All selection processes in Grupo SANJOSE are endorsed by the highest standards of professionalism and transparency in the treatment of the candidate, so we make sure that those candidates included in a selection process are always promptly informed of the steps to be followed in each stage of the process:

- Recall of candidates.
- Personal interview(s).

- Psycho-technical tests.
- Technical interview.
- Decision-making.
- End of the recruitment procedure.

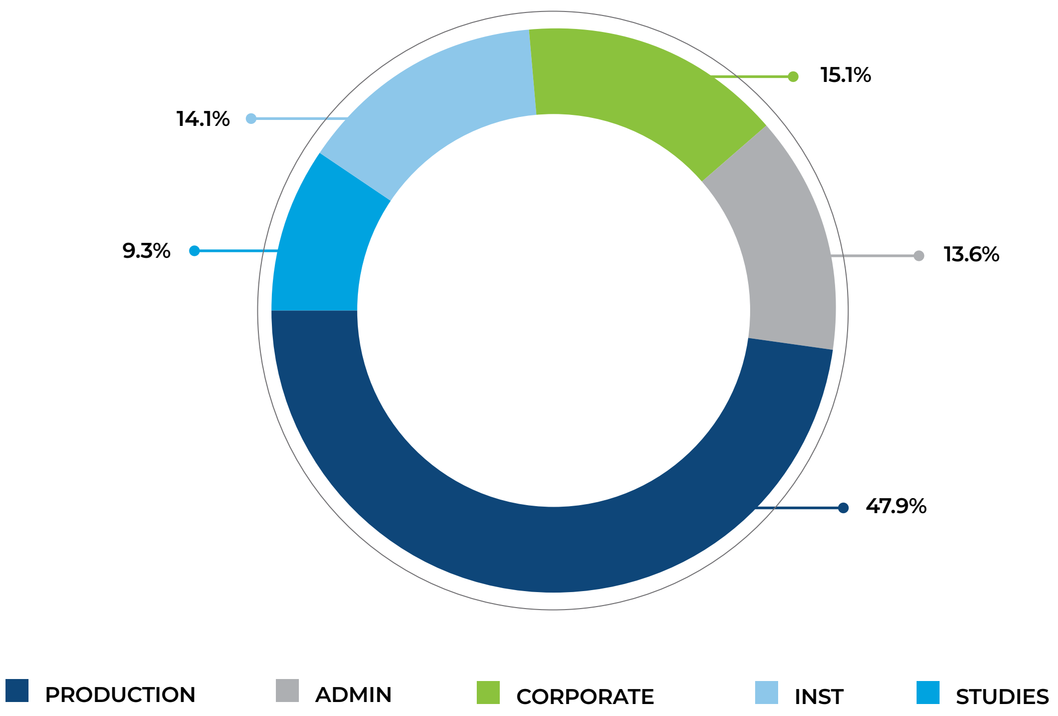
During 2018, Grupo SANJOSE conducted interviews with a total of 2,152 candidates among the different areas of activity of the Group where a vacancy has arisen, both nationally and internationally.

A total of 1,715 men and 437 women have taken part in recruitment procedures.

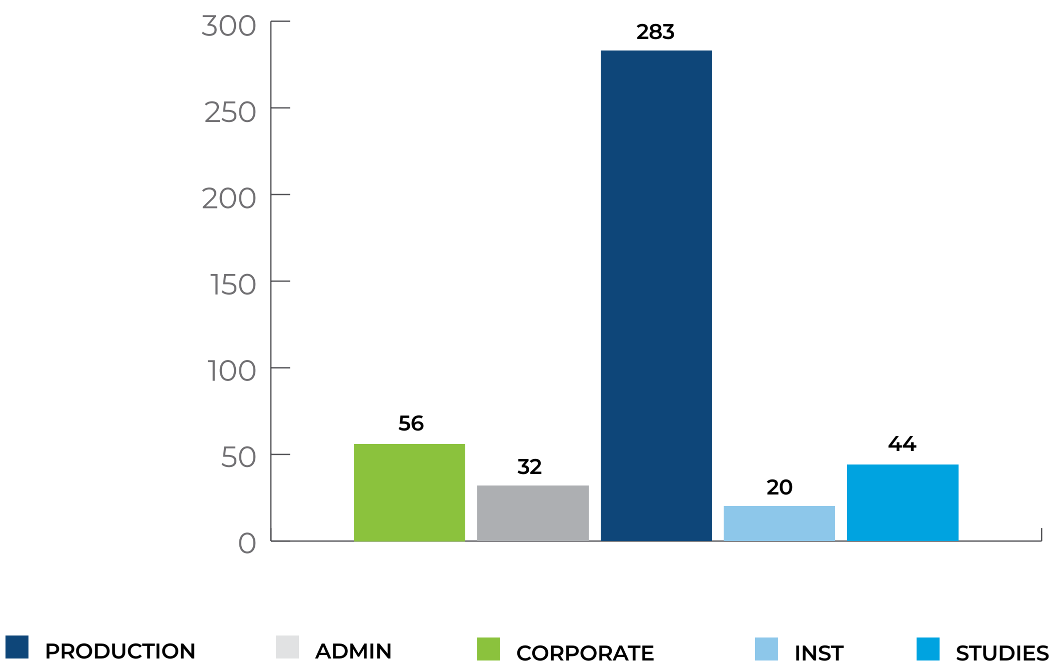


The detail of the main departments of Grupo SANJOSE for which candidate interviews have been conducted have been:

DEPARTMENT	CORPORATE	ADMINISTRATION	PRODUCTION	STUDIES	FACILITIES
Total	**327**	**293**	**1,030**	**200**	**302**



Likewise, the number of selection procedures opened in Grupo SANJOSE during 2018 has been 435, with the detail by departments being as follows:



For all staff incorporations carried out by Grupo SANJOSE, there is a welcome and reception programme.

The reception guide intends to provide new employees with information to know how the company is structured, and in this way facilitate their incorporation and integration into the organisation and make them part of the SANJOSE project, making them feel identified with the objectives of the Group, and that they consider their work essential, seeking how to bring the professionalism of each of them to our clients and interest groups, with responsibility, quality, efficiency and sensitivity.

All the employees of Grupo SANJOSE rely on the following tools to carry out tasks entrusted:

- Corporate ERP (management tool to control and analyse the different development procedures in the different business areas.

  It is a web-based tool, which provides greater agility in its management and availability in different supports.

  Access is restricted to authorised personnel of the company through a username and password, with different levels of authorisation depending on the degree of responsibility within the structure.

- Help Desk - To report on incidents, basic and obligatory tool of communication between users and the computer department, where to notify any issues that may arise in the workplace and / or the different systems or to check any doubts on a given process.

- Forum, from this website, the different areas of the company shall disclose guidelines and corporate procedures for the operation of the different systems.

- My data - Self Service, is a website for the management of corporate contact data, it also allows the management of passwords for the different systems, check contact data of the company's personnel.

- Email, tool for communication by mail, through the IBM LOTUS mail client, which will also be available via webmail. Provided with the IBM Sametime.

Each country has the responsibility to get in touch with the human resources department in the event of hiring needs. Through the tool included in the ERP of the Group under personnel request, fulfilling information related to the needs to be covered as well as the main tasks of the vacant position. Upon its filling, the selection teams start the search of candidates by means of different searching channels (universities, business schools, social networks, etc).

Training

The training provided is undoubtedly one of the most profitable investments, since it contributes to the potential increase of the Group through the professional and human improvement of its workers: capacity development, knowledge increase, improvement of skills and abilities.

This training project is necessary in order to ensure the update of workers and offer employees a guarantee of consolidation and promotion and professional development in the Company.

Grupo SANJOSE maintains a strong commitment to its employees to continuously improve their skills, abilities and their degree of responsibility and motivation, for which it launches annual training plans with the purpose of supporting and increasing the knowledge of teams.

To this end, Annual Training Plans are prepared based on the Operational Training Procedures, in which a detection of needs by business areas is carried out in order to adapt training plans to existing needs.

Annual Training Plans anticipate the needs of SANJOSE in order to adapt high technology to executed activities, develop personal and professional capabilities, boost the learning and improvement of languages for a global market, boost new technologies and safety, quality, R&D&I and environmental issues.

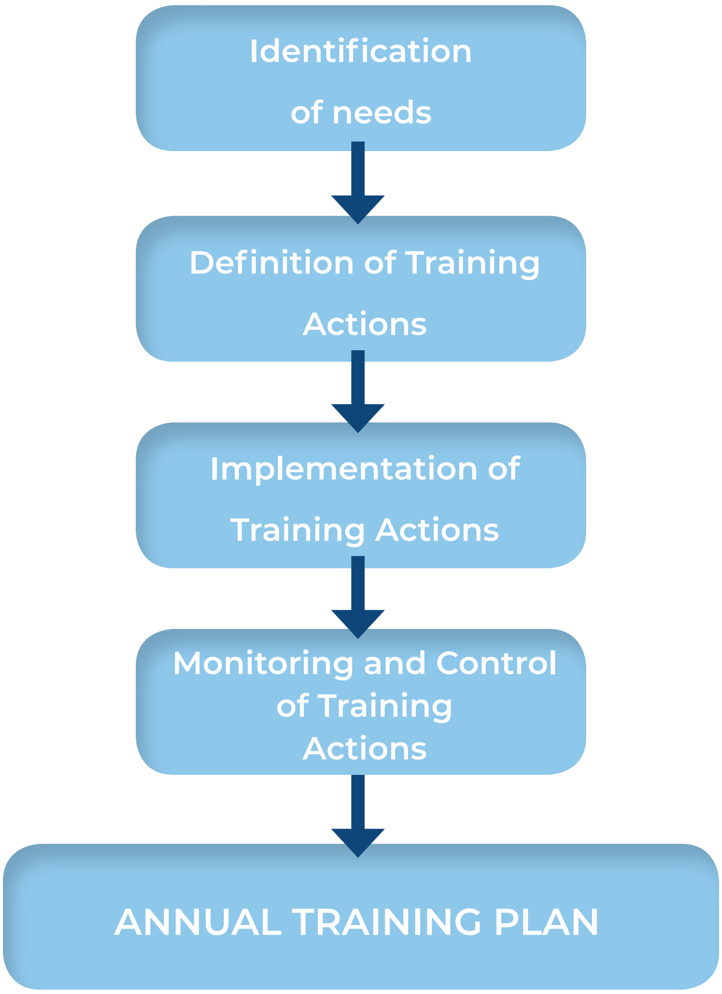
There are two types of training plans:

- Mandatory, which includes training in Prevention of Work Hazards, and training in Quality and Environment.

- Specific training, which includes other types of training that are necessary, but may be replaces by others that are emerging with a greater priority.

Further, it has ongoing training and skills development programmes, whose ultimate goal is to fill the gaps and training needs of employees identified during the year.

This specific training is tailored to the needs of each business, and ultimately, to the specific needs of each person.



The implementation of a new training model of initial training, addressed to all newly incorporated Technical staff, has taken place:

- Training on Accident Prevention and Health at work (60 hours).
- Training on Environmental Action (45 hours).

Training on "Compliance": Crime Prevention Service and regulatory compliance. Grupo SANJOSE re-affirming its commitment to compliance with regulations and the observance of ethically correct behaviour as the core of its business activity, agreed as of 12 May 2016 on a Model of Organisation and Management for the Prevention of Crimes, a set of elements, that the organisation adopts so that its members, in all business activities, do what the rules require and do not do what the rules prohibit.

And, in order to ensure the correct implementation of the Model, Grupo SANJOSE wants to make sure that the principles and contents of the Model are sufficiently known. For this reason, the Surveillance Body has delivered to the Group's staff specific training related to five key elements of the aforementioned Model of Organisation and Management for the Prevention of Crimes, such as:

- The Code of Conduct
- The Anti-Corruption Policy
- The Supervisory Board
- The Whistle-blower Channel
- The Disciplinary Action

The viewing of such training and the commitment to the rules of action explained in it are mandatory for the members of Grupo SANJOSE, given the relevance they have to inculcate a true culture of compliance within the organisation. During 2018, all personnel has been trained in this issue.

TRAINING ACTION	# OF TRAINING ACTIONS	# OF PARTICIPANTS	HOURS	WOMEN	MEN
Quality & Environment	22	214	120	54	160
Languages	165	183	11,347	61	122
Other training actions	62	302	2,664	67	235
Total	**249**	**699**	**14,131**	**182**	**517**

*Training on Prevention of Occupation Hazards is presented in section 6. of this report.

BUSINESS LINE	# OF TRAINING ACTIONS	# OF PARTICIPANTS	WOMEN	MEN	HOURS
Construction	189	596	150	446	10,415
Concessions & Services	25	54	4	50	1,618
Energy & Environment	2	1	-	1	72
Other	33	48	28	20	2,026
Total	**249**	**699**	**182**	**517**	**14,131**

	FEMALE	MEN
Management Team	4	28
Middle Management	8	42
Technicians	146	398
Clerical staff	22	3
Operators	2	46
Total	**182**	**517**

PROFESSIONAL GROUP	# OF TRAINING HOURS RECEIVED
Management Team	1,504
Middle Management	2,240
Technicians	8,286
Clerical staff	1,550
Operators	552
TOTAL	**14,131**

Platform for sharing knowledge

The development of a large training project began in January 2018, the "International Platform for sharing knowledge, for Grupo SANJOSE". During this time our motto has been and will be: "We want to reach everyone."

The new Platform was launched in August 2018 and until the end of 2018, 113 users have registered in 113 courses, both nationally and internationally.

It is a living platform that will be updated continuously, incorporating training programmes related to the sectors of activity of the company both at domestic and international level that aim to complement the existing Training Plans in the company. The training will be available in Spanish and, depending on the course, the English version will be available.

The objective of this project is to provide all employees of GESJ in the countries where it operates with equal opportunities in the development of their careers. This platform offers the best opportunities to know: technological innovation tools, new constructive methodologies, as well as training skills, environmental management, sustainability, etc.

The specialised training is divided into the following topics:

- Infrastructure & Project Management: 40 courses.
- Roads: 22 courses.
- Railways: 22 courses.
- Ports: 7 courses.
- Airports: 4 courses.
- Transport & Logistics: 5 courses.
- Energy & Industry: 46 courses.
- Water & Environment: 18 courses.
- Architecture, Building & Urbanism: 32 courses.
- Technology & Professional Software: 81 courses.
- Engineering culture: 4 courses.
- Management Skills: 35 courses.

- Civil Engineering: 33 courses.
- Mining: 2 courses.
- Oil &Gas: 6 courses.
- Services: 12 courses.
- Smart Construction: 27 courses.

This platform offers:

- Degrees of Academic Institutions such as the Polytechnic University, University of Comillas, EOI (School of Industrial Organisation), UAX (University Alfonso X el Sabio), University of Isabel I, Institute of Engineering of Spain, etc.
- Constant update of contents.
- Regular incorporation of new courses demanded by the sector.
- Universal Access to all courses.
- Access for all employees of the organisation.
- Tutorials carried out by Experts (100 tutorials).
- Service for downloading and printing documentation in .pdf format.
- Download of Diplomas.
- Courses both in English and Spanish.

This project is being well valued, having had a great reception by the Company and its assessment is very positive.

Training entities

Fundación Laboral de la Construcción: Training entity dedicated to the Construction Sector in which work has been done to provide workers with the resources that make possible a more professional and trained sector, in terms of safety. Grupo SANJOSE during 2018 has continued with the Training Plan on Safety and Prevention, counting with numerous training actions developed by this entity.

ADEMI: During 2018, Grupo Empresarial SANJOSE has actively participated in the training designed by this Association, as well as in the Training Committee, where the associated companies exchange information, strengthening knowledge of the Sector in its different aspects, activities, providing modernisation and optimisation of procedures. All this, in order to improve the competitiveness of companies in an increasingly globalised world that requires a continuous adaptation to the demands of the market.

During this year we have used the Online English Platform EF (Education First) of international education worldwide, present in all countries. In this area, training adapted to each worker has been developed, offering blended training. This platform has established a research unit in the department of theoretical and applied linguistics at the University of Cambridge.

Depending on the type of courses required, we work with other entities such as Kursalia, Cualtis, Tecno-med, Inesem, HUNE, Structuralia, Manpower, Business Initiatives, CEF (Centre for Financial Studies), CIEF Group and sundry private schools of English that provided us with native teachers for the one to one class.

Flexible remuneration

In order to maximise the net remuneration of workers, Grupo SANJOSE, through new alternative compensation formulas, provides workers with a series of flexible remuneration, which allows employees to have more cash.

Through a series of services hired by the company, employees who adhere to this formula of flexible remuneration, will save on these services the withholdings that the Treasury would perform on their salary since, by law, when a business organisation assumes these services for the benefit of their workers, these services are exempt from personal tax withholdings.

This type of remuneration policy is addressed and available to all staff members of the Organisation structure, from foremen to administrative officers, having the option to join the same since the moment of registration within the company and upon request and subsequent approval.

Grupo SANJOSE has the following flexible remuneration available to its employees:

- Lunch Ticket (Eden Red)
- Nursery Ticket (Eden Red)
- Transport Ticket (Eden Red)
- Medical Insurance (Sanitas)

With charge to the gross fixed remuneration, each worker will have access to one or several of the options indicated as flexible remuneration, with those limitations that for each of the modalities the Law indicates and taking into consideration that the agreement salary cannot be reduced to opt for this new alternative remuneration policy.

Equality Plan & Plan for the Prevention of Sexual Harassment

Grupo SANJOSE declares its commitment to the establishment and development of policies that integrate equal treatment and opportunities between women and men, without discriminating directly or indirectly due to sex, religion, race, or any other condition or personal or social circumstance, as well as in the promotion of measures to achieve real equality within our organisation, establishing equal opportunities between women and men as a strategic principle of our corporate and human resources policy .

In each and every one of the areas where the activity of the company is carried out, from the selection to the promotion, going through the salary policy, training, employment conditions, occupational health, organisation of working hours and family conciliation, the principle of equal opportunities between women and men is assumed.

Grupo SANJOSE has implemented, among others, the following objectives, in terms of equality:

- To guarantee equal opportunities and promote non-discrimination for personal, physical or social conditions, maintaining objective and professional criteria.
- To manage human resources adequately, avoiding discrimination and offering equal opportunities in the company.
- To use a neutral and non-discriminatory language in all the processes developed by the organisation.
- To enable channels that facilitate communication at all levels of the organisation in this area.

• To develop internal protocols for action in matters of harassment.

• To promote information and awareness campaigns for personnel in this area.

The Company has a Protocol of Action in matters of harassment, which aims to establish action guidelines that identify situations that could involve sexual harassment, harassment based on sex and / or psychological harassment, since they involve violations of dignity, harmful to the working environment and generate undesirable effects on health, moral, confidence and self-esteem of people.

To this end, an effective and agile research procedure has been established and will be launched whenever one of these behaviours is reported. In this procedure, the confidentiality and protection of the identity of the people affected will be guaranteed, as well as that of all those involved in the process.

In order to guarantee the protection of the fundamental rights of a person, Grupo SANJOSE is committed to preventing and not tolerating inappropriate conduct of harassment at work, preventing the appearance of any behaviour that could be deemed as harassment in the workplace, and, therefore, any action or conduct of this nature is prohibited.

This protocol aims to establish a procedure to be followed when behaviours that may involve sexual harassment based on sex and psychological harassment occur within the organisation.

Complaints shall be issued in writing, and submitted by e-mail to the address provided for such purpose available in the internal Forum of the company, or delivered by hand to the Harassment Officer of the group.

Employees lacking access to email, can phone the telephone number provided for this purpose, available in the company's internal forum.

Privacy, confidentiality and dignity of the people affected is protected; thus, a strict confidentiality will be maintained in all internal researches carried out.

There is a Harassment Prevention Committee in charge of verifying periods of pending compliance, providing innovations and suggestions and changes.

In the event of harassment, a series of corrective and disciplinary measures will be adopted, including the opening of a disciplinary file in accordance with the applicable disciplinary regime.

Relevant corrective measures will be taken in relation to situations of harassment, to ensure the health of all members of the organisation.

With regards to the protection of the victims, the appropriate measures will be taken, so that when the sanction imposed on the harasser does not entail the leaving of the company, the appropriate measures will be taken so that the harasser and the victim will not to share the working environment.

False Complaints are also included in this protocol; if it is proven that there has been no harassment in the situation reported, because the complaint lacks justification and grounds, in addition to its presentation under bad faith by the complainant, the corresponding disciplinary measures would be adopted.

The corresponding disciplinary measures will also be adopted if reprisals or acts of discrimination occur on the complainant, the victim or any other person involved in the process, whether determined or not the existence of harassment in any of its modalities.

Notification channels

- Research file
- E-mail
- Telephone

With regards to year 2018, no complaint regarding harassment has been recorded.

Staffing structure at 31.12.18

STAFF A 31/12/2018

3750

WOMEN

SUPERIOR GRADUATES
102

EMPLOYEES WITH A COMMAND POST
25

INTERMEDIATE GRADUATES
104

MANAGEMENT TEAM
4

NON-TECHNICAL TECHNICIANS
58

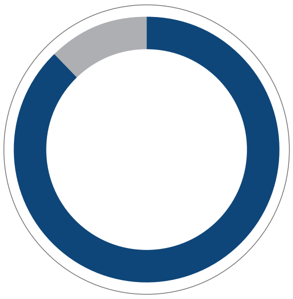
AVERAGE AGE
37 YEARS

OFFICE CLERKS
78

AVERAGE SENIORITY
4.97 YEARS

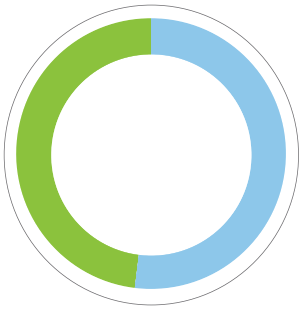
FOREMEN & OPERATORS
124

DISTRIBUTION BY GENDER



MEN
WOMEN

TYPES OF CONTRACT



PERMANENT 52%
TEMPORARY 48%

MEN

SUPERIOR GRADUATES
458

EMPLOYEES WITH A COMMAND POST
302

INTERMEDIATE GRADUATES
541

MANAGEMENT TEAM
31

NON-TECHNICAL TECHNICIANS
392

AVERAGE AGE
39 YEARS

OFFICE CLERKS
181

AVERAGE SENIORITY
2.93 YEARS

FOREMEN & OPERATORS
1.712

JOB FUNCTION	SALARY RANGE
TECHNICAL TECHNICIANS	35,000€ - 45,000€
OFFICE CLERKS	20,000€ - 35,000€
CONSTRUCTION WORKERS	20,000€ - 40,000€

TOTAL STAFF TURNOVER
35.57%

VOLUNTARY TURNOVER
11.38%

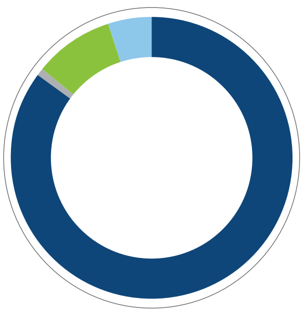
DISMISSALS	
MEN	114
WOMEN	11
TOTAL	125

ABSENTEEISM RATE
2.40%

GEAGRAPHIC DISTRIBUTION

EUROPA 48%
AMERICA 38%
ASIA 14%

BUSINESS LINE DISTRIBUTION



CONSTRUCTION 85%
TRADE 8%
INDUSTRIAL SERVICES 9%
SERVICES 5%

BREAK-DOWN BY PROFESSIONAL CATEGORIES

SUPERIOR GRADUATE 15%
INTERMEDIATE GRADUATE 17%
NON-QUALIFIED ASSISTANTS 12%
OFFICE CLERKS 7%
FOREMEN & OPERATORS 49%

Employees of the Group are subject to the different collective agreements applicable in each of the Spanish provinces as well as in the countries where it operates.

The human resources department performs a centralised management of the selection processes. In the different countries where the Group operates, a search process is carried out to cover the demand for local labour, thus not having aggregate information.

The company, as measures to facilitate the disconnection of labour, monitors the age of the employees to facilitate their early access to retirement when workers wish so.

Likewise, all employees are informed of the possibility of reducing working hours due to legal guardianship, leave of absence, as well as other benefits, such as the absence due to the risk of pregnancy, entitled either before or after maternity and paternity leave in order to reconcile work and family life.

The representation of the workers is made up of the two most representative unions in the areas of social affairs. That is, Comisiones Obreras (C.C.O.O.) and Unión General de Trabajadores (U.G.T.). They are not involved in any type of open active union conflict. Participation in labour issues and collaboration with the unions is that establishe by law.

Communication with staff members is done via email, telephone and in a personalised manner, as the case is. There is also a suggestion box available to workers, as well as a virtual mailbox on the company's website.

Staff with disabilities

In order to comply with Royal Decree 364/2005 as of 8 April, the Spanish companies of Grupo SANJOSE with more than 50 employees have taken a series of measures that are detailed below:

On 5 April 2016 it was granted a certificate of exceptionality that justifies the adoption of substitute measures regulated in the aforementioned Royal Decree 364/2005, to Tecnocontrol Servicios, S.A.

On 12 April 2016 it was granted a certificate of exceptionality that justifies the adoption of substitute measures regulated in the aforementioned Royal Decree 364/2005, to Cartuja Inmobiliaria, S.A.

On 6 April 2,017 it was granted a certificate of exceptionality that justifies the adoption of substitute measures regulated in the aforementioned Royal Decree 364/2005, to Constructora San Jose, S.A.

The company Constructora San José, S.A., according to Royal Decree 364/2005, as of 8 April to determine the number of workers for the purpose of establishing the 2% reserve quota in favour of personnel with disabilities, had a staff of 764 eligible workers, what involves the obligation to have 15 members with disabilities on staff.

The company Cartuja Inmobiliaria, S.A., according to Royal Decree 364/2005, as of 8 April to determine the number of workers for the purpose of establishing the 2% reserve quota in favour of personnel with disabilities, had a staff of 67 eligible workers, what involves the obligation to have 1 member with disabilities on staff.

The company Tecnocontrol Servicios, S.A., according to Royal Decree 364/2005, as of 8 April to determine the number of workers for the purpose of establishing the 2% reserve quota in favour of personnel with disabilities, had a staff of 338 eligible workers, what involves the obligation to have 6 members with disabilities on staff.

For year 2018, the aforementioned companies have entered into commercial contracts with different authorised centres, which make it possible to replace the hiring of personnel with disabilities:

COMPANIES OF GRUPO SANJOSE	# OF EMPLOYEES WITH DISABILITIES ON STAFF	COMMERCIAL CONTRACTS CONCLUDED WITH SPECIAL EMPLOYMENT CENTRES DURING 2018	# OF EMPLOYEES WITH DISABILITIES HIRED ON REPLACEMENT
Constructora San José, S.A.	5	European Green Protection S.L. Interserve Centro Especial de Empleo S.L. Lógica Informática y Suministros de Material Integral S.L. Celima Centro Especial de Empleo y Desarrollo, S.L.U. Fundación Juan XXIII Servicios Integrales de Fincas Urbanas de Madrid S.L.	10
Cartuja Inmobiliaria, S.A.	0	European Green Protection S.L. Interserve Centro Especial de Empleo S.L. 1 Fundación Juan XXIII	1
Tecnocontrol Servicios, S.A.	2	European Green Protection S.L. Interserve Centro Especial de Empleo S.L. Lógica Informática y Suministros de Material Integral S.L. Fundación Juan XXIII	4

For the present year 2019, at the date of preparation of this Report, the company Constructora San José, S.A. has a staff of 1,044 employees, which would mean the obligation to have, at least, 20 employees with disabilities on payroll, whereas the company has only 6 employees with disabilities and replaces the outstanding 14 employees with disabilities with contracts with Special Employment Centres: “European Green Protection S.L.”, “Lógica Informática y Suministros de Material Integral S.L.”, and “Celima Centro Especial de Empleo y Desarrollo, S.L.U.”.

For the present year 2019, at the date of preparation of this Report, the company Cartuja Inmobiliaria, S.A. has a staff of 84 employee, which would mean the obligation to have, at least, 1 employee with disabilities on payroll, that has been replaced by an agreement with the Special Employment Centres “European Green Protection S.L.”.

For the present year 2019, at the date of preparation of this Report, the company Tecnocontrol Servicios, S.A. has a staff of 298 employees, which would mean the obligation to have, at least, 5 employees with disabilities on payroll, that the company has replaced by entering contracts with Special Employment Centres: “European Green Protection S.L.”, “Lógica Informática y Suministros de Material Integral S.L.”, and “Celima Centro Especial de Empleo y Desarrollo, S.L.U.”.

5 HUMAN RIGHTS ISSUES

For the Group, it is essential to have solid, transparent ethical principles and apply them in each action and market.

SANJOSE assumes as own the 10 principles of the United Nations Global Compact, based in turn on the Universal Declaration of Human Rights, the Declaration on principles and Rights at work, International Labour Organisation, the Declaration of Rio on Environment and Development and the United Nations Convention against Corruption:

- To support and respect the protection of internationally proclaimed human rights in the international arena.
- To make sure they are not complicit in human rights abuses.
- To respect freedom of association and the effective recognition of the right to collective bargaining.
- To eliminate all forms of forced or compulsory labour.
- To effectively abolish child labour.
- To eliminate discrimination in respect of employment and occupation.
- To support preventive methods with respect to employment and occupation.
- To undertake initiatives to promote greater environmental responsibility.
- To encourage the development and diffusion of environmentally harmless technology.
- To work against corruption in all its forms, including extortion and bribery.

SANJOSE understands the Corporate Social Responsibility as its commitment to society and people. It is a key element of business strategy and a differentiating item which has been in continuous development since its foundation. This commitment is materialised as follows:

- Maximum attention to people, to the quality of their working conditions, equality and training.
- Work Risk Prevention as company culture, especially preventive at all hierarchical levels of the Group.
- Respect for diversity and creation of a policy of equal opportunities and personal and professional development.
- Commitment to sustainable development and greater respect for the environment, avoiding any possible pollution and minimizing waste generation.
- Public Vocation and wealth. Understanding of R&D&I and the quality of products and services as the GSJ contribution to improve the social, economic and environmental development of the regions or countries where it operates.
- Implementation of formal procedures and open dialogue with all stakeholders.
- Transparency policy.

6 ISSUES IN THE FIGHT AGAINST ORGANISED CORRUPTION AND BRIBERY

The Group has an Organisation and Management Model for the Prevention of Crimes that has as main objective to institutionalise the corporate ethical culture implemented in the Group, which is aimed to regulatory compliance and the development and improvement of corporate social responsibility.

During 2018, with regards to the following areas, no complaints have been filed, so the intervention of the Surveillance Authority has not been necessary:

- Urban crimes.
- Environmental crimes.
- Offenses of corruption and transnational bribery.
- Bribery crimes to officials.
- Influence trafficking crimes.
- Crimes against worker's rights.
- Crimes of discovery and revelation of secrets.
- Hacking.
- Scam.
- Crimes of manipulation of market prices.
- Offenses of improper use of privileged information.
- Money laundering.
- Offenses against the Treasury Department.
- Offenses of breach of accounting obligations and falsification of financial information.
- Offenses of alteration of prices in public calls and auctions.

Code of Conduct and Anti-corruption Policy

In order to establish professional, ethical and responsible behaviour guidelines and to establish a system for monitoring their implementation and the identification of possible irregularities, SANJOSE has a "Code of Conduct" and an "Anti-Corruption Policy" of mandatory compliance for all Directors, officers and employees.

SANJOSE's Code of Conduct and Anticorruption Policy include the basic principles that should guide the activity of the Group and each of its companies and professionals, regardless of the activity they carry out, the country where the registered office is and where they develop their activity.

The Group has an Internal Surveillance Authority (who maintains a fluid and constant communication relationship with the Board of Directors) to oversee the proper operation and compliance with the principles defined by the Group, the Company.

Both the Code of Conduct and the Anti-Corruption Policy of Grupo SANJOSE are published in full on its website – www.gruposanjose.biz – - for the knowledge of its professionals, stakeholders and all third parties whom it interacts with.

The Organisation and Management Model for the Prevention of Crimes contemplates, as a basic pillar to ensure an adequate culture of compliance, the existence of a series of tools, guidelines, protocols and procedures implemented by the Group, that minimise the risk of default. It is worth highlighting the existence of computer control tools implemented in the Group, especially the corporate ERP. It is a computer system devoted to the management and planning of resources and business activities. It provides a complete computer system that, among others, includes the management of human resources, the planning and control of financial resources, commercial management, the complete management of works and projects, etc. Specifically, it provides a powerful support for the registration of financial information and management of documentation, ensuring an adequate and complete system of registration, documentation and approval of transactions.

- The ERP is an essential tool for internal control system of non-financial information.

The body in charge of analysing potential events of default and propose, if necessary, corrective actions and / or sanctions is the Surveillance Body. It is an internal body responsible for supervising the performance and compliance of the Model through the execution, among others, of the following tasks:

- To review of the adequacy of the Model and its update whenever deemed appropriate.
- To disclosure and disseminate the Model and to supervise the training activities carried out.
- To receive and manage complaints received through the Whistleblowing Channel.
- To address internal review procedures that are carried out whenever there is any indication of wrongful act.
- To report to the Board of Directors.

The Supervisory Body is appointed by the Board of Directors, following a report from the Appointments, Remuneration and Good Governance Committee, and enjoys full autonomy and independence to carry out its functions. Its components include the figure of the Compliance Officer, who is responsible for leading the actions entrusted to the Surveillance Body.

Whistle-blower Channel

The directors, officers and employees of the Group shall inform the Supervisory Body of any fact that may constitute an offense or breach of the Model and the controls which the Model refers to (Code of Conduct, Anti-Corruption Policy, and other tools, guidelines, protocols and internal procedures), including those related to aspects of a financial or accounting nature.

For reporting allegedly unlawful acts or non-compliance events (including irregular conduct of a financial, accounting or any other similar nature) the complainant may use any of the following channels:

- By email, at the address established by the Group for these purposes.
- Through a personal interview or telephone conversation with the Compliance Officer.

Regardless of the formula chosen by the complainant, the Group fully guarantees the confidentiality of the identity of the complainant.

The Compliance Officer will perform the instructional activities deemed appropriate to assess, analyse and resolve the complaints that arise, relying, always within the total and absolute confidentiality and discretion, on internal and / or external experts.

With regards to irregularities of a financial and accounting nature, the Supervisory Body will adequately inform the Audit Committee.

During year 2018, no claims have been received.

Money Laundering

Grupo SANJOSE is subject to and applies the regulations on the prevention of money laundering.

In compliance with this regulation, the acquisition, conversion and transfer of goods of illicit origin, the acts of concealment, the provision of aid to avoid the legal consequences of illegible acts, and the concealment of the true nature, origin, location, destination, movement or rights over goods or property thereof, knowing their illicit origin are strictly forbidden.

To guarantee the effectiveness of these prohibitions, all administrators, managers and employees of Grupo San José must apply internal regulations on the prevention of money laundering and financing of terrorism.

Data protection

Grupo SANJOSE requires its directors, executives and employees to comply with the current regulations on the protections of data, intellectual and industrial property, protecting the confidential information entrusted by customers, employees, candidates in selection processes or by other third parties. In compliance with this requirement, all directors, managers and employees of Grupo San José must keep the strictest confidentiality on all information to which they have access as a result of the performance of their professional activity. Grupo San José has adopted the corresponding Security Documents that contain technical and organisational measures to guarantee the security of personal data and to prevent the alteration, loss, treatment or unauthorised access of the same. All personnel involved in processing of personal data must respect the contents of the Security Documents.

Prevention of Occupational Hazards

SANJOSE boosts preventive training of all its employees and compliance with any applicable regulations on the prevention of risks that may affect the health and safety of workers.

The Occupational Management System implemented for many years in the company is revised annually and certified under OHSAS 18001 and reflects the reality of the prevention policy throughout the corporate structure.

Prevention is an essential tool to protect against risks that may affect the health or safety of people and SANJOSE invests it in their professionalism and adequate training, aware that their employees are their most valuable asset and that their protection is a priority objective.

Grupo SANJOSE has carried out in 2018 a total of 661 training actions amounting to 8,215.75 hours.

POH TRAINING 2018	
# of training actions	Training hours
661	8,215.75

Regarding the Joint Prevention Service of the construction area in Spain, which covers a total of 1,225 people during 2018.

Referring to the companies that constitute the Joint Prevention Service, during 2018 the following preventive activities have been carried out.

PREVENTIVE ACTIVITIES	# OF EMPLOYEES AFFECTED
Review or update of risks assessment	60
Planning of preventive activity	60
Emergency plans	60
Monitoring of planned activities	1,225
Information to employees	580
Training (Article 19 of LPRL)	758
Research and analysis of accidents	107
Planning of the individual Health Surveillance	1,225
Planning of the group Health Surveillance	1,225
Monitoring of health activities	1,225

In 2018, the following occupational accidents occurred in Grupo SANJOSE:

ACCIDENT RATE 2018 - NUMBER OF ACCIDENTS AND SEVERITY				
Without medical leave	Minor with medical leave	With medical leave accidents on the way to/from work	Severe	Mortales
69	69	6	3	-

Business risks

The area of Risk Management and Insurance has a corporate nature and participates in transversal processes of identification and evaluation of the various types of risks, actively contributing along with the other business areas to set appropriate retention thresholds.

SANJOSE has a global insurance policy, adapted to its own risk map, and continuously works to improve its insurance contracts, understanding them as efficient tools for protection and transfer of risks.

The overall scenario where it unfolds its activity has become as a priority the fulfilment of regulation "compliance" on insurance matters to suit the peculiarities of each country without losing the benefit for the comprehensive treatment of risk management and international insurance programmes.

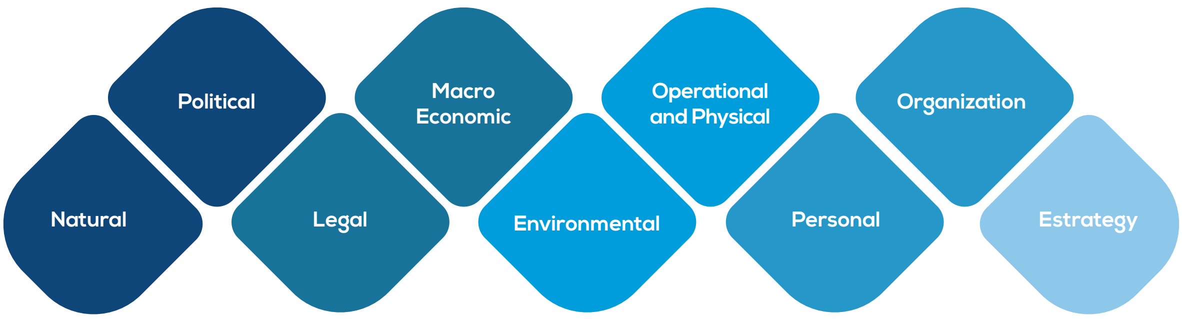
From the Risk and Insurance Management area of the Group, an analysis is made of the risks that may accidentally affect the business and the people that constitute the Organisation, in order to contribute as much as possible to their mitigation through the establishment of internal actions in the development of activities and an insurance policy that allows the transfer to the Insurance Market of most of the risks that may cause significant damage to the balance of the Group, its employees and directors or its reputation .

The analysis of risks is carried out from a global point of view, taking into account the countries where the Group is present, in order to adapt the implemented insurance policy and insurance programmes to the real needs and regulatory requirements thereof.

The insurance policy focuses on the protection against a great risk, which is likely to generate an impact that compromises the viability of the business or to have a large impact on the same, paying less attention to more frequent, yet of minor intensity, and less impact, that shall be managed from the business point of view. This involves the establishment of branch offices, which can be assumed by the business, helping to contain premiums and share management in the risk management policy. Notwithstanding this, in countries with a high catastrophic risk, as in Chile, for example, with great earthquake risk, branch offices are necessarily higher as they are pre-determined by high accident rates and the impact they have had on the Insurance Market.

The search for adequate levels of protection leads us to structure the basic lines of insurance in the following areas, for which we are looking for first level Brokers and Insurers in each specialty, with which we regularly quote, negotiate and discuss each area of the Insurance programmes.

Internal and External Risks



The main initiatives developed by Grupo SANJOSE during 2018 are the following:

Civil Liability Risks

Construction activity, which is the main activity of the Group, entails significant risks of accidents that could cause injuries to workers or third parties and their assets. The consequences derived from this, whether in the form of compensation, whether in costs of legal defence and establishment of civil bonds, must be duly covered.

For this purpose, in order to optimise the performance of these policies as business management and protection tools, procedures and measures are coordinated in the development of the activity, such as requirements for crack protocols of adjacent buildings, requests for underground channel plans, contractual requirements to subcontractors.

We focus on the Group's Civil Liability Protection Programme in a global way and with a vocation to equalise the coverage contracted in Spain for Europe with those non-European countries where we operate, because we are dealing with broader coverage, but adapting it to each country in accordance with the requirements and possibilities offered by local regulations and the local market.

In Peru, Argentina and Chile we reproduce the coverage scheme of the Master policy contracted in Spain through the issuance of mirror policies issued by Local Insurers in each country. Without prejudice to this, for specific works or projects we contract specific policies for works in compliance with the requirements of the contract documents that apply to the works and our mirror policies act in excess of those work policies and for all of the activities carried out in the country by the Group.

This system of local policy that covers all the activity in the destination country is also used in Mexico and in Cape Verde.

In Abu Dhabi, since all the activity is carried out in Joint Venture with local companies, work-to-work insurance is chosen, under the terms required in each contract, and our partners are sometimes responsible for contracting and managing it.

In India it is also performed at local level, work to work and sometimes through our partner or through the broker suggested by the client.

Within civil liability risks, we include for Spain and Portugal, fundamentally, the contracting of employer liability coverage.

We demand our subcontractors to hire their own Civil Liability with general liability coverage.

We have action protocols and claims management to act with efficiency and quick response capacity and those cases in which the integrity of people has been compromised are managed with the highest priority.

Environmental Liability

The Group has contracted and in force an Environmental Civil Liability Insurance Programme with a coverage of EUR 20 million per claim and year.

Locally in each of the countries where it operates, it meets the requirements that may exist legally or contractually in environmental issues and the specialised departments of the Group will analyse and adopt the necessary preventive measures to avoid the occurrence of an accident.

Among the coverage of the Group's General Civil Liability policy, we have also contracted third-party damage coverage for accidental contamination that reinforces the protection provided in this area by the Environmental Risk policy.

During year 2018 no environmental provisions have taken place.

Rate of accidents of own staff

In addition to the Employer Liability coverage, all accident insurance programmes established as mandatory by applicable collective agreements are contracted for all Group companies and our standard contracts establish the obligation to require all subcontractors to provide proof of holding in force insure schemes with respect to workers.

Professional General Liability

The Group has a Professional Liability Insurance Programme where it incorporates those projects that are carried out or assumed by Group companies in terms of their design and execution in order to be protected against future claims arising from design errors, especially after the delivery of the works.

In some countries such as Abu Dhabi, project-specific insurance policies have been contracted with a discovery period of ten years as from the completion of the works to comply with contractual requirements in this regard.

Civil Liability of Directors and Executives

In order to protect the individual assets of each of the Directors and Executives of Group companies against claims that can be made due to financial impact attributable to a management error in the performance of their duties, we have contracted a worldwide insurance policy, with coverage of legal defence, civil bonds and payment of compensation where appropriate.

Local issues of policies with less coverage are made in those countries where we have a permanent presence: Chile, Argentina, Peru, Abu Dhabi and India.

Insurance policies to cover assets of the Group

The Group's real estate assets in Spain are adequately insured with damage policies, adapting each year the value according to the reviews that are made and made available to the Risk and Insurance Management area in order to achieve an adequacy to the reality of the risk to be covered.

All-risk construction policies

In order to protect the works in execution during the term of the contracts, against accidental risks arising from errors of design, execution, defects of materials, fire, risks of nature and atmospheric phenomena, theft, strike, riot, vandalism, etc., all of our works are covered by a fully-comprehensive construction insurance programme with broad coverage and standard exclusions and limitations of this type of policy have been significantly limited.

It is the Risk Management's responsibility to ensure that all our works are secured under this programme regardless of whether works are to executed 100% by companies of the Group or in JV.

From the initial stage of study and bidding, the Risk and Insurance Management Area, in coordination with the contracting, legal and production areas of the Group, carry out an analysis of the contractual and legal requirements and assess the need of providing coverage for risks that affect or may affect the business, a cost estimate is made of the main insurance coverage and, in the event of becoming the successful tenderer, works focus on achieving the highest level of insurance protection possible given the specific circumstances of each project.

Claims Management

An essential part of the functions of the Group's Risk and Insurance Management is focused on the correct management of claims affecting the Group. To this end, we are constantly working on the establishment of protocols to be followed in the event of an accident, the management and monitoring thereof, with Experts, Brokers and Insurers, negotiating the resolution and the management of the compensation. Thus, training sessions provided to personnel responsible for works management are carried out on a regular basis are essential.

The balance for year 2018 of the Risk and Insurance Management area of the Group is positive because, analysing the accidents or claims occurred during the development of the activity, we verified that the level of response to them from the Insurance Programme has been fully satisfactory and we have had no relevant impact without coverage.

The monitoring of international reference standards in the matter, mainly the guidelines and methodology implemented under the framework of ISO 31000, are increasingly implemented in our business development and allow updating the risk map in order to detect variations in exposure to traditional risks, as well as emerging risks.

Every year, an analysis of the results is carried out according to the claims that have occurred and been resolved during the year so as to correct any deviation that may arise and to obtain conclusions that allow the optimisation of the risk management system used.

The investment in preventive policies and in the contracting of insurance programmes fully adapted to the needs of coverage has meant a clear return to the Group, not only in terms of compensation made, but also in a greater efficiency of resources used (use of economies of scale in the global negotiation of programmes, adaptation of coverage to the tailored needs of projects and activities, etc.), and above all, in a greater protection of our brand and reputation.

7 COMPANY

SANJOSE intends to create a positive impact on society and facilitate the day to day of people with each project developed. Boost growth, provide added value in a responsible and sustainable manner and help day-to-day activities of people and society.

- Promotion, design and execution of more than 5,500 social housing units in Peru. SANJOSE is executing top quality affordable important social housing developments under the framework of the My Home Programme which provides home purchase assistance to thousands of families in LATAM. The Group has promoted and built important urban developments in Lima, including the new Nuevavista Condominium, of 1,104 homes, which is currently being designed in the Bellavista district; the 1.392 housing units of the Condominio del Aire (already sold in its entirety); and the 3,072 housing units of the Condomio Parques de la Huaca (already sold in its entirety), where it has also sponsored the restoration and enhancement of a Huaca (archaeological site) of 3,651 sqm in close collaboration with the National Institute of Culture .
- Training programme on Quality and Risk Prevention plans in several countries of Asia, Africa and LATAM.
- In India and East Timor, training programmes on safety, environmental, risk prevention issues, etc. are being developed in order to improve sociocultural conditions of local workers, such as on sexually transmitted diseases or risks on heavy alcohol intake.
- Environmental and revaluation studies carried out on sustainable cattle and farm developments in Paraguay.
- Full commitment to energy efficiency and the use of renewable energies, as well as collaboration with public and private entities for the dissemination and development of them. The result of its work is the net contribution of green energy in its activity, generating more energy from renewable sources than it consumes in all its facilities in the world.
- Implementation of important sustainable measures on civil works in India, in order to ensure the preservation of local fauna and flora minimising the impact on the environment.
- Collaboration with Fundación Manantial, a non-profit organisation founded in 1995 that serves more than 2,000 people a year, which aims to provide comprehensive care to people with severe mental disorders and specially to give an effective response to issues related to their social and labour situation.
- The European Union has ruled that the continuous exposure to radon poses a serious risk to health, in fact exposure to this gas is the second cause of lung cancer after smoking. Radon is present in granite areas around the world, which are very abundant in Galicia (second European producer of granite and fifth in the world). The gas expands and can be found in areas of mountain water that are not treated and in rocky soils.
    - SANJOSE is working with various research and technology organisations to create an association that will be launched in 2018 to carefully study and find innovative solutions to this issue. The main objective of the project is to reduce levels of radon concentration and make them within the appropriate thresholds so that it is not harmful to health and remains below those allowed by state, local and EU legislation and regulations.
    - For this reason, a computer application will be developed to predict the level of radon concentration in indoor air (PROGNOSIS) both in existing buildings and in future constructions. The scope of this project aims to protocolise and implement the systematic

measurement of radon concentration in the subsoil to act in a preventive manner and study in parallel, through various experiments, how to implement different constructive solutions, some of them innovative.

During 2018, Grupo SANJOSE has carried out sundry solidarity activities, among which highlight the following:

Peru

- "Donation of Christmas gifts" in collaboration with the Subprefectura Distrital de Santa Rosa (General Directorate of the Interior Government) by purchasing toys that were delivered to the most disadvantaged children of the District of Santa Rosa-Mazocruz (500 children).
- "Christmas campaign of the ilaveño child", in coordination with the Police Station of Ilave (National Police of Peru) to arrange a Christmas party where to provide protection and help to the people of the Community of Ilave area providing 3,000 children with toys, chocolate and an artistic show.
- Collaboration with Aldeas Infantiles SOS in Peru, through the donation of paper for recycling purposes (more than 640 kilos).

Spain

- Sponsorship by Grupo SANJOSE of the "Solidarity Race for Mental Health", in the framework of collaboration with the Manantial Foundation (a non-profit organisation that was created by the associative movement of family members and declared of charitable-welfare purpose by the Ministry of Labour and Social Affairs) and whose ultimate goal is the comprehensive care for people with severe mental disorders. As a strategic line of the charity race, we seek to raise awareness and give visibility to mental health disorders in society through sports, promote early attention, reduce stigma and support inclusion, breaking taboos, preconceptions and negative attitudes, in short, support families with a space for inclusive participation and leisure.
- "Convenio de apoyo al deporte base" entered into with the Celta de Vigo Foundation, where SANJOSE Constructora was appointed Honorary Member, in attention to its total delivery for the promotion and development of the sport activity in lower categories of grassroots football, mainly in infantile and juvenile categories, as well as by other diverse collaborations realised.
- Likewise, Grupo SANJOSE encourages among its employees the adoption of healthy habits with regards to food and sports. In December 2018, a large group of employees of the Group took part in the "Race of Companies", sponsored by Banco Santander, where through sport they were able to share a morning of sports and collaboration between the different participating teams.
- Grupo SANJOSE during 2018 has continued to collaborate in the Blood Donation campaigns that RED CROSS organises periodically.

Profit/(Loss) per country

In 2018, profit/(loss) per country has been as follows:

COUNTRY	NET PROFIT / (LOSS) PER COUNTRY
Chile	10,905
Spain	9,362
India	7,628
Peru	2,707
Timor	1,968
Abu Dhabi	1,429
Argentina	388
Other	(8,062)
Total Grupo SANJOSE	**26,325**

Notes: Other include the rest of the countries and consolidation adjustments.

The total amount of the profit/(loss) for the year excludes the impact arising from adjustment for inflation in hyper-inflationary economies.

The information contained herein corresponds to Grupo Empresarial San José, S.A. and subsidiaries.

Duties and taxes

In 2018, SANJOSE has returned EUR 15.3 million, of which EUR 8.9 corresponds to Corporate Tax and the outstanding (EUR 6.5 million) to local taxes and fees.

From the total, 48.4% is located in Spain.

COUNTRY	INCOME TAX ACCRUED	TAXES	TOTAL (THOUSANDS OF EUROS)
Spain	3,166	3,888	7,054
Argentina	4,051	1,105	5,156
Peru	1,534	133	1,667
Portugal	844	533	1,377
India	723	285	1,008
Cape Verde	453	57	510
Timor	501	-	501
USA	-	110	110
Brazil	-	82	82
Abu Dhabi	-	51	51
Panama	-	11	11
Mexico	-	7	7
Chile	(2,410)	204	(2,206)
Other	(34)	(11)	(45)
Total Grupo SANJOSE	**8,828**	**6,455**	**15,283**

Note: The information contained herein corresponds to Grupo Empresarial San José, S.A. and subsidiaries.

www.gruposanjose.biz

AENOR

AENOR Verification Statement for GRUPO EMPRESARIAL SAN JOSE, S.A. relating to the reporting of non-financial information pursuant to Law 11/2018 corresponding to 2018

FILE: 1995/0146/GEN/01

GRUPO EMPRESARIAL SAN JOSE, S.A. (hereinafter the company) has commissioned AENOR to carry out a limited review of the non-financial information report in accordance with Law 11/2018 amending the Commercial Code, the consolidated text of the Capital Companies Law approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015 of 20 July, on Account Auditing, on non-financial information and diversity (hereinafter, Law 11/2018), for the period of verification of its activities included in the report dated 28 February 2019, which is part of this Declaration.

AENOR, in accordance with the aforementioned Law, has carried out this verification as an independent provider of verification services.

In this sense, AENOR has carried out the present verification under the principles of integrity, independence, ethics, objectivity, professional competence and diligence, confidentiality and professional behaviour that are required based on the accreditations that it has, within the general scope of application of the ISO/IEC 17021-1:2015 and ISO 14065 Standards, and individuals, such as the Accreditation granted by the United Nations Convention on Climate Change (UNFCCC) for verification and validation of Clean Development Mechanism (CDM) projects.

AENOR, as required by the aforementioned Law, declares that it has not participated in processes prior to the verification of the report.

Data of the organization: GRUPO EMPRESARIAL SAN JOSE, S.A., whose registered office is at:

CALLE ROSALIA DE CASTRO, 44
36001 Pontevedra

Representatives of the Organization for purposes of reporting non-financial information: Estela AMADOR BARCIELA as General Director of Marketing, Human Resources and Communication

GRUPO EMPRESARIAL SAN JOSE, S.A. was responsible for reporting its non-financial information in accordance with Law 11/2018.

Objective

The purpose of the verification is to provide interested parties with a professional and independent judgment about the information and data contained in the non-financial information report of the aforementioned organization, prepared in accordance with Law 11/2018.

Scope of Verification

GRUPO EMPRESARIAL SAN JOSE, S.A. and its companies included in the Consolidated Non-Financial Information Statement dated February 28, 2019 and listed in the appendix to this statement.

Materiality

For verification purposes, it was agreed to consider material discrepancies those omissions, distortions or errors that can be quantified and result in a difference greater than 5% with respect to the total declared.

Criteria

The criteria and information that have been taken into account as a reference for carrying out the check have been:

1) Law 11/2018 of 28 December amending the Commercial Code, the consolidated text of the Law on Capital Companies approved by Royal Legislative Decree 1/2010 of 2 July and Law 22/2015 of 20 July on Account Auditing, on non-financial information and diversity.

2) ISAE 3000 standard (revised), relating to the commissioning of separate underwritings or the review of historical financial information.

3) The criteria established by the global sustainability reporting initiative at GRI standards when the organization has opted for this internationally recognized framework for the disclosure of information related to its corporate social responsibility.

AENOR expressly disclaims any responsibility for investment or other decisions based on this statement.

Verification process carried out

During the verification process carried out, under a limited level of assurance, AENOR conducted interviews with the staff responsible for compiling and preparing the non-financial information report and reviewed evidence relating to:

- Activities, products and services provided by the organization
- Consistency and traceability of the information provided, including the process followed to compile it, sampling information on the reported one.
- Completion and content of the report of non-financial information in order to ensure the completeness, accuracy and veracity of its content.

Conclusion

Based on the foregoing, in our opinion, there is no evidence to suggest that the report on non-financial information included in the REPORT ON NON-FINANCIAL INFORMATION AND DIVERSITY OF GRUPO EMPRESARIAL SAN JOSE, S.A. & SUBSIDIARIES RELATIVES TO THE FINALIZED FINANCIAL YEAR AT DECEMBER 31, 2018, dated February 28, 2019, and for the period 2018, is not a faithful representation of the performance of GRUPO EMPRESARIAL SAN JOSE, S.A. in matters of social responsibility. Specifically, in relation to environmental, social and personnel issues, including the management of equality, non-discrimination and universal accessibility, human rights, the fight against corruption, and bribery and diversity.

In Madrid on February 28, 2019

Rafael GARCÍA MEIRO

Chief Executive Officer

ANNEX

LIST OF COMPANIES INCLUDED IN THE STATE OF NONFINANCIAL INFORMATION OF THE GROUP

Subsidiaries:

Alexin XXI, S.L.U.

Aprisco Salvador Inv. Hoteleiros e Imobiliários, Ltda.

Argentimo, S.A.

Arserex, S.A.U.

Basket King, S.A.U.

Cadena de Tiendas, S.A.U.

Carlos Casado, S.A.

Cartuja Inmobiliaria, S.A.U.

Centro Comercial Panamericano, S.A

CIMSA Argentina, S.A.

Comercial Udra, S.A.U.

Sanjose Panamá, S.A.

Constructora San José Argentina, S.A.

Constructora San José Brasil Limitada

Constructora San José Cabo Verde, S.A.

Constructora San José, S.A.

Constructora San José Timor, Unipessoal Lda.

Constructora Udra Limitada

Desarrollos Urbanísticos Udra, S.A.U.

Eraikuntza, Birgaikuntza Artapena, S.L.U.

Enerxías Renovables de Galicia, S.A.

Athlelic King S.A.U.

Fotovoltaica el Gallo 10, S.L.

Gestión de servicios de la salud S.L.

GSJ Solutions, S.L.

Hospes Brasil Participaciones e Empreendimientos Lda.

Inmobiliaria 2010, S.L.

Inmobiliaria Americana de Desarrollos Urbanisticos, S.A.U.

Inmobiliaria Sudamericana de Desarrollos Urbanísticos, S.A.

Inversión SanJose Chile Limitada

Inversiones San Jose Andina Ltda.

Sociedad Educacional Andina Lda. (antes Inversiones Hospitalarias Ltda.)

Inversiones Viales Andina Ltda.

Outdoor King, S.A.U.

O&M Parc de LÀlba ST-4, S.A.

Parsipanny Corp. S.A.

Poligeneraciones parc de L´Alba ST-4
Puerta de Segura, S.A.

San José Constructora Perú S.A.

Rincon S.A.G.
Running King, S.A.U.

Sociedad Concesionaria Rutas del Loa, S.A.

San José Concesiones y Servicios, S.A.U.

San José Construction Group, Inc

San José France, S.A.S.

San José Maroc, S.A.R.L.A.U.

San José Perú Inmobiliaria, S.A.C.

Sáo José Mozambique, Sociedade Limitada

San José Tecnologías Chile Ltda.

San Jose India Infrastructure & Construction Private Limited
Sanjose Mahavir Supreme Building One Private Limited

San José Real Estate Development, LLC

San José Energía y Medio Ambiente, S.A.U.

SanJosé Nuevos Proyectos Salud, Limitada

SanJosé Contracting, L.L.C.

Sefri Ingenieros Maroc, S.A.R.L.

Sociedad Concesionaria Chile Tecnocontrol

San José Constructora Chile Ltda.

Constructora San José Colombia, S.A.AS.

SJB Mullroser

Tecnoartel Argentina, S.A.

Tecnocontrol Mantenimiento, S.L.U.

Tecnocontrol Servicios, S.A.U.

Tecnocontrol Sistemas de Seguridad, S.A.U.

Tecnocontrol Chile Ltda.

Top Brands, S.A. (en liquidación)

Trendy King, S.A.U.

Udra Medios, S.A.U.

Udra México S.A. de C.V.

Udra Obras Integrales S.A. de CV

Vision King S.A.U.

Xornal de Galicia, S.A.

Xornal Galinet, S.A.U.
Zivar, investimentos inmobiliarios C.

Associated companies:

Distrito Castellana Norte, S.A.
Panamerican Mal, S.A.

Multigroup companies:

Cresca S.A. (1)
CSJ GVK Projects and Technical SS.PL.
Pinar de Villanueva, S.L.

DIRECTORS' SIGNATURES

For the purposes of R.D. 1362/2007 on 19 October (Article 8.1.b and Article 10), the undersigned Directors of Grupo "Grupo Empresarial San José, S.A." hereby make the following statement of liability:

That, to the best of their knowledge, the consolidated financial statements prepared in accordance with applicable accounting standards present a true and fair view of consolidated equity, the consolidated financial position and the consolidated results obtained by the issuer and its consolidated companies taken as a whole and that the consolidated Directors' Report includes an accurate analysis of business development and results, the position of the issuer and the companies included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties which they face. In witness whereof, the Board of Directors sign herein.

These Financial Statements consisting of the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and Notes to the Financial Statements for the year ending on 31 December 2018, issued on 112 sheets of common paper, as well as the Consolidated Directors' Report, issued on 19 sheets of common paper, and the non-Financial Information Statement issued in 57 sheets of common paper, all of them one face issued an additional to the present officially stamped single-sheet paper were prepared by the Company's Board of Directors on 28 February 2019.

Mr. Jacinto Rey González	Mr. Jacinto Rey Laredo
Mr. Sunil Kanoira	Mr. Enrique Martín Rey
Ms. Altina de Fátima Sebastián González	Mr. Ramón Barral Andrade
Mr. José Manuel Otero Novas	Mr. Roberto Alvarez Álvarez
Mr. Javier Rey Laredo	Mr. Nasser Homaid Salem Ali Alderei
Mr. Guillermo E.Nielsen	

The Member Mr. Roberto Álvarez has attended the Meeting through videoconference.

The members Mr. Guillermo E.Nielsen, Mr. Sunil Kanoira y Mr. Nasser Homaid Salem Ali Aldarei have submitted absence for leave due to duly justified professional reasons, not having expressed any type of discrepancy regarding the content herein.

The Secretary to the Board

Translator's note: Due to language features, the number of pages of the preceding text does not correspond to the original Spanish version.

Translation into English of consolidated financial statements for the year ending 31 December 2018 originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

NEGATIVE CLEARANCE REGARDING ENVIRONMENTAL INFORMATION IN FINANCIAL STATEMENTS

Company`s identification:

Grupo Empresarial San José, S.A. and Subsidiaries

Company`s data:

R.M. Pontevedra, Volume 586, sheet 88, page 8119

TAX Id #: A36.046.993 ***Tax year:*** 2018

The undersigned, as Director of the above-mentioned company state that accounting records of the financial statements issued in 189 sheets of paper do not include items to be included within the document apart from environmental information set forth by Ministerial Order 8 October 2001.

Signature and name of the Directors:

Mr. Jacinto Rey González	Mr. Jacinto Rey Laredo
Mr. Sunil Kanoira	Mr. Enrique Martín Rey
Ms. Altina de Fátima Sebastián González	Mr. Ramón Barral Andrade
Mr. José Manuel Otero Novas	Mr. Roberto Alvarez Álvarez

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Mr. Javier Rey Laredo

Mr. Nasser Homaid Salem Ali Alderei

Mr. Guillermo E.Nielsen

Translator's note: Due to language features, the number of pages of the preceding text does not correspond to the original Spanish version.