

# **Neinor Homes, S.L.U. and Subsidiaries**

**Consolidated Financial Statements for annual  
period ended 31 December 2016, prepared in  
accordance with International Financial  
Reporting Standards**

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

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 19). In the event of a discrepancy, the Spanish-language version prevails.*

## INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Sole Shareholder of Neinor Homes, S.L.U.:

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Neinor Homes, S.L.U. and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the annual period then ended.

#### *Directors' Responsibility for the Consolidated Financial Statements*

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Neinor Homes, S.L.U. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Notes 2.a and 2.b to the accompanying consolidated financial statements) 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Neinor Homes, S.L.U. and Subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the annual period then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

*Report on Other Legal and Regulatory Requirements*

The accompanying consolidated directors' report for the annual period ended at 31 December 2016 contains the explanations which the Parent's directors consider appropriate about the situation of Neinor Homes, S.L.U. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Neinor Homes, S.L.U. and Subsidiaries.

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



Alicia Izaga Goicoechea  
27 February 2017

# **Neinor Homes, S.L.U. and Subsidiaries**

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period ended 31 December 2016, prepared in  
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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 and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.*

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

**CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2016 AND 31 DECEMBER 2015**  
(Thousands of Euros)

ASSETS	Notes	31.12.16	31.12.15 (*)	EQUITY AND LIABILITIES	Notes	31.12.16	31.12.15 (*)
<b>NON-CURRENT ASSETS:</b>				<b>EQUITY:</b>			
Intangible assets	7	754	93	Share capital		729.297	939.878
Property, plant and equipment	8	1.553	1.422	Legal reserve		823	-
Investment property	9	12.893	11.010	Reserves of the Parent		7.980	573
Non-current financial assets	11	336	98	Reserves at fully consolidated companies		(108.145)	(28.971)
Deferred tax assets	20	-	-	Consolidated profit / (loss) for the year		1.057	(70.856)
<b>Total non-current assets</b>		<b>15.536</b>	<b>12.623</b>	<b>Total equity</b>	15	<b>631.012</b>	<b>840.614</b>
				<b>NON-CURRENT LIABILITIES:</b>			
				Bank borrowings	17	26.623	-
				Other non-current liabilities	18	34	65
				Deferred tax liabilities	20	321	-
				<b>Total non-current liabilities</b>		<b>28.978</b>	<b>65</b>
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Inventories	12	925.386	933.290	Provisions	16	9.059	13.990
Trade and other receivables	13	20.553	35.702	Bank borrowings	17 and 23	277.958	62.992
Current financial assets	11	23	45	Other current financial liabilities	17 and 21	288	26
Tax receivables	20	9.050	34.460	Payables to sole shareholder	23	3.071	99.080
Cash and cash equivalents	14	45.301	89.389	Current trade and other payables	19 and 23	32.698	70.423
				Tax payables	20	4.404	4.739
				Other current liabilities	12 and 18	31.251	13.580
<b>Total current assets</b>		<b>1.000.293</b>	<b>1.092.886</b>	<b>Total current liabilities</b>		<b>357.839</b>	<b>264.830</b>
<b>TOTAL ASSETS</b>		<b>1.015.829</b>	<b>1.105.509</b>	<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1.015.829</b>	<b>1.105.509</b>

(\*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated balance sheet at 31 December 2016.

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

**CONSOLIDATED INCOME STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2016 AND FOR  
THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2015**

(Thousands of Euros)

	Notes	Period ended 31 December 2016	6 months period ended 31 December 2015 (*)
Net revenues	22 and 23	228.565	134.688
Cost of sales	22 and 23	(205.360)	(104.871)
Employee benefits expenses	22	(11.677)	(4.808)
Depreciation and amortisation charges	7, 8 and 9	(608)	(270)
External services	22	(40.198)	(25.536)
Change in trade provisions	22	34.595	(69.618)
Other operating gains/(losses)		3.704	781
<b>PROFIT / (LOSS) FROM OPERATIONS</b>		<b>9.021</b>	<b>(69.634)</b>
Impairment and gains/(losses) on disposals of non-current assets	8	(2)	-
Finance revenue		108	27
Finance costs	17 and 23	(4.999)	(644)
<b>PROFIT / (LOSS) BEFORE TAX</b>		<b>4.128</b>	<b>(70.251)</b>
Income tax	20	(3.071)	(615)
<b>PROFIT / (LOSS) FOR THE YEAR</b>		<b>1.057</b>	<b>(70.866)</b>
<b>Earnings/(losses) per share (Euros):</b>			
Basic	6	0,001	(0,075)
Diluted	6	0,001	(0,075)

(\*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated income statement for the period ended 31 December 2016.

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

**CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE  
FOR THE PERIOD ENDED 31 DECEMBER 2016 AND FOR  
THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2015**  
(Thousands of Euros)

	Notes	Period ended 31 December 2016	6 months period ended 31 December 2015 (*)
CONSOLIDATED PROFIT / (LOSS) FOR THE YEAR		1.057	(70.866)
OTHER RECOGNIZED INCOME (EXPENSES)		-	-
ITEMS NOT SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		-	-
ITEMS SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		-	-
TOTAL RECOGNISED INCOME AND EXPENSE		1.057	(70.866)
a) Attributable to the Parent		1.057	(70.866)
b) Attributable to non-controlling interests		-	-

(\*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statements of recognised income and expense for the period ended 31 December 2016.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 DECEMBER 2016 AND FOR  
THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2015**  
(Thousands of Euros)

	Share capital	Legal reserve	Other reserves of the Parent	Reserves at consolidated companies	Consolidated profit/loss for the year	Total equity
Balance at 30 June 2015 (*)	939.878	-	(60)	(27.106)	(11.248)	901.464
Distribution of profit/loss for the year:						
To reserves	-	-	(713)	(10.535)	11.248	-
Income/expense recognised in the period	-	-	-	-	(70.866)	(70.866)
Other	-	-	1.346	9.670	-	10.016
Balance at 31 December 2015 (*)	939.878	-	573	(28.971)	(70.866)	840.614
Distribution of profit/loss for the year:						
To reserves	-	823	7.407	(79.096)	70.866	-
Income/expense recognised in the period	-	-	-	-	1.057	1.057
Reductions of capital (Note 15)	(210.581)	-	-	-	-	(210.581)
Other (Note 15.c)	-	-	-	(78)	-	(78)
Balance at 31 December 2016	729.297	823	7.980	(108.145)	1.057	631.012

(\*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statements of changes in equity for the period ended 31 December 2016.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE PERIOD ENDED 31 DECEMBER 2016 AND FOR  
THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2015**  
(Thousands of Euros)

	Notes	Period ended 31 December 2016	6 months period ended 31 December 2015 (*)
<b>Cash flows from/(used in) operating activities</b>			
Profit/(loss) from operations		4.128	(70.251)
Adjustments-			
Depreciation and amortisation	7, 8 and 9	608	270
Change in provisions	9, 12 and 16	12.377	76.412
Impairment and gains/(losses) on disposal of intangible and tangible assets		2	-
Finance costs		4.999	644
Finance revenue		(108)	(27)
Other proceeds / (payables)	16	(7.904)	-
Cash flows obtained from operations		<b>14.102</b>	<b>7.048</b>
<b>Increase/(Decrease) in current assets and liabilities:</b>			
Inventories	12	(3.108)	(109.027)
Trade and other receivables	11 and 13	40.618	(39.139)
Current trade and other payables	18 and 19	(37.739)	53.336
Other current and non-current assets and liabilities	11 and 23	17.640	1.202
Income tax paid	20	(790)	-
<b>Total net cash flows from operating activities (I)</b>		<b>30.723</b>	<b>(86.580)</b>
<b>Cash flows from/(used in) investing activities:</b>			
Investments in intangible and tangible assets	7 and 8	(1.085)	(442)
Investments in investment property		-	-
Investments in Group companies and associates	11 and 23	-	(4)
Investments in non-current financial assets	11	(238)	(41)
Interests collected		108	7
Dividends received		-	-
Disposals of intangible and tangible assets	8	59	-
Disposals of investment property	9	-	132
Disposals of Group companies and associates		-	-
Disposals of other current and non-current financial assets		22	-
<b>Total net cash flows from investing activities (II)</b>		<b>(1.134)</b>	<b>(348)</b>
<b>Cash flows from/(used in) financing activities:</b>			
Proceeds from share capital increases	15	-	1.346
Repayments from share capital reductions	15	(210.581)	-
Proceeds from bank borrowings	17	298.648	51.408
Proceeds from sole shareholder borrowings	23	-	105.000
Repayment of bank borrowings	17	(53.974)	(11.983)
Repayment of sole shareholder borrowings	17 and 23	(99.001)	(6.728)
Interests paid	17 and 23	(9.000)	(401)
Dividends paid		-	-
Other proceeds/payments related to financing activities	17	231	(357)
<b>Total net cash flows from financing activities (III)</b>		<b>(73.677)</b>	<b>138.285</b>
<b>Net increase/(decrease) in cash and cash equivalents (I+II+III)</b>		<b>(44.088)</b>	<b>51.357</b>
Cash and cash equivalents at beginning of the period		89.389	38.032
<b>Cash and cash equivalents at end of year</b>		<b>45.301</b>	<b>89.389</b>

(\*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statement of cash flow for the period ended 31 December 2016.



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

## **Neinor Homes, S.L.U. and Subsidiaries**

### **Notes to the Consolidated Financial Statements for the period ended 31 December 2016 (hereinafter, 2016 period)**

#### **1. Activity of the Neinor Homes Group**

Neinor Homes, S.L.U. was incorporated under the name Lion Assets Holding Company, S.L.U. in a deed executed on 4 December 2014. On 14 May 2015 the Parent changed its name to Neinor Homes, S.L.U. and has moved its registered address from Edificio Asúa, Parque de Actividades Económicas Asuaran, Erandio (Vizcaya) to Calle Ercilla 24, Bilbao (Vizcaya).

The corporate purpose of Neinor Homes, S.L.U., as the Parent, and its subsidiaries (hereinafter, Neinor Homes Group or the Group), is to promote, manage and develop all kind of Real Estate operations. The locations where the different companies of the Group develop their activity are rented.

The Neinor Homes Group was incorporated in the context of the memorandum of understanding entered into in 2014 by Kutxabank, S.A. and the Lone Star investment fund, through its investee Intertax Business, S.L.U. (now Neinor Holdings, S.L.U.) for the sale and purchase of a portion of the Kutxabank Group's property assets. This transaction was completed on 14 May 2015 through the transfer by Kutxabank, S.A. to Neinor Holdings, S.L.U. of all the shares held by the former in Neinor Homes, S.L.U., once the conditions precedent established in the purchase and sale agreement entered into by the parties on 18 December 2014 had been met. Prior to the aforementioned date on which the shares were transferred, the Neinor Homes Group was the owner of the aforementioned property assets, which were included either through the direct contribution of these assets or through the contribution of the shares of certain companies holding the property assets by certain Kutxabank Group companies to the two subsidiaries also incorporated for this purpose at the end of 2014, namely Neinor Norte, S.L.U. (formerly Promoetxe Bizkaia, S.L.U.) and Neinor Peninsula, S.L.U. (formerly Perímetro Hegoalde, S.L.U.). These contributions were made through non-monetary contributions as part of the series of capital increases carried out in 2014 and 2015 for a total amount of approximately EUR 802.850 thousand. These assets were contributed at their net book value in the accounting books of the contributors at the date of the contribution (acquisition cost or net recoverable value, the lower) (see Notes 4.b, 4.c and 4.f) and part of the current portfolio of the Group's real estate assets relates to that transaction (see Note 12).

In addition, and as part of this transaction, on 1 January 2015, all the employees who had been performing the property group's development and management tasks at the Kutxabank Group, and the technical and other resources required to perform this activity, were transferred to the various Neinor Homes Group companies. In this regard, on 14 May 2015, an asset administration and management agreement was entered into by the various Kutxabank Group companies and Neinor Homes, S.L.U. in relation to the property assets owned by the former. This agreement has an initial seven-year term and may be extended automatically for further one-year periods. As consideration for these services, the various companies paid remuneration depending on the type and volume of the managed assets, plus additional variable remuneration based on success, applicable to asset sales and for performing certain specific related actions, and accruals (see Notes 13, 22.a and 23). The contract can be terminated early in certain circumstances relating to a change of control at the successful bidder for the contract involving a competitor of Kutxabank, negligence in the provision of the service or interruption thereof for more than seven days, except in the event of fortuitous events or force majeure. Also, in the event of Kutxabank's loss of

control of entities within the scope of this contract, there is an option for early termination, although the corresponding compensation for termination is regulated. At 31 December 2016 and 2015, fourteen and eleven Group employees, respectively, had been assigned to the provision of these services directly.

The Group therefore formed part of the Kutxabank Group until 14 May 2015 (see Notes 14 and 22), on which date Neinor Holdings, S.L.U. became the sole shareholder of the Parent. The sole shareholder of this company is LSREF3 Lion Investments, S.à.r.l., incorporated in Luxembourg (see Note 14), which is a subsidiary of Lone Star Funds. This matter should be taken into consideration in any interpretation made of the accompanying consolidated financial statements.

In these circumstances, the Parent is not required to prepare consolidated financial statements for the 2016 and 2015 period since its Group is consolidated on 31 December 2016 and 31 December 2015 in the Neinor Holdings Group, being Neinor Holdings, S.L.U. its Parent. The registered address of Neinor Holdings, S.L.U. is Ercilla 24, Bilbao (Vizcaya). In any case, the Parent's directors availed themselves of the possibility of voluntarily preparing the consolidated financial statements of the Neinor Homes Group for 2015 in accordance with International Financial Reporting Standards as adopted by the European Union ("EU-IFRSs") and, in conformity with Regulation (EC) no 1606/2002 of the European parliament and the board from 19 July 2002, at 31 December 2016 and 2015.

On 9 June 2015, the Sole Shareholder changed the reporting period of the Group, which was established as beginning on 1 July and ending on 30 June. Subsequently, on 15 December 2015, the Sole Shareholder once again resolved to change the reporting period, which was established as from 1 January to 31 December, effective from 31 December 2015. Exceptionally, the Group divided 2015 into two reporting periods of six months ended 30 June and 31 December.

Appendix I includes the detail of the consolidated Group companies and the information related thereto at 31 December 2016 and 2015, prior to the related unifying adjustments thereof and any adjustments made for the conversion to International Financial Reporting Standards (EU-IFRSs). The information in Appendix I was provided by the Group companies and their equity position is reflected in their separate financial statements.

#### **Reorganisation of Kutxabank's Real Estate Group and creation of Neinor Homes, S.L.U.**

Following the integration of the three Basque savings banks (BBK, Kutxa and Vital) in 2011, in 2013 the Kutxabank Group commenced an in-depth reorganisation of its real estate area, which continued in 2014, the most noteworthy milestone during the process being the sale by Kutxabank to a third party (ultimately the Lone Star investment fund) of a very significant portion of the real estate assets owned by the various companies in the real estate area.

As has already been discussed, on 18 December 2014, following a long period of negotiation, Kutxabank and a third party entered into a purchase and sale agreement whereby the former transferred to the latter all the shares of Neinor Homes, S.L. (formerly and until 14 May 2015 Lion Assets Holding Company, S.L.), a newly-formed company incorporated to that effect, which, following a series of corporate transactions and transfers, owned, directly or indirectly, a significant portion of the aforementioned real estate assets in Kutxabank's real estate area, and which constituted the main purpose of the aforementioned transaction (Operation Lion). As previously discussed, at 31 December 2014 Lion Assets Holding Company, S.L.U. had become the owner of these real estate assets. In any case, the effectiveness of this agreement was subject to the fulfilment of each and every one of the conditions precedent set forth therein. These clauses were fulfilled in 2015 and on 14 May 2015 the agreement was finally completed.

In this connection, in 2014 and in order to transfer to Lion Assets Holding Company, S.L.U., currently Neinor Homes, S.L.U., ownership of the real estate assets and other related assets and liabilities subject to this transaction from the companies that owned them, the latter performed various corporate transactions, which are summarised as follows:

- Firstly, on 19 December 2014, two companies, Promoetxe Bizkaia, S.L. and Perímetro Hegoalde, S.L. (now Neinor Norte, S.L.U. and Neinor Península, S.L.U. respectively) were incorporated, to which were transferred, through non-monetary contributions, the aforementioned real estate assets and the shares of Inverlur Las Lomas, S.L.U., Benalmar Servicios Inmobiliarios S.L.U., Servicios Inmobiliarios Loizaga II, S.L.U., Fuengimar Servicios Inmobiliarios, S.L.U., Promociones Costa Argia, S.L.U. (now Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L.U. respectively) in the case of Promoetxe Bizkaia, S.L. and the shares of Caja Sur Inmobiliaria, S.L.U. (now Neinor Sur, S.L.U.) in the case of Perímetro Hegoalde, S.L.
- Secondly, and following the incorporation of the aforementioned company Lion Assets Holding Company, S.L., the shares of which were subject to the transaction described above, on 26 December 2014 the companies contributing the real estate assets and other related assets and liabilities subscribed a capital increase thereat, which was paid in full through a non-monetary contribution of the shares of Promoetxe Bizkaia, S.L. and Perímetro Hegoalde, S.L. and, accordingly, the aforementioned contributing companies became shareholders of Lion Assets Holding Company, S.L.
- On 31 December 2014, the contributing companies transferred to Kutxabank their shares in Lion Assets Holding Company, S.L. for an amount identical to the value attributed to the contributions described above. This transaction was fully effective from the aforementioned date and was not subject to any condition precedent.
- On 11 May 2015, following fulfilment on 30 April 2015 of the condition precedent established in the capital increase of approximately EUR 86.729 thousand approved on 31 December 2014, Kutxabank, S.A., which at that date was the sole shareholder of the Parent, approved the completion of the aforementioned capital increase. This capital increase was fully subscribed and paid by the aforementioned sole shareholder through the non-monetary contribution of certain real estate assets amounting to approximately EUR 83.835 thousand and the monetary contribution of the remaining amount.
- Also, by virtue of the agreements made by the parties in the context of the transaction described in Note 1, on 11 May 2015, Kutxabank, S.A. approved another capital increase of EUR 123.000 thousand, which was fully subscribed and paid in cash by Kutxabank, S.A.
- Lastly, on 14 May 2015, Kutxabank effectively transferred ownership of the aforementioned companies, once the conditions precedent associated with the purchase and sale transaction had been fulfilled.

Thus, in particular on 19 December 2014, the contributing companies Harri Iparra, S.A.U. (formerly Neinor Barria, S.A.U.), Harri Kartera, S.A.U. (formerly Neinor, S.A.U.), Harri Hegoalde 1, S.A.U. (formerly Neinor Ibérica, S.A.U.), Harri Hegoalde 2, S.A.U. (formerly Neinor Ibérica Inversiones, S.A.U.), Yerecial, S.L.U., Harri Inmuebles, S.A.U. (formerly Neinor Inmuebles, S.A.U.), Compañía Promotora y de Comercio del Estrecho, S.L.U. contributed to Promoetxe Bizkaia, S.L. and Perímetro Hegoalde, S.L.U. certain real estate assets and other related assets the detail of which is shown below in this section. Subsequently, on 31 December 2014, and following the contribution of the shares thus acquired of Promoetxe Bizkaia, S.L.U. and Perímetro Hegoalde, S.L.U. to Lion Assets Holding Company, S.L.U., the contributing companies sold to Kutxabank, for this same amount, their shares in Lion Assets Holding Company, S.L.U.

These transactions were exempt from VAT pursuant to the provisions of Article 7.1 of Law 37/1992, of 28 December, as they were business assets that constituted independent economic units capable of carrying on business activity using their own means. The exemption was also applicable to transfer tax.

The detail of the net assets and liabilities contributed in the transactions that took place on 19 December 2014 is as follows (see the detail by contributing company in Appendix II):

	Thousands of euros			
	Contributions to Neinor Norte, S.L.U.	Contributions to Neinor Península, S.L.U.	Net assets and liabilities of shares contributed	Total contributions to Neinor Homes, S.L.U. and subsidiaries
<b>Assets-</b>				
Investments in Group companies	- (*)	73.246	(73.246)	-
Inventories, investment property and advances	278.478	379.451	176.430	834.359
Other current assets	26	5.491	29.179	34.696
<b>Total assets</b>	<b>278.504</b>	<b>458.188</b>	<b>132.363</b>	<b>869.055</b>
<b>Liabilities-</b>				
Payable to the Group	(4.381)	(2.071)	(153.823)	(160.275)
Other current liabilities	-	-	(5.618)	(5.618)
<b>Total liabilities</b>	<b>(4.381)</b>	<b>(2.071)</b>	<b>(159.441)</b>	<b>(165.893)</b>
<b>Negative reserves</b>	<b>-</b>	<b>-</b>	<b>27.078</b>	<b>27.078</b>
<b>Net assets</b>	<b>274.123</b>	<b>456.117</b>	<b>(27.078)</b>	<b>703.162</b>

(\*) Contribution amounted to EUR 1 (Note 15).

## **2. Basis of presentation of the consolidated financial statements**

### ***a) Basis of presentation***

The consolidated financial statements of the Neinor Homes Group for 2016 were prepared by the Parent's directors at the Board of Directors' meeting held on 27 February 2017, on the basis of the accounting records held by the Parent and by the other Neinor Homes Group companies properly adjusted for the conversion to International Financial Reporting Standards (EU-IFRSs).

On 27 February 2017, the Parent's Board of Directors, considering a possible flotation of the Parent and, consequently, the possible inclusion of the consolidated financial statements in the corresponding share issue prospectus, considered it appropriate to include additional descriptive information in certain notes in order to offer more detailed information for improved reading and comprehension of these consolidated financial statements, and to include certain disclosures which the applicable financial reporting framework (EU-IFRSs) only requires from listed companies, as in the case of segmented information (see Note 6). In this connection, the segmentation criteria used to prepare the aforementioned information were adapted to those used in the consolidated financial statements for 2016 (see Note 6). As a result, the consolidated financial statements for the six-month period ended 31 December 2015 were reissued by the Board of Directors on 27 February 2017, together with those for 2016.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, taking into account all the mandatory accounting policies and rules and measurement bases considering that the Parent of the Group does not have any debt or equity instruments traded in a public market and does not file, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market, so that they present fairly the Neinor Homes Group's consolidated equity and financial position at 31 December 2016, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the 12 months period then ended.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2016 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with International Financial Reporting Standards.

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

The 2016 consolidated financial statements of the Group and the financial statements of the Group companies have not yet been approved by their respective sole shareholders. However, the Parent's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

**b) Adoption of International Financial Reporting Standards**

The following mandatory standards and interpretations, already adopted in the European Union, became effective in 2016. Where applicable, the Group has used them in the preparation of these consolidated financial statements:

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

Approved for use in the European Union		Obligatory application in annual reporting periods beginning on or after:
Amendments to IAS 16 and IAS 38, <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> (issued in May 2014)	Clarify the acceptable methods of depreciation and amortisation of property, plant and equipment and intangible assets, which do not include methods that are based on revenue.	1 January 2016
Amendments to IFRS 11, <i>Accounting for Acquisitions of Interests in Joint Operations</i> (issued in May 2014)	Provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.	1 January 2016
<i>Improvements to IFRSs, 2012-2014 cycle</i> (issued in September 2014)	Minor amendments to a series of standards.	1 January 2016
Amendment to IAS 27 – Equity Method in Separate financial statements (Issued August 2014).	The amendments reinstate the equity method for an investor's separate financial statements. This will have no impact on the Spanish regulatory framework, as the legal separate statements are prepared in accordance with the General Accounting Plan.	1 January 2016

Approved for use in the European Union		Obligatory application in annual reporting periods beginning on or after:
Amendments to IAS 16 and IAS 41: Bearer Plants (Issued June 2014)	This amendment has a significant impact on the industry. Bearer plants will be carried at cost, instead of at fair value.	1 January 2016
Amendments of IFRS 10 IFRS 12 and IAS 28 – Investment companies (December 2014)	Clarifications related to investment companies and its exception to consolidate its financial statements	1 January 2016
Amendment to IAS 1: breakdowns initiative (December 2014)	Clarifications related to disclosures (materiality; aggregations, notes classifications).	1 January 2016
IFRS 14, <i>Regulatory Deferral Accounts</i>	Interim standard until the IASB issues a definitive standard on regulated assets.	1 January 2016

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

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

Approved for use in the European Union		Mandatory application for annual periods beginning on or after:
IFRS 15, <i>Revenue from Contracts with Customers</i> (issued in May 2014)	New revenue recognition standard (supersedes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	Annual reporting periods beginning on or after 1 January 2018
IFRS 9, <i>Financial Instruments</i> (last phase issued in July 2014)	Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2018

Not Approved for use in the European Union		Mandatory application for annual periods beginning on or after:
IFRS 16 Leases (published January 2016)	Eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases.	1 January 2019
Amendments of IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The clarification is extremely significant relating to gains or losses on these transactions, as until now there has been a discrepancy between these standards. When a business is involved, there is full profit and loss recognition; when assets are involved, there is partial profit and loss recognition.	Date of adoption not defined
Amendments to IAS 12, <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> (issued in January 2016)	Clarification in relation to the recognition of deductible temporary differences related to debt instruments.	1 January 2017
Amendments to IAS 7, <i>Disclosure Initiative</i> (issued in January 2016)	Various clarifications in relation to disclosures (financial transactions, liquidity, etc.).	1 January 2017
Amendments to IFRS 2, <i>Classification and Measurement of Share-based Payment Transactions</i> (issued in June 2016)	Various amendments to the standard on share-based payment transactions in relation to vesting conditions on cash-settled share-based payment transactions, amendments to the terms and conditions of plans, net settlements, etc.	1 January 2018
Clarifications to IFRS 15, <i>Revenue from Contracts with Customers</i> (issued in April 2016)	Clarifications to the standard based on the discussions of the TRG (Transition Resource Group for Revenue Recognition).	1 January 2018
Amendments to IFRS 4, <i>Applying IFRS 9 Financial Instruments with IFRS 4, Insurance Contracts</i> (issued in September 2016).	Temporary accounting treatment as a result of the different dates of entry into force of IFRS 9 and the new standard on insurance contracts.	1 January 2018
<i>Improvements to IFRSs, 2014-2016 cycle</i> (issued in December 2016)	Minor amendments in relation to IFRS 1, IAS 28 and IFRS 12.	1 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i> (issued in December 2016)	Clarification on the exchange rate to be used in foreign currency transactions that include the receipt or payment of advance consideration in a foreign currency.	1 January 2018
Amendments to IAS 40, <i>Transfers of Investment Property</i> (issued in December 2016)	Guide to investment property transactions when there is a change in use.	1 January 2018

The Group is currently assessing the impact on the financial statements of applying these standards in the future once they become effective. The Group's assessment is that the impact of the application of these standards will not be significant. The Group has performed a preliminary assessment in relation to the standards that come into force in 2017 and subsequent years, particularly IFRS 15 and IFRS 9, of the impact that the future application of these standards might have on the consolidated financial statements once they become effective, after which it was concluded that the impacts of the application of these standards will not be material. It was also considered that application of IFRS 16 would not have a material effect (see Note 4-e).

**c) Changes in accounting policies**

In the exercise ended 31 December 2016, there were no significant changes in accounting policies with respect to those applied in the exercise ended 31 December 2015.

**d) Functional currency**

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

**e) Responsibility for the information and estimates made**

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

In the Group's consolidated financial statements for the 12 months period ended 31 December 2016 estimates were occasionally made by the senior executives of the Group and of the consolidated companies, and later ratified by the directors, in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

1. The fair value of the Group's Real Estate assets (see Notes 9 and 12). The Group has obtained valuations from independent experts in 2016 for all of its Real Estate assets, describing the valuation method used in Note 4.f.
2. The useful life of intangible assets, property, plant and equipment and investment property (see Notes 7, 8 and 9).
3. The amount of certain provisions (see Note 16).
4. The recoverability of deferred tax assets (see Note 20).

Although these estimates were made on the basis of the best information available at 31 December 2016, future events may require them to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognized in the corresponding consolidated income statement.

**f) Consolidation principles**

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



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

1. Interest in investees' equity is presented "Non-controlling interests" under equity in the consolidated balance sheet.
2. Share of profit or loss for the year is presented in "Non-controlling interests" in the consolidated income statement.

Nevertheless, there are not Non-controlling interests as of 31 December 2016 and 31 December 2015.

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

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

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

**g) *First-time consolidation differences***

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

**h) *Changes in the scope of consolidation***

There were no changes in the scope of consolidation of the Neinor Homes Group (comprising Neinor Homes, S.L.U. and its subsidiaries) in the year ended 31 December 2016.

On 30 July 2015, all the shares held by its sole shareholder Neinor Holdings, S.L.U. in Global Endurance, S.L.U. were purchased by Neinor Homes Group for a price of EUR 4 thousand. This transaction has been considered as a business combination. The accounting policy in this respect was to calculate the acquisition-date fair value of the identifiable assets acquired and liabilities assumed, provided that fair value can be reliably measured. Any positive difference between the costs of the business combination and the value of the identifiable assets acquired less the liabilities assumed is recognised as goodwill. Negative differences are recognised as income in the statement of profit or loss.

The assets and liabilities of Global Endurance, S.L.U. acquired by the Group in the aforementioned purchase transaction are as follows:

	Thousands of euros
	Global Endurance, S.L.U.
<b>Assets:</b>	
Inventories (Note 12)	9.076
Other credits with tax payables	1.892
Other current assets	22
<b>Total assets</b>	<b>10.990</b>
<b>Liabilities:</b>	
Long-term debt with related parties and associated companies (*)	10.984
Other current liabilities	2
<b>Total Liabilities</b>	<b>10.986</b>
<b>Net Assets</b>	<b>4</b>

(\*) EUR 2,300 thousands are related to Neinor Homes Group

Subsequent to measuring the assets acquired and liabilities assumed, the directors of the Parent considered that the carrying amount of the assets and liabilities of the acquired company does not differ materially from their fair value.

In addition, on 31 December 2015, Neinor Holdings, S.L.U. forgave the debt from Global Endurance, S.L.U., amounting to EUR 8,684 thousand, registering to the effects of this financial annual statements, through its recognition as reserves in the consolidated statement of changes in equity for the six-month reporting period ended 31 December 2015.

#### ***j) Comparative information***

The information relating to the 2016 consolidated financial statements is presented for comparison purposes with that relating to the 6 months exercise ended 31 December 2015.

Aspect to be taken into account is the circumstance that the 2016 period is referred to a 12 months period and the comparison period is referred to a 6 months period.

In addition, any comparison must take into account the changes in the Group financial structure as per indicated in Notes 15 and 17.

#### ***j) Correction of errors***

In preparing the accompanying consolidated financial statements no errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for year ended 31 December 2015.

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

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

	Thousands of euros	
	31.12.16	31.12.15
<b>Basis of distribution:</b>		
Profit / (loss) for the year	<b>12.429</b>	<b>8.230</b>
<b>Application:</b>		
-To legal reserve	1.243	823
-To voluntary reserves	11.186	6.694
- To prior years' losses	-	713
	<b>12.429</b>	<b>8.230</b>

### **4. Measurement bases**

The accounting principles and policies and measurement bases applied in preparing the Neinor Homes Group's consolidated financial statements for the exercise ended 31 December 2016 and the exercise ended 31 December 2015 were as follows:

#### **a) Intangible assets**

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

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

#### **b) Property, plant and equipment**

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

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

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

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

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

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

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

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

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

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

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

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

### **c) Investment property**

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

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

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

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

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

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

	Years of useful life
Buildings	30

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

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

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

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

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

#### e) Leases

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

##### *Operating leases*

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

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

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

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

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

	Nominal value
Minimum operating lease payments	2016
Within one year	515
Between one and five years	518
After five years	-
<b>Total</b>	<b>1.033</b>

## **f) Inventories**

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

1. Hold for sale in the ordinary course of business.
2. Hold under production, construction or development for sale in the ordinary course of business.
3. Expect to be consumed in the production process or in the rendering of services.

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

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

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

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

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

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

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

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

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

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

In the period ended 31 December 2015, the Group performed an in-depth study of the actual situation of its assets and undertook an individualised business plan for each of them based on the specific analysis of each case and adjusting the marketing schedules and prices to their specific peculiarities based on conservative assumptions involving additional write-downs within the, sectorial accepted, admissible fluctuation ranges possible for the appraisals undertaken by third parties, which had been taken as a reference for the period ended 30 June 2015. At 31 December 2016, all its assets had been appraised by an independent expert, having taken the aforementioned value as a reference when assessing the existence of any impairment losses to be recognised for accounting purposes, adjusted, in certain cases, by tolerances of five percent; the effect thereof was not significant taken as a whole.

In this respect the appraisal methodology used by the valuer at 31 December 2016 was different taking into consideration the different types of real estate assets held by the Company (see Note 6), and the most significant aspects considered in the appraisals were as follows:

#### *Development assets-*

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

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

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

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

- Advance sales before the start of the construction of the developments were not taken into consideration.
- It was estimated that 70% - 75% of the sales (pre-sales off plan, in a private sale and purchase agreement) will be carried out during the construction of the developments and the remaining sales within nine months following completion thereof.
- Increases in sale prices over the existing market prices were not taken into consideration.



- It is estimated that 33/36 months could elapse between the time necessary for the drafting of the project and the obtainment of the construction permit, construction and delivery of the project, and the end of the marketing and sale of the units.

#### *Legacy assets*

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

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

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

#### **g) Trade receivables**

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

#### **h) Customer advances**

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

#### **i) Financial instruments**

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

During the exercise ended 31 December 2016 and the 6 months exercise ended 31 December 2015 the measurement bases applied by the Group to its financial instruments were as follows:

##### *Financial assets*

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

The financial assets held by Group companies are classified as:

1. Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity. The Group has the positive intention and ability to hold them from the date of purchase to the date of maturity. This category does not include loans and accounts receivable originated by the Group.
2. Loans and receivables originated by the Group: financial assets originated by Group companies in exchange for supplying cash, goods or services directly to a debtor. These are measured at amortised cost.

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

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

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

#### *Financial liabilities and equity*

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

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

#### *Equity instruments*

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

#### *Bank loans*

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

#### *Trade payables*

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

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

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

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

This is the accounting policy chosen by the Group. However it does not have any impact on the consolidated financial statements for the period ended 31 December 2016 (Note 17).

## **J) Shares of the Parent**

All the shares of the Parent held by consolidated companies are deducted from equity. At 31 December 2016 and 31 December 2015, neither the Parent nor any of the subsidiaries or associates held treasury shares.

## **k) Provisions**

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

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

At the end of the exercise ended 31 December 2016 and the 6 months exercise ended 31 December 2015 certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group's legal advisers and directors consider that the provisions recorded are sufficient and that the outcome of these proceedings and claims will not have any additional material effect on the financial statements for the years in which they are settled (see Note 21).

### *Provisions for warranties*

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

## **l) Income tax**

The Parent files consolidated income tax returns under Income Tax Provincial Regulation 11/2013, of 5 December, and forms part of tax group no. 0211BSC headed by Neinor Holdings, S.L.U. (see Note 20). The Group companies Neinor Península, S.L.U. and Neinor Sur S.L.U. file their tax returns separately, since they do not belong to the aforementioned consolidated tax group.

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

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

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

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

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

However:

1. Deferred tax assets are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which the deferred tax asset can be utilized, considering, in any case, market expectations and in a restricted way, so the Deferred tax assets are recognised only once there is a consolidated improvement of the Real Estate sector.
2. No deferred tax liabilities are recognised for goodwill arising on an acquisition.

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

#### ***m) Revenue and expense***

Revenue and expenses are recognised on an accrual basis.

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

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

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

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

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

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

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

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

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

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

#### **n) Borrowing costs**

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

In the year ended 31 December 2016, the Group capitalised borrowing costs amounting to EUR 552 thousand to "Inventories" (see Note 12). During the 6 months exercise ended 31 December 2015 the Group had not capitalised any financial interest in inventories.

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

**o) Profit from operations**

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

**p) Termination benefits**

Under current labour legislation, the Group companies are required to pay termination benefits to employees whose contracts are terminated under certain conditions. Neither as of 31 December 2016 nor 31 December 2015 is a provision for termination benefits recognised in the consolidated financial statements.

**q) Consolidated cash flow statements**

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

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.
2. Operating activities: the principal revenue-producing activities of the entities composing the consolidated Group and other activities that are not investing or financing activities.
3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents, if they have a direct impact on current cash flows.
4. Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities, if they have a direct impact on current cash flows.

**r) Current assets and liabilities**

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

	Thousands of euros	
	31.12.16	31.12.15
Inventories (long term)	718.513	730.400
<b>Total current assets</b>	<b>718.513</b>	<b>730.400</b>
Bank borrowings	277.068	10.143
Other current liabilities	15.944	-
<b>Total current liabilities</b>	<b>293.012</b>	<b>10.143</b>

**s) Share-based payments**

At 31 December 2016 and 31 December 2015, the Group did not have any option plans on Neinor Homes, S.L.U. shares.

**t) Related party transactions**

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

The Group's policy is to obtain a transfer pricing report prepared by an external adviser one year in arrears, as established in current tax legislation.

**u) Remuneration of senior executives**

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

**5. Earnings/ (loss) per share**

**a) Basic earnings/(loss) per share**

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

Accordingly:

	Thousands of euros	
	31.12.16	31.12.15
Earnings / (loss) for the year (thousands of euros)	1.057	(70.866)
Weighted average number of shares outstanding (thousands of shares) (*) (Note 15)	853.373	939.878
<b>Basic earnings/ (loss) per share (euros)</b>	<b>0,001</b>	<b>(0,075)</b>

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

**b) Diluted earnings/ (loss) per share**

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

At 31 December 2016 and 2015, the diluted earnings/loss per share of the Neinor Homes Group coincided with the basic earnings/loss per share.

## **6. Segment reporting**

### ***a) Basis of segmentation***

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

The lines of business described below were established on the basis of the Neinor Homes Group's organisational structure at 2016 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

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

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

Group's activities at 31 December 2016 and 2015 have been carried out entirely in Spain.

### ***b) Basis and methodology for segment reporting***

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

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

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

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

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



### Segment information

	Thousands of Euros									
	Legacy		Development		Assets management – Servicing		Others / Corporate		Total	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
<b>Revenue:</b>										
Third party sales	164.293	87.246	36.611	31.974	27.661	14.452	-	1.016	228.565	134.688
<b>Total Revenue:</b>	<b>164.293</b>	<b>87.246</b>	<b>36.611</b>	<b>31.974</b>	<b>27.661</b>	<b>14.452</b>	<b>-</b>	<b>1.016</b>	<b>228.565</b>	<b>134.688</b>

	Thousands of Euros									
	Legacy		Development		Assets management – Servicing		Others / Corporate		Total	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
<b>Income:</b>										
Third party sales:	164.293	87.246	36.611	31.974	27.661	14.452	-	1.016	228.565	134.688
Cost of sales	(178.322)	(83.317)	(27.038)	(21.554)	-	-	-	-	(205.360)	(104.871)
Change in trade provisions - Application of impairments for sold stocks (**)	44.077	9.987	-	-	-	-	-	-	44.077	9.987
<b>Gross margin</b>	<b>30.048</b>	<b>13.916</b>	<b>9.573</b>	<b>10.420</b>	<b>27.661</b>	<b>14.452</b>	<b>-</b>	<b>1.016</b>	<b>67.282</b>	<b>39.804</b>
Employee benefits expenses	(2.746)	(1.247)	(6.095)	(1.958)	(2.836)	(1.603)	-	-	(11.677)	(4.808)
External Services	(23.218)	(15.827)	(9.766)	(7.159)	(7.214)	(2.550)	-	-	(40.198)	(25.536)
Change in trade provisions – Others (**)	(16.286)	(62.237)	6.804	(17.368)	-	-	-	-	(9.482)	(79.605)
Other operating gains / (losses)	3.704	501	-	46	-	-	-	234	3.704	781
<b>EBITDA</b>	<b>(8.498)</b>	<b>(64.894)</b>	<b>516</b>	<b>(16.019)</b>	<b>17.611</b>	<b>10.299</b>	<b>-</b>	<b>1.250</b>	<b>9.629</b>	<b>(69.364)</b>
Net interest expense and others	-	-	(4.893)	(617)	-	-	-	-	(4.893)	(617)
Depreciation and amortization	(376)	(244)	-	-	-	-	(232)	(26)	(608)	(270)
<b>Profit / (Loss) Before Tax</b>	<b>(8.874)</b>	<b>(65.138)</b>	<b>(4.377)</b>	<b>(16.636)</b>	<b>17.611</b>	<b>10.299</b>	<b>(232)</b>	<b>1.224</b>	<b>4.128</b>	<b>(70.251)</b>
Change in trade provisions - Others (**)	16.286	62.237	(6.804)	17.368	-	-	-	-	9.482	79.605
Net interest expense and others	-	-	4.893	617	-	-	-	-	4.893	617
Depreciation and amortization	376	244	-	-	-	-	232	26	608	270
<b>ADJUSTED EBITDA (*)</b>	<b>7.788</b>	<b>(2.657)</b>	<b>(6.288)</b>	<b>1.349</b>	<b>17.611</b>	<b>10.299</b>	<b>-</b>	<b>1.250</b>	<b>19.111</b>	<b>10.241</b>

(\*) A financial measure used by Group management which does not take into consideration the impairment losses on the Group's Investment properties and Inventories, mainly.

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

	Thousands of Euros									
	Legacy		Development		Management Assets - Servicing		Others / Corporate		Total	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
<b>Balance sheet:</b>										
Non-Current assets	12.893	11.010	-	-	-	-	2.643	1.613	15.536	12.623
Current assets	211.907	355.930	732.541	605.297	10.544	7.810	45.301	123.849	1.000.293	1.092.886
<b>Total Assets</b>	<b>224.800</b>	<b>366.940</b>	<b>732.541</b>	<b>605.297</b>	<b>10.544</b>	<b>7.810</b>	<b>47.944</b>	<b>125.462</b>	<b>1.015.829</b>	<b>1.105.509</b>
Financial Debt (*)	-	-	303.691	62.992	-	-	-	-	303.691	62.992
Other Non-current liabilities	355	65	-	-	-	-	-	-	355	65
Other current liabilities	9.295	4.779	60.821	190.727	3.045	875	7.610	5.457	80.771	201.838
<b>Total Liabilities</b>	<b>9.650</b>	<b>4.844</b>	<b>364.512</b>	<b>253.719</b>	<b>3.045</b>	<b>875</b>	<b>7.610</b>	<b>5.457</b>	<b>384.817</b>	<b>264.895</b>

(\*) Non- Current and Current Bank Borrowings

## 7. Intangible assets

The changes in "Intangible assets" in the exercise ended 31 December 2016 and the 6 months exercise ended 31 December 2015, by type of asset, were as follows:

### Exercise ended 31 December 2016

	Thousands of euros		
	Computer Software	Industrial property (See Note 23)	Total
<b>Cost:</b>			
Balance at 31 December 2015	150	-	150
Additions	763	14	777
Disposals	(38)	-	(38)
<b>Balance at 31 December 2016</b>	<b>875</b>	<b>14</b>	<b>889</b>
<b>Accumulated amortisation:</b>			
Balance at 31 December 2015	(57)	-	(57)
Charges	(116)	-	(116)
Disposals	38	-	38
<b>Balance at 31 December 2016</b>	<b>(135)</b>	<b>-</b>	<b>(135)</b>
<b>Net Balance at 31 December 2016</b>	<b>740</b>	<b>14</b>	<b>754</b>

### 6 months exercise ended 31 December 2015

	Thousands of euros	
	Computer Software	Total
<b>Cost:</b>		
Balance at 30 June 2015	118	118
Additions	32	32
Disposals	-	-
Transfers	-	-
<b>Balance at 31 December 2015</b>	<b>150</b>	<b>150</b>
<b>Accumulated amortisation:</b>		
Balance at 30 June 2015	(54)	(54)
Charges	(3)	(3)
Disposals	-	-
Transfers	-	-
<b>Balance at 31 December 2015</b>	<b>(57)</b>	<b>(57)</b>
<b>Net Balance at 31 December 2015</b>	<b>93</b>	<b>93</b>

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

At 31 December 2016 and 2015, there were no intangible assets provided as collateral for any obligation.

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

## **8. Property, plant and equipment**

The changes in this heading in the exercise ended 31 December 2016 and the 6 months exercise ended 31 December 2015, were as follows:

### **Exercise ended 31 December 2016**

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

### **6 months exercise ended 31 December 2015**

	Thousands of euros		
	Technical items and machinery	Other items of Property, Plant and equipment	Total
<b>Cost:</b>			
Balance at 30 June 2015	184	922	1.106
Additions	83	327	410
Disposals	-	-	-
Transfers	-	-	-
<b>Balance at 31 December 2015</b>	<b>267</b>	<b>1.249</b>	<b>1.516</b>
<b>Accumulated amortisation:</b>			
Balance at 30 June 2015	(7)	(64)	(71)
Charges	(10)	(13)	(23)
Disposals	-	-	-
Transfers	-	-	-
<b>Balance at 31 December 2015</b>	<b>(17)</b>	<b>(77)</b>	<b>(94)</b>
<b>Net Balance at 31 December 2015</b>	<b>250</b>	<b>1.172</b>	<b>1.422</b>

Main additions of the exercise ended 31 December 2016 and 2015 correspond to the works made and furniture purchased in the new offices of the Group.

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

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

At 31 December 2016 and 2015, there were no property, plant and equipment items fully amortised.

At 31 December 2016 and 2015, there were no property, plant and equipment items provided as collateral for any obligation.

At 31 December 2016 and 2015, the Group did not have any significant commitments to purchase items of property plant and equipment.

## **9. Investment properties**

The changes in this heading in the exercise ended 31 December 2016 and the 6 months exercise ended 31 December, were as follows:

### **Exercise ended 31 December 2016**

	Thousands of euros			
	Cost	Amortisation	Provision (see Note 22.f)	Net
<b>Balance at 31 December 2015</b>	<b>17,576</b>	<b>(328)</b>	<b>(6,238)</b>	<b>11,010</b>
Additions/Charges	-	(376)	(1,059)	(1,435)
Transfer from stocks (Note 12)	10,266	-	(3,876)	6,390
Transfer to stocks (Note 12)	(5,194)	113	2,009	(3,072)
<b>Balance at 31 December 2016</b>	<b>22,648</b>	<b>(591)</b>	<b>(9,164)</b>	<b>12,893</b>

### **6 months exercise ended 31 December 2015**

	Thousands of euros			
	Cost	Amortisation	Provision (see Note 22.f)	Net
<b>Balance at 30 June 2015</b>	17.685	(47)	(4.304)	13.334
Additions/Charges	-	(244)	(1.977)	(2.221)
Disposals and others	(109)	(37)	43	(103)
<b>Balance at 31 December 2015</b>	<b>17.576</b>	<b>(328)</b>	<b>(6.238)</b>	<b>11.010</b>

The gain on sales of investment property amounted to EUR 1,379 thousand in 2016 that is recorded under the caption "Other operating gains/ (losses)". The gain in the six-month period ended 31 December 2015 was not significant.

The main asset included in this caption corresponds to some office towers in Cadiz whose net book value amounts to EUR 7,5 million at 31 December 2016. In the period ended 31 December 2016 the Group, according to the valuations provided by an independent expert, adjusted the accounting value of the investment property referred to above to its fair value, in accordance with the measurement bases described in Note 4.c. The "Change in trade provisions" of the accompanying consolidated income statement for the exercise ended 31 December 2016 includes an amount of EUR 1,059 thousands corresponding to such charges (EUR 1.977 thousands at 31 December 2015) for the mentioned provision (Note 22).

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

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

At the end of the exercise ended 31 December 2016, rental income from investment property owned by the consolidated companies amounted to EUR 1.109 thousand (EUR 804 thousand at 31 December 2015).

At 31 December 2016 and December 2015, the Group did not have any firm commitments to purchase or sell items of investment property.

### **10. Subsidiaries**

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

## 11. Current and non-current financial assets

Details of these financial assets, by nature, at 31 December 2016 and 31 December 2015, are as follows:

	Thousands of euros			
	31.12.2016		31.12.2015	
	Non-current	Current	Non-current	Current
Guarantees and deposits	336	4	98	45
Others	-	19	-	-
<b>Total</b>	<b>336</b>	<b>23</b>	<b>98</b>	<b>45</b>

## 12. Inventories

Details of "Inventories" at 31 December 2016 and 31 December 2015 are as follows:

	Thousands of euros	
	31.12.2016	31.12.2015
Sites and land (Note 19)	582.585	594.500
Construction work in progress	172.121	44.629
Completed buildings	271.966	430.580
Advances to suppliers	11	2.400
Less – Impairment losses (Note 9)	(101.317)	(138.819)
	<b>925.366</b>	<b>933.290</b>

In the year ended 31 December 2016 borrowing costs amounting to EUR 552 thousand were capitalised to inventories (in the six-month period ended 31 December 2015 no borrowing costs were capitalised).

The additions in the period ended 31 December 2016 relate mainly to the purchase of various building lots which amounts to EUR 111,282 thousand. In this connection, "Trade and Other Payables - Payable to Suppliers" under current liabilities in the consolidated balance sheet as at 31 December 2016 includes EUR 11,875 thousand relating to the deferred portion of the price in relation to the purchase of various plots of land and the remaining amount matures in 2017.

Also, the Group handed over a property development in Madrid and another property development in the northern part of Spain during 2016 and had 23 property developments recognised under "Construction work in progress" at year-end.

At 31 December 2016, the assets originating from the transaction described in Note 1 accounted for 55% of the carrying amount of the Group's real estate portfolio (31 December 2015: 70%). It should be noted that a significant portion of these assets have undergone development and therefore been classified under the "Development" segment (see Note 6), and accordingly capitalized to "Inventories", which should be taken into account in any comparison since this fact distorts their downward trend.

At 31 December 2016, there are assets included under "Inventories" with a gross cost of EUR 355.959 thousand (EUR 10.822 thousand at 31 December 2015) securing a loan the Group has assumed the borrower position as the payment of the price arranged with the seller for the acquisition of a plot of land (see Note 17).

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

At 31 December 2016 and 31 December 2015, there were no commitments to sell any plots of land.

The property development sale commitments entered into with customers at 31 December 2016 and 31 December 2015, relating to those units in which a private purchase and sale agreement was signed, have resulted in the collection or reception of notes receivables amounting to EUR 29.495 and 12.571 thousand respectively, which have been recognised under "Current liabilities - Customer advances" in the consolidated balance sheet at 31 December 2016 and 31 December 2015 (see Note 17).

In addition, at 30 December 2016, an undertaking was made to sell a real estate development, consisting of a residential complex classified as "tourist apartments" (property under the condominium system for operation by means of the temporary assignment of use of the furnished units, equipped for immediate use, and managed by a tour operator), for EUR 24.250 thousand and subject to conditions precedent, which were met in January 2017.

Additionally, at 31 December 2015, the Group entered into land purchase commitment agreements subject to the fulfilment of conditions precedent, mainly related to the registration of these assets, amounting to EUR 5,970 thousand, at the land registry. In order to secure this commitment and due to the existence of a deferred payment amounting to EUR 6.544 thousand, it was resolved to create a secondary security interest in favour of the creditor on all the shares in Neinor Homes, S.L.U., which were pledged to guarantee the deferred purchase price related to the transaction described in Note 1. These purchase commitments were executed in a public deed in 2016, and the pledge securing the deferred portion of the price is still in force.

The changes in 2016 in the write-downs associated with the inventories were as follows:

	Thousands of Euros
<b>Balance at 01/01/16</b>	<b>138.819</b>
Write-downs recognised	18.331
Write-downs reversed	(53.966)
Transfers to "Investment Property" (Note 9)	(1.867)
<b>Balance at 31/12/16</b>	<b>101.317</b>

At 31 December 2016, the net realisable value determined by Savills Consultoría Inmobiliaria, S.A. for the inventories and investment property (see Note 9) owned by the Group amounted to approximately EUR 1.404 million. "Development assets - Inventory" valuation amounted to EUR 1.120 million, "Legacy assets - Inventory" valuation amounted to EUR 270 million and investment property valuation amounted to EUR 14 million, approximately.

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

the appraisal models involved conservative assumptions on the current economic situation and, accordingly a sensitivity of + 1%/ +2% was set.

Assuming the remaining variables to be constant, the appraised values of development projects and the carrying amount thereof would be affected as follows, taking into account the change in the key assumptions:

Assumption	Thousands of Euros			
	Discount Rate		Sale Price	
	+1%	-1%	+1%	+2%
	Increase (Decrease)			
Change in appraised values	(25.412)	26.262	18.374	36.729
Change in carrying amount (*)	(1.085)	1.541	1.283	1.851

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

The Savills valuation models adopted by the Group are sufficiently conservative and prudent to make it inappropriate to consider sensitivities to a negative price performance. In addition, the directors consider that we are currently undergoing a price growth scenario and the forecasts point towards continuing in that positive direction. However, the Group has performed a sensitivity analysis considering a 1%/ 2% fall in prices in the base scenario without subsequent price growth and the other variables remaining constant. In such an adverse scenario, which is not considered likely at the moment, the effect on the value of the real estate assets would be a reduction of EUR 18.343 thousand and EUR 36.574 thousand, and the recognition of additional impairment losses of EUR 533 thousand and EUR 2.207 thousand, respectively.

The key assumption for the "legacy assets" (see Notes 4-f and 6) is that relating to prices. In this regard, the Group performed a sensitivity analysis with respect to a 1%/ 2% increase/fall in prices. Assuming the remaining variables to be constant, the values of legacy assets and the carrying amount thereof would be affected as follows, taking into account the change in this assumption:

Assumption	Thousands of Euros			
	Sale Price		Sale Price	
	+1%	+1%	+1%	+1%
	Increase (Decrease)			
Change in appraised values	2.632	(2.632)	5.264	(5.264)
Change in carrying amount (*)	1.413	(1.431)	2.810	(2.888)

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

Lastly, the Group has recognised property assets with a carrying amount of EUR 8.474 thousand, net of impairment losses of EUR 5,4 million, which it has not been possible to file in the Property Register for various reasons. Within the framework of the purchase and sale agreement described in Note 1, Kutxabank, S.A. guarantees the repurchase of these assets for an amount of EUR 13.9 million if by May 2017 they have not yet been filed. The Group recognised impairment losses associated with these assets on the understanding that Kutxabank will make every effort to effectively transfer them prior to the established deadline.



### **13. Trade and other receivables**

"Trade and other receivables" includes the following items:

	Thousands of euros	
	31.12.2016	31.12.2015
Trade receivables and notes receivables	16.519	26.072
Other receivables – Down Payments	4.366	9.104
Other receivables – Provision of Services	1.223	2.100
Impairment (Notes 9 and 22.f)	(1.555)	(1.574)
	<b>20.553</b>	<b>35.702</b>

"Trade Notes Receivable" in the foregoing table mainly includes the amount receivable relating to the asset management and administration agreement entered into between various companies of the Kutxabank Group and Neinor Homes, S.L.U. (see Note 1), amounting to EUR 10.544 thousand.

"Other receivables" in the foregoing table includes mainly the amounts receivable from third parties for services rendered (see Notes 22.a and 23) and amounts paid in advance by the Group to service providers amounting to EUR 4.366 thousands and EUR 9.104 thousands, respectively, as of 31 December 2016 and 31 December 2015.

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

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

### **14. Cash and cash equivalents**

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

There is no restriction for the availability of the cash and cash equivalents of the Group neither as of 31 December 2016 nor 31 December 2015, except for the fact that, as described in Law 20/2015, of July 14, advances received and associated with a development (see Note 18) are deposited in a special account, separate from any other class of funds belonging to the Group, and are only drawn against in connection with the construction of the developments. The balance subject to this restriction amounted to EUR 21,373 thousand at 31 December 2016, which differs from the advances (see Note 18) as a result of the cash used to pay the progress billings of developments to which such advances are allocated. Also the guarantees (see Note 21) differ from such advances as guarantees were created in January 2017 in relation to advances received at the end of December 2016.

## **15. Capital and reserves**

### ***a) Share capital***

The Parent was incorporated on 4 December 2014 with share capital of EUR 3,000, represented by 3,000 shares with a par value of EUR 1 each, which were fully subscribed and paid by Kutxabank, S.A.

Subsequently, on 26 December 2014, the Parent increased its share capital by approximately EUR 730,146 thousand, through the issue of EUR 730,146,447 shares of EUR 1 par value each. These shares were fully subscribed and paid by the various Kutxabank Group companies contributing the property assets involved in the transaction described in Note 1, through the non-monetary contribution of their respective direct and indirect holdings in the subsidiaries that currently comprise, together with the Parent, the Neinor Homes Group (see Appendix I).

On 31 December 2014, the aforementioned companies of the Kutxabank Group sold their respective holdings in the Parent, which they owned by virtue of the capital increase described above, to Kutxabank, S.A. and, accordingly, at 31 December 2014, Kutxabank, S.A. was the sole shareholder of the Parent.

On 11 May 2015, once the condition precedent (which was established in the capital increase approved on 31 December 2014 of approximately EUR 86,729 thousand) was met on 30 April 2015, Kutxabank, S.A., sole shareholder of the Parent on the aforementioned date, approved the effectiveness of this capital increase. This capital increase was fully subscribed and paid by the aforementioned sole shareholder through the non-monetary contribution of certain property assets amounting to approximately EUR 83,835 thousand, and the monetary contribution of the remaining amount.

Therefore, by virtue of the agreements adopted by the parties in the context of the transaction described in Note 1, on 11 May 2015, Kutxabank, S.A. approved another capital increase amounting to EUR 123,000 thousand, which it subscribed and paid in full in cash.

As described in Note 1, following these transactions, on 14 May 2015 Kutxabank, S.A. sold all its holdings in the Parent to Neinor Holdings, S.L.U. which, therefore, became the sole shareholder of the Parent from that date. The Parent is registered as a sole shareholder company.

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

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

As a consequence, at 31 December 2016, the Parent's share capital is represented by 729.297.000 fully subscribed and paid bearer shares of EUR 1 per value each (939.877.930 shares of EUR 1 per value at 31 December 2015). All shares carry the same voting and dividend rights.

The Parent's share capital is fully owned by Neinor Holdings, S.L.U., of which its sole shareholder is LSREF3 Lion Investments, S.à.r.l., with its registered address in Rue Du Puits Romains 33, Bertrange, Luxembourg.

At 31 December 2016 and 2015, the Company's shares had been pledged as security for payment of the deferred amount in the Lion transaction described in Note 1 (see Note 27).

**b) Reserves of the Parent**

*Legal reserve*

Under Article 274 of the Consolidated Text of the Spanish Limited Liability Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

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

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

At 31 December 2016 and 31 December 2015 legal reserve was not fully contributed.

**c) Reserves at fully consolidated companies**

Details, by company, of reserves at fully consolidated companies at 31 December 2016 and 31 December 2015 are as follows:

Company	Thousands of euros	
	31.12.2016 (**)	31.12.2015
<b>Full consolidation:</b>		
Parent and consolidation adjustments (*)	7.980	573
Neinor Norte, S.L.U.	(17.299)	(1.436)
Promociones Neinor 1, S.L.U.	(269)	(240)
Promociones Neinor 2, S.L.U.	(14.964)	(14.944)
Promociones Neinor 3, S.L.U.	(1.056)	(987)
Promociones Neinor 4, S.L.U.	(5.362)	(5.323)
Promociones Neinor 5, S.L.U.	(5.441)	(5.424)
Neinor Península, S.L.U.	(48.322)	(6.229)
Neinor Sur, S.L.U.	(15.432)	5.612
	<b>(100.165)</b>	<b>(28.398)</b>

(\*) The Parent has also set up a legal reserve of EUR 823 thousand not included in this detail.

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

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

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

As mentioned in the Note 2.h, subsequently to the acquisition of the entity Globan Endurance S.A.U, and after its merger within the entity Group Neinor Sur, S.L.U., Neinor Holdings carried out a shareholder contribution forgiving the debt held against this entity, which amounted to EUR 8.684 thousand approximately.

#### **d) Shares of the Parent**

The Parent did not hold any treasury shares at the end of each reporting period.

However, as noted above, the Parent has carried out the following transactions with treasury shares during the exercise ended in 31 December 2016:

Description	Treasury Shares	Par value (EUR)
<b>Share Capital at January 1, 2016</b>	<b>939.877.930</b>	<b>939.877.930</b>
<b>Mercantile Registry dates:</b>		
29 July 2016	199.330.896	199.330.896
8 September	5.900.034	5.900.034
30 December 2016	5.350.000	5.350.000
<b>Reductions of capital</b>	<b>210.580.930</b>	<b>210.580.930</b>
<b>Share Capital at December 31, 2016</b>	<b>729.297.000</b>	<b>729.297.000</b>

#### **e) Dividends paid**

No dividends were paid in either 2016 or 2015.

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

## 16. Provisions

### a) Current provisions

Changes in current provisions in 2016 and 2015 are as follows:

#### At 31 December 2016

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

#### At 31 December 2015

Description	Thousands of euros		
	For taxes (see Notes 22.d)	Other provisions (see Note 22.d and f)	Total
<b>Balance at 30 June 2015</b>	<b>2.997</b>	<b>2.861</b>	<b>5.858</b>
Charges	1.709	6.879	8.588
Amounts used	(522)	66	(456)
Transfers	-	-	-
<b>Balance at 31 December 2015</b>	<b>4.184</b>	<b>9.806</b>	<b>13.990</b>

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

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

At each reporting date the Group assesses the estimated amounts required for probable or certain liabilities where payment is still not entirely determinable with regard to their exact amount, or the dates on which they will arise are uncertain since they depend on the fulfilment of certain conditions. Where appropriate, it recognises the related provisions. At 31 December 2016, the Group had not recognised any provisions in this connection since the Parent's directors, and its legal advisors, considered that the possible impacts for the Group arising from these liabilities would not be significant. In this connection, at 31 December 2016 there are legal claims in relation with assets owned by the different companies of the Group for a total amount of EUR 4,5 million (at 31 December 2015 EUR 6,1 million), mainly referred to the return of retentions to suppliers, construction faults repairs and expropriation appraisals contestations, as well as a legal claim for an undetermined amount regarding the contestation of building licenses, which are possible to result in the negative impact for the Group but that, in any case, and according to the agreements arranged in the context of the transaction described in Note 1, would be covered by Kutxabank Group. According to the Parent's directors, such compensation, if that is the case, that would be received by its sole shareholder, Neinor Holdings, S.L.U., would be transferred to the Neinor Homes Group so as the later would not suffered any negative impact as a result of the aforementioned legal claims (see note 15 and 28). As a consequence, the directors of the various companies comprising the Neinor Homes Group consider that the provisions made are adequate to cover potential risks in connection with claims under way and that if these risks materialise for amounts higher than these provisions, the additional liabilities would not have a significant impact on the Group's financial statements.

## 17. Bank borrowings and other financial liabilities

Details of bank borrowings and other financial liabilities at 31 December 2016 and 31 December 2015 are as follows:

	Thousands of euros	
	31.12.2016	31.12.2015
<b>Long-term bank borrowings:</b>		
Credit lines (*)	26.623	-
<b>Short-term financial liabilities with sole shareholder (see Note 23):</b>		
Interest payable	-	193
Other accounts payable	3.071	98.887
<b>Short-term Bank borrowings (see Note 23):</b>		
Interest payable	190	74
Mortgage loans (*)	201.569	10.143
Credit lines (*)	68.416	20.249
Other loans (*)	6.893	32.526
<b>Other liabilities</b>	<b>288</b>	<b>26</b>
<b>Total</b>	<b>307.050</b>	<b>162.098</b>
Scheduled maturities:		
2016	-	152.855
2017 (**)	38.338	9.243
2018	7.343	-
2019	249.792	-
2020	396	-
2021 and following	11.181	-
<b>Total unmatured borrowings</b>	<b>307.050</b>	<b>162.098</b>

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

(\*\*) There are EUR 17,5 million relating to credit facilities linked to developments, the maturity of which could be extended to 2019.

### **Long-term bank borrowings**

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

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

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

### **Payables to sole shareholder**

The balance of this line item at 31 December 2016 relates to the account payable to the Parent's sole shareholder in relation to income tax under the consolidated tax regime under which both the Neinor Homes Group and its sole shareholder are taxed on a consolidated basis (see Note 20), amounting to EUR 3.071 thousand (31 December 2015: EUR 615 thousand).

At 31 December 2015, this line item included the outstanding balance of a loan from Neinor Holdings, S.L.U., for an initial amount of EUR 105.000 thousand, received on 23 October 2015. This loan was partially repaid (approximately EUR 6.728 thousand were repaid) on 30 November 2015, and the remainder of the loan was repaid in full in 2016, together with the related interest payable at 31 December 2015 and the interest incurred in 2016, for an aggregate amount of EUR 729 thousand.

### **Short-term bank borrowings**

#### Mortgage loans

The balance recognized under "Bank borrowings – Mortgage loans for land" in the foregoing table relates to the amount payable on loans regarding plots of land which secure repayment of these loans. These loans bear interest at a market rate and ultimately mature in 2017, 2018 and 2019, except for three mortgage loans with final maturity in 2048 and 2049.

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

More specifically, in 2016 the Group arranged 53 new mortgage loans with a nominal value of EUR 195.700 thousand, which were recognized in the consolidated financial statements as at 31 December 2016 net of the related debt arrangement expenses of EUR 2.899 thousand.

The Group also arranged five additional loans in 2016 for a nominal amount of EUR 37.984 thousand, which had not been drawn down by the Group at 31 December 2016.

At 31 December 2015, the Company only had one loan with these terms and conditions, amounting to EUR 10.143 thousand, which was still outstanding at 31 December 2016 following the repayment of EUR 1.375 thousand in 2016.



### Credit lines

In connection with the credit lines, in 2016 the Group arranged seven new lines with a limit of EUR 47.705 thousand, against which EUR 47.243 thousand have been drawn down (EUR 26,623 thousand of which are classified as non-current liabilities).

On 15 June 2015, the Group arranged a credit facility with a bank with a limit of EUR 30.000 thousand and maturing on 15 December 2016, which was novated in 2016, increasing the limit to EUR 50.000 thousand and extending the maturity to 2019. The aim of the facility is to finance the payment of the deferred price of the land purchases, and the Group must support all the drawdowns made against it through a credit facility drawdown request signed by the Group that specifies the amount being requested and contains a description of the property to be acquired. EUR 48.611 thousand had been drawn down at 31 December 2016, and this amount was classified as a current liability due to the real estate nature of the facility (31 December 2015: EUR 20.343 thousand). In relation to this credit facility, the Neinor Homes Group has undertaken to arrange first mortgages at the request of the bank in order to secure the facility up to an amount of EUR 25 million. Such a request had not been made at 31 December 2016 and, therefore, the directors consider that the borrowings should be associated directly with the property developments being financed by it.

The debt arrangement expenses associated with these credit lines amounted to EUR 815 thousand at 31 December 2016.

### Other loans

The caption "Other loans" includes the balance drawn down on the loans received by the Group in this reporting period in order to finance input VAT in certain land purchase transactions, which mature in 2017 and earn interest at a market rate. The limit on these loans amounts to EUR 15 million of which the amount of EUR 6.893 has been disposed at 31 December 2016 (31 December 2015: EUR 5.564 thousand). To secure repayment of the borrowings, the receivables relating to input VAT arising for the public administration in these transactions were pledged to the financial institutions (see Note 20).

Lastly, "Bank borrowings – Other loans" in the foregoing table at 31 December 2015 included the balance drawn down on the credits received by the Group in this reporting period in order to finance input VAT in certain land purchase transactions, which matured in 2016 and earned interest at a market rate. The balance of this credit, which amounted to EUR 26,962 thousand has been cancelled during the current period. .

### **Covenants and early repayment clauses**

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

- Any change in the shareholder structure of the Parent that gives rise to a change of control over it, control being taken to be any of the cases provided for in Article 42 of the Spanish Commercial Code (see Note 28).
- Reduction of the Parent's equity to below EUR 425 million.
- Obligation to achieve a firm and irrevocable LTV Ratio, taken to be the ratio of Net Debt to the Net Value of the Group's Properties (in both cases capex financing should be deducted), which must be below 45-50%, depending on each bank.
- Firm and irrevocable obligation for Lone Star (see Note 1) to ensure that its indirect ownership interest in the share capital of the Parent does not drop to below 51% (see Note 28).

At year-end 2016, the Group was fully compliant with the covenants and clauses established in the aforementioned loans (see Note 28).

#### Other

There are other amounts included in the borrowings indicated above, totalling EUR 64.633 thousand, that have been drawn down against financing granted by a bank related to the Group as indicated in Note 23. The aforementioned amount relates to mortgage loans (EUR 47.071 thousand), credit lines (EUR 17.530 thousand) and accrued interest payable (EUR 32 thousand).

In addition, the Group had an undrawn reverse factoring line at 31 December 2016 with a limit of EUR 3.333 thousand at that date.

All the loans and credit facilities outstanding at 31 December 2016 indicated above were arranged with leading banks and bear interest tied to Euribor plus market spreads.

In 2016 the Group paid borrowing costs amounting to EUR 9.000 thousand plus debt arrangement expenses of EUR 5.178 thousand (of which EUR 1.088 thousand were charged to "Finance Costs" in the consolidated statement of profit or loss for 2016 and EUR 4.090 thousand were deducted from the Group's bank borrowings recognised in the consolidated balance sheet), and borrowing costs of EUR 552 thousand were capitalised to inventories (see Note 12).

The interest rate applicable to the Group, in general terms, is tied to Euribor plus a market spread ranging from 1% to 2.5%. The average cost of the borrowings calculated for 2016 is approximately 2,37%.

At 31 December 2016 and 2015, the Group companies had loans and undrawn credit facilities totalling EUR 9.671 thousand and EUR 23.600 thousand, respectively.

#### **18. Other current and non-current liabilities**

Details of other current and non-current liabilities at 31 December 2016 and 31 December 2015 are as follows:

	Thousands of euros			
	31.12.2016		31.12.2015	
	Non-current	Current	Non-current	Current
Guarantees and deposits received	34	-	65	-
Remuneration payable	-	1.556	-	762
Customer advances (see Note 12)	-	29.695	-	12.818
<b>Total, gross</b>	<b>34</b>	<b>31.251</b>	<b>65</b>	<b>13.580</b>

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

## **19. Current and non-current trade and other payables**

"Trade and other payables" mainly includes balances payable for trade purchases and related costs. At 31 December 2016 and 31 December 2015 this caption also includes a payable amounting EUR 11.875 and EUR 53.257 thousand respectively corresponding to the deferred portion of the price of a land purchased in these exercises (see note 12)

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

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

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

	Period ended 31 December 2016	6 months period ended 31 December 2015
	Days	Days
Weighted average payment term to suppliers	36	10
Paid operations ratio	34	7
Outstanding payments ratio	48	47
	Thousands of euros	Thousands of euros
Total payments made	303.036	208.663
Total outstanding payments	22.803	14.834

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

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

Pursuant to Law 11/2003, of 26 July, establishing measures on combating late payment in commercial transactions, the statutory payment period applicable to the Company at 31 December 2016 and 31 December 2015 was 30 days, unless a longer period has been agreed, which in no case may exceed 60 days. In this connection, and for the calculations referred to above, the Group has considered in all cases a maximum legal term of 30 days, no matter which the arranged conditions with the suppliers are.

## **20. Tax matters**

### ***a) Consolidated tax group***

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

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

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

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

All the Group companies, except the subsidiaries Neinor Península, S.L.U. and Neinor Sur, S.L.U., which pay income tax as from the years commencing 1 January 2015 in accordance with Corporation Tax Law 27/2014, of 5 December, pay taxes pursuant to Bizkaia Corporation Tax Regulation 11/2013.

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

At 31 December 2015, the Parent and the subsidiaries Neinor Norte, S.L.U. and Neinor Península, S.L.U. have all the years open for review by the tax authorities since their incorporation, which took place at the end of 2014. The subsidiary Neinor Sur, S.L.U. has the last five years open to review in relation to income tax and the last four years open to review for all other taxes applicable to it. The other companies have the last four years open to review for all taxes. In this connection, Provincial Regulation 11/2013 establishes that all tax credits applied and tax losses generated in prior years can be reviewed when they are applied in any of the years open to review, while Law 27/2014 of 27 November, establishes a review term of ten years.

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

**c) Tax receivables and payables**

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

	Thousands of euros							
	31.12.2016				31.12.2015			
	Tax assets		Tax liabilities		Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
VAT receivable / payable (Note 17)	-	8.158	-	3.753	-	34.380	-	4.232
Deferred tax asset	-	-	-	-	-	-	-	-
Income tax receivable	-	790	-	-	-	-	-	-
Personal income tax withholdings payable	-	-	-	-	-	-	-	-
Social Security contributions payable	-	-	-	287	-	-	-	133
Deferred tax liability	-	-	321	-	-	-	-	-
Others	-	102	-	364	-	80	-	374
	-	<b>9.050</b>	<b>321</b>	<b>4.404</b>	-	<b>34.460</b>	-	<b>4.739</b>

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

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

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

**At 31 December 2016**

	Thousands of euros		
	Group 0211BSC	Other entities	Total
Profit/(Loss) before tax	15.359	(11.231)	4.128
Permanent differences -	45	688	733
Temporary differences (*)	(5.009)	(21.143)	(26.152)
<b>Preliminary Taxable income/(loss)</b>	<b>10.395</b>	<b>(31.686)</b>	<b>(21.291)</b>
<b>Taxable income/(loss)</b>	<b>10.395</b>	<b>(31.686)</b>	<b>(21.291)</b>
Taxable income - 28% tax rate (positive basis)	10.395	-	10.395
Taxable loss - 25% tax rate (negative basis)	-	(31.686)	(31.686)
Tax rate	28%	25%	-
Tax accrued	(2.911)	7.922	5.011
Not capitalised Tax assets accrued in the period	-	(7.922)	(7.922)
Other adjustments for income tax	130	-	130
Previous years income tax regularization	(290)	-	(290)
<b>Income tax expense</b>	<b>(3.071)</b>	<b>-</b>	<b>(3.071)</b>

(\*) Not capitalized.

**At 31 December 2015**

	Thousands of euros		
	Group 0211BSC	Other entities	Total
Profit/(Loss) before tax	(7.124)	(63.127)	(70.251)
Permanent differences -	5	31	36
Temporary differences (*)	8.962	25.847	34.809
<b>Preliminary Taxable income/(loss)</b>	<b>1.843</b>	<b>(37.249)</b>	<b>(35.406)</b>
<b>Taxable income/(loss)</b>	<b>1.843</b>	<b>(37.249)</b>	<b>(35.406)</b>
Taxable income - 28% tax rate (positive basis)	1.843	-	1.843
Taxable loss - 28% tax rate (negative basis)	-	(37.249)	(37.249)
Tax rate	28%	28%	28%
Tax accrued	(516)	10.430	9.914
Not capitalised Tax assets accrued in the period	-	(10.430)	(10.430)
Other adjustments for income tax	(99)	-	(99)
<b>Income tax expense</b>	<b>(615)</b>	<b>-</b>	<b>(615)</b>

(\*) Not capitalized.

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

Tax losses of 2014 generated by the subsidiaries Neinor Sur, S.L.U., Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L.U. before their integration in the Neinor Homes Groups are disclosed in the chapter e) of this Note. Some adjustments to the accounting profit/loss, mainly related to charges for impairment of inventories, were considered when estimating the tax losses. These adjustments are disclosed in the chapter f) to this Note

**e) Tax losses**

Details of the tax losses of the different companies included in the Neinor Homes Group at 31 December 2016, which correspond with those generated by the subsidiaries Neinor Sur, S.L.U., Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L.U. are as follows:

Year of generation	Thousands of euros		Year of maturity
	Unrecognised	Recognised	
<b>Group tax losses</b>			
<b>0211BSC:</b>			
2008 Exercise (*)	185	-	2028
2010 Exercise (*)	813	-	2028
2011 Exercise (*)	8.867	-	2028
2012 Exercise (*)	18.711	-	2028
2013 Exercise (*)	1.798	-	2028
2014 Exercise (*)	167	-	2029
30 June 2015 (*)	2.200	-	2030
31 December 2015	4.595	-	2030
<b>Other entities tax losses</b>		-	
2009 Exercise	5	-	
2011 Exercise	2.479	-	No time limit
2012 Exercise	8.617	-	No time limit
2013 Exercise	26.805	-	No time limit
2014 Exercise	16.241	-	No time limit
30 June 2015	8.170	-	No time limit
31 December 2015 (**)	46.463	-	No time limit
2016 Exercise	31.687	-	
<b>Total</b>	<b>177.803</b>	-	

(\*) Generated outside the tax Group led by Neinor Holdings, S.L.U.

(\*\*) The difference with respect to the situation indicated in the consolidated financial statements for the six-month period ended 31 December 2015 arose from the tax loss ultimately reported in the income tax return filed in July 2016.

The tax group's tax losses incurred prior to the year commencing 1 July 2015 can only be offset against the taxable profit earned individually by the companies themselves that generated it, before considering the tax bases corresponding to 2016.

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

- 70% of the tax base prior to offset, with a minimum of EUR 1 million, if revenue is lower than EUR 20 million.
- 50% of the tax base prior to offset, with a minimum of EUR 1 million, if revenue is higher than EUR 20 million but lower than EUR 60 million.
- 25% of the tax base prior to offset, with a minimum of EUR 1 million, if revenue is higher than EUR 60 million.

The future taxable profits to be considered for the offsetting of the tax losses with a maturity date disclosed in the table above are not subject to any limit.

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

#### **f) Tax credits**

At 31 December 2016 and 2015, the Group had unrecognised tax credits amounting to EUR 93 thousand.

#### **g) Deferred Taxes**

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

In this regard, at 31 December 2015, before taking into consideration the adjustments made in the estimate of the tax base relating to this reporting period, there are unrecognised deferred taxes amounting to EUR 61.654 thousand (in the tax base) (EUR 80.700 thousand at 31 December 2015) relating to adjustments to the tax base made, mainly for impairment of inventories, by the subsidiary Neinor Sur, S.L.U.

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

#### **h) Other tax matters**

Following the publication of Royal Decree-Law 3/2016, of 2 December, adopting tax measures for tax periods beginning on or after 1 January 2016, the following changes were introduced in relation to income tax for companies that file tax returns under the tax legislation in force in Spain except for Navarre and the Basque Country:

- For the taxpayers whose revenue is less than EUR 20 million during the twelve months prior to the date on which the tax period commences, the aggregate amount of the double taxation tax credits cannot exceed 50% of the taxpayer's gross tax payable.
- A system of mandatory reversal of the impairment on shares representing equity interests is established, in addition to the cases for reversal initially provided for. Specifically, it is foreseen that, in any case, the amount of the reversal of the impairment losses on the shares representing equity interests in entities that



were deductible for income tax purposes in tax periods commencing prior to 1 January 2013 shall be included, at least, in equal portions in the tax base for each of the first five tax periods commencing on or after. However this tax measure is not applicable for the Group, currently.

Also, from 1 January 2017, among other amendments, it should be noted that there is a limitation of the deductibility of losses incurred on the transfer of equity investments.

## **21. Guarantee commitments to third parties and other contingent liabilities**

At 31 December 2016 the Group had provided guarantees to third parties for a total amount of EUR 43.427 thousand (EUR 22.386 thousand at 31 December 2015). Included in this figure there is an amount of EUR 15.654 thousand (EUR 15.404 thousand at 31 December 2015) thousand related mainly to guarantees provided to different local authorities to secure the development of different properties and EUR 27.773 thousand to secure payments in advance received by customers (EUR 6.646 thousand at 31 December 2015).

Additionally, the Group has received at 31 December 2016 from different suppliers and contractors guarantees for a total amount of EUR 8.424 thousand (EUR 431 thousand at 31 December 2015) to secure the perfect completion of the corresponding construction works.

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

## **22. Revenue and expense**

### **a) Revenues**

The breakdown of revenues is as follows:

	Thousands of euros	
	31.12.2016	31.12.2015
Legacy	164.293	87.246
Development	36.611	31.974
Assets Management - Servicing	27.661	14.452
Other / Corporate	-	1.016
<b>Total</b>	<b>228.565</b>	<b>134.688</b>

According to the asset administration and management agreement entered into by the Parent and various Kutxabank Group companies dated on 14 May 2015, the Group billed during the 2016 exercise an amount of EUR 27.661 thousand to the aforementioned companies of the Kutxabank Group (EUR 14.452 thousand at 31 December 2015).

All of the Group revenues have been obtained in Spain.

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

**b) Cost of sales**

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

	Thousands of euros	
	Total Group	
	31.12.2016	31.12.2015
<b>Cost of sales</b>	<b>205.360</b>	<b>104.871</b>
Sites and land	34.271	12.171
Construction work in progress and completed buildings	171.089	92.700

**c) Employee benefits expense and average headcount**

Details of "Employee benefits expense" are as follows:

	Thousands of euros	
	31.12.2016	31.12.2015
Wages, salaries and similar expenses	9.527	3.931
Termination benefits	186	156
Social security costs	1.840	690
Other employee benefit costs	124	31
<b>Total</b>	<b>11.677</b>	<b>4.808</b>

At December 2016, the average headcount at Group companies was 170 (119 at 31 December 2015). The breakdown by category is as follows:

	31.12.2016			31.12.2015		
	Women	Men	Total	Women	Men	Total
Higher degree staff	51	83	134	31	61	92
Medium degree staff	48	16	64	26	17	43
<b>Total</b>	<b>99</b>	<b>99</b>	<b>198</b>	<b>57</b>	<b>78</b>	<b>135</b>

In addition, at 31 December 2016, the Group had 3 employees with a disability of more than 33% (at 31 December 2015, there were no employees with a disability equal to or greater than 33).

**d) External services**

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

	Thousands of euros	
	31.12.2016	31.12.2015
Leases and royalties	685	318
Maintenance	3.334	2.238
Independent professional services	20.572	10.888
Transport	3	-
Insurance premiums	343	144
Bank Services	23	-
Advertising and marketing	2.743	1.002
Supplies	263	92
Other external services	3.139	5.016
Levies (see Note 16)	9.093	5.838
<b>Total</b>	<b>40.198</b>	<b>25.536</b>

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

**e) Contribution to consolidated profit or loss**

The contributions to consolidated profit or loss for the exercise ended 31 December 2016 and the 6 months exercise ended 31 December 2015 by each company included in the consolidated group are as follows:

Entity	Thousands of euros	
	31.12.2016	31.12.2015
<b>Full consolidation:</b>		
Parent and consolidation adjustments (*)	12.429	8.230
Neinor Norte, S.L.U.	(126)	(15.816)
Promociones Neinor 1, S.L.U.	(9)	(28)
Promociones Neinor 2, S.L.U.	3	(13)
Promociones Neinor 3, S.L.U.	49	(67)
Promociones Neinor 4, S.L.U.	(31)	(34)
Promociones Neinor 5, S.L.U.	(27)	(12)
Neinor Península, S.L.U.	(6.408)	(42.093)
Neinor Sur, S.L.U.	(4.823)	(21.033)
	<b>1.057</b>	<b>(70.866)</b>

(\*) There are no consolidation adjustments as of 31 December 2016 and 31 December 2015.

**f) Changes in trade provisions**

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

	Thousands of euros Income / (Expense)	
	31.12.2016	31.12.2015
<b>Change in trade provisions -Application of impairments for sold stocks (see Notes 6 and 12)</b>	<b>44.077</b>	<b>9.987</b>
<b>Change in trade provisions – Others</b>	<b>(9.482)</b>	<b>(79.605)</b>
Impairment losses of inventories and investment properties (see Notes 9 and 12)	(9.501)	(78.054)
Provision for bad debts (see Note 12)	19	(626)
Other provisions	-	(925)
<b>Total change in trade provisions</b>	<b>34.595</b>	<b>(69.618)</b>

**23. Related party transactions**

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

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

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

	Thousands of Euros					
	Income			Expenses		
	Net Revenues (Note 22.a)		Financial Incomes	Cost of Sales – Purchases (Note 22.c)	External Services (Note 22.d)	Financial costs (Note 17)
	Sales	Services Provided				
<b>6 months exercise ended at 31 December 2015</b>						
<b>Shareholders-</b> Neinor Holdings, S.L.	-	-	-	-	-	193
<b>Other Group's "related parties"-</b> Banco de Santander, S.A.	-	-	9	-	-	102
Hudson Advisors Spain, S.L.	-	-	-	-	1.174	-
	-	-	9	-	1.174	295

The breakdown of the transactions carried out is as follows:

- The finance costs arose on the loan granted by Neinor Holdings, S.L.U. (see Note 17), which was repaid in full in 2016, and various loans and credit facilities with the related bank.
- The services provided at 31 December 2016 relate to the agreement for the provision of services relating to the counselling and support in the preparation of the business plans, budgets and monitoring tasks in relation to the business plan by Hudson Advisors Spain, S.L., a related company as defined in Ministry of Economy and Finance Order EHA/3050/2004, of 15 September, and in Spanish National Securities Market Commission (CNMV) Circular 1/2005, of 1 April. Also, on 31 December 2016, the two parties mutually agreed to terminate the aforementioned service contract, with no penalties for either of the two parties.

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

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

In addition, on 31 December 2015, Neinor Holdings, S.L.U. forgave the debt from Global Endurance, S.L.U., amounting to EUR 8,684 thousand, registering to the effects of this financial annual statements, through its recognition as reserves in the consolidated statement of changes in equity for the six-month reporting period ended 31 December 2015 (see Notes 2.h) and 15.c))

The balances held with companies related to the Group at 31 December 2016 and 2015 are as follows:

**31 December 2016**

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

(\*)Company related to the Group since 25 April 2016. In this regard, the balances accrued from that date have been included. Sales commitments total EUR 1,935 thousand.

**31 December 2015**

Thousands of Euros	Cash a cash equivalents	Payables to sole shareholder	Short-term Bank borrowings	Current trade and other payables
<b>Shareholders-</b> Neinor Holdings, S.L.U.	-	99.080	-	-
<b>Other Group's "related parties"-</b> Banco Santander, S.A.	66.964	-	26.962	-
Hudson Advisors Spain, S.L.	-	-	-	291
	<b>66.964</b>	<b>99.080</b>	<b>26.962</b>	<b>291</b>

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

In the context of the transaction described in Note 1, on 14 May 2015, the Board of Directors of the Parent and the various Group subsidiaries was completely renewed. Accordingly, the directors of these companies ceased to discharge their duties in representation of the Kutxabank Group and began to discharge their duties as representatives of the current sole shareholder of the Parent.

### **Information regarding situations of conflict of interest involving the directors**

In the exercises ended 31 December 2016 and 31 December 2015 the Parent's current and former directors did not perform any transactions with the Parent or the companies of the Group to which it belongs (Neinor Holdings Group (Note 1)) that were outside the normal course of business or were not on an arm's length basis.

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

### **Directors' compensation and other benefits**

Directors have not received at 31 December 2016 and December 2015 any compensation as regards of their Director's condition. The companies related to them provided to the Group and billed the amounts indicated in Note 23.

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

The Parent has no pension obligations to the Directors.

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

### **Senior executives' compensation and other benefits**

The remuneration of the Parent's senior executives and persons discharging similar duties, including those who are simultaneously members of the Board of Directors (one person), at 31 December 2016 and 31 December 2015 is summarised as follows:

Number of employees		Thousands of euros					
		31.12.2016			31.12.2015		
		Fixed and variable remuneration	Other Total	Total	Fixed and variable remuneration	Other Total	Total
31.12.2016	31.12.2015						
11	11	2.758	-	2.758	1.112	-	1.112

The Parent has no pension obligations and has granted no advances, loans or guarantees to senior executives. Also, there are no special incentive plans on Neinor Homes, S.L.U. shares for the exercise ended 31 December 2016.

## **25. Auditors' fees**

Fees for audit services for the exercise ended 31 December 2016 for the different companies in the Neinor Homes Group and subsidiaries, provided by the statutory auditor and companies related thereto have amounted to EUR 88 thousand (EUR 74 thousand at 31 December 2015). Likewise, fees for verification services and other services provided by the statutory auditor for the exercise ended at 31 December 2016 have amounted to EUR 22 thousand and EUR 6 thousand, respectively.

Additionally, companies related to the statutory auditor have provided additional services amounting to EUR 75 thousand for the exercise ended 31 December 2016 (EUR 182 thousand for the 6 months exercise ended 31 December 2015).

## **26. Environmental information**

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

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

## **27. Exposure to risk**

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

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

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

**Market risk:**

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

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

### **Liquidity risk**

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

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



At 31 December 2016, the undrawn credit facilities and loans amounted to EUR 9.671 thousand (EUR 23.600 thousand at 31 December 2015) (see Note 17).

The Group's available cash position at 31 December 2016 was EUR 45.301 thousand (89.389 at 31 December 2015) of which EUR 21.373 thousand may only be drawn down in connection with the construction of the developments, as indicated in Note 14.

The Company's directors are confident that they will have sufficient funds to meet its cash requirements in the future. Also, the Group entered into an administration management and property asset management contract with Kutxabank, S.A. in 2015 which provides the Group with relatively stable annual revenue until the contract expires in 2022. In this connection, cash is managed at Neinor Homes Group level, in order to avoid cash strains in the operating subsidiaries and allow them to normally develop their properties that are forecasted to be financed by third parties.

#### **Market risk**

##### ***Interest rate risk***

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

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

##### ***Credit risk***

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

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

#### **28. Events after the reporting period**

In 2017, taking into consideration a potential stock market flotation of the Parent which would result in it being reregistered from a private limited liability company ("S.L.") to a public limited liability company ("S.A.") and could lead to the loss of control by Neinor Holdings, S.L.U., which in turn is wholly owned by the Luxembourg company LSREF3 Lion Investments, S.à.r.l. (see Note 1), which belongs to Lone Star Funds (see Note 17), the Group has obtained a waiver/approval from the banks from which it has received any type of financing not to cancel such financing early in the event that the flotation finally goes ahead, although they reserve the right to terminate the financing early, in general, if at a time following the stock market flotation a third party were to launch, or be in a key position, directly or indirectly, to launch a takeover bid. In any case, for each entity the effectiveness of the waiver is conditional upon the stock market flotation taking place in the first nine months of 2017. Lastly, another bank has made its waiver conditional on the obtainment of the approval, from the Kutxabank entities with which the administration and management contract described in Note 1 is entered into, of the possible change of control that would take place following the stock market flotation. In this connection, on 2 and 6 February 2017 Kutxabank and Caja Sur, respectively, confirmed that they approve the change of control on the date of the stock market flotation, provided that the guarantees granted in the contract are retained and the timetables envisaged in the

transaction are respected. However, they reserve the right, at a subsequent date, to terminate the financing early in same way as the other banks do, in the event of a takeover bid as described above.

In addition, regarding this potential flotation, in 2017, the Board of Directors of Neinor Holdings, S.L.U. agreed to an incentive plan for the CEO and five members of the executive team of the Neinor Homes Group, which includes fixed and variable remuneration payable partly in cash and the rest in shares of the Group held by Lone Star through Neinor Holdings, S.L.U. One portion of the incentive will be a fixed amount and will accrue as a result of the admission to listing of the Parent (exit bonus, a fixed amount, for a total of EUR 14 million, approximately, of which EUR 5.1 million are payable in cash on the date of the stock market flotation and the rest in shares at a pre-set fixed price to be delivered in equal parts on each of the two anniversaries of the flotation) and the other portion, variable, for a maximum total amount of EUR 13.5 million, to be delivered in shares, in a number to be determined based on the share price on each of the three anniversaries following the initial takeover bid and the accrual of which is subject to the achievement of annual increases in the share price during the last trimester prior to each of the three anniversaries of the potential stock market flotation (the first reference date being the date of admission to listing on the stock exchanges), subject in certain cases to minimum holding commitments, with the possibility of accrual in proportion to the share price revaluations obtained on certain circumstances. Notwithstanding the above, if at any given time during three years following the potential stock market flotation the shares trading price reaches 152,09% of the initial share price (adjusted), the variable amount not already accrued, will entirely accrue. In any event, it is established that the remuneration will be delivered to them directly by Neinor Holdings, S.L.U. Bearing in mind payment of these bonuses will be made in full by Neinor Holdings, S.L.U. (current sole shareholder and sole shareholder of the Company until its flotation, once the Parent has been reregistered from a private limited liability company to a public limited liability company), the Group will recognise on an accrual basis the corresponding contribution of the shareholder to consolidated equity for the same amount under "Staff Costs" from 2017.

Also, it has been approved a long-term incentive plan payable in full in shares for 40 key employees, approximately, including members of the management committee and the CEO, consisting of three consecutive overlapping three-year periods, i.e. 2017-2019, 2018-2020 and 2019-2021 in which the achievement measurement metrics are, in thirds, EBITDA, the developer margin and shareholder return, with a downward correction coefficient of 10% regarding the achievement of the aforementioned metrics determined by the evolution of the average Loan to Value (LTV) ratio in excess of a target ratio. Minimum amounts below which the incentives do not accrue and the possibility of an extra bonus of up to 150% were established. The sale of the number of shares thus acquired is restricted for periods of between one year and six months for the CEO and the members of the management committee. The shares to be received by each participant will be determined by the incentive attributed to each participant in the plan (in ranges of between EUR 10 thousand and EUR 250 thousand), the price of the shares for each three-year period (average of the share price in the 20 trading sessions prior to the commencement of each cycle) and by the achievement of objectives (range between 0% and 150%). Shares acquired under this plan are subject to lock-up commitments for periods of one year and 6 months for both the CEO and members of the management committee. In the case of the CEO and members of the management committee, this incentive is subject to a repayment clause if certain circumstances arise. The cost of this long-term incentive plan will be assumed by the Neinor Homes Group, but it is not quantified a precise calculation currently. There are no additional share-based incentive plans for employees.

The cost of the stock market flotation will be shared by the current sole shareholder Neinor Holdings, S.L.U. and Neinor Homes, S.L.U. The maximum cost to be assumed directly by the Parent will be approximately EUR 2 million.

Also, as part of the sale and purchase transaction described in Note 1, the Group has recognised real estate assets which have not been able to be registered in the Property Register, and which Kutxabank, S.A. has guaranteed to repurchase if they have not been registered by May 2017 (see Note 12). In addition, as a result of this transaction, as explained in Note 16, there are claims relating to assets owned by the various Group companies which, in the event of unfavourable judgments, would be covered by the Kutxabank Group. In relation to both matters, in February 2017, an agreement was established between the companies making up the Neinor Homes Group and Neinor Holdings, S.L.U., of which Kutxabank, S.A. is aware, whereby exercise of such rights and the possible remuneration to which they may give rise, will be carried out and obtained, respectively, by the Neinor Homes

Group and, as the case may be, Neinor Holdings, S.L.U. will only provide information for such shares to be exercised without any loss.

Lastly, with respect to the first- and second-ranking security interests on all the shares of Neinor Homes, S.L.U. (see Notes 12 and 15), Neinor Holdings, S.L.U. and the Kutxabank Group, have entered into an agreement, subject to certain guarantees provided by Neinor Holdings, S.L.U., among others, to the stock market flotation taking place prior to 30 June 2017, the payment of the deferred price of the transaction described in Note 1 (for which revenues obtained from the potential stock market flotation are going to be retained) and the calculation of the maximum number of shares of the Parent that will be issued in the market on the occasion of the stock market flotation ("transferable shares"), whereby the Kutxabank Group undertook, at least five working days prior to the date established as the date envisaged for the registration by the Spanish National Securities Market Commission of the prospectus for the stock market flotation, to grant the related deeds of discharge of the first- and second-ranking security interests on the transferable shares.

#### **29. Explanation added for translation to English**

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

## Appendix I

### “Scope of consolidation”

Company	Registered address	Activity	% direct and indirect ownership		Shareholder	Auditors
			31.12.2016	31.12.2015		
Neinor Norte, S.L.U.	Bilbao	Real Estate Development	100%	100%	Neinor Homes, S.L.U.	Deloitte, S.L.
Promociones Neinor 1, S.L.U.	Bilbao	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 2, S.L.U.	Bilbao	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 3, S.L.U.	Bilbao	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 4, S.L.U.	Bilbao	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 5, S.L.U.	Bilbao	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Neinor Península, S.L.U.	Córdoba	Real Estate Development	100%	100%	Neinor Homes, S.L.U.	Deloitte, S.L.
Neinor Sur, S.L.U. (*)	Córdoba	Real Estate Development	100%	100%	Neinor Peninsula, S.L.U.	Deloitte, S.L.

(\*) Neinor Sur, S.L.U. took ownership of Global Endurance, S.L.U. during the 6 months period ended 31 December 2015  
(Notes 2.h and 15 c)

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

Company	Total equity at December 31, 2015 (thousands of euros)					
	Share capital	Reserves	Previous years' losses	Profit / (Loss)	Other equity	Total equity
Neinor Norte, S.L.U.	314.630	(31)	(28.325)	(15.817)	-	270.457
Promociones Neinor 1, S.L.U.	301	60	(0)	(27)	-	334
Promociones Neinor 2, S.L.U.	880	176	(0)	(13)	-	1.043
Promociones Neinor 3, S.L.U.	594	119	-	(67)	-	646
Promociones Neinor 4, S.L.U.	2.981	597	-	(34)	-	3.544
Promociones Neinor 5, S.L.U.	2.979	597	(0)	(12)	-	3.564
Neinor Peninsula, S.L.U.	624.945	(3)	(6.229)	(42.094)	12.330	588.949
Neinor Sur, S.L.U.	240.565	15.535	(86.940)	(21.033)	10.984	159.111

## Appendix II

### “Contributions to Neinor Homes, S.L.U. and subsidiaries”

	Thousands of euros				
	Harri Iparra, S.A.U. (formerly Neinor Barria, S.A.U.)	Harri Kartera, S.A.U. (formerly Neinor, S.A.U.)	Yerecial, S.L.U.	Harri Inmuebles, S.A.U. (formerly Neinor Inmuebles, S.A.U.)	Total contributions to Neinor Norte, S.L.U.
Shares in Group companies	-	-	-	-	-
Inventories, investment property and advances	171.115	76.125	5.477	25.761	278.478
Other current assets	3	20		3	26
<b>Total assets</b>	<b>171.118</b>	<b>76.145</b>	<b>5.477</b>	<b>25.764</b>	<b>278.504</b>
Liabilities-		-	-	-	-
Payable to the Group	(4.381)	-	-	-	(4.381)
<b>Total liabilities</b>	<b>(4.381)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4.381)</b>
<b>Negative reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>	<b>166.737</b>	<b>76.145</b>	<b>5.477</b>	<b>25.764</b>	<b>274.123</b>

	Thousands of euros			
	CPCE, S.L.U.	Harri Hegoalde 1, S.A.U. (formerly Neinor Ibérica, S.A.U.)	Harri Hegoalde 2, S.A.U. (formerly Neinor Ibérica Inversiones, S.A.U.)	Total contributions to Neinor Península, S.L.U.
Shares in Group companies	-	-	73.246	73.246
Inventories, investment property and advances	76.993	73.656	228.802	379.451
Other current assets	5.491	-	-	5.491
<b>Total assets</b>	<b>82.484</b>	<b>73.656</b>	<b>302.048</b>	<b>458.188</b>
Liabilities-				
Payable to the Group	-	-	(2.071)	(2.071)
Other current liabilities	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>(2.071)</b>	<b>(2.071)</b>
<b>Negative reserves</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net assets</b>	<b>82.484</b>	<b>73.656</b>	<b>299.977</b>	<b>456.117</b>

## Appendix II

### “Contributions to Neinor Homes, S.L.U. and subsidiaries”

	Thousands of euros						
	Neinor Sur, S.A.U. (formerly CajaSur Inmobiliaria, S.A.U.)	Neinor Sur, S.A.U. (formerly CajaSur Inmobiliaria, S.A.U.)	Neinor Sur, S.A.U. (formerly CajaSur Inmobiliaria, S.A.U.)	Neinor Sur, S.A.U. (formerly CajaSur Inmobiliaria, S.A.U.)	Neinor Sur, S.A.U. (formerly CajaSur Inmobiliaria, S.A.U.)	Neinor Sur, S.A.U. (formerly CajaSur Inmobiliaria, S.A.U.)	Neinor Sur, S.A.U. (formerly CajaSur Inmobiliaria, S.A.U.)
Shares in Group companies	-	-	-	-	-	-	-
Inventories, investment property and advances	168.149	309	765	464	3.370	3.373	176.430
Other current assets	25.128	2.038	588	839	339	247	29.179
<b>Total assets</b>	<b>193.277</b>	<b>2.347</b>	<b>1.353</b>	<b>1.303</b>	<b>3.709</b>	<b>3.620</b>	<b>205.609</b>
Liabilities- Payable to the Group	(115.163)	(2.541)	(16.346)	(1.784)	(9.000)	(8.989)	(153.823)
Other current and non-current liabilities	(5.006)	(45)	(22)	(531)	(7)	(7)	(5.618)
<b>Total liabilities</b>	<b>(120.169)</b>	<b>(2.586)</b>	<b>(16.368)</b>	<b>(2.315)</b>	<b>(9.007)</b>	<b>(8.996)</b>	<b>(159.441)</b>
<b>Negative reserves</b>	<b>(101)</b>	<b>(239)</b>	<b>(15.015)</b>	<b>(1.012)</b>	<b>(5.298)</b>	<b>(5.296)</b>	<b>(26.961)</b>
<b>Net assets</b>	<b>73.108</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73.108</b>