

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

**Consolidated Financial Statements for the 6  
months period ended 31 December 2015,  
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 2015, 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 six months 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 2015, and their consolidated results and their consolidated cash flows for the six months 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.

### *Emphasis of matter paragraphs*

As indicated in Note 2-a to the accompanying consolidated financial statements, in the context of the Parent's potential stock exchange flotation, on 27 February 2017 Parent's Directors formally prepared a new set of consolidated financial statements for the six month period ended 31 December 2015 in order to include additional descriptive information in some of the explanatory notes so that they provide more detailed disclosures for their improved interpretation and comprehension, without this increase in information affecting significantly the aforementioned consolidated financial statements. In this connection, this auditors' report replaces the auditors' report that we issued on 29 April 2016, in which we expressed an unqualified opinion, in relation to the consolidated financial statements and the explanatory notes thereto that were initially prepared. Our opinion is not modified in respect of this matter.

We draw your attention to what described in Note 2.h of the accompanying consolidated financial statements where it is explained that until 14 May 2015 the Neinor Homes Group formed part of the Kutxabank Group and was managed by representatives of the latter. Furthermore, and as described in Notes 22-a and 23, until the aforementioned date the Group has made certain transactions with companies integrated in the KB Group in the context of the transaction described in Note 1. Currently the Neinor Homes Group is integrated in the Neinor Holdings Group, being its sole shareholder LSREF3 Lion Investments, S.à.r.l. (Notes 1 and 15). The accompanying consolidated financial statements should be interpreted in this context. Our opinion is not qualified in respect of this matter.

### *Report on Other Legal and Regulatory Requirements*

The accompanying consolidated directors' report for the six months period ended at 31 December 2015 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 2015. 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**

Consolidated Financial Statements for the 6  
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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 2015 AND 30 JUNE 2015**  
(Thousands of Euros)

ASSETS	Notes	31.12.15	30.06.15 (*)	EQUITY AND LIABILITIES	Notes	31.12.15	30.06.15 (*)
<b>NON-CURRENT ASSETS:</b>				<b>EQUITY:</b>			
Intangible assets	7	93	64	Share capital		939.879	939.879
Property, plant and equipment	8	1.422	1.035	Reserves of the Parent		573	(60)
Investment property	9	11.010	13.334	Reserves at fully consolidated companies		(28.971)	(27.106)
Non-current financial assets	11	98	83	Consolidated loss for the year		(70.866)	(11.248)
Deferred tax assets	20	-	-	Total equity	15	640.614	601.464
<b>Total non-current assets</b>		<b>12.623</b>	<b>14.516</b>				
				<b>NON-CURRENT LIABILITIES:</b>			
				Other non-current liabilities	18	65	67
				Deferred tax liabilities	20	-	321
				Total non-current liabilities		65	388
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Inventories	12	933.290	881.493	Provisions	16	13.990	5.858
Trade and other receivables	13	35.702	14.221	Bank borrowings	17	62.992	23.517
Current financial assets	11 and 22	45	2.319	Other current financial liabilities	17 and 22	26	381
Tax receivables	20	34.460	14.910	Payables to associated companies and shareholders	23	99.080	-
Cash and cash equivalents	14	89.389	38.032	Current trade and other payables	19	70.423	17.430
				Tax payables	20	4.739	4.398
				Other current liabilities	18	13.680	12.057
<b>Total current assets</b>		<b>1.092.886</b>	<b>950.975</b>	Total current liabilities		264.830	63.639
<b>TOTAL ASSETS</b>		<b>1.105.509</b>	<b>965.491</b>	TOTAL EQUITY AND LIABILITIES		<b>1.105.509</b>	<b>965.491</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 2015.

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

**CONSOLIDATED INCOME STATEMENTS  
FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2015 AND  
THE PERIOD ENDED 30 JUNE 2015**  
(Thousands of Euros)

	Notes	6 months period ended 31 December 2015	6 months period ended 30 June 2015 (*)
Net revenues	22 and 22	134.688	121.976
Cost of sales	22 and 23	(104.871)	(107.476)
Employee benefits expenses	22	(4.808)	(3.000)
Depreciation and amortisation charges	8.9 and 10	(270)	(57)
External services	22	(25.536)	(11.331)
Change in trade provisions	22	(89.618)	(11.579)
Other operating gains/(losses)		781	302
<b>LOSS FROM OPERATIONS</b>		<b>(69.634)</b>	<b>(11.165)</b>
Impairment and gains/(losses) on disposal of non-current assets		-	-
Other gains and losses		-	205
Finance revenue		27	16
Finance costs	17 and 23	(644)	(304)
Impairment and gains/(losses) on disposal of financial instruments		-	-
<b>LOSS BEFORE TAX</b>		<b>(70.251)</b>	<b>(11.248)</b>
Income tax	20	(615)	-
<b>LOSS FOR THE YEAR</b>		<b>(70.866)</b>	<b>(11.248)</b>
<b>Earnings/(losses) per share (Euros):</b>			
Basic	5	(0,075)	(0,014)
Diluted	5	(0,075)	(0,014)

(\*) 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 6 months period ended 31 December 2015

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

**CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE  
FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2015 AND  
THE PERIOD ENDED 30 JUNE 2015**  
(Thousands of Euros)

	Notes	6 months period ended 31 December 2015	6 months period ended 30 June 2015 (*)
<b>LOSS FOR THE YEAR</b>		(70.866)	(11.248)
<b>TOTAL RECOGNISED INCOME AND EXPENSE</b>		(70.866)	(11.248)
a) Attributable to the Parent		(70.866)	(11.248)
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 6 months period ended 31 December 2015

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2015 AND  
THE PERIOD ENDED 30 JUNE 2015**  
(Thousands of Euros)

	Share capital	Share premium	Valuation adjustments	Legal reserve	Other reserves of the Parent	Reserves at consolidated companies	Consolidated profit/loss for the year	Non-controlling interests	Total equity
Balance at 31 December 2014 (*)	730.149	-	-	-	-	(27.078)	-	-	703.071
Distribution of profit/loss for the year:									
To reserves	-	-	-	-	-	-	-	-	-
Income/expense recognised in the period	-	-	-	-	-	-	(11.248)	-	(11.248)
Capital increase	209.729	-	-	-	-	-	-	-	209.729
Other	-	-	-	-	-	-	-	-	(88)
Balance at 30 June 2015 (*)	939.878	-	-	-	(60)	(26)	(11.248)	-	901.464
Distribution of profit/loss for the year:									
To reserves	-	-	-	-	-	-	-	-	-
Income/expense recognised in the period	-	-	-	-	(713)	(10.935)	11.248	-	(70.866)
Capital increase	-	-	-	-	-	-	(70.866)	-	-
Other	-	-	-	-	1.346	8.670	-	-	10.016
Balance at 31 December 2015 (*)	939.878	-	-	-	573	(28.971)	(70.866)	-	840.614

(\*) Presented just for comparative purposes. Balance at 31 December 2014 not audited.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statements of changes in equity for the 6 months period ended 31 December 2015

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE 6 MONTHS PERIOD ENDED 31 DECEMBER 2015 AND  
THE PERIOD ENDED 30 JUNE 2015**

(Thousands of Euros)

	Notes	6 months period ended 31 December 2015	6 months period ended 30 June 2015 (*)
<b>Cash flows from/(used in) operating activities</b>			
Profit/(loss) from operations		(70.251)	(11.248)
Adjustments-			
Depreciation and amortisation	7, 8 and 9	270	57
Change in provisions	9, 12 and 16	76.412	14.179
Impairment and gains/(losses) on disposal of intangible and tangible assets		-	-
Impairment and gains/(losses) on disposal of financial instruments		-	-
Finance costs		644	304
Finance revenue		(27)	(16)
Cash flows obtained from operations		7.048	3.276
<b>Increase/(Decrease) in current assets and liabilities:</b>			
Inventories	12	(109.027)	29.006
Trade and other receivables	11 and 13	(39.139)	(23.377)
Current trade and other payables	18 and 19	53.336	19.920
Other current and non-current assets and liabilities	11 and 23	1.202	8.183
Income tax paid	20	-	25
<b>Total net cash flows from operating activities (I)</b>		<b>(86.580)</b>	<b>37.033</b>
<b>Cash flows from/(used in) investing activities:</b>			
Investments in intangible and tangible assets	7 and 8	(442)	(996)
Investments in investment property		-	-
Investments in Group companies and associates	11 and 23	(4)	(2.300)
Interests collected		7	16
Dividends received		-	-
Disposals of intangible and tangible assets		-	-
Disposals of investment property	9	132	962
Disposals of Group companies and associates		-	-
Disposals of other current and non-current financial assets	11	(41)	-
<b>Total net cash flows from investing activities (II)</b>		<b>(348)</b>	<b>(2.318)</b>
<b>Cash flows from/(used in) financing activities:</b>			
Proceeds from share capital increases	15	1.346	125.894
Proceeds from bank borrowings	17	51.408	12.750
Proceeds from Group companies and associates borrowings	23	105.000	-
Repayment of bank borrowings	17	(11.983)	-
Repayment of Group companies and associates borrowings	17 and 23	(6.728)	(160.274)
Interests paid	17 and 23	(401)	(374)
Dividends paid		-	-
Other proceeds/payments related to financing activities	17	(357)	-
<b>Total net cash flows from financing activities (III)</b>		<b>138.285</b>	<b>(22.004)</b>
<b>Net increase/(decrease) in cash and cash equivalents (I+II+III)</b>		<b>51.357</b>	<b>12.711</b>
Cash and cash equivalents at beginning of the period		38.032	25.321
<b>Cash and cash equivalents at end of year</b>		<b>89.389</b>	<b>25.321</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 6 months period ended 31 December 2015

*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 6 months period ended 31 December 2015 (hereinafter, 2015 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 Perimetro 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).

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 2015 eleven Group employees 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). This matter should be taken into consideration in any interpretation made of the accompanying consolidated financial statements.

In these circumstances, the Parent was not required to prepare consolidated financial statements for the 2014 period, under current legislation, because its Group was consolidated in a higher group (Kutxabank Group), the Parent of which is Kutxabank, S.A. In the same way, it is not required to prepare consolidated financial statements for the 2015 period since its Group is consolidated on 31 December 2015 and 30 June 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 and 30 June 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 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.

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

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

The consolidated financial statements of the Neinor Homes Group for 2015 were prepared by the Parent's directors at the Board of Directors' meeting held on 22 March 2015, 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 periods ended 31 December 2015 and 30 June 2015 were reissued by the Board of Directors on 27 February 2017, together with those for 2016.

The reissue process did not disclose any subsequent events affecting the amounts in the various line items reflected in the consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows. The main relevant issue for the fiscal year ending 31 December 2016 had been the changes occurred in the financial structure of the Group (Note 28). Nevertheless, in order to have a detailed view of this transactions it is necessary the analysis of the annual accounts of the year 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 2015, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the 6 months period then ended.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2015 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 2015 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.

On the other hand, the statutory financial statements of the Parent and the rest of the Group companies for 30 June 2015 were approved by their respective sole shareholders on 29th October 2015.

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

The following mandatory standards and interpretations, already adopted in the European Union, became effective in 2015. Where applicable, the Group has used them in the preparation of these consolidated financial statements at 31 December 2015 and 30 June 2015:

**(1) New standards, amendments and interpretations of mandatory application for annual periods beginning on or after 1 January 2015:**

Approved for use in the European Union		Mandatory application for annual periods beginning on or after:
IFRIC 21 Levies	The interpretation requires the recognition of the liability to pay the levy when the obligating event occurs; for example, if it occurs on 31 December, in the previous interim closes no advance expense should be recognised, whereas up to now it been normal to accrue some of the levies in question.	Annual periods beginning on or after 17 June 2014
Improvements to IFRSs 2011-2013 Cycle (published on December 2013)	Minor modifications to certain standards	1 January 2015

In 2015, the Neinor Homes Group has applied this interpretation (IFRIC 21), that has affected to the moment of recognition of the liability related to some levies, mainly the Real Estate Property Tax. According to this interpretation, the accrual of this levy occurs on 1 January of each period, no matter when the payment takes place. As a consequence, the Group has recorded a liability for its best estimate of the levies of this kind that had not been paid as of 30 June 2015 (see Note 16).

**(2) New standards, amendments and interpretations of mandatory application for annual periods after the calendar year starting on 1 January 2015:**

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:

<b>Approved for use in the European Union</b>		<b>Mandatory application for annual periods beginning on or after:</b>
Amendment to IFRS 19 – Employee Contributions to Defined Benefit Plan	Normally the impact will be limited if certain requirements are met. The amendment allows these contributions to be deducted from the cost of the service in the same period in which they are paid.	1 February 2015
Improvements to IFRSs 2010-2012 Cycle	Minor regulations amendments	1 February 2015
Amendments of IAS 16 and IAS 38 – Acceptable Methods of Depreciation and Amortisation (Issued May 2014)	The amendments clarify that the use of revenue-based methods to calculate depreciation and amortisation are not appropriate, because they do not reflect the expected pattern of consumption of the future economic benefits of an asset.	1 January 2016
Amendment to IFRS 11 – Acquisitions of Interests in Joint Operations (issued May 2014)	The amendment requires the application of IFRS 3 when the joint operation constitutes a business. Until now, this was not treated specifically.	1 January 2016
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
Improvements to IFRSs 2012-2014 Cycle (Issued September 2014)	Minor regulations amendments	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
Amendment to IAS 1: breakdowns initiative (December 2014)	Clarifications related to disclosures (materiality; aggregations, notes classifications).	1 January 2016

<b>Not Approved for use in the European Union</b>		<b>Mandatory application for annual periods beginning on or after:</b>
IFRS 15 Revenue from Contracts with Customers (published in May 2014)	New revenue recognition standards (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31)	Annual periods beginning on or after 1 January 2018
IFRS 9 Financial Instruments (last phase published July 2014)	Replaces the requirements for classification and measurement of financial assets and financial liabilities, derecognitions and hedge accounting of IAS 39.	Annual periods beginning on or after 1 January 2018
IFRS 16 Leases (published January 2016)	Eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases.	1 January 2019
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
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

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 preliminary assessment is that the impact of the application of these standards will not be significant.

**c) Changes in accounting policies**

In the exercise ended 31 December 2015, there were no significant changes in accounting policies with respect to those applied in the exercise ended 30 June 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 6 months period ended 31 December 2015 and 30 June 2015, 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 8 and 11). The Group has obtained valuations from independent experts in 2015 for a significant part of its Real Estate assets, performing internal estimates for the rest of that kind of assets based on their specific analysis for the 6 months period ended 31 December 2015, additionally, which have involved additional write-downs.
2. The useful life of intangible assets, property, plant and equipment and investment property (see Notes 6,7 and 8).
3. The amount of certain provisions (see Note 15).
4. The recoverability of deferred tax assets (see Note 19).

Although these estimates were made on the basis of the best information available at 31 December 2015, 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**

Holdings in companies where the Group has effective control because it holds a majority of the voting rights in its representative and decision-making bodies and the power to determine the company's financial and operational policies have been fully consolidated. 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 2015 and 30 June 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**

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 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 11 )	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.

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 six-month reporting period ended 30 June 2015.

**i) Comparative information**

The information relating to 2015 included in these notes to the 6 months exercise ended 31 December 2015 consolidated financial statements is presented for comparison purposes with that relating to the 6 months exercise ended 30 June 2015 (Note 4.f).

Furthermore, as also described in Note 1, until the date on which the purchase and sale agreement between Kutxabank, S.A. and Neinor Holdings, S.L.U. was completed, i.e. 14 May 2015, the Neinor Homes Group formed part of the Kutxabank Group and was managed by representatives of the latter (see Notes 22 and 23).

These matters should be taken into consideration in any comparison made of the information relating to the 6 months exercise ended 31 December 2015 contained in these consolidated financial statements with that relating to the 6 months exercise ended 30 June 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	
	31.12.15	30.06.15
<b>Basis of distribution:</b>		
Profit/ (loss) for the year	8.230	(713)
<b>Application:</b>		
-To legal reserve	823	-
-To voluntary reserves	6.694	-
- To prior years' losses	713	(713)
	<b>8.230</b>	<b>(713)</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 6 months exercise ended 31 December 2015 and the 6 months exercise ended 30 June 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.

**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.

#### **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.

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.

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 six-month reporting period ended 30 June 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.

**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 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 6 months exercise ended 31 December 2015 and the 6 months exercise ended 30 June 2015 the measurement bases applied by the Group to its financial instruments in 2015 and 2014 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.

## **j) Shares of the Parent**

All the shares of the Parent held by consolidated companies are deducted from equity. At 31 December 2015 and 30 June 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 6 months exercise ended 31 December 2015 and the 6 months exercise ended 30 June 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 15).

### *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 19).

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.

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.

#### ***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 recognized 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.

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.

Neither in the 6 months exercise ended 2015 nor in the 6 months exercise ended 30 June 2015 has the Group 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 2015 nor 30 June 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	Thousands of euros
	31.12.15	30.06.15
Inventories (long term)	730.400	528.191
<b>Total current assets</b>	<b>211.683</b>	<b>528.191</b>
Bank borrowings	10.143	10.743
<b>Total current liabilities</b>	<b>10.143</b>	<b>10.743</b>

**s) Share-based payments**

At 31 December 2015 and 30 June 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 22).

**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	
	31.12.15	30.06.15
Net loss for the year (thousands of euros)	(70.866)	(11.248)
Weighted average number of shares outstanding (thousands of shares) (*)	939.878	788.085
<b>Basic loss per share (euros)</b>	<b>(0,075)</b>	<b>(0,014)</b>

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

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

Diluted loss per share is calculated in the same way as basic 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 2015 and 30 June 2015, the diluted loss per share of the Neinor Homes Group coincided with the basic 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 2015 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 and Note 4-m, 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 2015 and 30 June 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	
	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15
Revenue:										
Third party sales	87.246	120.885	31.974	-	14.452	-	1.016	1.091	134.688	121.976
<b>Total Revenue:</b>	<b>87.246</b>	<b>120.885</b>	<b>31.974</b>	<b>-</b>	<b>14.452</b>	<b>-</b>	<b>1.016</b>	<b>1.091</b>	<b>134.688</b>	<b>121.976</b>

	Thousands of Euros									
	Legacy		Development		Assets management - Servicing		Others / Corporate		Total	
	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15
<b>Income:</b>										
Third party sales:	87.246	120.885	31.974	-	14.452	-	1.016	1.091	134.688	121.976
Cost of sales	(83.317)	(107.476)	(21.554)	-	-	-	-	-	(104.871)	(107.476)
Change in trade provisions – Application of impairments for sold stocks	9.987	11.544	-	-	-	-	-	-	9.987	11.544
<b>Gross margin</b>	<b>13.916</b>	<b>24.953</b>	<b>10.420</b>	<b>-</b>	<b>14.452</b>	<b>-</b>	<b>1.016</b>	<b>1.091</b>	<b>39.804</b>	<b>26.044</b>
Employee benefits expenses	(1.247)	(1.717)	(1.958)	(1.283)	(1.603)	-	-	-	(4.808)	(3.000)
External Services	(15.827)	(11.331)	(7.159)	-	(2.550)	-	-	-	(25.536)	(11.331)
Change in trade provisions - Others	(62.237)	(23.123)	(17.368)	-	-	-	-	-	(79.605)	(23.123)
Other operating gains / (losses)	501	3	46	299	-	-	234	-	781	302
<b>EBITDA</b>	<b>(64.894)</b>	<b>(11.215)</b>	<b>(16.019)</b>	<b>(984)</b>	<b>10.299</b>	<b>-</b>	<b>1.250</b>	<b>1.091</b>	<b>(69.364)</b>	<b>(11.108)</b>
Change in trade provisions - Others	62.237	23.123	17.368	-	-	-	-	-	79.605	23.123
<b>ADJUSTED EBITDA (*)</b>	<b>(2.657)</b>	<b>11.908</b>	<b>1.349</b>	<b>(984)</b>	<b>10.299</b>	<b>-</b>	<b>1.250</b>	<b>1.091</b>	<b>10.241</b>	<b>12.015</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.

	Thousand of Euros									
	Legacy		Development		Assets management - Servicing		Others / Corporate		Total	
	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15	31.12.15	30.06.15
<b>Balance sheet:</b>										
Non-Current assets	11.010	13.334	-	-	-	-	1.613	1.182	12.623	14.516
Current assets	355.930	495.889	605.297	402.144	7.810	-	123.849	52.942	1.092.886	950.975
<b>Total Assets</b>	<b>366.940</b>	<b>509.223</b>	<b>605.297</b>	<b>402.144</b>	<b>7.810</b>	<b>-</b>	<b>125.462</b>	<b>54.124</b>	<b>1.105.509</b>	<b>965.491</b>
Financial Debt	-	-	62.992	23.517	-	-	-	-	62.992	23.517
Other Non-current liabilities	65	67	-	-	-	-	-	321	65	388
Other current liabilities	4.779	2.334	190.727	32.570	875	-	5.457	5.218	201.838	40.122
<b>Total Liabilities</b>	<b>4.844</b>	<b>2.401</b>	<b>253.719</b>	<b>56.087</b>	<b>875</b>	<b>-</b>	<b>5.457</b>	<b>5.539</b>	<b>264.895</b>	<b>64.027</b>

## 7. Intangible assets

The changes in "Intangible assets" in the 6 months exercise ended 31 December 2015 and the 6 months exercise ended 30 June, by type of asset, were as follows:

### 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>

### 6 months exercise ended 30 June 2015

	Thousands of euros	
	Computer Software	Total
<b>Cost:</b>		
Balance at 01 January 2015	106	106
Additions	12	12
Disposals	-	-
Transfers	-	-
<b>Balance at 30 June 2015</b>	<b>118</b>	<b>118</b>
<b>Accumulated amortisation:</b>		
Balance at 01 January 2015	(51)	(51)
Charges	(3)	(3)
Disposals	-	-
Transfers	-	-
<b>Balance at 30 June 2015</b>	<b>(54)</b>	<b>(54)</b>
<b>Net Balance at 30 June 2015</b>	<b>64</b>	<b>64</b>

At 31 December 2015 and 30 June 2015, there were no intangible assets provided as collateral for any obligation.

At 31 December 2015 and 30 June 2015, there were no intangible assets fully amortized.

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

The changes in this heading in the 6 months exercise ended 31 December 2015 and the 6 months exercise ended 30 June, were as follows:

### **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>

### **6 months exercise ended 30 June 2015**

	Thousands of euros		
	Technical items and machinery	Other items of Property, Plant and equipment	Total
<b>Cost:</b>			
Balance at 1 January 2015	5	117	122
Additions	179	805	984
Disposals	-	-	-
Transfers	-	-	-
<b>Balance at 30 June 2015</b>	<b>184</b>	<b>922</b>	<b>1.106</b>
<b>Accumulated amortisation:</b>			
Balance at 1 January 2015	(5)	(59)	(64)
Charges	(2)	(5)	(7)
Disposals	-	-	-
Transfers	-	-	-
<b>Balance at 30 June 2015</b>	<b>(7)</b>	<b>(64)</b>	<b>(71)</b>

Main additions of the 6 months exercise ended 31 December 2015 corresponds to the works made and furniture purchased in the new offices of the Group.

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 2015 and 30 June 2015, there were no property, plant and equipment items fully amortised.

At 31 December 2015 and 30 June 2015, there were no property, plant and equipment items provided as collateral for any obligation.

At 31 December 2015 and 30 June 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 6 months exercise ended 31 December 2015 and the 6 months exercise ended 30 June, were as follows:

### **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>

### **6 months exercise ended 30 June 2015**

	Thousands of euros			
	Cost	Amortisation	Provision (see Note 22.f)	Net
<b>Balance at 1 January 2015</b>	18.486	-	-	18.486
Additions/Charges	-	(47)	(4.304)	(4.351)
Disposals and others	-	-	-	-
Transfers to inventories	(962)	-	-	(962)
Transfers from inventories	161	-	-	161
<b>Balance at 30 June 2015</b>	<b>17.685</b>	<b>(47)</b>	<b>(4.304)</b>	<b>13.334</b>

The net result obtained from the sales of investment properties has not been significant.

The main asset included in this caption corresponds to some office towers in Cadiz.

In the 6 months period ended 30 June 2015 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 6 months exercise ended 31 December 2015 includes an amount of EUR 1,997 thousands corresponding to such charges (4.304 thousands at 30 June 2015) for the mentioned provision, according to the conservative assumptions described in Note 4.f.

The fair value of the investment properties does not differ significantly from their net book value.

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 6 months exercise ended 31 December 2015, rental income from investment property owned by the consolidated companies amounted to EUR 804 thousand (EUR 456 thousand at 30 June 2015) (see Note 21.a).

At 31 December 2015 and 30 June 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 2015 and 30 June 2015, are as follows:

	Thousands of euros			
	31.12.2015		30.06.2015	
	Non-current	Current	Non-current	Current
Loans to Group companies and associates (see Note 22)	-	-	-	2.300
Guarantees and deposits	98	45	83	19
Others	-	-	-	-
<b>Total</b>	<b>98</b>	<b>45</b>	<b>83</b>	<b>2.319</b>

"Loans to Group Companies and Associates" in the foregoing table at 30 June 2015 related to a loan granted by the Group to Global Endurance, S.L.U. of which Neinor Holdings, S.L. is the sole shareholder (see Notes 1 and 14) amounting to EUR 2,300 thousand to finance the purchase of land. As mentioned in Note 2h on 30 July 2015, Global Endurance, S.L.U. was acquired by Neinor Homes Group.

## 12. Inventories

Details of "Inventories" at 31 December 2015 and 30 June 2015 are as follows:

	Thousands of euros	
	31.12.2015	30.06.2015
Sites and land	594.500	426.111
Construction work in progress	44.629	35.160
Completed buildings	430.580	492.915
Advances to suppliers	2.400	-
Less – Impairment losses	(138.819)	(72.693)
	<b>933.290</b>	<b>881.493</b>

In the 6 months exercise ended 31 December 2015, the Group has not capitalised financial interests.

The additions in the period ended 31 December 2015 relate mainly to the purchase of various building lots. In this connection, "Trade and Other Payables - Payable to Suppliers" under current liabilities in the consolidated balance sheet as at 31 December 2015 included EUR 53,257 thousand relating to the deferred portion of the price in relation to the purchase of various plots of land performed in the period. EUR 49,273 thousand of the deferred price mature in 2016, and the remaining EUR 3,984 thousand mature in 2017.

At 31 December 2015 and 30 June 2015, there are assets included under "Inventories" with a gross cost of EUR 10.882 thousand (EUR 10.743 thousand at 30 June 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 16).

At 31 December 2015 and 30 June 2015, there were no commitments to sell any plots of land.

The property development sale commitments entered into with customers at 31 December 2015 and 30 June 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 12,571 and 11,335 thousand respectively, which have been recognised under "Current liabilities - Customer advances" in the consolidated balance sheet at 31 December 2015 and 30 June 2015 (see Note 17). Additionally, at 30 June 2015 there were other Real Estate assets sale commitments amounting to EUR 4,500 thousand, of which EUR 450 thousand had been collected in advance.

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.

At 30 June 2015, there were no significant commitments to purchase any plots of land.

The Group regularly reviews the fair value of its inventories and recognises the corresponding impairment losses, if any, in accordance with the criteria described in Note 4.f.

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

"Trade and other receivables" includes the following items:

	Thousands of euros	
	31.12.2015	30.06.2015
Trade receivables and notes receivables	25.956	9.624
Other receivables – Down Payments	9.104	3.784
Other receivables – Provision of Services	2.100	1.645
Impairment	(1.458)	(832)
	<b>35.702</b>	<b>14.221</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 7,810 thousand, as well as deferred sale amounts, recognised according to the rules indicated in Note 4-m, amounting to EUR 13,700 thousand at 31 December 2015 (EUR 5,750 thousand at 30 June 2015), and which will be receivable in 2016.

"Other receivables" in the foregoing table includes mainly the amounts receivable from third parties for services rendered (see Notes 21 and 22) and amounts paid in advance by the Group to service providers amounting to EUR 9,104 thousands and EUR 3,784 thousands, respectively, as of 30 June 2015.

Trade receivables do not generate interest, in general terms.

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 2015 nor 30 June 2015.

### **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.

As a consequence, at 31 December 2015 and 30 June 2015, the Parent's share capital was represented by 939,877,930 fully subscribed and paid bearer shares of EUR 1 par value each. 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. The Group does not maintain any contract with the Parent's sole shareholder.

#### ***b) Reserves of the Parent***

At 31 December 2015 and 30 June 2015, reserves of the Parent included the following:

##### *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 2015 and 30 June 2015, there is not any amount contributed to legal reserve.

**c) Reserves at fully consolidated companies**

Details, by company, of reserves at fully consolidated companies at 31 December 2015 and 30 June 2015 are as follows:

Company	Thousands of euros	
	31.12.2015	30.06.2015
<b>Full consolidation:</b>		
Parent and consolidation adjustments	573	(60)
Neinor Norte, S.L.U.	(1.436)	(28)
Promociones Neinor 1, S.L.U.	(240)	(239)
Promociones Neinor 2, S.L.U.	(14.944)	(15.014)
Promociones Neinor 3, S.L.U.	(987)	(1.012)
Promociones Neinor 4, S.L.U.	(5.323)	(5.298)
Promociones Neinor 5, S.L.U.	(5.424)	(5.397)
Neinor Península, S.L.U.	(6.229)	-
Neinor Sur, S.L.U.	5.612	(118)
	<b>(28.398)</b>	<b>(27.166)</b>

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 2h, 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 carry out any transaction with treasury shares in the 6 months exercises ended in 31 December 2015 and 30 June 2015 and did not hold any treasury shares at the end of both exercises.

## 16. Provisions

### a) *Current provisions*

Changes in current provisions in 2015 are as follows:

Description	Thousands of euros		
	For taxes (see Notes 20.d)	Other provisions (see Note 20.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>

### At June 2015

Description	Thousands of euros		
	For taxes (see Notes 19.d and 21.d)	Other provisions (see Note 20.f)	Total
<b>Balance at 01 January 2015</b>	<b>400</b>	<b>289</b>	<b>689</b>
Charges	2.597	2.572	5.169
Amounts used	-	-	-
Transfers	-	-	-
<b>Balance at 30 June 2015</b>	<b>2.997</b>	<b>2.861</b>	<b>5.858</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 2015 and 30 June 2015, 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 or from the litigation in which the Group is involved as a defendant would not be significant. In this connection, at 31 December 2015 there are legal claims in relation with assets owned by the different companies of the Group for a total amount of 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. 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 2015 and 30 June 2015 are as follows:

	Thousands of euros	
	31.12.2015	30.06.2015
<b>Financial liabilities with Group companies and associates (see Note 22):</b>		
Interest payable	193	-
Other loans	98.887	-
<b>Bank borrowings:</b>		
Interest payable	74	24
Mortgage loans for land	10.143	10.743
Other mortgage loans	-	-
Other loans	52.775	12.750
<b>Other liabilities</b>	<b>26</b>	<b>381</b>
<b>Total</b>	<b>162.098</b>	<b>23.898</b>
Scheduled maturities:		
2015	-	1.005
2016	152.855	13.959
2017	9.243	8.943
More than five years	-	-
<b>Total unmaturred borrowings</b>	<b>162.098</b>	<b>23.898</b>

The balance recognised under "Financial liabilities with Group companies and associates – Credit facilities" in the foregoing table at 31 December 2015 relates to the outstanding amount at that date on a loan granted by Neinor Holdings, S.L.U for a total EUR 105,000 thousand. This loan was amortised at 30 November 2015 for a total amount of EUR 6,728 thousand, approximately, and it generates a 1% interest annual rate, having born financial costs by a total EUR 193 thousand at 31 December 2015

Also "Payables to Group Companies - Other Loans" at 31 December 2015 includes the balance drawn down from two loans received by the Group from a bank (related to the Group as indicated in Note 23) in order to finance the input VAT on certain land purchase transactions. The two loans mature in 2016 and bear interest at market rates. The limit of these loans is EUR 31,370 thousand, of which EUR 26,962 thousand had been drawn down at 31 December 2015 (EUR 1,366 thousand with a credit limit of EUR 1,370 thousand at 30 June 2015). To guarantee the repayment of this financing, a security interest in favour of the banks was constituted on the receivables that arose for the public authorities from the input VAT on these transactions (see Note 20).

Additionally, "Payables to Group Companies - Other Loans" at 30 June 2015 included the balance drawn down of a loan received by the Group from the same bank (related to the Group as indicated in Note 23) in order to finance the input VAT on certain land purchase transactions. The loan matures in 2016 and bears interest at market rates. The balance of this loan, which amounted to EUR 11,384 thousand, was repaid in October 2015.

"Bank Borrowings - Other Loans" at 31 December 2015 included the balance drawn down of a loan received by the Group in order to finance the input VAT on certain land purchase transactions. The loan matures in 2016 and bears interest at market rates. The limit of this loan is EUR 15 million, of which EUR 5,564 thousand had been drawn down at 31 December 2015. To guarantee the repayment of this financing, a security interest in favour of the banks was constituted on the receivables that arose for the public authorities from the input VAT on these transactions (see Note 20).

The balance recognized under "Bank borrowings – Mortgage loans for land" in the foregoing table at 31 December 2015 relates to the amount payable on a loan to whose obligations the Group subrogated, during the 6 months exercise ended 30 June 2015, as payment of the acquisition price of a plot of land which secures repayment of this loan. This loan, which bears interest at a market rate, matures in 2017, with the exception of 4 installments adding to EUR 1,200 thousand, to be settled in 2016. During the 6 months exercise finished at 31 December 2015, 2 installments have been amortised by a total amount of EUR 600 thousand, following the fixed maturity schedule. The balance at 30 June 2015 amounted to EUR 10,743 thousand.

Also, on 15 June 2015, the Group arranged a credit facility with a bank with a limit of EUR 30,000 thousand, maturing on 15 December 2016, to finance the deferred payment price relating to the purchase of several plots of land made in this reporting period. At 31 December 2015, EUR 20,243 thousand had been drawn down (no amount had been drawn down against this loan at 30 June 2015).

All the loans listed above have been taken out with reputable banks and are benchmarked to the Euribor plus market spreads both at 31 December 2015 and 30 June 2015.

At 31 December 2015 and 30 June 2015, Group companies had loans and undrawn credit facilities totalling EUR 23,600 thousand and EUR 30,000 thousand, respectively.

## 18. Other current and non-current liabilities

Details of other current and non-current liabilities at 31 December 2015 and 30 June 2015 are as follows:

	Thousands of euros			
	31.12.2015		30.06.2015	
	Non-current	Current	Non-current	Current
Guarantees and deposits received	65	-	67	-
Remuneration payable	-	762	-	272
Customer advances (see Note 11)	-	12.818	-	11.785
<b>Total, gross</b>	<b>65</b>	<b>13.580</b>	<b>67</b>	<b>12.057</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 and 30 June 2015 this caption also includes a payable amounting EUR 53,527 and EUR 8,500 thousand respectively corresponding to the deferred portion of the price of a land purchased in these exercises.

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.

	6 months period ended 31 December 2015	6 months period ended 30 June 2015
	Days	Days
Weighted average payment term to suppliers	10	16
Paid operations ratio	7	13
Outstanding payments ratio	47	41
	Thousands of euros	Thousands of euros
Total payments made	208.663	129.484
Total outstanding payments	14.834	15.295

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 11) 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 2015 and 30 June 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.

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							
	31.12.2015				30.06.2015			
	Tax assets		Tax liabilities		Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
VAT receivable	-	34.380	-	4.232	-	14.827	-	3.849
Deferred tax asset	-	-	-	-	-	-	-	-
Income tax payable	-	-	-	-	-	54	-	28
Personal income tax withholdings payable	-	-	-	-	-	-	-	272
Social Security contributions payable	-	-	-	133	-	-	-	171
Deferred tax liability	-	-	-	-	-	-	321	-
Others	-	80	-	374	-	29	-	76
	-	<b>34.460</b>	-	<b>4.739</b>	-	<b>14.910</b>	<b>321</b>	<b>4.396</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, 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 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	1.843	-	1.843
Taxable loss - 28% tax rate	-	(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>

**At 30 June 2015**

	Thousands of euros
	30.06.2015
Profit/(Loss) before tax	(11.248)
Temporary differences (*)	3.693
<b>Preliminary Taxable income/(loss)</b>	<b>(7.555)</b>
Unrecognised tax assets applied	(95)
<b>Taxable income/(loss)</b>	<b>(7.650)</b>
Tax rate	28%
Tax accrued	2.142
Not capitalised Tax assets accrued in the period	(2.142)
Other adjustments for income tax	-
Adjustment for change in tax rate	-
<b>Income tax expense</b>	<b>-</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 15). 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 in accordance with the Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors (RICS) (Note 4.f) 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 e) to this Note.

e) **Tax losses**

Details of the tax losses of the different companies included in the Neinor Homes Group at 30 June 2015, 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. and which compensation must be achieved, exclusively, with the tax profits obtained by the corresponding tax losses generating companies, before considering the tax losses generated in the current period, is 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 (*)	1.488	-	2030
31 December 2015	354	-	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	37.249	-	No time limit
<b>Total</b>	<b>131.949</b>	<b>-</b>	

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

According to the tax rules currently in force, the tax losses with no time limit included in the preceding table, may be offset in 2016 against the taxable profit for the following tax periods up to a limit of 60% (70% from 2017 onwards) of the taxable profit prior to the capitalisation reserve and to offset, with a minimum of EUR 1 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 (see Note 4.I).f) 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 80,700 thousand (in the tax base) (EUR 42.109 thousand at 30 June 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.

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

At 31 December 2015 the Group had provided guarantees to third parties for a total amount of EUR 22,386 thousand (EUR 18,187 thousand at 30 June 2015). Included in this figure there is an amount of EUR 15,404 (EUR 14,655 at 30 June 2015) thousand related mainly to guarantees provided to different local authorities to secure the development of different properties and EUR 6,664 thousand to secure payments in advance received by customers (5,714 at 30 June 2015).

Additionally, the Group has received at 31 December 2015 and 30 June 2015 from different suppliers and contractors guarantees for a total amount of EUR 431 thousand 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	
	31.12.2015	30.06.2015
Legacy sales (Note 1)	73.890	101.537
Development sales	44.737	18.890
Sales	<b>118.627</b>	<b>120.427</b>
Rentals	804	456
Services providing	805	1.093
Servicing contracts	14.452	-
<b>Total</b>	<b>134.688</b>	<b>121.976</b>

Included in the development sales there was an amount of EUR 36,259 thousand at 30 June 2015 corresponding to related party transactions with companies integrated in the Kutxabank Group in the context of the sale of a portion of its Real Estate business described in Note 1 (see Note 22).

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 an amount of EUR 14,452 thousand to the aforementioned companies of the Kutxabank Group. At 30 June 2015 the Group billed EUR 3,251 thousand based on its best estimate of the services rendered until this date. Nevertheless, and due to the strong discrepancies arisen with Kutxabank Group regarding the amount billed and some interpretations of the contract at 30 June 2015, which were not solved at the date of the preparation of the consolidated financial statements, the Group cancelled the aforementioned bills at 30 June 2015. According to the opinion of the members of the Board of Directors of the Parent, it was not possible to make a reliable estimate of the amount accrued for these services in the period ended 30 June 2015, so the consolidated income statement for that exercise did not include any income for this concept.

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	
	31.12.2015	30.06.2015
<b>Cost of sales</b>	<b>104.871</b>	<b>107.476</b>
Procurements	85.239	108.757
Change in inventories	19.632	(1.281)

At 31 December 2015, the "Changes in trade provisions" caption of the accompanying consolidated income statement for 2015 includes an amount of EUR 9,987 thousand corresponding to inventories impairment losses provisions used during the period related to inventories sold (EUR 11,544 thousand corresponding at 30 June 2015) (see Note 21.f).

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

Details of "Employee benefits expense" are as follows:

	Thousands of euros	
	31.12.2015	30.06.2015
Wages, salaries and similar expenses	3.931	2.420
Termination benefits	156	102
Social security costs	690	468
Other employee benefit costs	31	10
<b>Total</b>	<b>4.808</b>	<b>3.000</b>

At December 2015, the average headcount at Group companies was 119 (122 at 30 June 2015). The breakdown by category is as follows:

	31.12.2015			30.06.2015		
	Women	Men	Total	Women	Men	Total
Higher degree staff	31	61	92	28	49	77
Medium degree staff	21	15	36	16	12	28
Other personnel	5	2	7	4	1	5
<b>Total</b>	<b>57</b>	<b>78</b>	<b>135</b>	<b>48</b>	<b>62</b>	<b>110</b>

In addition, at 31 December 2015, the Group had no employees with a disability of more than 33%.

**d) External services**

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

	Thousands of euros	
	31.12.2015	30.06.2015
Leases and royalties	318	75
Maintenance	2.238	1.327
Independent professional services	10.888	3.694
Insurance premiums	144	205
Advertising and marketing	1.002	690
Supplies	92	136
Other external services	5.016	1.660
Levies (see Note 16)	5.838	3.544
<b>Total</b>	<b>25.536</b>	<b>11.331</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, as well as any additional retailing costs.

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

The contributions to consolidated profit for the 6 month exercise ended 31 December 2015 and the 6 months exercise ended 30 June 2015 by each company included in the consolidated group are as follows:

Entity	Thousands of euros	
	31.12.2015	30.06.2015
<b>Full consolidation:</b>		
Parent and consolidation adjustments (*)	8.230	(713)
Neinor Norte, S.L.U.	(15.816)	(1.408)
Promociones Neinor 1, S.L.U.	(28)	(1)
Promociones Neinor 2, S.L.U.	(13)	70
Promociones Neinor 3, S.L.U.	(67)	25
Promociones Neinor 4, S.L.U.	(34)	(24)
Promociones Neinor 5, S.L.U.	(12)	(27)
Neinor Peninsula, S.L.U.	(42.093)	(6.229)
Neinor Sur, S.L.U.	(21.033)	(2.941)
	<b>(70.866)</b>	<b>(11.248)</b>

(\*) There are no consolidation adjustments as of 31 December 2015 and 30 June 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	
	31.12.2015	30.06.2015
Impairment losses of inventories and investment properties (see Notes 8 and 11)	(68.067)	(9.010)
Provision for contingencies and charges (see Note 15)		(2.569)
Provision for bad debts (see Note 11)	(626)	-
Other provisions	(925)	-
<b>Total change in trade provisions</b>	<b>(69.618)</b>	<b>(11.579)</b>

During both 6 months exercises ended 31 December 2015 and 30 June, according to the measurement bases described in Note 4.f, and once the most likely current forecasted uses for the non-strategic assets of the Group have been considered, the Group has recorded impairment losses for EUR 78,268 thousands (EUR 19,658 thousand at 30 June 2015 of which EUR 13,913 thousands are due to the aforementioned change of use).

Also, at 31 December 2015 "Change in Operating Provisions, Allowances and Write-Downs" in the consolidated statement of profit or loss for 2015 included EUR 9,987 thousand relating to amounts used of write-downs of inventories which were sold in the current reporting period (EUR 11,544 thousand at 30 June 2015).

**23. Related party transactions**

As described in Note 1, from the date it was created to 14 May 2015, the Neinor Homes Group has been integrated within the Kutxabank Group. As a consequence, the transactions performed until 30 June 2015 with related parties to Kutxabank Group must be considered as related party transactions, even though from that date onwards the Neinor Group does not belong to that Group.

The transactions carried out by Group during the 6 months exercise ended 30 June 2015 are as follows:

**At 30 June 2015**

	Thousands of euros					
	Income			Expenses		
	Sales	Services provided	Financial incomes	Purchases	Services received	Financial expenses (see Note 17)
Kutxabank, S.A.	-	-	-	3.167	-	1
CajaSur Banco, S.A.U.	68	502	-	-	-	199
Harri Kartera, S.A.U. (previously named Neinor, S.A.U.)	-	-	-	2	-	-
Harri Iparra, S.A.U. (previously named Neinor Barria, S.A.U.)	-	-	-	6.050	-	65
Harri Inmuebles, S.A.U. (previously named Neinor Inmuebles, S.A.U.)	-	-	-	67	-	-
Harri Hegoalde 1, S.A.U. (previously named Neinor Ibérica, S.A.U.)	-	-	-	1.083	-	-
Harri Hegoalde 2, S.A.U. (previously named Neinor Ibérica Inversiones, S.A.U.)	2.818	-	-	3.136	-	-
Compañía Promotora y de Comercio del Estrecho, S.L.U.	-	-	-	507	-	-
Harri Sur Activos Inmobiliarios, S.L.U. (previously named Neisur Activos Inmobiliarios, S.L.U.)	33.373	-	-	-	-	-
Other subsidiaries of Kutxabank Group	-	-	-	-	-	-
	<b>36.259</b>	<b>502</b>	<b>-</b>	<b>14.010</b>		<b>265</b>

At 30 June 2015, in the context of the transaction described in Note 1, the Group made certain purchases and sales of property assets with certain Kutxabank Group companies with the aim of including them in, or excluding them from, the aforementioned transaction. In relation to the sales of these assets, no gains or losses were disclosed. As described above, the prices set in these transactions do not differ significantly from the fair values of the assets involved.

In addition, as described in Note 17, in this reporting period the Group cancelled all the financing it held with the Kutxabank Group.

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. is also considered to be related companies, due to its relatedness to a director.

Taking this into consideration, in the six-month periods ended 31 December and 30 June 2015 the following transactions with related parties took place, in addition to those with Kutxabank Group companies until 14 May 2015 and with Global Endurance, S.L. prior to its acquisition explained in Note 2-h:

6 months exercise ended at 31 December 2015	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				
Shareholders- Neinor Holdings, S.L.	-	-	-	-	-	193
Other Group's "related parties"- Banco de Santander, S.A.	-	-	9	-	-	102
Hudson Advisors Spain, S.L.	-	-	-	-	1.174	-
	-	-	9	-	1.174	295

6 months exercise from 14 May 2015 to 30 June 2015	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				
Shareholders- Neinor Holdings, S.L.	-	-	-	-	-	-
Other Group's "related parties"- Banco de Santander, S.A.	-	-	-	-	-	1
Hudson Advisors Spain, S.L.	-	-	-	-	-	-
	-	-	-	-	-	1

The breakdown of the transactions carried out is as follows:

- The interest costs arose on the loan granted by Neinor Holdings, S.L.U. (Note 17), and credit facilities with the bank in order to finance VAT amounting to EUR 26,962 thousand with a total limit of EUR 31,370 thousand (EUR 12,750 thousand with a total limit of EUR 12,760 thousand at 30 June 2015) (see Note 17) and annual interest rates of 1% and 1.3%, respectively.
- The services provided at 31 December 2015 relate to the agreement for the provision of services relating to the lease and support in the preparation of the business plans, budgets and monitoring tasks in relation to the business plan by Hudson Advisor Spain, S.L., a company related to Lone Star (see Note 1), based on the agreement signed by the parties on 14 May 2015. At 30 June 2015, no services provided had not been invoiced.

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.

The balances held with companies related to the Group at 31 December 2015 and 30 June 2015 are as follows:

**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>

**30 June 2015**

Thousands of Euros	Cash a cash equivalents	Short-term Bank borrowings
<b>Other Group's "related parties"-</b> Banco Santander, S.A.	(71)	12.750
	<b>(71)</b>	<b>12.750</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.

On the other hand, and given the date when the Group has created (see Note 1), there is no comparative information to be shown.

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

In the exercises ended 31 December 2015 and 30 June 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 (Kutxabank Group or 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 and 30 June 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 a third-party liability insurance policy for directors and senior executives.

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 2015 and 30 June 2015 is summarised as follows:

Number of employees		Thousands of euros					
		31.12.2015			30.06.2015		
		Fixed and variable remuneration	Other Total	Total	Fixed and variable remuneration	Other Total	Total
31.12.2015	30.06.2015						
11	11	1.112	-	1.112	505	-	505

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

#### **25. Auditors' fees**

Fees for audit services for the 6 months exercise ended 31 December 2015 for the different companies in the Neinor Homes Group and subsidiaries, provided by the statutory auditor and companies related thereto have amounted to EUR 74 thousand (EUR 60 thousand at 30 June 2015).

Additionally, companies related to the statutory auditor have provided additional services amounting to 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.

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 2015, the undrawn credit facilities and loans amounted to EUR 23,600 thousand (EUR 30,000 thousand at 30 June 2015) (see Note 16).

The Group's available cash position at 31 December 2015 was EUR 89,389 thousand (37,978 at 30 June 2015)

The Company's directors are confident that they will have sufficient funds to meet its cash requirements in the future. 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.

Given the current financial structure of the Group, it does not consider necessary to maintain any specific policy in order to minimize its exposure to such risk. All of the third party financing of the Group is benchmarked to the Euribor (see Note 16).

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

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

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

Main event taking place after the reporting period (31 December 2015) are the following:

- During the reporting period ended 31 December 2016 there has been a reduction of the tax rate for those companies of the Group that file individual tax returns pursuant to Spanish Income Tax Law. However this tax measure does not have any impact regarding the net equity of the Group, as far as the accompanying consolidated financial statements do not include any deferred tax assets.
- During the reporting period ended 31 December 2016 the Group has modified its financial structure arranging mortgage loans and credit lines amounting to EUR 300 million, approximately. Consequently, there have been capital reductions to optimize the financial structure of the Group.
- At the end of the reporting period ended 31 December 2016 Lone Star began to evaluate a potential stock market flotation of Neinor Homes Group. In this respect, in 2017 the Board of Directors has approved a long-term incentive plan payable in full in shares for 44 key employees and an incentive plan for the CEO and five members of the executive team of the Neinor Homes Group.

## **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
			31.12.2015	30.06.2015		
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.	Bilbao	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 Península, 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 14.c).

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

Consolidated Directors' Report  
for the 6 months period ended  
31 December 2015

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

Consolidated Directors' Report  
for the 6 months period ended  
31 December 2015

### **MANAGEMENT REPORT**

*Six months exercise ended December 31, 2015*

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

#### **Business performance in the second half of 2015**

During the second half of 2015, the Group achieved sales of 134,688 thousand euro and a negative operating result amounting to 69,634 thousand euro, as a result of impairment losses recorded in inventories during this exercise.

Major sales of finished products have focused on Neinor Peninsula promotions, being the most significant the 2nd phase of Mayorazgo with 14,760 thousand euro, retail sales from Kutxabank with 10,452 thousand euro, and Neinor Norte promotion of Torresolo from which practically all the households have been delivered.

The most significant land sale has been Bascones del Agua for 7,200 thousand euro from the Group company Neinor Peninsula.

During the first half of 2015, the Group recorded sales of 121,976 thousand euro. In 2014 the Group did not have almost any sales, since companies Neinor Norte (formerly Promoetxe) and Neinor Peninsula (formerly Perimetro Hegoalde) were established in December 2014 in the context of the agreement in the year 2014 between Kutxabank, S.A. and the investment fund Lone Star, through its subsidiary Intertax Business, S.L.U., now called Neinor Holdings, S.L.U. The Group was part of Kutxabank Group until May 14, 2015, when Neinor Holdings became the sole shareholder of the parent company.

Regarding to the work in progress, the Group is developing the Neinor Norte promotions Jardines de Zabalzana (2nd stage), La Catalana R-10, Badalona Port and Miramon. It has also begun the pre-marketing of Dehesa Homes promotions in San Sebastian de los Reyes (Madrid), which belong to Neinor Sur.

The Group has acquired several plots of land in Cataluña, being the most significant Aiguadol in Sitges, Mas Lluis in San Just Desvern and Barrio Porta in Barcelona. In the Community of Madrid, it has acquired land in San Sebastian de los Reyes, Getafe and Leganés. Finally, in Andalucía, La Torrecilla (Marbella) and four plots in Ciudad Jardín el Poniente and Llanos del Pretorio, both in Córdoba.

In December 2015, the five subsidiary companies of Neinor Norte have decreased their share capital by reducing reserves in order to restore the equity balance, diminished as a result of prior periods' losses. These share capital reductions have been carried out following the Articles 320 to 328 of the Companies Act.

### ***Evolution, future prospects***

During the second half of 2015 the Group has proceed to boost sales through the following actions:

- Adaptation of prices, adapting them to the estimated demand.
- Putting marketing plans into practice.
- Network of sales. Strengthen actions to particularize the commercial management of each promotion by specialized companies.

The prospects for economic growth in the year 2016 as planned foster a further increase in home sales and an increase in construction activity.

### ***Risks and uncertainties***

The Group permanently analyzes the current real estate market situation and their expectations in the medium and long term.

Within the market risks which the Group is facing, they include interest rate risk and price risk, to which the liquidity risk must be added, including regulatory risks.

In this sense, it is being developed a planning and monitoring of the real estate cycle through the ongoing analysis of supply and demand in the medium and long term to have a solid basis for making reliable decisions based on knowledge and experience in the sector and the evolution of macro and microeconomic variables (GDP, interest rate...). In order to mitigate and control the risks which the company is exposed to, it is being developed a continuous monitoring of the level and cost of indebtedness of the Group. As well, each investment project is subject of detailed studies providing, inter alia, data on profitability, indebtedness and possible risks that help to support business decisions; in that way, the Group applies work rules that allow to know and control permanently risks in its property business.

### ***Exposure to credit risk***

The Group 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. It is a Group policy to obtain guarantees (bank guarantees, etc.) in credit risk coverage for all the significant operations.

Regarding to credit risk in financing granted to its subsidiaries, the Group evaluates it based on the value of the assets being financed indirectly, providing the corresponding impairment losses if necessary.

The amounts reflected in the balance sheet are net of provisions estimated by the Management of the Group based on an individual analysis considering the experience of previous years and their assessment of the current economic environment.

#### ***Exposure to interest rate risk***

The Group does not use interest rate hedging.

Most of all the financing of the Group is indexed to the Euribor.

#### ***Exposure to liquidity risk***

The Group has a level of cash and equivalents enough to carry out their business. In addition, investments in new developments are entirely financed by the Group banking pool.

#### ***Treasury shares***

The Group has not acquired own shares during the year and does not maintain own shares directly in its portfolio at the end of this exercise.

#### ***Investigation and development***

No significant research and development works are performed.

#### ***Average payment period to suppliers***

The maximum legal payment period applicable to the Company in the years 2014 and 2015 under Law 3/2004, of 29 December, establishing measures to fight late payment in commercial transactions and in accordance with the transitional provisions established by Law 15/2010, of 5 July, is 60 days until the publication of Law 11/2013, of 26 July, and 30 days from the publication of the mentioned Law and until now (unless the conditions set out therein are met, which would allow raising that maximum payment period to 60 days). The average payment period to providers of Neinor Homes, S.L.U. and Subsidiaries for the six months period ended 2015, 31 December 2015 is 10 days.