Neinor Homes, S.A. and Subsidiaries

Summarised Consolidated Interim Financial Statements and Interim Directors´Report for the six-month period ended 30 June 2018, prepared in accordance with International Financial Reporting Standards, together with Report on Limited Review

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 summarised consolidated interim financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (Notes 2 and 16). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish and of interim summarised 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 16). In the event of a discrepancy, the Spanish-language version prevails.

REPORT ON LIMITED REVIEW OF INTERIM SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Neinor Homes, S.A., at the request of Board of Directors,

Report on the Interim Summarised Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying interim summarised consolidated financial statements ("the interim financial statements") of Neinor Homes, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the summarised consolidated statement of the financial position as of 30 June 2018, summarised consolidated income statement, summarised consolidated statement of comprehensive income, summarised consolidated statement of changes in equity, summarised consolidated statement of cash flows and explanatory notes thereto for the six-month period then ended. The Parent's directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim summarised financial information, in conformity with Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with the audit regulations in force in Spain and, consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

As a result of our limited review, which under no circumstances may be considered to be an audit of financial statements, nothing came to our attention that might cause us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2018 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, pursuant to Article 12 of Royal Decree 1362/2007, for the preparation of interim summarised financial statements.

Emphasis of Matter

We draw attention to Note 2.a to the accompanying interim summarised consolidated financial statements, which indicates that the aforementioned accompanying interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017. Our conclusion is not modified in respect of this matter.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors' report for the six-month period ended 30 June 2018 contains the explanations which the Parent's directors consider appropriate about the significant events which took place in that period and their effect on the interim financial statements presented, of which it does not form part, and about the information required pursuant to Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated directors' report is consistent with that contained in the interim financial statements for the six-month period ended 30 June 2018. Our work was confined to checking the interim 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.A. and Subsidiaries.

Other Matters

This report was prepared at the request of the Board of Directors of Neinor Homes, S.A. in relation to the publication of the half-yearly financial report required by Article 119 of Consolidated Spanish Securities Market Law approved by Royal Decree 4/2015, of 23 October, and implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Alicia Izaga
23 July 2018

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 30 JUNE 2018 AND 31 DECEMBER 2017

(Thousands of Euros)

ASSETS	Explanatory notes	30.06.2018	31.12.17 (*)	EQUITY AND LIABILITIES	Explanatory notes	30.06.2018	31.12.17 (*)
NON-CURRENT ASSETS:				**EQUITY:**			
Intangible assets		1.616	1.206	Share capital		790.050	790.050
Property, plant and equipment		5.802	1.878	Share premium		39.247	39.247
Investment property	6	1.201	1.615	Legal reserve		2.192	2.066
Non-current financial assets		491	396	Reserves of the Parent		41.124	38.385
				Own shares		(3.070)	(3.459)
Total non-current assets		**9.110**	**5.095**	Reserves at fully consolidated companies		(145.133)	(117.937)
				Consolidated profit / (loss) for the year		(10.163)	(25.934)
				Total equity	9	**714.247**	**722.418**
				NON-CURRENT LIABILITIES:			
				Bank borrowings	11	8.902	17.902
				Other non-current liabilities		18	18
				Deferred tax liabilities	12	172	172
				Total non-current liabilities		**9.092**	**18.092**
CURRENT ASSETS:							
Inventories	7	1.294.340	1.143.289	**CURRENT LIABILITIES:**			
Trade and other receivables	8	23.206	22.627	Provisions	10	7.555	5.626
Current financial assets		9	455	Bank borrowings	11 and 14	431.902	399.763
Tax receivables	12	17.792	30.662	Other current financial liabilities	2.d and 11	70	37
Cash and cash equivalents	2.d	59.350	76.822	Current trade and other payables	7	113.718	41.600
				Tax payables	12	10.370	7.909
				Other current liabilities	7	116.853	83.505
Total current assets		**1.394.697**	**1.273.855**	**Total current liabilities**		**680.468**	**538.440**
TOTAL ASSETS		**1.403.807**	**1.278.950**	**TOTAL EQUITY AND LIABILITIES**		**1.403.807**	**1.278.950**

(*) Presented just for comparative purposes.

Notes 1 to 16, described in the explanatory notes attached, form an integral part of the condensed consolidated statement of financial position regarding to the period of six months ended 30 June 2018.

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

CONDENSED CONSOLIDATED INCOME STATEMENTS FOR THE 6 MONTHS PERIODS ENDED 30 JUNE 2018 AND 2017
(Thousands of Euros)

	Explanatory notes	30.06.18	30.06.17 (*)
Net revenues	13	77.720	125.856
Cost of sales	13	(57.328)	(146.417)
Employee benefits expenses	13	(10.566)	(23.137)
Depreciation and amortisation charges	6	(456)	(365)
External services	13	(18.698)	(20.658)
Change in trade provisions	13	6.256	43.242
Other operating gains/(losses)		1.140	2.796
Gains/(losses) on disposal of fixed assets	6	(90)	403
PROFIT / (LOSS) FROM OPERATIONS		**(2.022)**	**(18.280)**
Finance revenue		7	-
Finance costs	11 and 14	(5.345)	(3.080)
PROFIT / (LOSS) BEFORE TAX		**(7.360)**	**(21.360)**
Income tax	12	(2.803)	-
PROFIT / (LOSS) FOR THE YEAR		**(10.163)**	**(21.360)**
Earnings/(losses) per share (Euros):			
Basic	9	(0,129)	(0,074)
Diluted	9	(0,129)	(0,074)

(*) Presented just for comparative purposes.

Notes 1 to 16, described in the explanatory notes attached, form an integral part of the condensed consolidated statement of comprehensive income corresponding to the period of six months ended 30 June 2018.

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

CONDENSED CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE
FOR THE 6 MONTHS PERIODS ENDED 30 JUNE 2018 AND 2017
(Thousands of Euros)

	Explanatory notes	30.06.18	30.06.17 (*)
CONSOLIDATED PROFIT / (LOSS) FOR THE PERIOD		**(10.163)**	**(21.360)**
OTHER RECOZNIZED INCOME (EXPENSES)		**-**	**-**
ITEMS NOT SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		**-**	**-**
ITEMS SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		**-**	**-**
TOTAL RECOGNISED INCOME AND EXPENSE		**(10.163)**	**(21.360)**
a) Attributable to the Parent		(10.163)	(21.360)
b) Attributable to non-controlling interests		-	-

(*) Presented just for comparative purposes.

Notes 1 to 16, described in the explanatory notes atteched, form an integral part of the condensed consolidated statement of recognised income and expense at 30 June 2018.

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

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE 6 MONTHS PERIODS ENDED 30 JUNE 2018 AND 2017

(Thousands of Euros)

	Share capital	Share premium	Legal reserve	Other reserves of the Parent	Own shares	Reserves at consolidated companies	Consolidated profit/loss for the period	Total equity
Balance at 31 December 2016 (*)	**729.297**	**-**	**823**	**7.980**	**-**	**(108.145)**	**1.057**	**631.012**
Distribution of profit/loss for the period:								
To reserves	-	-	1.243	11.186	-	(11.372)	(1.057)	**-**
Income/expense recognised in the period	-	-	-	-	-	-	(21.360)	**(21.360)**
Increase of capital (Note 9)	60.753	39.247	-	(14)	-	-	-	**99.986**
Transactions with Treasury Shares	-	-	-	-	(1.386)	-	-	**(1.386)**
Other (Note 9)	-	-	-	15.063	-	1.473	-	**16.536**
Balance at 30 June 2017	**790.050**	**39.247**	**2.066**	**34.215**	**(1.386)**	**(118.044)**	**(21.360)**	**724.788**
Income/expense recognised in the period	-	-	-	-	-	-	(4.574)	**(4.574)**
Transactions with Treasury Shares	-	-	-	(74)	(2.740)	-	-	**(2.814)**
Other (Note 9)	-	-	-	4.244	667	107	-	**5.018**
Balance at 31 December 2017	**790.050**	**39.247**	**2.066**	**38.385**	**(3.459)**	**(117.937)**	**(25.934)**	**722.418**
Distribution of profit/loss for the period:								
To reserves	-	-	126	1.136	-	(27.196)	25.934	**-**
Income/expense recognised in the period	-	-	-	-	-	-	(10.163)	**(10.163)**
Transactions with Treasury Shares	-	-	-	(407)	346	-	-	**(61)**
Other (Note 9)	-	-	-	2.010	43	-	-	**2.053**
Balance at 31 December 2018	**790.050**	**39.247**	**2.192**	**41.124**	**(3.070)**	**(145.133)**	**(10.163)**	**714.247**

(*) Presented just for comparative purposes.

Notes 1 to 16, described in the explanatory notes attached, form an integral part of the condensed consolidated statement of changes in equity at 30 June 2018.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE 6 MONTHS PERIODS ENDED 30 JUNE 2018 AND 30 JUNE 2017
(Thousands of Euros)

	Explanatory notes	30.06.18	30.06.17 (*)
Cash flows from/(used in) operating activities			
Profit/(loss) from operations		(7.360)	(21.360)
Adjustments-			
Depreciation and amortisation	6	456	365
Change in provisions	6, 7 and 10	2.284	1.572
Impairment and gains/(losses) on disposal of intangible and tangible assets		90	(403)
Finance costs		5.345	3.080
Finance revenue		(7)	-
Incentive Plans	9	2.053	9.722
		2.861	**(7.024)**
Increase/(Decrease) in current assets and liabilities:			
Inventories	7	(151.051)	(106.163)
Trade and other receivables	8	12.382	(20.714)
Current trade and other payables		71.808	23.469
Other current and non-current assets and liabilities		33.348	32.087
Total net cash flows from operating activities (I)		**(30.652)**	**(78.345)**
Cash flows from/(used in) investing activities:			
Investments in intangible and tangible assets		(4.764)	(351)
Disposals of investment property	6	300	2.617
Other assets		(95)	(30)
Total net cash flows from investing activities (II)		**(4.559)**	**2.236**
Cash flows from/(used in) financing activities:			
Proceeds from share capital increases	9	-	99.986
Proceeds from bank borrowings	11	69.126	43.936
Repayment of bank borrowings	11	(45.988)	(18.614)
Interests paid	11 and 14	(5.338)	(3.080)
Transactions with Treasury Shares		(61)	(1.386)
Incentive Plans	9	-	5.341
Total net cash flows from financing activities (III)		**17.739**	**126.183**
Net increase/(decrease) in cash and cash equivalents (I+II+III)		**(17.472)**	**50.074**
Cash and cash equivalents at beginning of the period		76.822	45.301
Cash and cash equivalents at end of year		**59.350**	**95.375**

(*) Presented just for comparative purposes.

Notes 1 to 16, described in the explanatory notes attached, form an integral part of the condensed consolidated statement of cash flows for the period of six months ended 30 June 2018.

Neinor Homes, S.A. and Subsidiaries

Summarised Consolidated Interim Financial Statements for the period ended 30 June 2018, 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 summarised consolidated interim financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (Notes 2 and 16). In the event of a discrepancy, the Spanish-language version prevails.

Translation of summarised consolidated interim financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (Notes 2 and 16). In the event of a discrepancy, the Spanish-language version prevails.

Neinor Homes, S.A. and Subsidiaries

Notes to the Summarised Consolidated Interim Financial Statements for the period ended 30 June 2018

1. Activity of the Neinor Homes Group

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

In addition to the operations carried out directly, Neinor Homes, S.A. is the Parent of a Group of subsidiaries with the same corporate purpose and which, together constitute Neinor Homes Group the Parent´s shares were admitted to trading on the official secondary market during 2017. Therefore, the Company is obliged to prepare, in addition to its own separate financial statements, the Group's consolidated financial statements and half-yearly financial reports for both the Parent and the consolidated Group in accordance with Royal Decree 1362/2007, of 19 October, implementing Spanish Securities Market Law 24/1988, of 28 July, in relation to the transparency requirements regarding the information on issuers whose securities are admitted to trading on an official secondary market or on another regulated market in the European Union.

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

In addition, and as part of this transaction, on 1 January 2015, all the employees who had been performing the property group's development and management tasks at the Kutxabank Group, and the technical and other resources required to perform this activity, were transferred to the various Neinor Homes Group companies. In this regard, on 14 May 2015, an asset administration and management agreement was entered into by the various Kutxabank Group companies and Neinor Homes, S.A. in relation to the property assets owned by the former. This agreement has an initial seven-year term and may be extended automatically for further one-year periods. As consideration for these services, the various companies paid remuneration depending on the type and volume of the managed assets, plus additional variable remuneration based on success, applicable to asset sales and for performing certain specific related actions, and accruals. The contract can be terminated early in certain circumstances relating to a change of control at the successful bidder for the contract involving a competitor of Kutxabank, negligence in the provision of the service or interruption thereof for more than seven days, except in the event of fortuitous events or force majeure. In addition, in the event of Kutxabank's loss of control of entities within the scope of this contract, there is an option for early termination, although the corresponding compensation for termination is regulated.In 2017, in accordance with the terms and conditions established in the property asset administration and management agreement, Kutxabank and the Neinor Homes Group entered into an agreement whereby the Neinor Homes Group proceeded to open bank accounts for the sole purpose of enabling the Neinor Homes Group to manage directly the expenses paid under the aforementioned agreement in relation to the companies Kutxabank, S.A. and Cajasur Banco, S.A.U., to which the balances deposited in these cash accounts belong. As a result, the cash balances of these accounts at 30 June 2018, amounting to EUR 5 thousand are not recognised in the accompanying consolidated balance sheet (15 thousand euros at 30 June 2017), and nor are any liabilities, income or expenses associated with the balance recognised in the accompanying consolidated financial statements.

On 29 March 2017, the Parent’s shares were admitted to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges, for which the Group obtained the related waivers/approvals from the banks from which it had received any kind of financing to avoid such financing being subject to early total payment.

In June 2018, Neinor Homes has entered Ibex Small Cap, a stock market financial index prepared by Bolsas y Mercados Españoles (BME), which groups together the small-cap companies of the four Spanish stock exchanges.

The Group´s consolidated financial statements for 2017 were approved by the Company´s Sole Shareholder on 18 April 2018.

These summarized consolidated interim financial statements are presented in euros as this is the currency of the primary economic area in which he Group operates.

2. Basis of presentation of the summarised consolidated interim financial statements

a) Basis of presentation

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002, every company governed by the laws of a European Union member state, and having its equity shares listed on a regulated market of any of its member states is required to file its consolidated financial statements for the reporting periods starting on or after 1 January 2005, in compliance with such International Financial Reporting Standards (IFRS) as may have been previously adopted by the European Union.

The Group’s 2017 consolidated financial statements were prepared at 21 February 2018 by the Parent Company Directors in compliance with the International Financial Reporting Standards adopted by the European Union, and applying the basis of consolidation, accounting standards and measurement bases described in Note 4, so as to present fairly the Group’s consolidated equity and financial position, consolidated results of operations, consolidated changes in equity, and consolidated cash flows for the reporting period ended on 31 December 2017.

These summarised consolidated interim financial statements are in compliance with IAS 34 on interim financial reporting, and were prepared by the Group Directors on 23 July 2018, all the above in accordance with Section 12 of Royal Decree 1362/2007.

Pursuant to IAS 34, the only purpose of interim financial reporting is to update the contents of the latest consolidated financial statements presented by the Group, placing emphasis on any new activity, event or circumstance occurred over the six-month period, but not repeating the information previously reported on the 2017 consolidated financial statements. Therefore, for a better understanding of the information contained in these summarised consolidated six-month financial statements, they should be read together with the Group's 2017 consolidated financial statements.

These six-monthly summarised consolidated financial statements were prepared using the same accounting policies and methods used for the 2017 consolidated financial statements.

b) Adoption of International Financial Reporting Standards

The following mandatory standards and interpretations, already adopted in the European Union, became effective in 2018. Where applicable, the Group has used them in the preparation of these consolidated financial statements:

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

Approved for use in the European Union		**Mandatory application for annual periods beginning on or after:**
IFRS 15, *Revenue from Contracts with Customers* (issued in May 2014) and its clarifications (published in April 2016)	New revenue recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	1 January 2018
IFRS 9, Financial Instruments (issued in July 2014)	Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2018
Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions* (issued in June 2016)	Various amendments to the standard on share-based payment transactions in relation to vesting conditions on cash-settled share-based payment transactions, amendments to the terms and conditions of plans, net settlements, etc.	1 January 2018
Amendments to IFRS 4, *Applying IFRS 9 Financial Instruments with IFRS* 4, *Insurance Contracts* (issued in September 2016).	Temporary accounting treatment as a result of the different dates of entry into force of IFRS 9 and the new standard on insurance contracts.	1 January 2018
Amendments to IAS 40, *Transfers of Investment Property* (issued in December 2016)	Guide to investment property transactions when there is a change in use.	1 January 2018
IFRS 1 *First-time Adoption of International Financial Reporting Standards* (issued in December 2016)	IFRS Standards 2014–2016 Cycle (Deletion of short-term exemptions for first-time adopters)	1 January 2018
Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*(issued in October 2016)	Clarify that IFRS 9 should be applied to long-term interests in associate or joint venture if the equity method is not applied.	1 January 2019
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* (issued in December 2016)	Clarification on the exchange rate to be used in foreign currency transactions that include the receipt or payment of advance consideration in a foreign currency.	1 January 2018

IFRS 15

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

The Group has assessed the application of IFRS 15 and did not have any impact to arise therefrom and, therefore, did not consider it necessary to apply it retrospectively, restating the comparative information. The Group has analysed substantially all of the contracts in force with its customers, which in the case of private sales in the real estate activity involve, for the most part, standard clauses, and identified the delivery of the property asset units sold as the main performance obligation and the transaction price as that set out in the private contract entered into before delivery of the housing unit. Based on this analysis the adoption of this new standard does not have a significant impact in terms of revenue recognition since the transfer of ownership takes place when the keys are delivered which coincides with the execution of the transaction in a deed before a notary and buyer's settlement of or subrogation to the developer loan, as the case may be. The property asset sale transactions which due to their characteristics, do not follow the normal sales pattern because of the size of the transaction or due the characteristics of the asset, will be subject to case-by-case analysis depending on the revenue recognition terms and conditions agreed upon when control over the assets is transferred. Sales warranties cannot be purchased separately and are required by law. Consequently, the Company continues to recognise warranties and insurance contracts in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. No supplementary warranties are provided in addition to those required by law which, under IFRS 15, are considered to be service warranties and should, therefore, be recognised as a stand-alone performance obligation to which the Group must allocate a portion of the asset's selling price. The incremental costs of obtaining a sales contract, basically the sales commissions of the property development's agents, are recognised as a collection right until each unit being sold is executed in a deed, as they are reimbursable if the sales embodied in private sale and purchase agreements are not fulfilled. Other necessary or incremental contract costs might exists when entering into the private sale and purchase agreements (such as the costs associated with the guarantees provided to secure advances received from customers) which it is not practical to capitalise, but which could be revalued on the basis of changes in borrowing costs in the future, if it were considered that they contribute to improved matching between income and expenses. The uncapitalised expenses associated with costs of this type amounted to EUR 396 thousand in 2018.

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

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

IFRS 9

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

The Group measures its assets at amortised cost since the objective of the business model is to hold assets in order to collect the contractual cash flows. The Group has applied IFRS 9 retrospectively, without restating the comparative information. In this connection, in accordance with the new impairment model based on the expected credit loss over the next twelve months, the Group considers that the financial assets measured at amortised cost will be subject to impairment, taking into consideration the facts and circumstances that existed at that date as indicated below (in thousands of euros):

Concept	30/06/2018	Estimated loss at 12 months (%) (*)	Estimated loss at 12 months at 30/06/2018
Advances to suppliers (Note 7)	15.715	0%	-
Clients – servicing (Note 8)	9.767	0,02%	2
Advances to creditors (Note 8)	11.569	3%	347
Trade and other receivables (Note 8)	1.870	0% - 3%	1
Cash	59.350	0% - 0,06%	20
TOTAL	**98.271**		**370**

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

The estimated amount of EUR 370 thousand was charged to "Changes in Trade Provisions" in the condensed consolidated income statement and credited to "Current Liabilities - Provisions" in the condensed consolidated statement of financial position, due to its scant materiality, and considering that the calculation thereof at 1 January 2018, which is disclosed in the consolidated financial statements for the year ended 31 December 2017, amounted to EUR 373 thousand.

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

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

Approved for use in the European Union		**Mandatory application for annual periods beginning on or after:**
IFRS 16 Leases (published January 2016)	Eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases.	1 January 2019
IFRS 9, Financial Instruments (published October 2017)	Replaces the requirements in IAS 39 relating to the classification, measurement, recognition and derecognition of financial assets and financial liabilities, hedge accounting and impairment.	1 January 2019

Not Approved for use in the European Union		**Mandatory application for annual periods beginning on or after:**
IFRS 17 *Insurance Contracts (*issued in May 2017)	Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 replaces IFRS 4.	1 January 2021
IFRIC 23 *Uncertainty over Income Tax Treatments*	IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.	1 January 2019
Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*(issued in October 2017)	Clarify that IFRS 9 should be applied to long-term interests in associate or joint venture if the equity method is not applied.	1 January 2019
Improvements to IFRSs, 2015-2017 cycle (issued in December 2017)	Minor amendments in relation to IFRS 3, IAS 12 and IAS 13.	1 January 2019
Amendments to IAS 19 *Amendments in Plan Amendment, Curtailment or Settlement*	If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.	1 January 2019

The Group during 2018 has performed an assessment in relation to the standards that have come into force in 2018 concluding that the application of these standards does not have a significant impact on the consolidated annual accounts. For those that come into force from 2019, the Group is carrying out a preliminary evaluation, especially of IFRS 16, of the impacts that the future application of these standards could have on the consolidated annual accounts once they enter into force, considering now that the impacts of the application of these standards will not be significant.

c) Estimates

The consolidated profit(loss) and equity are sensitive to the accounting standards and principles, measurement bases and estimates applied by the Parent Company Directors when preparing the summarised consolidated interim financial statements. The main accounting policies and principles and measurement criteria are indicated in Note 4 to the consolidated financial statements for 2017.

The summarised consolidated interim financial statements incorporate a number of estimates made by the Senior Management of the Parent Company and consolidated entities to measure certain items of their assets, liabilities, income, expense and commitments registered therein. These estimates, which are based on the best available information, basically refer to:

1. The corporate tax expense, which under IAS 34 is recognised on interim periods according to the best estimate of weighted average tax rate calculated by the Group for the whole year, and taking into account that the Tax Group headed by Neinor Homes, S.A. will pay taxes under tax consolidation basis in 2018 in accordance with Article 99.2 of Bizkaia Corporation Tax Regulation 11/2013, of 5 December (Note 12).

2. The market value of the Group Real Estate assets. The Group has obtained valuations from independent experts for its Real Estate assets (Notes 6 and 7).

3. The assessment of possible impairment losses on certain assets

4. The useful life of the property, plant and equipment and intangible assets.

5. The calculation of provisions.

6. The assessment of the possibility to have future taxable profits to which to apply any recognised and unused tax credits.

7. The valuation of long-term employee benefits

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

No significant changes were made to the estimates used at 2017 year-end during the six-month period ended on 30 June 2018.

d) Contingent assets and liabilities

Note 21 to the Group´s consolidated financial statements for the period ended on 31 December 2017 contains the information on the guarantee commitments to third parties and other contingent liabilities as that date. During the first six-month period of 2018 there have been no significant changes in this area.

At 30 June 2018 the Group had provided guarantees to third parties for a total amount of EUR 166.340 thousand (EUR 119.756 thousand at 31 December 2017). Included in this figure there is an amount of EUR 28.247 thousand (EUR 22.559 thousand at 31 December 2017) thousand related mainly to guarantees provided to different local authorities to secure the development of different properties and EUR 138.093 thousand to secure payments in advance received by customers (EUR 97.197 thousand at 31 December 2017).

Additionally, the Group has received at 30 June 2018 from different suppliers and contractors guarantees for a total amount of EUR 21.078 thousand (EUR 18.087 thousand at 31 December 2017) to secure the perfect completion of the corresponding construction works. "Current Trade and Other Payables" under current liabilities in the half-yearly condensed consolidated balance sheet as at 30 June 2018 includes an amount of EUR 17.403 thousand (31 December 2017: EUR 9.436 thousand) relating to amounts withheld from contractors as a guarantee.

There is no restriction for the availability of the cash and cash equivalents of the Group neither as of 30 June 2018 nor 31 December 2017, except for the fact that, as described in Law 20/2015, of July 14, advances received and associated with a development (Note 7) are deposited in a special account, separate from any other class of funds belonging to the Group, and are only drawn against in connection with the construction of the developments. The balance subject to this restriction amounted to EUR 33.515 thousand at 30 June 2018 (EUR 41.141 thousand at 31 December 2017), which differs from the advances as a result of the cash used to pay the progress billings of developments to which such advances are allocated.

e) Comparative information

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

The comparative figures for June 30, 2017 of the consolidated statement of cash flows have been modified, with respect to those that were subject to formulation on July 26, 2017. The amounts of EUR 9.722 thousand and EUR 1.473 thousand have been adjusted to the consolidated profit for the year before taxes cash as cash flows from operating activities, corresponding to the management incentive plan and other equity movements, respectively, as there are no monetary flows. During the period end in June 30, 2017 the Parent Company understood these operations as an implicit financing flow applied to the flows of operating activities, as it mainly corresponds to a single transaction in cash and shares, and therefore indivisible. The reconciliation between both consolidated statement of cash flows is broken down in the following table:

	Inputs / (Outputs)		
	Monetary flow	**Adjusted flow**	**Variation**
Cash flows from operating activities	(78.345)	(89.540)	11.195
Cash flows from investing activities	2.236	2.236	-
Cash flows from financing activities	126.183	137.378	(11.195)
Increase in cash and cash equivalents	**50.074**	**50.074**	**-**
Cash and cash equivalents at beginning of the period	45.301	45.301	-
Cash and cash equivalents at end of year	**95.375**	**95.375**	**-**

f) Seasonal nature of the Group's transactions

Given the nature of the activities conducted by the Group's Companies and the percentage of completion accounting criterion, the Group's transactions are not cyclical or seasonal. Therefore, these notes to the summarised consolidated financial statements for the six-month period ended 30 June 2018 do not contain any specific breakdown.

g) Relative importance

Pursuant to IAS 34, when determining which details to disclose in these notes to the summarised consolidated financial statements in relation to the various items of the financial statements or other issues, the Group has considered the relative importance of the summarised consolidated financial statements for the six-month period.

h) Correction of errors

In preparing the accompanying summarised consolidated interim financial statements relating to the six-month period ended 30 June 2018, no errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for year ended 31 December 2017.

i) Summarised consolidated cash flow statements

The summarised 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 (see Note 2.e).

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 (see Note 2.e).

j) Subsequent events

No other significant events have been taken since the end of these consolidated interim financial statements.

3. Changes in the Group´s composition

The consolidation principles used in the preparation of these six-month summarised consolidated financial statements are consistent with those used for the 2017 consolidated financial statements.

Appendix I to the notes to the 2017 consolidated financial statements includes the detail of the consolidated Group companies and the information related thereto at 31 December 2017.

There were no changes in the scope of consolidation of the Neinor Homes Group in the six-month period ended on 30 June 2018.

4. Dividends paid by the Group in the period

No dividend distributions have been approved in the six-month period ended on 30 June 2018.

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

5. Segment reporting

In Note 6 of the consolidated financial statements for the period ended 31 December 2017 are detailed the criteria used by the Group to define its operating segments. The targeting criteria has not been changed.

The main figures of the condensed consolidated income statements by segment for the 6 months periods ended 30 June 2018 and 2017 are as follow:

Segment information

	Thousands of Euros									
	Legacy		Development		Assets management – Servicing		Others / Corporate		Total	
	30.06.18	30.06.17	30.06.18	30.06.17	30.06.18	30.06.17	30.06.18	30.06.17	30.06.18	30.06.17
Revenue: Third party sales	20.640	84.436	41.944	27.426	15.136	13.994	-	-	77.720	125.856
Total Revenue:	**20.640**	**84.436**	**41.944**	**27.426**	**15.136**	**13.994**	**-**	**-**	**77.720**	**125.856**

	Thousands of Euros									
	Legacy		Development		Assets management – Servicing		Others / Corporate		Total	
	30.06.18	30.06.17	30.06.18	30.06.17	30.06.18	30.06.17	30.06.18	30.06.17	30.06.18	30.06.17
Income:										
Third party sales (***)	20.640	84.436	41.944	27.426	15.136	13.994	-	-	77.720	125.856
Cost of sales	(26.944)	(125.582)	(30.384)	(20.835)	-	-	-	-	(57.328)	(146.417)
Change in trade provisions -Application of impairments for sold stocks (**)	6.256	45.662	-	-	-	-	-	-	6.256	45.662
Gross margin	**(48)**	**4.516**	**11.560**	**6.591**	**15.136**	**13.994**	**-**	**-**	**26.648**	**25.101**
Employee benefits expenses	(212)	(934)	(5.474)	(4.483)	(2.827)	(2.324)	-	-	(8.513)	(7.741)
Employee benefits expenses – Incentive Plan (Notes 9 and 15)	-	-	(2.053)	(15.396)	-	-	-	-	(2.053)	(15.396)
External Services (****)	(3.157)	(9.022)	(11.886)	(9.513)	(3.657)	(2.123)	-	-	(18.700)	(20.658)
Change in trade provisions – Others (**)	-	(2.420)	-	-	-	-	-	-	-	(2.420)
Other operating gains / (losses)	989	2.796	151	-	-	-	-	-	1.140	2.796
Gains/(losses) on disposal of fixed assets	(90)	403	-	-	-	-	-	-	(90)	403
EBITDA	**(2.518)**	**(4.661)**	**(7.702)**	**(22.801)**	**8.652**	**9.547**	**-**	**-**	**(1.568)**	**(17.915)**
Net interest expense and others	-	-	(5.338)	(3.080)	-	-	-	-	(5.338)	(3.080)
Depreciation and amortization	(456)	(365)	-	-	-	-	-	-	(456)	(365)
Profit / (Loss) Before Tax	**(2.974)**	**(5.026)**	**(13.040)**	**(25.881)**	**8.652**	**9.547**	**-**	**-**	**(7.362)**	**(21.360)**
Employee benefits expenses – Incentive Plan (Note 9)	-	-	2.010	15.063	-	-	-	-	2.010	15.063
External Services (Note 13.d)	-	-	-	2.100	-	-	-	-	-	2.100
Net interest expense and others	-	-	5.338	3.080	-	-	-	-	5.338	3.080
Depreciation and amortization	456	365	-	-	-	-	-	-	456	365
IFRS 9 (Note 9)	-	-	368	-	2	-	-	-	370	-
ADJUSTED EBITDA (*)	**(2.518)**	**(4.661)**	**(5.324)**	**(5.638)**	**8.654**	**9.547**	**-**	**-**	**812**	**(752)**

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

(**) See Change in trade provisions – Stocks in Note 13.e. To show the results generated on the sales of each segment more accurately, the impairment losses on real estate assets that were sold in both years were separated from the other impairment losses related to assets still recognized on the Group's consolidated balance sheet and the effect relating to the change in other provisions.

(***) Includes an amount of EUR 55 thousand in 30.06.2018 (EUR 273 thousand in 2017) corresponding to rental income of the investment properties.

(****) Includes the provision of Real Property Tax for the entire portfolio owned by the Group on January 1, as of both June 30, 2018 and 2017.

The main figures of the summarised consolidated statements of financial position by segment at 30 June 2018 and for the exercise 2017 are as follow:

	Thousands of Euros									
	Legacy		Development		Management Assets - Servicing		Others / Corporate		Total	
	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17
Balance sheet:										
Non-Current assets	1.201	1.615	-	-	-	-	7.909	3.480	9.110	5.095
Current assets	64.269	85.513	1.261.217	1.101.435	9.861	10.085	59.350	76.822	1.394.697	1.273.855
Total Assets	**65.470**	**87.128**	**1.261.217**	**1.101.435**	**9.861**	**10.085**	**67.259**	**80.302**	**1.403.807**	**1.278.950**
Financial Debt (*)	-	-	440.804	417.665	-	-	-	-	440.804	417.665
Other Non-current liabilities	190	190	-	-	-	-	-	-	190	190
Other current liabilities	9.895	8.332	232.986	127.085	3.008	1.193	2.677	2.067	248.566	138.677
Total Liabilities	**10.085**	**8.522**	**673.790**	**544.750**	**3.008**	**1.193**	**2.677**	**2.067**	**689.560**	**556.532**

(*) Non - Current and Current Bank Borrowings

6. Investment properties

The changes in this heading in the six-month period ended 30 June 2018 and the exercise ended 31 December 2017, were as follows:

6 months period ended 30 June 2018

	Thousands of euros			
	Cost	Amortisation	Provision (Note 13.e)	Net
Balance at 31 December 2017	**3.058**	**(133)**	**(1.310)**	**1.615**
Additions/Charges	-	(25)	-	(25)
Write-downs	(1.158)	21	476	(661)
Transfer from stocks (Note 7)	389	-	-	389
Transfer to stocks (Note 7)	(120)	3	-	(117)
Balance at 30 June 2018	**2.169**	**(134)**	**(834)**	**1.201**

Exercise ended 31 December 2017

	Thousands of euros			
	Cost	Amortisation	Provision	Net
Balance at 31 December 2016	**22.648**	**(591)**	**(9.164)**	**12.893**
Additions/Charges	-	(250)	(72)	(322)
Write-downs reversed	(19.795)	708	7.953	(11.134)
Transfer from stocks (Note 7)	205	-	(106)	99
Transfer to stocks (Note 7)	-	-	79	79
Balance at 31 December 2017	**3.058**	**(133)**	**(1.310)**	**1.615**

The loss on sales of investment property amounted to EUR 90 thousand in the six-month period ended 30 June 2018 that is recorded under the caption “Gains/(losses) on disposal of fixed assets” (EUR 403 thousand gain in the six-month period ended 30 June 2017).

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 period ended 30 June 2018, rental income from investment property owned by the consolidated companies amounted to EUR 55 thousand (EUR 273 thousand at 30 June 2017).

At 30 June 2017 and 31 December 2017, the Group did not have any firm commitments to purchase or sell items of investment property.

7. Inventories

Details of "Inventories" at 30 June 2018 and 31 December 2017 are as follows:

	Thousands of euros	
	30.06.18	31.12.17
Sites and land	729.187	748.671
Construction work in progress	495.747	319.438
Completed buildings	87.026	111.751
Advances to suppliers	15.715	3.020
Less – Impairment losses (Note 6 and 13.e)	(33.335)	(39.591)
	1.294.340	**1.143.289**

In the period ended 30 June 2018 borrowing costs amounting to EUR 807 thousand were capitalised to inventories (in the year ended 31 December 2017 EUR 1.893 thousand were capitalised).

The additions in the period 2018 relate mainly to the purchase of various building lots which amounts to EUR 230,6 million (276,2 million in 2017), of which EUR 213,9 million are land acquisitions and 16,8 million euros are activated preconstruction costs (licenses, taxes...) (264,8 and 11,4 million euros respectively in 2017). In addition, on June 30, 2018, there were planned and pending costs related to these assets for an amount of EUR 4,3 million (9,5 million euros in 2017), and consequently, the land purchases for 2018 amount to EUR 234,9 million euros (285,7 million euros in 2017). In this connection, the caption "Current trade and other payables - Payables to Suppliers" under current liabilities in the consolidated balance sheet as of 30 June 2018 included EUR 36.299 thousand relating to the deferred portion of the price in relation to the purchase of two plots of land, whose maturity date will occur with the final approval of the urbanization project or in 3 years from the date of signature of the contract, the minor. There were no deferred payments as of 31 December 2017.

Also, the Group handed over two property development in Biscay, and another one in Barcelona, and had 48 property developments recognised under "Construction work in progress" as of 30 June 2018.

At 30 June 2018 there are assets included in "Inventories" caption in the accompanying consolidated balance sheet with a net cost of EUR 1.232 million corresponding to assets classified as "Development" and EUR 62 million relating to "Legacy" assets (at 31 December 2017, 1.060 and 83 million euros respectively).

At 30 June 2018, there are assets included under "Inventories" with a gross cost of EUR 754.991 thousand (EUR 584.068 thousand at 31 December 2017) securing a loan the Group has assumed the borrower position as the payment of the price arranged with the seller for the acquisition of a plot of land (Note 11).

In addition, the Group has a credit line with a limit of EUR 50.000 thousand, against which EUR 36.746 thousand had been drawn down at 30 June 2018 (48.308 thousand euros at 31 December 2017). This credit line is being used to finance acquisition of plots of land. The related agreement does not provide for any specific asset as security, although the drawdowns are assigned to assets following approval by the lender, which reserves the right to demand that the corresponding mortgage be created (Note 11). Additionally, in 2017, the Group signed a financing agreement with J.P. Morgan for EUR 150 million for land acquisition, whose limit has been reduced voluntarily during the year 2018 by 40 million euros, of which at 30 June 2018 the Group has drawn EUR 109.999 thousand (EUR 76.962 thousand as of December 31, 2017). The loan is for an initial term of 12 months and may be renewed for an additional 12 month period. To guarantee the repayment of this financing, a promise to mortgage property was constituted in favor of the lender up to EUR 366.643 thousand of market value (EUR 470.013 thousand as of December 31, 2017), having agreed with the bank a Loan To Value of 30% (Note 11).

At 30 June 2018 and 31 December 2017, there were no commitments to sell any plots of land.

At 30 June 2018, the Group had made advances to suppliers for future purchases of land amounting to EUR 14.778 thousand (31 December 2017: EUR 3.020 thousand). In this regard, in 2018, changing the strategy followed in recent years, the Group reached agreements relating to land with no specific use assigned to it; however, the transfer of ownership is conditional mainly on the urban development of the land and the subsequent execution of the public deeds of sale. The commitments to purchase the aforementioned land, assuming that the price contractually agreed will not be adjusted as a result of changes in projected buildable area (as commonly envisaged in contracts of this kind), amounted to EUR 158.193 thousand at 30 June 2018 (at 31 December 2017, the Group had made advances to suppliers amounting to EUR 3.020 thousand for future land purchases amounting to EUR 46.040 thousand). In addition, at 30 June 2018, the Group had made advances to several development and apportionment entities amounting to EUR 937 thousand, and these amounts were classified also under "Inventories – Advances to Suppliers". The portfolio of "strategic land" already committed amounts to 197 million euros, which has been valued by Savills Consultoría Inmobiliaria, S.A, considering that they reach the finalist ground stage, at 212 million euros.

The property development sale commitments entered into with customers at 30 June 2018 and 31 December 2017, relating to those units in which a private purchase and sale agreement was signed, have resulted in the collection or reception of notes receivables amounting to EUR 115.149 and 81.695 thousand respectively, which have been recognised under "Current liabilities - Other current liabilities" in the summarised consolidated statement of financial position at 30 June 2018 and 31 December 2017. The amount equivalent to the aforementioned pre-sales amounted to EUR 928.814 thousand at 30 June 2018 (745.733 thousand at 31 December 2017).

In addition, at 24 April 2017, the Parent undertook to sell a range of assets corresponding to various property developments for EUR 25 million. "Customer Advances" under current liabilities included EUR 5 million relating to advance collections accrued when the purchase and sale agreement was entered into. The purchase and sale agreement was completed in July 2017. At 30 December 2016, an undertaking was made to sell a real estate development, consisting of a residential complex classified as "tourist apartments" (property under the condominium system for operation by means of the temporary assignment of use of the furnished units, equipped for immediate use, and managed by a tour operator), for EUR 24.250 thousand and subject to conditions precedent, which were met in January 2017, reason for which the sale agreement was completed in 2017.

The Group periodically reviews the fair value of its inventories, recognising, where appropriate, the related inventory write-downs. The changes in the period ended 30 June 2018 and in the exercised ended 31 December 2017 in the write-downs associated with the inventories were as follows:

	Thousands of Euros
Balance at 31.12.2016	**101.317**
Write-downs recognised	6.969
Write-downs reversed	(68.668)
Transfers to "Investment Property" (Note 6)	(27)
Balance at 31.12.2017	**39.591**
Write-downs recognised	-
Write-downs reversed	(6.256)
Transfers to "Investment Property" (Note 6)	-
Balance at 30.06.2018	**33.335**

At 31 May 2018, substantially all of the Development assets had been appraised by an independent valuer, who had already appraised the assets in 2017. The net realisable value of the Development assets owned by the Group as appraised by Savills Consultoría Inmobiliaria, S.A. amounted to approximately EUR 1.779 million (31 December 2017: EUR 1.610 million), and their net carrying amount at that date was EUR 1.186 million (31 December 2017: EUR 1.060 thousand). In June 2018 the Group capitalised costs to inventories (net of sales of finished goods) and acquired new land amounting to EUR 17 million an EUR 2 million repectively, which would increase the fair value of the assets at 31 May 2018 by a similar amount, and also, during the 6 months period of the year 2018, an additional investment of EUR 17 million has been made in land and plots that has not been considered by the independent expert in his valuation. In this way, the valuation of the Development assets at June 30, 2018 would amount to 1.815 million euros, or to EUR 2.024 million if it is considered the non-finalist land pending acquisition (considering that it reaches the finalist ground stage).

Additionally, with respect to Legacy assets, based on internal valuations performed by the Group, its market value at June 30, 2018 would amount to EUR 79 million, with its net book value of 62 million euros at 30 June 2018. Of these amounts, 1,8 and 1,2 million euros, respectively, correspond to real estate assets classified under the heading " Investment property" in the condensed consolidated statement (Note 6).

On the other hand, the market value of land purchases already committed as of June 30, 2018, would amount to EUR 168 million, considering that they reach the stage of the finalist land (aspect that conditions the deed), for which an amount of approximately EUR 14,8 million has been anticipated.

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

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

Assumption	Thousands of Euros					
	Discount Rate		Sale Price			
	+1%	-1%	+1%	-1%	+5%	-5%
			Increase (Decrease)			
Change in appraised values	(45.003)	46.642	30.818	(30.853)	153.782	(153.815)
Change in carrying amount (*)	(214)	936	869	(188)	1.803	(4.942)

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

The Savills valuation models adopted by the Group are sufficiently conservative and prudent to make it inappropriate to consider sensitivities to a negative price performance. In addition, the directors consider that we are currently undergoing a price growth scenario and the forecasts point towards continuing in that positive direction. However, the Group has performed a sensitivity analysis considering a 1%/ 5% fall in prices in the base scenario without subsequent price growth and the other variables remaining constant. In such an adverse scenario, which is not considered likely at the moment, the effect on the value of the real estate assets would be a reduction of EUR 30.853 thousand and EUR 153.815 thousand, while it would have an effect on the net book value of the assets of EUR 188 thousand and EUR 4.942 thousand.

8. Trade and other receivables

"Trade and other receivables" includes the following items:

	Thousands of euros	
	30.06.18	31.12.2017
Trade receivables and notes receivables	11.095	12.015
Other receivables – Down Payments	11.569	10.501
Other receivables – Provision of Services	694	407
Impairment (Notes 5 and 13.e)	(152)	(296)
	23.206	**22.627**

"Trade Notes Receivable" in the foregoing table mainly includes the amount receivable relating to the asset management and administration agreement entered into between various companies of the Kutxabank Group and Neinor Homes, S.A. amounting to EUR 9.767 thousand and EUR 9.977 thousand, respectively, as of 30 June 2018 and 31 December 2017.

"Other receivables" in the foregoing table includes mainly the amounts receivable from third parties for services rendered (Notes 13.a and 14) and amounts paid in advance by the Group to service providers for deeds and management of housing taxes, as well as the de commercialization of promotions that have not been accrued and / or liquidated. As of June 30, 2018, the advances paid by the Group to creditors amount to 11.569 thousand euros, an amount that includes 6.526 thousand euros of advances paid to agents that have intervened in the execution of the purchase and sale agreements pending deed (EUR 10.501 and EUR 4.772 thousand euros, respectively, as of December 31, 2017).

9. Capital and reserves

a) Share capital

The statements of changes in equity for the periods ended 30 June 2018 and 31 December 2017 show the changes in equity attributable to the shareholders of the Parent and the non-controlling interests in the aforementioned periods.

At 30 June 2018 and at 31 December 2017, the Parent's share capital consisted of 79.005.034 fully subscribed and paid shares of EUR 10 par value each.

	30.06.18	
	Thousand of Euros	
	% Ownership Interest Registered	Total Share Capital Amount
Adar Capital Partners LTD	26,02%	205.555
AFFM, S.A.	3,17%	25.045
Bank of Montreal	5,21%	41.154
Kairos International SICAV	10,15%	80.214
Wellington Management Group	4,96%	39.202
King Street Capital Management G.P., L.L.C.	8,12%	64.176
Invesco Limited	5,02%	39.621
Rest (Market)	37,35%	295.083
	100,00%	**790.050**

(*) According to the most updated information obtained from the CNMV web page.

b) Changes in the capital structure

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

c) 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	
	30.06.18	30.06.17
Earnings / (loss) for the year (thousands of euros)	(10.163)	(21.360)
Weighted average number of shares outstanding (thousands of shares) (*)	78.771	288.327
Basic earnings/ (loss) per share (euros)	**(0,129)**	**(0,074)**

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

At 30 June 2018 and 31 December 2017, the diluted earnings/loss per share of the Neinor Homes Group coincided with the basic earnings/loss per share.

d) Other equity holder contributions

As a result of the Parent's admission to listing and in recognition of the work performed by its executives, in February 2017 the Board of Directors of Neinor Holdings, S.L.U. approved an incentive plan for the CEO and five members of the executive team of the Neinor Homes Group, which includes fixed and variable remuneration payable partly in cash and the rest in shares of the Group held by Neinor Holdings, S.L.U. One portion of the incentive was a fixed amount accrued as a result of the Parent's admission to listing (exit bonus, a fixed amount) amounting to approximately EUR 14 million, of which EUR 5,1 million were payable in cash on the date of the stock market flotation and the rest in shares at a pre-set price. The other portion is of a variable amount, payable in shares, for a maximum total amount of EUR 13,5 million, the number of which will be determined based on the share price on each of the three anniversaries following the initial public offering and the accrual of which is subject to the achievement of certain annual increases in the share price during the last quarter prior to each of the three anniversaries of the potential stock market flotation, the first reference date being the date of admission to listing on the Spanish Stock Exchanges, subject in certain cases to minimum holding commitments, with the possibility of accrual in proportion to the share price revaluations obtained in certain circumstances. However, if at any given time during three years following the potential stock market flotation the increase in the share price were to reach 152,09% of the flotation share price (with certain adjustments), the beneficiaries will be entitled to receive all the shares to which they may be entitled under the incentive plan. In any event, it is established that the remuneration will be delivered to them directly by Neinor Holdings, S.L.U. Bearing in mind that payment of these bonuses was approved in its capacity of sole shareholder in February 2017 immediately prior to the flotation and was designed conceptually to be paid in full by Neinor Holdings, S.L.U. (sole shareholder of the Parent until its flotation), the Group recognised (the fixed portion) and continue to recognise (the variable portion) on an accrual basis the corresponding contribution of the shareholder in consolidated equity with a charge to "Staff Costs" in the statement of profit or loss. At 30 June 2018, the amount recognised in this connection amounted to EUR 2.010 thousand (18.952 thousand euros at 31 December 2017). The assistance of an external appraiser was used for the accounting recognition of the variable portion. Applying the Monte Carlo method and, in view of the absence of a reasonable trading period that could be considered as a benchmark by the Parent, taking into consideration the share price volatility of companies in the European real estate industry over a comparable period, the external appraiser estimated that the fair value of the aforementioned variable portion amounted to approximately, EUR 8.1 million.

On the first anniversary, March 2018, and taking into account the evolution of the share price of Neinor Homes, S.A. in the quarter preceding the first anniversary, a variable remuneration was accrued and paid for a total amount of 3.256.363,33 euros, which has been payable through the delivery of shares and cash to assume the corresponding taxes, in the terms set out in the brochure of exit to Stock Exchange, being assumed its cost by Neinor Holdings, S.L.U.

e) *Treasury shares*

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

On May 4, 2017, the Group began a program of Treasury Stock, and a total of 200,000 treasury shares were acquired until September 20, 2017. On September 22, 2017, the Parent Company signed a contract of liquidity with "Gestión de Patrimonios Mobiliarios, S.V. S.A." for which the Parent contributed 28.000 treasury shares and 500.000 euros. Likewise, on October 5, 2017, the company withdrew 27.046 shares of the account associated with the liquidity contract and contributed an additional amount of EUR 675.871,11. As of June 30, 2018, the total Treasury Stock of the Parent Company amounts to 231.700 securities, representing 0,29% of the share capital, of which 199.406 securities are deposited in a securities account and 32.294 shares are deposited in the account associated with the liquidity contract. The average unit purchase price of the securities was 15,11 euros.

In 2018 and 2017, the accruals of the incentive plans described in Note 4.s have been recorded in this section for 40 key employees of the Group. It consists of three consecutive overlapping three-year periods, i.e. 2017-2019, 2018-2020 and 2019-2021 in which the achievement measurement metrics are, in thirds, EBITDA, the developer margin and shareholder return, with a downward correction coefficient of 10% regarding the achievement of the aforementioned metrics determined by the evolution of the average Loan to Value (LTV) ratio in excess of a target ratio. Minimum amounts below, which the incentives do not accrue, and the possibility of an extra bonus of up to 150% were established. The sale of the number of shares thus acquired is restricted for periods of between one year and six months for the CEO and the members of the management committee. The shares to be received by each participant will be determined by the incentive attributed to each participant in the plan (in ranges of between EUR 10 thousand and EUR 250 thousand), the price of the shares for each three-year period (average of the share price in the 20 trading sessions prior to the commencement of each cycle) and by the achievement of objectives (range between 0% and 150%). Shares acquired under this plan are subject to lock-up commitments for periods of one year and 6 months for both the CEO and members of the management committee. In the case of the CEO and members of the management committee, this incentive is subject to a repayment clause if certain circumstances arise. The total amount charged as personnel expense in the consolidated profit and loss account at 30 June 2018 amounted to EUR 43 thousand (EUR 333 thousand at 30 June 2017) (see Notes 13.c and 14).

10. Provisions

a) Current provisions

The movement in the current provisions account in the six-month period ended June 30, 2018 and in the year ended December 31, 2017 is as follows:

Description	Thousands of euros Taxes (Note 13.d)	Other Provisions (Note 13.d)	Total
Balance as of December 31, 2016	**2.036**	**7.023**	**9.059**
Net write-downs recognised	1.405	3.215	4.620
Applications	(1.208)	(6.845)	(8.053)
Balance as of December 31, 2017	**2.233**	**3.393**	**5.626**
Net write-downs recognised	3.366	661	4.027
Applications	(558)	(1.540)	(2.098)
Balance as of June 30, 2018	**5.041**	**2.514**	**7.555**

At 30 June 2018 there are legal claims in relation with assets owned by the different companies of the Group for a total amount of EUR 2,1 million (at 31 December 2017 EUR 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 Lion Operation, would be covered by Kutxabank Group (Note 1).

11. Bank borrowings and other financial liabilities

Details of bank borrowings and other financial liabilities at 30 June 2018 and at 31 December 2017 are as follows:

	Thousands of euros 30.06.2018	31.12.2017
Long-term bank borrowings:		
Credit lines (*)	8.902	17.902
Total (non-current)	**8.902**	**17.902**
Short-term Bank borrowings:		
Interest payable	695	455
Mortgage loans (*)	377.483	317.149
Credit lines (*)	45.639	56.670
Other loans (*)	7.583	11.203
Factoring	502	14.286
Total (current)	**431.902**	**399.763**

(*) Borrowings are presented at amortised cost, net of the debt arrangement expenses incurred in 2018 amounting to EUR 3.054 thousand, of which EUR 1.952 thousand were charged to "Finance Costs (Net of Capitalised Borrowing Costs)" in the consolidated statement of profit or loss for 2018 (EUR 3.914 and 1.782 thousand respectively in 2017).

Period 2018

Scheduled maturities:	30.06.18
2018	135.595
2019	158.851
2020	6.336
2021	368
2022 and following	139.654
Total	**440.804**

In connection with the figures disclosed above, there are EUR 110 million with maturity in 2018 corresponding to the debt with J.P. Morgan (77 million at 31 December 2017), whose repayment may be extended until the year 2019, at the discretion of the Group. It also includes three mortgage loans worth EUR 8.316 thousand, which in January 2018 have been converted into a property developer loan, extending its initial maturity for 2018 (EUR 6.336 thousand) and 2019 (EUR 1.980 thousand) in 30 years.

31 December 2017

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

Long-term bank borrowings

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

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

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

Short-term bank borrowings

Mortgage loans

The balance recognized under "Bank borrowings – Mortgage loans for land" in the foregoing table which amounts to EUR 377.483 thousand relates to the amount payable on loans regarding plots of land which secure repayment of these loans (317.149 in the period ended 31 December 2017). These loans bear interest at a market rate and ultimately mature between 2018 and 2051.

Certain Group companies are jointly and severally guaranteeing most of these loans.

More specifically, in the first half of 2018 the Group arranged 3 new mortgage loans with an amount of EUR 9.238 thousand. The limit and maturity of four loans arranged in past periods, were extended and mature in 2048-2051.

Credit lines

In connection with the credit lines, at 30 June 2018 those credit lines are arranged in EUR 54.552 thousand net of the debt arrangement expenses, 8.902 registered in the long term. With a limit of 68,000 thousand euros and having been reduced during the year 2018 by EUR 9,000 thousand.

On 15 June 2015, the Group arranged a credit facility with a bank with a limit of EUR 30.000 thousand and maturing on 15 December 2016, which was novated in 2016, increasing the limit to EUR 50.000 thousand and extending the maturity to 2019. The aim of the facility is to finance the payment of the deferred price of the land purchases, and the Group must support all the drawdowns made against it through a credit facility drawdown request signed by the Group that specifies the amount being requested and contains a description of the property to be acquired. EUR 36.746 thousand had been drawn down at 30 June 2018, and this amount was classified as a current liability due to the real estate nature of the facility (31 December 2017: EUR 48.308 thousand). In relation to this credit facility, the Neinor Homes Group has undertaken to arrange first mortgages at the request of the bank in order to secure the facility up to an amount of EUR 25 million. Such a request had not been made at 31 December 2017. However, the directors consider that the borrowings should be associated directly with the property developments being financed by it.

The debt arrangement expenses associated with these credit lines amounted to EUR 332 thousand at 30 June 2018 (31 December 2017: EUR 507 thousand).

VAT lines

This caption at 30 June 2018 includes the balance drawn down of a loan received by the Group in order to finance the input VAT on certain land purchase transactions, which was received in 2015, and upon maturity in 2016 and 2017 was novated for an additional year. Hence, the loan matures in 2018 and bears interest at market rates. The limit on these loans amounts to EUR 15 million of which the amount of EUR 7.583 has been disposed at June 2018 (31 December 2017: EUR 11.203 thousand). To secure repayment of the borrowings, the receivables relating to input VAT arising for the public administration in these transactions were pledged to the financial institutions (Note 12).

Factoring

On 6 June 2017, the Group entered into a recourse factoring agreement with a bank mainly to finance input VAT on certain land purchase transactions. The agreement expires at one year and bears interest at market rates. The factoring line has a limit of EUR 15 million of which EUR 502 thousand had been drawn down at 30 June 2018 (31 December 2017: EUR 14.286 thousand). The amounts owed to it by virtue of the transactions performed will be used to guarantee the repayment of this financing.

Other loans

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

At 30 June 2017, the Group had drawn down EUR 109.999 thousand (EUR 76.962 thousand at 31 December 2017), and this amount was used to purchase land. To guarantee the repayment of this financing, a promise to mortgage property was constituted in favor of the lender from up to EUR 366.643 thousand (market value), that will depend on the amounts disposed by the Group.

Covenants and early repayment clauses

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

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

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

- In relation to the factoring contract (see Note 11), 15% worsening in the coverage ratios (net financial debt to EBITDA ratio) and/or leverage (net financial debt to equity ratio) as compared to the measurement of these ratios in the latest annual financial statements; furthermore, when a depreciation of the Group's situation causes doubts as to the viability of its business, on the basis of market information. Management believes that the financial institution is aware of the current situation of the Group.

At June 2018 and 2017, the Group was fully compliant with the covenants and clauses established in the aforementioned loans.

Other

There are other amounts included in the borrowings indicated above, totaling EUR 60.217 thousand (31 December 2017: EUR 53.865 thousand), that have been drawn down against financing granted by a bank related to the Group as indicated in Note 14. The aforementioned amount relates to mortgage loans.

In addition, the Group had several undrawn reverse factoring lines amounting EUR 11.572 thousand at 30 June 2018 with a limit of EUR 20.500 thousand at that date (31 December 2017: EUR 3.748 and 13.050 thousand).

All the loans and credit facilities outstanding at 30 June 2018 and at 31 December 2017 indicated above were arranged with leading banks and bear interest tied to Euribor plus market spreads.

In 2018 the Group paid borrowing costs amounting to EUR 3.803 thousand plus debt arrangement expenses of EUR 1.092 thousand (of which EUR 1.061 thousand were charged to "Finance Costs" in the consolidated statement of profit or loss for 2018 and EUR 3.054 thousand were deducted from the Group's bank borrowings recognised in the consolidated balance sheet), and borrowing costs of EUR 807 thousand were capitalised to inventories (Note 7).

The interest rate applicable to the Group, in general terms, is tied to Euribor plus a market spread ranging from 0,8% to 3,5%. The average cost of the borrowings calculated for 2018 and 2017 are 2,87% and 2,65%, approximately

At 30 June 2018 and 31 December 2017, the Group companies had loans and undrawn credit facilities totaling EUR 13.380 thousand and EUR 6.332 thousand, respectively.

Risk management

The basic risks to which the Group is exposed and the risk management policies are detailed in the consolidated financial statements for 2017 and are reproduced in the directors report which forms part of these half-yearly condensed consolidated financial statements.

12. Tax matters

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

Due to Neinor Homes, S.A. admission to listing and Neinor Holdings, S.L.U's loss of participation there has been a breakdown of the Tax Group. On 3 November 2017, the Administration approved the composition of the new Tax Group headed by Neinor Homes, S.A., and number 02117BSC. The Tax Group will pay income on a tax consolidation basis with effect from 1 January 2017 in accordance with Article 99.2 of Bizkaia Corporation Tax Regulation 11/2013, of 5 December. In any case, it should be taken into account that the tax credits that in the previous Tax Group were considered as tax credits generated within the Group, this nature is maintained in the new Tax Group.

On 13 December 2017, Neinor Norte, S.L.U., as the sole shareholder of Promociones Neinor 1, S.L., Promociones Neinor 2, S.L., Promociones Neinor 3, S.L., Promociones Neinor 4, S.L., and Promociones Neinor 5, S.L., decided to change the registered office of the aforementioned companies, which will be located in Madrid. As a result, since it does not meet the requirements to file consolidated tax returns in Vizcaya, on 20 December 2017, Neinor Homes, S.A., as the head of the tax group, notified the tax authorities that the legislation applicable to the aforementioned investees of Neinor Norte, S.L. for the tax periods commencing on or after 1 January 2017 will be that of Spain (excluding Navarra and the Basque Country). Therefore, in 2018 and 2017 the Vizcaya consolidated tax group no. 02117BSC was made up of Neinor Homes, S.A. as the parent and Neinor Norte, S.L.U. as subsidiary, under Bizkaia Corporation Tax Regulation 2/2018, of March 21, approved in 2018, and whose main change is the reduction of the tax rate to 26% in the 2018 fiscal year and to 24% from the 2019 fiscal year onwards.

On the other hand, the other group companies file individual tax returns pursuant to Spanish Income Tax Law 27/2014, of 27 November.

The Group calculated the provision for income tax at 30 June 2018 in accordance with the applicable tax legislation. However, if the tax treatment were to differ from that provided for in current legislation as a result of tax reforms, such treatment would be applied immediately in the financial statements issued subsequent to the approval thereof.

The account payable arising from the calculation of the income tax expense for the six-month period ended 30 June 2018 is recognised under "Payable to Public Authorities" in the accompanying half-yearly condensed consolidated statement of financial position.

Tax receivables and payables

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

	Thousands of euros							
	30.06.18				31.12.17			
	Tax assets		Tax liabilities		Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
VAT receivable / payable	-	17.035	-	6.922	-	29.787	-	7.125
Income tax receivable	-	-	-	2.836	-	875	-	33
Personal income tax withholdings payable	-	-	-	263	-	-	-	411
Social Security contributions payable	-	-	-	349	-	-	-	340
Deferred tax liability	-	-	172	-	-	-	172	-
Others	-	757	-	-	-	-	-	-
	-	**17.792**	**172**	**10.370**	**-**	**30.662**	**172**	**7.909**

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

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

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

In addition, on 27 April 2018, Neinor Norte, S.L.U. was notified by the provincial government of Vizcaya of the commencement of a tax audit in relation to VAT for 2016. Also, on 2 March 2018, Neinor Sur, S.L.U. was notified by the tax authorities of a change in the scope of the income tax audit, so that the tax audit for 2012 was concluded as it was unnecessary.

The Parent's directors and their tax advisers consider that the tax returns for the taxes not being reviewed and open for review have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the interim condensed consolidated financial statements as at 30 June 2018. In addition, if the open inspections prior to the Lion Operation result in any sanctions, under the agreements reached in the sale, these sanctions would be covered by Kutxabank Group (Note 1).

13. Revenue and expense

a) ***Revenues***

The detail of total revenue is presented in Note 5 with the segment information.

b) Cost of sales

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

	Thousands of euros	
	Total Group	
	30.06.18	30.06.17
Cost of sales	**57.328**	**146.417**
Sites and land	-	12.901
Construction work in progress and completed buildings	57.328	133.516

c) Employee benefits expense and average headcount

Details of "Employee benefits expense" are as follows:

	Thousands of euros	
	30.06.18	30.06.17
Wages, salaries and similar expenses	8.831	21.670
Termination benefits	175	103
Social security costs	1.425	1.249
Other employee benefit costs	135	115
Total	**10.566**	**23.137**

The average headcount at Group companies during the six-month period ended 30 June 2018 was 246 (221 during the six-month period ended at 30 June 2017). The breakdown by category is as follows:

	30.06.18			30.06.17		
	Women	Men	Total	Women	Men	Total
Higher degree staff	57	107	164	50	94	144
Medium degree staff	42	24	66	44	18	62
Other	15	5	20	8	7	15
Total	**114**	**136**	**250**	**102**	**119**	**221**

In addition, at 30 June 2018, the Group had 3 employees with a disability of more than 33% (3 employees in 30 June 2017).

d) External services

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

	Thousands of euros	
	30.06.18	30.06.17
Leases and royalties	728	391
Maintenance	784	895
Independent professional services	7.534	7.897
Transport	1	2
Insurance premiums	202	139
Bank services	459	121
Advertising and marketing	2.094	2.490
Supplies	200	137
Other external services	1.546	1.419
Levies (Note 10)	5.150	7.167
Total	**18.698**	**20.658**

"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.

Additionally, at 30 June 2017, the caption “External Services” included an amount of EUR 2,1 million corresponding to expenses related to the stock market flotation process.

e) Changes in trade provisions

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

	Thousands of euros Income / (Expense)	
	30.06.18	30.06.17
Change in trade provisions -	**6.256**	**45.662**
Application of impairments for sold stocks (Notes 5 and 6)	6.256	45.662
Change in trade provisions – Others	**-**	**(2.420)**
Impairment losses of inventories and investment properties (Notes 6 and 7)	-	(2.420)
Total change in trade provisions	**6.256**	**43.242**

14. Related party transactions

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

	Thousands of Euros					
	Income			Expenses		
	Net Revenues (Note 13.a)					
Six-month period ended 30 June 2018	Sales	Services Provided	Financial Incomes	Cost of Sales – Purchases (Note 13.b)	External Services (Note 13.d)	Financial costs (Note 11)
Other Group´s "related parties"-						
Banco de Santander, S.A.	-	-	-	-	47	469
Banco Popular Español, S.A.	-	-	-	-	-	110
BDO Auditores, S.L.P	-	-	-	-	13	-
	-	-	-	-	**60**	**579**

	Thousands of Euros					
	Income			Expenses		
	Net Revenues (Note 13.a)					
Exercise 2017	Sales	Services Provided	Financial Incomes	Cost of Sales – Purchases (Note 13.b)	External Services (Note 13.d)	Financial costs (Note 11)
Other Group´s "related parties"-						
Banco de Santander, S.A.	-	-	-	-	-	1.049
1810 Capital Investments, S.L.	-	737	-	-	-	-
IDOM, S.A	-	-	-	82	-	-
	-	**737**	-	**82**	-	**1.049**

The breakdown of the transactions carried out is as follows:

- The finance costs arose on various loans and credit facilities with the related bank.

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 11 in relation to the VAT facilities.

The balances held with companies related to the Group at 30 June 2018 and 31 December 2017 are as follows:

30 June 2018

Thousands of Euros	Cash a cash equivalents	Payables to sole shareholder	Short-term Bank borrowings	Advances to Suppliers	Current trade and other payables	Customer prepayments
Banco Santander, S.A.	18.714	-	48.967	-	-	-
Banco Popular Español, S.A.	25	-	11.250	-	-	-
BDO Auditores, S.L.P.	-	-	-	-	5	-
1810 Capital Investments, S.L.	-	-	-	-	-	2.780
	18.739	-	**60.217**	-	**5**	**2.780**

31 December 2017

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

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

Directors' compensation and other benefits

As of June 30, 2018, the Directors of the Parent Company, including those who have at the same time the status of members of the Senior Management (one person), have received a fixed and variable compensation for their position as administrators an amount of EUR 673, as well as other remuneration (see Note 9.d and 9.e) amounting to EUR 1.194 thousand. In addition, the Group has recorded an expense charged to the "Employee benefits expenses" caption in the accompanying consolidated income statement for an amount of EUR 1.553 thousand as a Management incentive plan approved in 2017 and EUR 125 thousand as 2018 bonus, and pending to be paid on 30 June 2018.

The Parent has taken out third-party liability insurance for directors and senior executives the cost of which amounts to EUR 63 thousand in 2018 (EUR 63 thousand in 2017).

The Parent has no pension obligations to the Directors.

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

Senior executives' compensation and other benefits

The remuneration of the Parent's senior executives and persons discharging similar duties, including those who are simultaneously members of the Board of Directors (one person), at 30 June 2018 and December 2017 is summarised as follows:

Number of employees		Thousands of euros					
		30.06.18			30.06.17		
30.06.18	30.06.17	Fixed and variable remuneration	Shares	Total	Fixed and variable remuneration	Shares (*)	Total
10	10	976	3.256	4.232	1.387	15.396	16.783

(*) The cost of the incentive plan detailed in Note 9.d is assumed by the previous Sole Shareholder, Neinor Holdings, S.L.U.

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

In addition, the Group has recorded an expense charged to the "Employee benefits expenses" caption in the accompanying consolidated income statement for an amount of EUR 2.036 thousand as a Management incentive plan approved in 2017 (see Notes 9.d and 9.e), also EUR 265 thousand euros related with the 2018 bonus, accrued and not paid at June, 30 2018.

16. Explanation added for translation to English

These summarised consolidated interim financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (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.

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

DIRECTORS' REPORT

6 month period ended 30 June 2018

Neinor Homes, S.A. and Subsidiaries

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

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

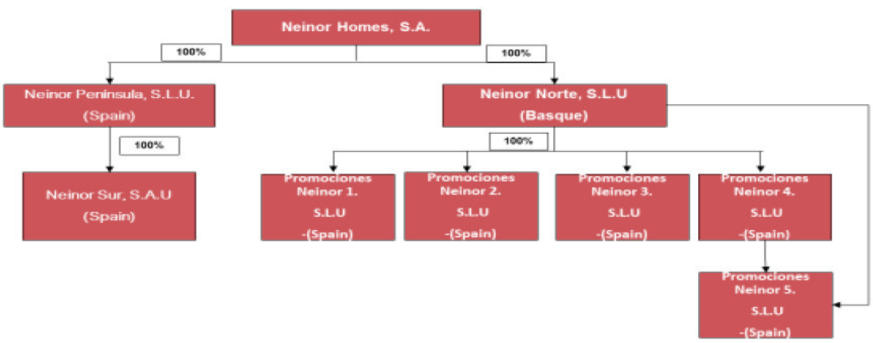
On 1 January 2015, within the context of the transaction (the "Transaction"), all the employees who had been performing the property development group’s development and management tasks, and the technical resources and means required to carry out the activity, were transferred to Neinor Homes, S.A.

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

On 4 May 2018, Promociones Neinor 5, in the presence of the company’s sole shareholder, Neinor Norte, S.L., Sole-Shareholder Company, adopted the resolution to increase share capital through a non-monetary contribution. It was resolved to increase the company’s initially established capital of EUR 2.979 thousand by EUR 2.272 thousand and to create a share premium of a total of EUR 593 thousand, therefore leaving share capital of EUR 5.251 thousand. The new shares were subscribed and paid by Promociones Neinor 4, S.L. through the non-monetary contribution of two properties owned by it, following the waiver by the sole shareholder of its pre-emption right.

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

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



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

A) Development business line:

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

The Parent's land portfolio is comprised of 190 lots with a total of 13.526 buildable units. The portfolio is distributed over the Parent's five main geographical areas of activity, namely: Madrid, Catalonia, the Basque Country, Valencia and Andalusia.

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

B) Legacy business line:

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

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

C) Servicing business line:

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

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

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

In the first half of 2018 they met on three occasions (21 February, 21 March and 8 May).

Following are the main agreements, approvals and supervisory activities entered into, granted and performed, respectively, by the Board and its committees in the first six months of 2018.

a- The financial statements
b- The annual corporate governance report
c- The annual remuneration report
d- The 2018-2022 business plan
e- The sustainability report
f- Modification of the remuneration policy
g- Notice of the annual general meeting
h- The re-appointment of Deloitte as auditor
i- Changes in the composition of the three committees
j- The internal audit activity report
k- The report on the auditor’s independence and transactions with related parties
l- The report on the activity of the Board and its committees
m- The report on corporate compliance activities
n- Supervision of compliance with current legislation regarding the prevention
of money laundering and the financing of terrorism and data protection
o- Supervision of the integrated internal control and risk model

Also, as a result of the Company's admission to listing in 2017, its governance, risk and corporate compliance areas continued to strengthen the Company's integrated internal control and risk management model. In this connection, the assurance models that were already present in the Company's integrated control structure (prevention of criminal liability, transactions with related parties and conflicts of interest, prevention of money laundering, control of financial reporting, security of information, fraud and corruption, data protection, business controls, etc.) were strengthened with the implementation of a corporate governance compliance monitoring model, which guides and plans the Company's good corporate governance activities.

As a consequence of the implementation of the Corporate Governance board, the Group, among other activities, has proceeded with the renovation, processing,approval and entry into force of the following policies and manuals

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

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

In the first half of 2018, the Group recognised revenue of EUR 77.720 thousand achieving a gross margin of EUR 26.648 thousand and EBITDA of EUR (1.568) thousand an adjusted EBITDA of EUR 812 thousand (without IFRS 9 and MIP). At equity level, total assets at 30 June 2018 amounted to EUR 1.403.807 thousand, equity to EUR 714.247 thousand and current and non-current liabilities to EUR 689.560 thousand.

Revenue and gross margin

By business volume, the Development business activity recognised sales of EUR 41.944 thousand, with a gross margin of EUR 11.560 thousand, representing a margin of 27,6%. This is followed by the volume in the Legacy business line, with revenue of EUR 20.640 thousand and gross margin of EUR (48) and recognising a gross margin of (0,23%). Finally, the Servicing business line recognised revenue of EUR 15.136 thousand.

Legacy sales, amounting to EUR 19.015 thousand, correspond to more than 253 main units, situated mainly in Southern Spain (75%).

Development sales are due mainly to the completion and delivery of 3 property developments (89%): *La Catalana R4* with sales of EUR 16.853 thousand, Landako Homes with sales of EUR 11.798 thousand, Urduliz Homes with sales of EUR 8.747 thousand and the rest (11%), that amounts EUR 4.546 thousand relates to housing units of developments completed in previous years: *Pintor Alsamora (*EUR 3.422 thousand), Dehesa Homes, La Catalana R10 and Jardines de Zabalgana with sales of EUR 1.124 thousand. San Roke Homes is finished and ready to be delivered in July 2018.

Servicing revenue relates mainly to: *Management Fee* on the EUR 1.600 million of managed assets (EUR 9.822 thousand (65%)), *Success Fee* calculated on total sales of EUR 139 million (EUR 4.505 thousand (30%)), and other income (EUR 811 thousand (5%)).

Adjusted EBITDA

The adjusted EBITDA in the first half of 2018 stood at (EUR 1.568 thousand), mainly due to “Development” with a negative EBITDA of (EUR 7.702 thousand) and “Legacy” with a negative EBITDA of (EUR 2.518 thousand). Servicing' profit of EUR 8.652 thousand, which represents a net margin of 57%.

The 30 June 2016 consolidated income statetents includes an expense of EUR 2.010 thousand due to MIP (assumed by Lone Star) and IFRS 9 adjustments amounting to EUR 370 thousand. Excluding these two effects, the adjusted EBITDA of the company is 812 thousand euros.

Profit/Loss for the year

Loss for the first half of 2018 amounted to EUR 10.163 thousand.

Financial position

The current liabilities and non-current liabilities at 30 June 2018 amounted to EUR 689.560 thousand compared to EUR 556.532 thousand at 31 December 2017 (an increase of EUR 133.028 thousand) due mainly due to the increase in financing (EUR 23.139 thousand) and advances received from customers (EUR 33.454 thousand).

The borrowing position at 30 June 2018 continues to indicate very sound debt/equity ratios: 34,8% Loan To Cost ratio (LTC) and 23,8% Loan To Value ratio (LTV).

Borrowings at 30 june 2018

At 30 June 2018, EUR 440 million was recognised under current and non-current bank borrowings. The detail of bank borrowings is as follows:

- Corporate facilities: EUR 165 million (non-current: EUR 9 million).
- Land financing facilities: EUR 248 million
- Capex financing facilities: EUR 19 million (EUR 305 million limit)
- VAT facilities: EUR 8 million (EUR 30 million limit)
- Factoring facilities: EUR 0,5 million (EUR 15 million limit)

The Group's objective is to reduce corporate debt given its maturity in the short term. In that line i) the limit of the financing agreement with J.P has been voluntarily reduced from 150 M to 110M and ii) 21M of debt have been repaid in the second quarter of 2018.

Future changes in debt

Neinor Homes' medium- to long-term objective is to focus borrowings on Capex's financing and not to exceed a LTV ratio of approximately 20%.

3. Matters relating to the environment and employees

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

At 30 June 2018, the average number of employees employed in the various companies that make up the Group was 250 people, representing an increase of 13% on the six month period ended 30 June 2017 (221 people). The distribution of the headcount, by gender and professional category, was as follows:

	30.06.18			30.06.17		
	Women	Men	Total	Women	Men	Total
University graduates	57	107	164	50	94	144
Further education college graduates	42	24	66	44	18	62
Other	15	5	20	8	7	15
Total	**114**	**136**	**250**	**102**	**119**	**221**

4. Liquidity and capital resources

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

In this first semester highlights the financing, mainly of land and mortgage loans, obtained by the Group, which amounts in balance to a total of EUR 440.804 thousand.

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

5. Main risks and uncertainties

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

The most significant financial risks are:

Market risk

Exposure to interest rate risk

The Group does not use interest rate hedges.

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

Exposure to credit risk

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

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

Exposure to solvency risk

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

Exposure to exchange rate risk

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

6. ***Significant events after the reporting period***

Subsequent to six month period ended 30 June 2018 no additional events took place which may significantly affect the financial information detailed in this report, or which should be highlighted in view of its importance.

7. ***Information on the outlook for the entity in 2018***

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

Development business line

- Continue the activity of land acquisition optimizing the invested equity, considering, among others, strategic land operations, consisting of options of purchase-sale of land to be executed once they are finalists, giving visibility to medium-term land purchase budget.

- Maintaining intensity in the launch of new property developments. Thus, an additional 95 property developments (more than 8.600 units) will be added to the existing 20 property developments (1.500 units).

- Monitoring of the 47 construction projects which the Group had at June 2018, plus the tenders and contracting of 34 new projects.

- Continuing the upward trend in the number of pre-sales reached in june 2018, whereby approximately 750 housing units were sold, reaching a volume of presales of more than EUR 929 million. Also, capture the increases in prices that are occurring in each location due to the increase in demand and low supply of quality products.

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

Legacy business line

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

- At the margin level, the Group will analyze the need to adjust prices during the second half of 2018 with the aim of accelerating the sales rhythms and, therefore, the liquidation of the portfolio.

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

Servicing business line

- Maintaining the level of client satisfaction.

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

8. ***R&D&i activities***

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

9. ***Treasury shares***

At 30 June 2018, the Company's share capital was represented by 79.005.034 fully subscribed and paid shares of EUR 10 par value each. All these shares carry identical voting and dividend rights.

Treasury shares have been acquired, including an amount of 3.070 thousand euros on the balance sheet at 30 December 2018.

The number of shares as of June 30, 2018 would be 231.700 shares, with an average price of unit purchase of 15,11 euros.

10. ***Alternative performance measures***

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

The most significant APMs are as follows:

Gross profit:

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

Reconciliation: the Parent presents the calculation of gross profit in Note 5 to the consolidated financial statements.

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

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

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

EBITDA:

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

Reconciliation: the Parent presents the calculation of EBITDA in Note 5 to the consolidated financial statements.

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

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

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

Adjusted EBITDA

Definition: Profit or loss before tax + Incentive plan costs + IPO costs + Change in operating provisions, allowances and write-downs + Net financial profit or loss and other income and expenses + Depreciation and amortisation charge + IFRS 9 impact

Reconciliation: the Parent presents the calculation of adjusted EBITDA in Note 5 to the consolidated financial statements.

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

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

Consistency: the criterion used to calculate adjusted EBITDA is the same as that used in the previous year. Additionally, and exceptionally, IFRS 9 impact has been adjusted to present the information homogeneous with respect to the previous year.

Borrowings

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

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

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

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

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

Net financial debt

Definition: Bank borrowings (current and non-current liabilities) + deferred payment for the purchase of land recognised under "Trade and Other Payables" under both non-current and current liabilities (see Note 11 to the consolidated financial statements) - "Cash and Cash Equivalents" (excluding the restricted component associated with the advances received and associated with a property development, which are deposited in a special account and are only available in connection with the construction of the property developments (see Note 7 to the consolidated financial statements).

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

	30 June 2018
Non-current liabilities - bank borrowings	8.902
Current liabilities - bank borrowings	431.902
Current trade and other payables - deferred payment for land (Note 19)	36.299
Cash and cash equivalents - available cash (Note 14)	(25.835)
Net financial debt	**451.268**

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

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

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

Loan to Value (LTV)

Definition: Net financial debt / Assets market value

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

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

	30 June 2018
Net financial debt	451
Assets market value	1.893
LTV	**23,8%**

Loan to Cost (LTC)

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

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

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

	30 June 2018
Net financial debt	451
Inventories	1.294
Investment Property	1
LTV	**34,8%**