Neinor Homes, S.A. and Subsidiaries

Consolidated Financial Statements for the period ended 31 December 2018, prepared in accordance with International Financial Reporting Standards, together with Independent Auditor´s Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 29). In the event of a discrepancy, the Spanish-language version prevails.

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Neinor Homes, S.A.,

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Neinor Homes, S.A. (the Parent) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of the Group as at 31 December 2018, and its consolidated results and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Basis for Opinion

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

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

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

Key Audit Matters

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

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Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Valuation of development property inventories

Description

The Group has a portfolio of land, housing developments in progress and completed housing developments classified as "development property" located throughout Spain, the carrying amount of which at 31 December 2018 was EUR 1,165 million.

The Group measures these inventories at the lower of acquisition cost and market value and uses third parties unrelated to it as experts to determine the market value of its inventories on a half-yearly basis.

The determination of the market value of the property inventories in order to subsequently compare it with cost and measure the inventories at the lower of the two values constitutes a key matter in our audit, since the valuation method generally applied to these assets, i.e. the dynamic residual method, requires estimates with a significant degree of uncertainty to be made, including most notably those of the future selling prices and the pace of sales of the various developments;the estimated costs to be incurred to complete the developments in progress; the development times of the land held in the portfolio; and the internal discount rate used.

In addition, small percentage changes in the valuations of the property assets could give rise to significant changes in the consolidated financial statements.

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

Procedures applied in the audit

Our audit procedures included, among others, the review of the design and implementation of the relevant controls that mitigate the risks associated with the valuation of property inventories, as well as tests to verify that the aforementioned controls operate effectively.

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

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

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

The results of the procedures performed in relation to the inventory valuation enabled the audit objectives for which the procedures were designed to be reasonably achieved.

Occurrence in the recognition of property asset revenue

Description	Procedures applied in the audit
The Group's property asset sales represent 82% of consolidated revenue. They relate mainly to sales to private individuals, which involve highly standardised processes and agreements. The recognition of this revenue under the Group's habitual terms and conditions is not complex and practically does not give rise to any accounts receivable, since the payments for the sales are received at the time the transaction is executed in a deed. However, the revenue from property asset sales amounted to EUR 312 million and this aggregate is considered, both quantitatively and qualitatively, to be a key parameter of the Group's performance. For this reason, we considered this matter to be a key matter in our audit.	Our audit procedures included checking the design and implementation, as well as the operating effectiveness, of the relevant controls supporting the occurrence of sales under agreements, in addition to the sales accounting and recognition procedure. In addition, for a representative sample of these agreements, we analysed, on a selective basis, whether the revenue is properly recognised, taking into account the contractual terms and obligations vis-à-vis buyers, including the effective transfer of ownership, and checked the amounts received by the Group or the reliability of the estimated collection of the deferred amounts. We also analysed and concluded on the appropriateness of the disclosures made by the Group in relation to these matters, which are included in Notes 4.13, 6 and 22.1 to the consolidated financial statements for 2018. The results of the procedures performed in relation to occurrence in the recognition of property asset revenue enabled the audit objectives for which the procedures were designed to be reasonably achieved.

Other Information: Consolidated Directors' Report

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

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

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

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

Based on the work performed, as described in the preceding paragraphs, we do not have anything to report with respect to the consolidated directors' report for 2018 and the Corporate Governance Report, and we have checked that the specific information described in section a) above has been provided and that the other information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2018 and its content and presentation are in conformity with the applicable regulations.

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

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

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

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

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

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is included in Appendix I to this auditor's report. This description, which is on page 6, forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

Additional Report to the Parent's Audit Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent's audit committee dated 27 February 2019.

Engagement Period

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

Previously, we were designated by the then sole shareholder for a period of three years, we have been auditing the consolidated financial statements uninterruptedly during 4 years since the period ended 30 June 2015.

DELOITTE, S.L.
Registered in R.O.A.C. under no. S0692

Alicia Izaga
Registered in R.O.A.C. under no. 17477

27 February 2019

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

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017

(Thousands of Euros)

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

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated balance sheet at 31 December 2018.

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

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

(Thousands of Euros)

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

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated income statement for the period ended 31 December 2018.

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

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

(Thousands of Euros)

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

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statements of recognised income and expense for the period ended 31 December 2018.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2018 AND 2017
(Thousands of Euros)

	Share capital	Share premium	Legal reserve	Reserves of the Parent	Own shares	Other reserves	Reserves at fully consolidated companies	Consolidated profit/(loss) for the year	Total equity
Balance at 31 December 2016 (*)	**729.297**	**-**	**823**	**7.980**	**-**	**-**	**(108.145)**	**1.057**	**631.012**
Distribution of profit/loss for the year:									
To reserves	-	-	1.243	11.186	-	-	(11.372)	(1.057)	-
Income/expense recognised in the period	-	-	-	-	-	-	-	(25.934)	(25.934)
Increase of capital (Note 15)	60.753	39.247	-	(14)	-	-	-	-	99.986
Transactions with Treasury Shares	-	-	-	(74)	(4.126)	-	-	-	(4.200)
Other movements (Notes 4.s y 15.f)	-	-	-	19.307	-	667	1.580	-	21.554
Balance at 31 December 2017 (*)	**790.050**	**39.247**	**2.066**	**38.385**	**(4.126)**	**667**	**(117.937)**	**(25.934)**	**722.418**
Distribution of profit/loss for the year:									
To reserves	-	-	126	1.136	-	-	(27.196)	25.934	-
Income/expense recognised in the period	-	-	-	-	-	-	-	45.991	45.991
Increase of capital (Note 15)	-	-	-	-	-	-	-	-	-
Transactions with Treasury Shares	-	-	-	-	(223)		-	-	(223)
Other movements (Notes 4.s y 15.f)	-	-	-	3.299	447	738	-	-	4.484
Balance at 31 December 2018	**790.050**	**39.247**	**2.192**	**42.820**	**(3.902)**	**1.405**	**(145.133)**	**45.991**	**772.670**

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statements of changes in equity for the period ended 31 December 2018.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 31 DECEMBER 2018 AND 2017
(Thousands of Euros)

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

(*) Presented just for comparative purposes.

The accompanying Notes 1 to 29 and Appendix I are an integral part of the consolidated statement of cash flow for the period ended 31 December 2018.

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

Neinor Homes, S.A. and Subsidiaries
(Previously Neinor Homes, S.L.U. and Subsidiaries)

Notes to the Consolidated Financial Statements for the period ended 31 December 2018 (hereinafter, 2018 period)

1. Activity of the Neinor Homes Group

Neinor Homes, S.A., was incorporated under the Spanish law. in a deed executed on 4 December 2014. On 1 March 2017, the Parent was registered as a public limited liability company ("S.A.") with a view to its admission to trading on the Bilbao, Madrid, Barcelona and Valencia Stock Exchanges. The corporate purpose of Neinor Homes, S.A. is to promote, manage and develop all kind of Real Estate operations. Its registered 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. Therefore, the Company is obliged to prepare, in addition to its own separate financial statements, the Group’s consolidated financial statements and half-yearly financial reports for both the Parent and the consolidated Group in accordance with Royal Decree 1362/2007, of 19 October, implementing Spanish Securities Market Law 24/1988, of 28 July, in relation to the transparency requirements regarding the information on issuers whose securities are admitted to trading on an official secondary market or on another regulated market in the European Union.

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

In addition, and as part of this transaction, on 1 January 2015, all the employees who had been performing the property group’s development and management tasks at the Kutxabank Group, and the technical and other resources required to perform this activity, were transferred to the various Neinor Homes Group companies. In this regard, on 14 May 2015, an asset administration and management agreement was entered into by the various Kutxabank Group companies and Neinor Homes, S.A. in relation to the property assets owned by the former. This agreement has an initial seven-year term and may be extended automatically for further one-year periods. As consideration for these services, the various companies paid remuneration depending on the type and volume of the managed assets, plus additional variable remuneration based on success, applicable to asset sales and for performing certain specific related actions, and accruals. The contract can be terminated early in certain circumstances relating to a change of control at the successful bidder for the contract involving a competitor of Kutxabank, negligence in the provision of the service or interruption thereof for more than seven days, except in the event of fortuitous events or force majeure. In addition, in the event of Kutxabank's loss of control of entities within the scope of this contract, there is an option for early termination, although the corresponding compensation for termination is regulated. At 31 of December 2018 and 2017, there are 25 people of the Group, who are adhered to these services in a direct way. In 2017, in accordance with the terms and conditions established in the property asset administration and management agreement, Kutxabank and the Neinor Homes Group entered into an agreement whereby the Neinor Homes Group proceeded to open bank accounts for the sole purpose of enabling the Neinor Homes Group to manage directly the expenses paid under the aforementioned agreement in relation to the companies Kutxabank, S.A. and Cajasur Banco, S.A.U., to which the balances deposited in these cash accounts belong. As a result, the cash balances of these accounts at 31 December 2018, amounting to EUR 189 thousand are not recognized in the accompanying consolidated balance sheet (EUR 7 thousand at 31 December 2017), and nor are any liabilities, income or expenses associated with the balance recognised in the accompanying consolidated financial statements.

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

In December 2018, Neinor Homes has entered Ibex Medium Cap, a stock market financial index prepared by Bolsas y Mercados Españoles (BME), which groups together the mid-cap companies of the four Spanish stock exchanges and is made up of the 20 most important companies after IBEX 35.

The consolidated financial statements of the Neinor Homes Group for 2017 were prepared by the Parent's directors at the Board of Directors' meeting held on 21 February 2018, on the basis of the accounting records held by the Parent and by the other Neinor Homes Group companies properly adjusted for the conversion to International Financial Reporting Standards (EU-IFRSs), and approved by its sole shareholder on 18 April 2018.

Appendix I includes the detail of the consolidated Group companies and the information related thereto at 31 December 2018 and 2017, prior to the related unifying adjustments thereof and any adjustments made for the conversion to International Financial Reporting Standards (EU-IFRSs). The information in Appendix I was provided by the Group companies and their equity position is reflected in their separate financial statements.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002, every company governed by the laws of a European Union member state, and having its equity shares listed on a regulated market of any of its member states is required to file its consolidated financial statements for the reporting periods starting on or after 1 January 2005, in compliance with such International Financial Reporting Standards (IFRS) as may have been previously adopted by the European Union. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, so that they present fairly the Neinor Homes Group's consolidated equity and financial position at 31 December 2017, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the 12 months period then ended.

The consolidated financial statements of the Neinor Homes Group for 2018 were prepared by the Parent's directors at the Board of Directors' meeting held on 27 February 2019, on the basis of the accounting records held by the Parent and by the other Neinor Homes Group companies properly adjusted for the conversion to International Financial Reporting Standards (EU-IFRSs).

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2018 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with International Financial Reporting Standards.

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

The 2018 consolidated financial statements of the Group and the financial statements of the Group companies have not yet been approved by their respective shareholders. However, the Parent's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Adoption of International Financial Reporting Standards

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

(1) *New standards, amendments and interpretations mandatorily applicable in the year 2018*

Approved for use in the European Union		**Mandatory application for annual periods beginning on or after:**
IFRS 15, *Revenue from Contracts with Customers* (issued in May 2014)	New revenue recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	1 January 2018
IFRS 9, 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
*Improvements to the IFRS Cycle 2014-2016 (*issued in December 2016) (*)	Minor amendments in relation to IFRS 1, IAS 28 and IFRS 12.	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 2018

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

The Group has assessed the application of IFRS 15 and it has not arisen any impact therefrom and, therefore, does not consider it necessary to apply it retrospectively, restating the comparative information, as there is not any transition adjustment. The Group has analysed substantially all of the contracts in force with its customers, which in the case of private sales in the real estate activity involve, for the most part, standard clauses, and identified the delivery of the property asset units sold as the main performance obligation and the transaction price as that set out in the private contract entered into before delivery of the housing unit. Based on this analysis the adoption of this new standard does not have a significant impact in terms of revenue recognition since the transfer of ownership takes place when the keys are delivered which coincides with the execution of the transaction in a deed before a notary and buyer’s settlement of or subrogation to the developer loan, as the case may be. The property asset sale transactions which due to their characteristics, do not follow the normal sales pattern because of the size of the transaction or due the characteristics of the asset, will be subject to case-by-case analysis depending on the revenue recognition terms and conditions agreed upon when control over the assets is transferred. Sales warranties cannot be purchased separately and are required by law. Consequently, the Company continues to recognise warranties and insurance contracts in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. No supplementary warranties are provided in addition to those required by law which, under IFRS 15, are considered to be service warranties and should, therefore, be recognised as a stand-alone performance obligation to which the Group must allocate a portion of the asset’s selling price. The incremental costs of obtaining a sales contract, basically the sales commissions of the property development’s agents, are recognised as a collection right until each unit being sold is executed in a deed (the moment in which the entire expense is recognized as the cost of sales), as they are reimbursable if the sales embodied in private sale and purchase agreements are not fulfilled. Other necessary or incremental contract costs might 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 984 thousand in 2018 (EUR 464 thousand in 2017) recorded under the caption “External Services" in the accompanying consolidated income statement.

With regard to the provision of services within the framework 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.

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

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

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

Type	
Development sales (*)	922
Servicing	101
TOTAL	**1.023**

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

IFRS 9

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

The Group measures its assets at amortised cost, since the objective of the business model is to hold assets in order to collect the contractual cash flows the application of IFRS 9 has not changed this policy. The Group has applied IFRS 9 retrospectively, without restating the comparative information. In this connection, in accordance with the new impairment model based on the expected credit loss over the next twelve months, the Group considers that the financial assets measured at amortised cost are subject to impairment, taking into consideration the facts and circumstances that existe as indicated below in accordance with a preliminary assessment, since it is still completing its expected credit loss model and this would result in a reduction in the amount of reserves (in thousands of euros):

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

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

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

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

Approved for use in the European Union		**Mandatory application for annual periods beginning on or after:**
IFRS 16 Leases (published January 2016)	Eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases.	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation(issued in October 2016)	Permit the measurement at amortised cost of certain financial instruments with prepayment features, which may be put back to the issuer before maturity for an amount lower than the unpaid amounts of the principal and interest on the principal amount outstanding.	1 January 2019
IFRIC 23 *Uncertainty over Income Tax Treatments* (issued in December 2016)	IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes.	1 January 2019
Amendments to IAS 28 *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

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
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
Improvements to IFRS 3 Business definition (published in October 2018)	Clarifications to the business definition	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of "Materiality" (published in October 2018)	Modifications to IAS 1 and IAS 8 to align the definition of materiality with that contained in the conceptual framework	1 January 2020

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

IFRS 16

IFRS 16 will come into force on 1 January 2019 and will supersede IAS 17 and the current associated interpretations. The main development of IFRS 16 is that it introduces a single lessee accounting model in which all leases with an impact similar to that of the existing finance leases (depreciation of the right-of-use asset and a finance cost for the amortised cost of the liability) will be recognised. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments under these leases; however, certain information is disclosed, such as operating lease obligations, in Note 4.e to the consolidated financial statements.

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

- The Group identified all the leases which at the end of the current year which in turn were not classified as relating to underlying assets of "low value" (taking as a reference the figure provided in the IFRSs of USD 5,000), focusing the analysis on those that convey the right to control an asset. In accordance with the cost-benefit method permitted by the IFRSs, the leases for underlying assets of low value or short-term leases will be recognised by the Group as an expense on a straight-line basis over the lease term in application of the current accounting policy. At 31 December 2018, these leases amounted to EUR 1.504 thousand.

- In relation to the identified leases, their compliance with the requirements established in the standard for their recognition as leases was analysed, i.e.:

    a) where there is an identified asset (either in the form of a separate asset or a "physically distinct portion" thereof) which, in accordance with the clauses of the lease, conveys the right to control the use of the identified asset.

b) where the use of this asset provides the customer with the right to obtain substantially all the economic rewards from use of the asset over the term of the lease.

- The leases subject to this new standard relate mainly to both its branches (Bilbao, Barcelona, Madrid, Córdoba, Valencia and Malaga) and the offices for the sale of housing units ("Neinor stores" and sales cabins). The impact associated with the rights of use of these assets was determined on a case-by-case basis, without separating, due to their scant significance, those additional service items not associated with the lease and without, therefore, taking into consideration that, as permitted by the standard, these items could have been grouped together in a portfolio if they shared similar features. In addition, regarding the initial recognition of this asset, no direct costs were incurred and no dismantling and restoring costs that should be taken into consideration are envisaged.

- The initial recognition of the liability included both the fixed lease payments (less any incentives granted by the lessor) and the variable lease payments that depend on an index (mainly, the CPI). This calculation did not identify any optional payments or other disbursements payable on expiry of the lease. As provided in the standard, the total amount of these lease payments is discounted using the incremental borrowing rate of the Group's loans, as the interest rate implicit in the leases cannot be readily determined.

- As regards the discount rate, a homogenous rate of 2% was used, as the leased assets do not significantly differ in terms of the nature, are located in Spain and the terms of the leases are of similar duration.

- For the purposes of recognising this new accounting standard, the Group will recognise the impact by applying the modified retrospective method, in such a way that at 1 January 2019 the right-of-use asset is equivalent to the lease liability. The impact will amount to around EUR 4.4 million (with expiration date between 2021 and 2027).

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

c) Changes in accounting policies

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

d) Functional currency

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

e) Responsibility for the information and estimates made

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

In the Group's consolidated financial statements for the 12 months period ended 31 December 2018 estimates were occasionally made by the senior executives of the Group and of the consolidated companies, and later ratified by the directors, in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

1. The fair value of the Group's Real Estate assets (see Notes 9 and 12). The Group has obtained valuations from independent experts in 2018 for its Real Estate assets, describing the valuation method used in Note 4.f.

2. The assessment of possible impairment losses on certain assets.

3. The useful life of intangible assets, property, plant and equipment and investment property (see Notes 7, 8 and 9).

4. The amount of certain provisions (see Note 16).

5. The recoverability of deferred tax assets (see Note 20).

6. The valuation of long-term employee benefits (see Note 15.f).

Although these estimates were made on the basis of the best information available at 31 December 2018, future events may require them to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognized in the corresponding consolidated income statement.

No significant changes were made to the estimates used at 2017 year-end during the period ended on 31 December 2018, except for the recoverability of deferred tax assets estimate (see Note 20).

f) Consolidation principles

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

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

1. Interest in investees' equity is presented “Non-controlling interests” under equity in the consolidated balance sheet.

2. Share of profit or loss for the year is presented in “Non-controlling interests” in the consolidated income statement.

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

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

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

g) First-time consolidation differences

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

h) Changes in the scope of consolidation

There were no changes in the scope of consolidation of the Neinor Homes Group (comprising Neinor Homes, S.A. and its subsidiaries) for the exercises ended 31 December 2018 and 31 December 2017.

i) Comparative information

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

In addition, any comparison must take into account the effect of the incentive plans approved in 2017 and 2018 (see Notes 4.f, 4.s and 22.c).

j) Correction of errors

In preparing the accompanying consolidated financial statements no errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for year ended 31 December 2017.

3. Distribution of profits attributable to the Parent

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

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

4. Measurement bases

The accounting principles and policies and measurement bases applied in preparing the Neinor Homes Group's consolidated financial statements for the exercises ended 31 December 2018 and 31 December 2017 were as follows:

a) Intangible assets

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

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

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

b) Property, plant and equipment

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

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

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

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

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

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

	Annual rate
Straight-line depreciation method:	
Other installations	10%
Furniture	25%
Data processing equipment	25%
Other items of property, plant and equipment	10%

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

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

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

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

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

c) *Investment property*

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

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

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

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

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

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

	Years of useful life
Buildings	3%

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

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

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

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

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

e) Leases

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

Operating leases

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

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

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

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

At the end of 2018 and 2017, the Group had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros):

Minimum operating lease payments	Nominal value 2018	Nominal value 2017
Within one year	1.373	894
Between one and five years	2.852	1.223
After five years	209	252
Total	**4.434**	**2.369**

f) Inventories

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

1. Hold for sale in the ordinary course of business.

2. Hold under production, construction or development for sale in the ordinary course of business.

3. Expect to be consumed in the production process or in the rendering of services.

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

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

The costs incurred in property developments, or in portions thereof, the construction of which had not been completed at year-end, are classified as construction in progress. These costs include costs relating to the site, urban development and construction costs, capitalised finance costs incurred in the construction period, and other allocable direct and indirect costs. Marketing expenses are charged to the consolidated income statement in the year in which they are incurred. Finance costs, which amounted to EUR 1.872 thousand in 2018, were recognised in the consolidated statement of profit or loss as a reduction of the financial profit and related to expenses associated with developments in Progress (1.893 thousands of euros in 2017)(see Note 4-n).

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

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

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

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

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

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

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

At 31 December 2018, as for 31 December 2017 all its "Development" assets had been appraised by an independent expert, having taken the aforementioned value as a reference when assessing the existence of any impairment losses to be recognised for accounting purposes, adjusted, in certain cases, by tolerances of five percent; the effect thereof was not significant taken as a whole. All its "Legacy" assets had been appraised by an internal analysis to determine the recoverable value.

In this respect, the most significant aspects considered in the appraisals were as follows:

Development assets-

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

Lastly, the discount rate associated with each project was calculated, and a sensitivity analysis performed on the rate depending on the zoning status of the developments at that time. The discount rates vary according to the development stage reached by the asset (plot without development, under construction, with pre-sales or finished), with rates ranging between 5% (for work in progress with pre-sales) and 20% (for certain urban plots) in 2018 (between 6% and 18% in 2017).

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

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

- Advance sales before the start of the construction of the developments were not taken into consideration.
- It was estimated that 70% - 75% of the sales (pre-sales off plan, in a private sale and purchase agreement) will be carried out during the construction of the developments and the remaining sales within nine months following completion thereof.
- Increases in sale prices over the existing market prices were not taken into consideration.
- It is estimated that 33/36 months could elapse between the time necessary for the drafting of the project and the obtainment of the construction permit, construction and delivery of the project, and the end of the marketing and sale of the units.

Legacy assets

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

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

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

g) Trade receivables

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

h) Customer advances

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

i) Financial instruments

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

During the exercises ended 31 December 2018 and 2017 the measurement bases applied by the Group to its financial instruments were as follows:

Financial assets

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

The financial assets held by Group companies are classified as:

1. Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity. The Group has the positive intention and ability to hold them from the date of purchase to the date of maturity. This category does not include loans and accounts receivable originated by the Group.

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

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

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

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

Financial liabilities and equity

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

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

Equity instruments

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

Bank loans

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

Trade payables

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

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

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

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

This is the accounting policy chosen by the Group, and an amount of EUR 5.590 thousand was drawn down at 31 December 2018 (EUR 3.748 at 31 December 2017) (Note 17).

j) *Shares of the Parent*

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

At 31 December 2018, the Parent Company held 300.201 treasury shares (228.798 at 31 December 2017) and none of the subsidiaries or associates held additional treasury shares (See Note 15.d).

k) *Provisions*

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

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

At the end of the exercises ended 31 December 2018 and 2017 certain litigation and claims were in process against the consolidated companies arising from the ordinary course of their operations. The Group’s legal and tax advisers and directors consider that the provisions recorded are sufficient and that the outcome of these proceedings and claims will not have any additional material effect on the financial statements for the years in which they are settled (see Note 21).

Provisions for warranties

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

l) *Income tax*

The Parent filed consolidated income tax returns under Income Tax Provincial Regulation 11/2013, of 5 December, and formed part of tax group no. 02115BSC headed by Neinor Holdings, S.L.U. (see Note 20). The Group companies Neinor Península, S.L.U. and Neinor Sur S.A.U. file their tax returns separately, since they do not belong to the aforementioned consolidated tax group.

Due to Neinor Homes, S.A. admission to listing and Neinor Holdings, S.L.U’s loss of participation there has been a breakdown of the Tax Group. On November 3 2017, the new Fiscal Group (number 02117BSC) headed by Neinor Homes, S.A. was approved. The Tax Group pays income on a tax consolidation basis with effect from 1 January 2017 in accordance with Article 99.2 of Bizkaia Corporation Tax Regulation 11/2013, of 5 December.

On 13 December 2017, Neinor Norte, S.L.U., as the sole shareholder of Promociones Neinor 1, S.L., Promociones Neinor 2, S.L., Promociones Neinor 3, S.L., Promociones Neinor 4, S.L., and Promociones Neinor 5, S.L., decided to change the registered office of the aforementioned companies, which will be located in Madrid. As a result, since it does not meet the requirements to file consolidated tax returns in Vizcaya, on 20 December 2017, Neinor Homes, S.A., as the head of the tax group, notified the tax authorities that the legislation applicable to the aforementioned investees of Neinor Norte, S.L. for the tax periods commencing on or after 1 January 2017 will be that of Spain (excluding Navarra and the Basque Country). Therefore, in 2018 and 2017 the Vizcaya consolidated tax group no. 02117BSC was made up of Neinor Homes, S.A. as the parent and Neinor Norte, S.L.U. as subsidiary.

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

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

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

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

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

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

However:

1. Deferred tax assets are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which the deferred tax asset can be utilized, considering, in any case, market expectations and in a restricted way, so the Deferred tax assets are recognised only once there is a consolidated improvement of the Real Estate sector.

2. No deferred tax liabilities are recognised for goodwill arising on an acquisition.

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

m) Revenue and expense

Revenue and expenses are recognised on an accrual basis.

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

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

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

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

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

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

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

Revenue from the rendering of services is recognised by reference to the percentage or stage of completion of the transaction at the end of the reporting period, provided the outcome of the transaction can be estimated reliably. Revenue from the Group's services are those associated with the contract for the administration and management of real estate assets entered into with Kutxabank and described in Note 1 under exclusivity conditions, which also includes urban planning and marketing services. As consideration for these services, the various companies in the real estate area of Kutxabank pay a fixed remuneration based on the type and volume of the assets (a reference value being established between the parties) for the management and administration thereof, while a variable success remuneration is received for their marketing as well as other variable revenue accrued annually in the event of achieving the sales objectives established between the parties, which vary according to whether they are less than 70% thereof, equal to 70% or above 70%; to this is added the variable remuneration linked to the request for execution of certain specific actions relating to assets such as work requested in relation to the analysis of the incorporation of new assets under management or services associated with third-party assets at the request of Kutxabank. If over two successive years the degree of achievement of the objectives were below 30%, the right to exclusivity in relation to marketing would be lost. The objective has been achieved at the end of the reporting period 2018, as well as in 2017.

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

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

n) Borrowing costs

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

In the years ended 31 December 2018, the Group capitalised borrowing costs amounting to EUR 1.872 thousand to "Inventories" (1.893 thousand in 2017) (see Note 12).

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

o) Profit from operations

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

p) Termination benefits

Under current labour legislation, the Group companies are required to pay termination benefits to employees whose contracts are terminated under certain conditions. Neither as of 31 December 2018 nor 31 December 2017 is a provision for termination benefits recognised in the consolidated financial statements.

q) Consolidated cash flow statements

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

1. Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

2. Operating activities: the principal revenue-producing activities of the entities composing the consolidated Group and other activities that are not investing or financing activities.

3. Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents, if they have a direct impact on current cash flows.

4. Financing activities: activities that result in changes in the size and composition of the equity and liabilities that are not operating activities, if they have a direct impact on current cash flows.

Within the consolidated statement of cash flows, the amount of EUR 3.375 thousand (10.967 thousand for 2017) are adjusted to the consolidated profit for the year before taxes cash as cash flows from operating activities, corresponding to the management incentive plan and other equity movements, respectively, as there are no monetary flows. This criterion has been established following the applicable standards. However, the Parent Company understands these operations as an implicit financing flow applied to the flows of operating activities, as it mainly corresponds to a single transaction in shares (cash and shares in 2017), and therefore indivisible. The reconciliation between both consolidated statement of cash flows is broken down in the following table:

2018

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

2017

	Inputs / (Outputs)		
	Monetary flow	**Adjusted flow**	**Variation**
Cash flows from operating activities	(186.426)	(197.393)	10.967
Cash flows from investing activities	10.524	10.524	-
Cash flows from financing activities	207.423	218.390	(10.967)
Increase in cash and cash equivalents	**31.521**	**31.521**	**-**
Cash and cash equivalents at beginning of the period	45.301	45.301	-
Cash and cash equivalents at end of year	**76.822**	**76.822**	**-**

r) Current assets and liabilities

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

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

s) Share-based payments

During 2017, before its shares went public in the stock market, the Board of Directors of Neinor Holdings, S.L.U. (Previous single shareholder of the group) agreed to an incentive plan for the CEO and five members of the executive team of the Neinor Homes Group, which includes fixed and variable remuneration payable partly in cash and the rest in shares of the Group held by Lone Star through Neinor Holdings, S.L.U. One portion of the incentive was a fixed amount and was accrued as a result of the admission to listing of the Parent (exit bonus, a fixed amount, for a total of EUR 14 million, approximately, of which EUR 5.1 million were payable in cash on the date of the stock market flotation and the rest in shares at a pre-set fixed price to be delivered in equal parts on each of the two anniversaries of the flotation) and the other portion, variable, for a maximum total amount of EUR 13.5 million, to be delivered in shares, in a number to be determined based on the share price on each of the three anniversaries following the initial takeover bid and the accrual of which is subject to the achievement of annual increases in the share price during the last trimester prior to each of the three anniversaries of the potential stock market flotation (the first reference date being the date of admission to listing on the stock exchanges), subject in certain cases to minimum holding commitments, with the possibility of accrual in proportion to the share price revaluations obtained on certain circumstances. Notwithstanding the above, if at any given time during three years following the potential stock market flotation the shares trading price reaches 152,09% of the initial share price (adjusted), the variable amount not already accrued, will entirely accrue. In any event, it is established that the remuneration will be delivered to them directly by Neinor Holdings, S.L.U. Bearing in mind payment of these bonuses will be made in full by Neinor Holdings, S.L.U. (sole shareholder of the Company until its flotation), the Group recognises on an accrual basis the corresponding contribution of the shareholder to consolidated equity for the same amount under "Staff Costs"). The assistance of an external appraiser was used for the accounting recognition of the variable portion. Applying the Monte Carlo method and, in view of the absence of a reasonable trading period that could be considered as a benchmark by the Parent, taking into consideration the share price volatility of companies in the European real estate industry over a comparable period, the external appraiser estimated that the fair value of the aforementioned variable portion amounted to approximately, EUR 8.1 million. EUR 4.020 thousand has been recorded under the Income Statement at 2018 period (EUR 18.950 thousand at 2017).

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

Also, during 2017 a long-term incentive plan payable in full in shares for 40 key employees was approved, approximately, including members of the Management Committee and the CEO, consisting of three consecutive overlapping three-year periods, i.e. 2017-2019, 2018-2020 and 2019-2021 in which the achievement measurement metrics are, in thirds, EBITDA, the developer margin and shareholder return, with a downward correction coefficient of 10% regarding the achievement of the aforementioned metrics determined by the evolution of the average Loan to Value (LTV) ratio in excess of a target ratio. Minimum amounts below which the incentives do not accrue and the possibility of an extra bonus of up to 150% were established. The sale of the number of shares thus acquired is restricted for periods of between one year and six months for the CEO and the members of the management committee. The shares to be received by each participant will be determined by the incentive attributed to each participant in the plan (in ranges of between EUR 10 thousand and EUR 250 thousand), the price of the shares for each three-year period (average of the share price in the 20 trading sessions prior to the commencement of each cycle) and by the achievement of objectives (range between 0% and 150%). Shares acquired under this plan are subject to lock-up commitments for periods of one year and 6 months for both the CEO and members of the management committee. In the case of the CEO and members of the management committee, this incentive is subject to a repayment clause if certain circumstances arise. The cost of this long-term incentive plan will be assumed by Neinor Homes

Group, and has resulted in the recording of an employee benefits expense of EUR 267 thousand in 2018 (EUR 667 thousand in 2017), with a balancing entry in the equity of the accompanying consolidated balance sheet (see Note 22.c). The Directors of the Parent Company have estimated that the fair value of the aforementioned plan amounts to approximately EUR 2 million for the 2017-2019 triennium. Likewise, on 22 January 2018, the Appointments and Remuneration Committee approved the amount of the plan for the 2018-2020 triennium, setting it at EUR 2 million for all the members and the period.

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

There are no additional share-based incentive plans for employees.

t) Related party transactions

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

In case significant differences arise between the established price and the fair value of a transaction between related companies, this difference would be considered the distribution of results or contribution of funds between the Company and the aforementioned related company and as such, it would be registered in reserves. However, if they correspond to transactions held with the shareholders, these will be recorded in the consolidated income statement in proportion to the shareholder's participation on the date of the transaction.

u) Remuneration of senior executives

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

5. Earnings / (loss) per share

a) Basic earnings /(loss) per share

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

Accordingly:

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

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

b) Diluted earnings/ (loss) per share

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

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

6. Segment reporting

a) Basis of segmentation

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

The lines of business described below were established on the basis of the Neinor Homes Group's organisational structure at 2017 year-end, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

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

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

Group's activities at 31 December 2018 and 2017 have been carried out entirely in Spain.

b) Basis and methodology for segment reporting

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

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

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

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

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

Segment information

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

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

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

(*) A financial measure used by Group management which does not take into consideration the impairment losses on the Group's Investment properties and Inventories, the IPO costs (see Note 22.d) and "Employee benefits expense" associated with the incentive plan assumed by Neinor Holdings, S.L.U., mainly.

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

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

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

	Thousands of Euros									
	Legacy		Development		Management Assets - Servicing		Others / Corporate		Total	
	31.12.18	31.12.17	31.12.18	31.12.17	31.12. 18	31.12.17	31.12.18	31.12.17	31.12.18	31.12.17
Balance sheet:										
Non-Current assets	990	1.615	5.023	-	-	-	27.659	3.480	33.672	5.095
Current assets	43.010	85.513	1.217.438	1.101.435	9.754	10.085	113.760	76.822	1.383.962	1.273.855
Total Assets	**44.000**	**87.128**	**1.222.461**	**1.101.435**	**9.754**	**10.085**	**141.419**	**80.302**	**1.417.634**	**1.278.950**
Financial Debt (*)	-	-	380.529	417.665	-	-	-	-	380.529	417.665
Other Non-current liabilities	105	190	-	-	-	-	-	-	105	190
Other current liabilities	4.653	8.332	249.452	127.085	1.699	1.193	8.526	2.067	264.330	138.677
Total Liabilities	**4.758**	**8.522**	**629.981**	**544.750**	**1.699**	**1.193**	**8.526**	**2.067**	**644.964**	**556.532**

(*) Non- Current and Current Bank Borrowings

7. Intangible assets

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

Exercise ended 31 December 2018

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

Exercise ended 31 December 2017

	Thousands of euros		
	Computer Software	Industrial property	Total
Cost:			
Balance at 31 December 2016	875	14	889
Additions	723	-	723
Balance at 31 December 2017	**1.598**	**14**	**1.612**
Accumulated amortisation:			
Balance at 31 December 2016	(135)	-	(135)
Charges	(271)	-	(271)
Balance at 31 December 2017	**(406)**	**-**	**(406)**
Net Balance at 31 December 2017	**1.192**	**14**	**1.206**

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

The main additions in 2017 related to the development of the management software used by the Group and the acquisition of the Neinor brand from its sole shareholder (see Note 23).

At 31 December 2018 and 2017, there were no intangible assets provided as collateral for any obligation.

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

8. Property, plant and equipment

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

Exercise ended 31 December 2018

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

Exercise ended 31 December 2017

	Thousands of euros		
	Technical items and machinery	Other items of Property, Plant and equipment	Total
Cost:			
Balance at 31 December 2016	499	1.201	1.700
Additions	384	136	520
Balance at 31 December 2017	**883**	**1.337**	**2.220**
Accumulated amortisation:			
Balance at 31 December 2016	(51)	(96)	(147)
Charges	(63)	(132)	(195)
Balance at 31 December 2017	**(114)**	**(228)**	**(342)**
Net Balance at 31 December 2017	**769**	**1.109**	**1.878**

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

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

At 31 December 2018 and 2017, there were no property, plant and equipment items fully amortised.

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

At 31 December 2018 and 2017, the Group did not have any significant commitments to purchase items of property plant and equipment.

9. Investment properties

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

Exercise ended 31 December 2018

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

Exercise ended 31 December 2017

	Thousands of euros			
	Cost	Amortisation	Provision (see Note 22.f)	Net
Balance at 31 December 2016	**22.648**	**(591)**	**(9.164)**	**12.893**
Additions/Charges	-	(250)	(72)	(322)
Disposals	(19.795)	708	7.953	(11.134)
Transfer from stocks (Note 12)	205	-	(106)	99
Transfer to stocks (Note 12)	-	-	79	79
Balance at 31 December 2017	**3.058**	**(133)**	**(1.310)**	**1.615**

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

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

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

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

At 31 December 2018 and December 2017, the Group did not have any firm commitments to purchase or sell items of investment property.

10. Subsidiaries

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

11. Current and non-current financial assets

Details of these financial assets, by nature, are as follows:

	Thousands of euros			
	31.12.2018		31.12.2017	
	Non-current	Non-current	Non-current	Current
Equity instruments	150	-	-	-
Guarantees and deposits	912	7	396	455
Total	**1.062**	**7**	**396**	**455**

12. Inventories

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

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

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

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

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

At 31 December 2018 there are assets included in "Inventories" caption in the accompanying consolidated balance sheet with a net cost of EUR 1.165 million corresponding to assets classified as "Development" and EUR 43 million relating to "Legacy" assets. (EUR 1.060 million and EUR 83 million at 31 December 2017). Likewise, the advances granted for an amount of 23 million euros correspond to assets that will be classified as "Development".

At 31 December 2018, there are assets included under "Inventories" with a gross cost of EUR 1.065.549 thousand (EUR 584.068 thousand at 31 December 2017) securing a loan the Group has assumed the borrower position as the payment of the price arranged with the seller for the acquisition of a plot of land (see Note 17).

In addition, the Group has a credit line with a limit of EUR 50.000 thousand, against which EUR 31.090 thousand had been drawn down at 31 December 2018 (EUR 48.308 thousand in 2017). This credit line is being used to finance acquisition of plots of land. The related agreement does not provide for any specific asset as security, although the drawdowns are assigned to assets following approval by the lender, which reserves the right to demand that the corresponding mortgage be created (see Note 17). Additionally, in 2017, the Group signed a financing agreement with J.P. Morgan for EUR 150 million for land acquisition, this limit has been reduced during the year to 75 million euros. At 31 December 2018, the Group had drawn down EUR 75 million through. To guarantee the repayment of this financing, a promise to mortgage property was constituted in favor of the lender up to EUR 228.342 thousand of market value, having agreed with the bank a Loan To Value of 30% (Note 17).

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

The property development sale commitments entered into with customers at 31 December 2018 and 2017, relating to those units in which a private purchase and sale agreement was signed, have resulted in the collection or reception of notes receivables amounting to EUR 102.138 and 81.695 thousand respectively, which have been recognised under "Current liabilities - Customer advances" in the consolidated balance sheet at 31 December 2018 and 31 December 2017 (see Note 18).

The Group reviews periodically the fair value of its inventories, applying the corresponding provisions for impairment, in accordance with the criteria established in the Note 4.f. The changes in 2018 and 2017 in the write-downs associated with the inventories were as follows:

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

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

Considering the external appraiser's methodology described in Note 4.f, the key assumptions identified in the appraisals for the development assets (see Note 6) are the discount rate and the sale prices. In the case of the discount rate a sensitivity of +/- 100 basis points was established, based on the different economic scenarios forecast in the short and medium term, as well as the rate of return that would be required by other developers with different characteristics to the Group. In addition, a positive performance of sale prices was envisaged, while the appraisal models involved conservative assumptions on the current economic situation, that explains the reason why a sensitivity of + 1%/ +5% was set.

Assuming the remaining variables to be constant, the appraised values of development projects and the carrying amount thereof would be affected as follows at 31 December 2018, taking into account the change in the key assumptions (in thousand euros):

Assumption	Discount Rate		Sale Price			
	+1%	-1%	+1%	-1%	+5%	-5%
	Increase (Decrease)					
Change in appraised values	(34.656)	37.289	29.656	(28.814)	145.387	(147.225)
Change in carrying amount (*)	(57)	213	213	(59)	350	(2.288)

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

The Savills valuation models adopted by the Group are sufficiently conservative and prudent to make it inappropriate to consider sensitivities to a negative price performance. In addition, the directors consider that we are currently undergoing a price growth scenario and the forecasts point towards continuing in that positive direction. However, the Group has performed a sensitivity analysis considering a 1%/ 5% fall in prices in the base scenario without subsequent price growth and the other variables remaining constant. In such an adverse scenario, which is not considered likely at the moment, the effect on the value of the real estate assets would be a reduction of EUR 28.814 thousand and EUR 147.225 thousand, and the recognition of additional impairment losses of EUR 59 thousand and EUR 2.288 thousand, respectively.

The appraiser did not include any special kind of sensitivity in respect of the property assets located in Catalonia, the net carrying amount of which at 2018 year-end amounted to approximately EUR 215 million (of which EUR 139 million relate to work in progress or finished goods sold in advance above cost), since they refer to assets earmarked for a market with medium to high purchasing power located close to urban centers and, therefore, are less exposed to any kind of risk in terms of changes in valuation.

13. Trade and other receivables

"Trade and other receivables" includes the following items:

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

"Trade Notes Receivable" in the foregoing table mainly includes the amount receivable relating to the asset management and administration agreement entered into between various companies of the Kutxabank Group and Neinor Homes, S.A. (see Note 1), amounting to EUR 9.498 thousand (9.977 thousand euros at 31 December of 2017).

"Other receivables" in the foregoing table includes mainly the amounts receivable from third parties for services rendered (see Notes 22.a and 23) and amounts paid in advance by the Group to service providers amounting to EUR 16.275 thousands an amount that includes 9.020 thousand euros in advances paid to agents who have intervened in the execution of the purchase and sale agreements pending deed.

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

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

14. Cash and cash equivalents

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

There is no restriction for the availability of the cash and cash equivalents of the Group neither as of 31 December 2018 nor 31 December 2017, except for the fact that, as described in Law 20/2015, of July 14, advances received and associated with a development (see Note 18) are deposited in a special account, separate from any other class of funds belonging to the Group, and are only drawn against in connection with the construction of the developments. The balance subject to this restriction amounted to EUR 40.698 thousand at 31 December 2018 (EUR 41.141 thousand 2017), which differs from the advances (see Note 18) as a result of the cash used to pay the progress billings of developments to which such advances are allocated. Likewise, the guarantees (Note 21) differ from these advances, on the one hand, because guarantees are issued for the total of the amounts that the clients will deliver on account during the work and not only for the amounts actually received, and on the other hand, due to the fact that the guarantee is issued in a period of up to 30 days after receiving the customer's advance.

15. Capital and reserves

a) Share capital

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

At 31 December 2018, the Parent's share capital is represented by 79.005.034 fully subscribed and paid bearer shares of EUR 10 per value each, according to the following breakdown:

	31.12.2018	
	% Ownership Interest Registered	Total Share Capital Amount (Thousand euros)
Adar Capital Partners Ltd	28,68	226.586
Bank Of Montreal	5,21	41.162
Invesco Limited	5,02	39.661
Julius Baer Group, Ltd	5,01	39.582
Ksac Europe Holdings, L.p.	4,20	33.182
Norges Bank	4,56	36.026
Portsea Asset Management Llp	3,27	28.835
Resto de Bolsa	44,05	348.017
Total	**100,00**	**790.050**

b) Reserves of the Parent

Legal reserve

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

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

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

At 31 December 2018 and 31 December 2017 legal reserve was not fully contributed.

c) Reserves at fully consolidated companies

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

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

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

(**) The reserve of fully consolidated companies at 31 December 2017 and 2018 was reduced by EUR 78 thousand in relation to expenses associated with the capital reductions carried out by the Parent and subsidiaries of the Neinor Homes Group in 2017 (see Note 15-a).

At 31 December 2018 and 2017 the negative reserves contributed by the subsidiaries Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L. arose as regards of the difference at the date when the Neinor Homes Group was created between the amounts the financial interests in these subsidiaries were contributed to the Group (specifically to the subsidiary Neinor Norte, S.L.U., its direct shareholder) and their underlying carrying amounts at that date were negative, due to the impairment recognised in connection with all their property assets. When the contribution was made, the Kutxabank Group intended the other investees of Kutxabank to make a direct contribution to restore their equity position so as not to give rise to any loss for Neinor Norte, S.L.U. Lastly, this contribution was made in 2015 by Kutxabank directly through a capital increase at Neinor Homes, S.A. prior to its transfer to Neinor Holdings, S.L.U. This capital increase was performed in steps at Neinor Norte, S.L.U. and its investees including, among others, those which had an equity imbalance, and the situation was remedied prior to the Lion transaction described in Note 1.

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

d) Treasury shares and other reserves

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

On May 4, 2017, the Group began a program of Treasury Stock, and a total of 199.406 treasury shares were acquired until September 20, 2017. On September 22, 2017, the Parent Company signed a contract of liquidity with "Gestión de Patrimonios Mobiliarios, S.V. S.A." whereby it makes purchase and sale of shares during the year. As of December 31, 2018, the total Treasury Stock of the Parent Company amounts to 300.201 securities (228.798 at 31 December 2017). The average unit purchase price of the securities was 14,49 euros (18,03 euros at December 2017).

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

e) Dividends paid

No dividends were paid in either 2018 or 2017.

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

f) Other equity holder contributions

The accruals of the incentive plans described in Note 4.s for the CEO and five members of the management team have been recorded in this caption. The amount recognised in the consolidated income statements in 2018 amounted to EUR 4.020 thousand (EUR 18.952 thousand in 2017) (see Notes 4.s, 15, 22.c and 24).

16. Provisions

a) Current provisions

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

At 31 December 2018

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

At 31 December 2017

	Thousands of euros		
Description	For taxes (see Note 22.d)	Other provisions (see Note 22.d)	Total
Balance at 31 December 2016	**2.036**	**7.023**	**9.059**
Charges	1.405	3.215	4.620
Amounts used	(1.208)	(6.845)	(8.053)
Balance at 31 December 2017	**2.233**	**3.393**	**5.626**

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

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

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

At each reporting date the Group assesses the estimated amounts required for probable or certain liabilities where payment is still not entirely determinable with regard to their exact amount, or the dates on which they will arise are uncertain since they depend on the fulfilment of certain conditions. Where appropriate, it recognises the related provisions. At 31 December 2018 and December 2017, the Group had not recognised any provisions in this connection since the Parent's directors, and its legal advisors, considered that the possible impacts for the Group arising from these liabilities would not be significant. In this connection, at 31 December 2018 there are legal claims in relation with assets owned by the different companies of the Group for a total amount of EUR 1.038 thousand (at 31 December 2017 EUR 983 thousand), mainly corresponding to claims for intermediation fees, termination of contracts, refunds of retentions, repairs of constructive defects and challenges of justices in expropriations, as well as an indeterminate demand for the objection of work licenses, which may be prosperous that it has not prospered in the first instance but that, in any case, has been appealed and is not yet firm, in any case, and according to the agreements arranged in the context of the transaction described in Note 1, would be covered by Kutxabank Group, except for an amount of up to 3 million euros established as a franchise, which would be covered by Grupo Neinor Homes. The directors of the various companies comprising the Neinor Homes Group consider that the provisions made are adequate to cover potential risks in connection with claims under way and that if these risks materialise for amounts higher than these provisions, the additional liabilities would not have a significant impact on the Group's financial statements.

17. Bank borrowings and other financial liabilities

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

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

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

31 December 2018

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

31 December 2017

Scheduled maturities:	31.12.17
2018	138.274
2019	172.751
2020	368
2021 and followings	106.272
Total	**417.665**

(*) In connection with the figures disclosed above, there are EUR 77 million with maturity in 2018 corresponding to the debt with J.P. Morgan, whose repayment has been extended until the year 2019.

Short-term and long-term bank borrowings

Mortgage loans

The balance recognized under "Bank borrowings – Mortgage loans for land" in the foregoing table which amounts to EUR 324.395 thousand at 31 December 2018 relates to the amount payable on loans regarding plots of land which secure repayment of these loans. These loans bear interest at a market rate and ultimately mature between 2019-2051.

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

Specifically, the Group has contracted 17 new mortgage loans during 2018 with a limit of 145.037 thousand euros, of which an amount of 28.140 thousand euros has been withdrawn. In addition, the limit and maturity of 12 loans contracted during the previous years have been extended, and their maturity for the years 2036-2051 has been established.

Credit lines

"Long-Term Bank Borrowings" includes a credit line aimed at providing the Group with additional liquidity for its ordinary operations not directly associated with land purchases. The credit line, which was arranged by the Group's Parent in 2016, had a inicial limit of EUR 30 million. This limit has been reduced since its concession, amounting to 18 million euros. The credit line has been drawn down in full and the remainder is recognised under "Short – Term Bank Borrowings".

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

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

On 15 June 2015, the Group arranged a credit facility with a bank with a limit of EUR 30.000 thousand and maturing on 15 December 2016, which was novated in 2016, increasing the limit to EUR 50.000 thousand and extending the maturity to 2019. The aim of the facility is to finance the payment of the deferred price of the land purchases, and the Group must support all the drawdowns made against it through a credit facility drawdown request signed by the Group that specifies the amount being requested and contains a description of the property to be acquired. EUR 31.090 thousand had been drawn down at 31 December 2018, and this amount was classified as a current liability due to the real estate nature of the facility (31 December 2017: EUR 48.308 thousand). In relation to this credit facility, the Neinor Homes Group has undertaken to arrange first mortgages at the request of the bank in order to secure the facility up to an amount of EUR 25 million. Such a request had not been made at 31 December 2018. However, the directors consider that the borrowings should be associated directly with the property developments being financed by it.

The debt arrangement expenses associated with these credit lines amounted to EUR 108 thousand at 31 December 2018.

VAT lines

This caption at 31 December 2018 included the balance drawn down of a loan received by the Group in order to finance the input VAT on certain land purchase transactions, which was received in 2015, and upon maturity in 2016, 2017 and 2018 was novated for an additional year. Hence, the loan matures in 2019 and bears interest at market rates. The limit on these loans amounts to EUR 15 million of which the amount of EUR 4.385 has been disposed at December 2018 (31 December 2017: EUR 11.203 thousand). To secure repayment of the borrowings, the receivables relating to input VAT arising for the public administration in these transactions were pledged to the financial institutions (Note 20).

VAT Factoring

On 6 June 2017, the Group entered into a recourse factoring agreement with a bank mainly to finance input VAT on certain land purchase transactions. The agreement expires at one year and bears interest at market rates. The factoring line had a limit of EUR 29 million, although in January 2018 it has been reduced to 15 million euros, and EUR 2.940 thousand had been drawn down at 31 December 2018 (EUR 14.286 thousand at 31 December 2017). The amounts owed to it by virtue of the transactions performed will be used to guarantee the repayment of this financing.

Other loans

On 28 August 2017, the Group signed a financing agreement with J.P. Morgan for EUR 150 million. The loan is for an initial term of 12 months and may be renewed for an additional 12 months. During the 2018, the maturity of this loan has been extended until August 2019 and the limit has been reduced to 75 million euros. It may be drawn by Neinor Norte, S.L.U., Neinor Sur, S.A.U and Neinor Peninsula, S.L.U, acting Neinor Homes S.A. only as guarantor of this debt.
At 31 December 2018, the Group had drawn down EUR 74.999 million through Neinor Sur, S.A., and this amount was used to purchase land (EUR 76.962 million at 31 December 2017). To guarantee the repayment of this financing, a promise to mortgage property was constituted in favor of the lender from up to EUR 228.342 thousand (market value), that will depend on the amounts disposed by the Group.

Covenants and early repayment clauses

In connection with the new borrowings arranged by the Group in 2018 and 2017, and disclosed above, the Group has certain early repayment clauses associated with the loans and credit lines, including most notably the following:

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

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

- A 15% worsening in the coverage ratios (net financial debt to EBITDA ratio) and/or leverage (net financial debt to equity ratio) as compared to the measurement of these ratios in the latest annual financial statements; furthermore, when a depreciation of the Group's situation causes doubts as to the viability of its business, on the basis of market information.

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

Other

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

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

In 2018 the Group paid borrowing costs amounting to EUR 12.816 thousand plus debt arrangement expenses of EUR 3.105 thousand (of which EUR 3.002 thousand were charged to "Finance Costs" in the consolidated statement of profit or loss for 2018 and EUR 3.784 thousand were deducted from the Group's bank borrowings recognised in the consolidated balance sheet), and borrowing costs of EUR 1.872 thousand were capitalised to inventories (see Note 12).

The interest rate applicable to the Group, in general terms, is tied to Euribor plus a market spread ranging from 0,8% to 3,5% in 2018. The average cost of the borrowings calculated for 2018 and 2017 is approximately 2,98% and 2,65%, respectively.

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

Finally, the following is a reconciliation of the book value of liabilities arising from financing activities by distinguishing separately the changes that generate cash flows from those who do not:

2018

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

(*) It corresponds to the expenses of formalizing loans from previous years charged to the accompanying consolidated income statements, plus the variation of accrued and unpaid financial interests, minus the expenses for the formalization of new loans for the year.

2017

	01/01/2017	Cash Flow	Without cash flow impact			31/12/2017
			Variation in fair value	Reclassifications	Others	
Long Term Loans	26.623	-	-	(9.000)	279	17.902
Short Term Loans	277.068	113.532	-	9.000	163	399.763
Total Liabilities from financing activities	**303.691**	**113.532**	-	**-**	**442**	**417.665**

(*) It corresponds to the expenses of formalizing loans from previous years charged to the accompanying consolidated income statements, plus the variation of accrued and unpaid financial interests, minus the expenses for the formalization of new loans for the year.

18. Other current and non-current liabilities

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

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

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

19. Current and non-current trade and other payables

“Trade and other payables” mainly includes balances payable for trade purchases and related costs. At 31 December 2018, this caption also included a payable amounting to EUR 36.755 thousand corresponding to the deferred portion of the price of a land purchased in these exercises. There was no balance at the end of 2017 for this concept (see note 12).

In addition, this heading of the balance sheet includes at 31 December of 2018 an amount of 22.759 thousands of euros (9.436 thousands of euros at 31 December 2017) as tax deductions applied to contractors for warranty.

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

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

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

	Period ended 31 December 2018	Period ended 31 December 2017
	Days	**Days**
Weighted average payment term to suppliers	55	18
Paid operations ratio	42	29
Outstanding payments ratio	40	18
	Thousands of euros	**Thousands of euros**
Total payments made	320.072	430.996
Total outstanding payments	34.323	20.908

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

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

Pursuant to Law 11/2003, of 26 July, establishing measures on combating late payment in commercial transactions, the statutory payment period applicable to the Company at 31 December 2018 and 31 December 2017 was 30 days, unless a longer period has been agreed, which in no case may exceed 60 days. In this connection, and for the calculations referred to above, the Group has considered in all cases a maximum legal term of 30 days, no matter which the arranged conditions with the suppliers are.

20. Tax matters

a) Consolidated tax group

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

Due to Neinor Homes, S.A. admission to listing and Neinor Holdings, S.L.U's loss of participation there has been a breakdown of the Tax Group. On 3 November 2017, the Administration approved the composition of the new Tax Group headed by Neinor Homes, S.A., and number 02117BSC. The Tax Group will pay income on a tax consolidation basis with effect from 1 January 2017 in accordance with Article 99.2 of Bizkaia Corporation Tax Regulation 11/2013, of 5 December.

On 13 December 2017, Neinor Norte, S.L.U., as the sole shareholder of Promociones Neinor 1, S.L. U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L. U., and Promociones Neinor 5, S.L., decided to change the registered office of the aforementioned companies, which will be located in Madrid. As a result, since it does not meet the requirements to file consolidated tax returns in Vizcaya, on 20 December 2017, Neinor Homes, S.A., as the head of the tax group, notified the tax authorities that the legislation applicable to the aforementioned investees of Neinor Norte, S.L. for the tax periods commencing on or after 1 January 2017 will be that of Spain (excluding Navarra and the Basque Country). Therefore, in 2018 and 2017 the Vizcaya consolidated tax group no. 02117BSC was made up of Neinor Homes, S.A. as the parent and Neinor Norte, S.L.U. as subsidiary

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

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

Neinor Homes, S.A. and Neinor Norte, S.L. file consolidated tax returns for the tax periods commencing on or after 1 January 2017 as tax group no. 021175BSC in accordance with the consolidated tax regime established in Vizcaya Income Tax Regulation 11/2013, of 5 December. The rest of the Group Companies file individual tax returns pursuant to Spanish Income Tax Law 27/2014, of 27 November.

At 31 December 2018, the Parent and the subsidiaries Neinor Norte, S.L.U. and Neinor Península, S.L.U. have all the years open for review by the tax authorities since their incorporation, which took place at the end of 2014. The subsidiary Neinor Sur, S.L.U. has open to review in relation to income tax from the exercise 2016 and the last four years open to review for all other taxes applicable to it. The other companies have the last four years open to review for all taxes. In this connection, Provincial Regulation 11/2013 establishes that all tax credits applied and tax losses generated in prior years can be reviewed when they are applied in any of the years open to review, while Law 27/2014 of 27 November, establishes a review term of ten years.

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

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

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

In January 2019 the Group received notification of final disciplinary proceedings concerning the tax inspections relating to Neinor Península, S.L.U., which gave rise to adjustments to tax payable amounting to EUR 3.272 thousand, which were recognised under "Income Tax" in the consolidated statement of profit or loss for the year ended 31 December 2018, and also penalties and late-payment interest of EUR 793 thousand and EUR 417 thousand recognised under "Other Operation Expenses" and "Finance Costs (Net of Capitalised Finance Costs)", respectively, in the consolidated statement of profit or loss for the year ended 31 December 2018. Although pleadings have been filed against this decision, the Parent's directors, in accordance with the opinion of their external tax advisers, consider payment of these amounts probable since a final decision has been handed down in this connection. In addition, during the initial procedural formalities, penalties of EUR 6.3 million also became evident and it is considered that the administrative appeal filed by the Group will, in any event, give rise to a favourable outcome for it. This policy has also been approved by the Group's external tax advisers.

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

The directors of the Parent do not expect any additional material liabilities not already covered to arise as a result of the inspections that could occur for the years open to inspection. In addition, if the open inspections prior to the Lion Operation result in any sanctions attributable to the previous owner, under the agreements reached in the sale, these sanctions would be covered by Kutxabank Group (Note 1), except for an amount of EUR 3 million that would be assumed by Neinor Homes Group, as indicated in Note 17).

c) Tax receivables and payables

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

	Thousands of euros							
	31.12.2018				31.12.2017			
	Tax assets		Tax liabilities		Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
VAT receivable / payable (Note 17)	-	10.885	-	14.852	-	29.787	-	7.125
Income tax receivable	-	1.237	-	15.780	-	875	-	33
Personal income tax withholdings payable	-	-	-	1.960	-	-	-	411
Social Security contributions payable	-	-	-	434	-	-	-	340
Deferred tax asset	22.263	-	-	-	-	-	-	-
Deferred tax liability	-	-	87	-	-	-	172	-
Others	-	-	-	3	-	-	-	-
	22.363	**12.122**	**87**	**33.029**	**-**	**30.662**	**172**	**7.909**

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

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

At 31 December 2018

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

At 31 December 2017

	Thousands of euros		
	Group 02117BSC	Other entities	Total
Profit/(Loss) before tax	(4.627)	(21.341)	(25.968)
Permanent differences -	9	82	91
Temporary differences (*)	9.014	(13.154)	(9.386)
Preliminary Taxable income/(loss)	**4.396**	**(34.413)**	**(35.263)**
Tax losses compensation	(4.275)	**-**	(4.275)
Taxable income/(loss)	**121**	**(34.413)**	**(34.292)**
Tax rate	28%	25%	-
Tax accrued	(34)	8.603	8.569
Not capitalised Tax assets accrued in the period	-	(8.603)	(8.603)
Other adjustments for income tax	-	54	54
Previous years income tax regularization	9	5	14
Income tax expense	**(25)**	**59**	**34**

(*) Not capitalized.

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

e) Tax losses

Details of the tax losses of the different companies included in the Neinor Homes Group at 31 December 2018, which correspond with those generated by the subsidiaries Neinor Sur, S.L.U., Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L. are as follows:

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

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

The tax group's tax losses incurred prior to the year commencing 1 July 2015 by Neinor Homes, S.A. and Neinor Norte, S.L.U. can only be offset against the taxable profit earned individually by the companies themselves that generated it, before considering the tax bases corresponding to 2018.

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

Regarding the negative tax bases with maturity broken down in the previous table, note that there is no annual limit to their compensation with the previous tax bases for each year. In this sense, the pending negative tax bases that were generated in accordance with regional regulations by the companies that have moved their registered address to Spanish Income Tax Law, may continue to be applied in the following tax periods in which they are taxed in accordance with the regulations, according to the quantitative, qualitative and temporal limits established in their birth regulations.

In 2018, in the specific case of Neinor Sur, S.A.U., it was considered probable that sufficient future taxable profits would be obtained to enable the offset all of this subsidiary’s tax losses. In this regard, it was taken into account that a profit from operations of EUR 29.306 thousand had been obtained at 31 December 2018, that the Group is in line with the budget drawn up in 2017 and that adequate visibility exists in terms of revenue in the next three years (see Note 2.2) since pre-sales for this period exceed 50%. This policy led to the recognition of income of EUR 16.062 thousand with a credit to “Income Tax” in the consolidated statement of profit or loss for the year ended 31 December 2018. On the other hand, in relation to Neinor Península, S.L.U., Promociones Neinor 1, S.L.U., Promociones Neinor 2, S.L.U., Promociones Neinor 3, S.L.U., Promociones Neinor 4, S.L.U. and Promociones Neinor 5, S.L it was considered that the results of their operations would, based on their history of ongoing losses, either give rise to a loss or to scant profit. As a result, the obtainment of future taxable profit is not sufficiently supported and the policy followed to date was maintained. Accordingly, it was deemed reasonable not to recognise any deferred assets for these companies, since their recoverability is not reasonably assured.

f) Tax credits

At 31 December 2018 and 2017, the Group had unrecognised tax credits amounting to EUR 93 thousand.

g) Deferred Taxes

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

In this regard, at 31 December 2018, before taking into consideration the adjustments made in the estimate of the tax base relating to this reporting period, there are unrecognised deferred taxes amounting to EUR 30.668 thousand (in the tax base) (EUR 60.496 thousand at 31 December 2017) relating to adjustments to the tax base made, mainly for impairment of investee companies' impairment registered by Neinor Norte, S.L.U.

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

h) Other tax matters

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

- The quantitative limit to apply net operating losses have increased up to the 50% of the tax base, nevertheless, the deadline compensation will be extended to 30 years (actually the deadline is of 15 years). These limitations will be applicable since 2018, even over the net operating losses pending to be compensated before the Regulatory reform.
- The tax rate has been reduced from the 28% to the 24%, being applicable a tax rate of 26% for fiscal year 2018.
- An advanced tax payment of 5% of the tax base of the previous fiscal year has been introduced.
- The minimum tax payment has increased from the 13% to the 17% of the Taxable income/(loss) (15% for fiscal year 2018).

21. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2018, the Group had provided guarantees to third parties for a total amount of EUR 148.035 thousand (EUR 119.756 thousand at 31 December 2017). Included in this figure there is an amount of EUR 35.382 thousand (EUR 22.559 thousand at 31 December 2017) thousand related mainly to guarantees provided to different local authorities to secure the development of different properties and EUR 112.653 thousand to secure payments in advance received by customers (EUR 97.197 thousand at 31 December 2017).

Additionally, the Group has received at 31 December 2018 from different suppliers and contractors guarantees for a total amount of EUR 34.486 thousand (EUR 18.087 thousand at 31 December 2017) to secure the perfect completion of the corresponding construction works.

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

22. Revenue and expense

a) Revenues

The breakdown of revenues is as follows:

	Thousands of euros	
	31.12.2018	31.12.2017
Legacy	36.491	114.572
Development	312.245	76.621
Assets Management - Servicing	31.250	29.195
Total	**379.986**	**220.388**

According to the asset administration and management agreement entered into by the Parent and various Kutxabank Group companies dated on 14 May 2015, the Group billed during the 2018 exercise an amount of EUR 31.250 thousand to the aforementioned companies of the Kutxabank Group (EUR 29.195 thousand at 31 December 2017).

All of the Group revenues have been obtained in Spain.

The net revenues from Legacy assets includes an amount of EUR 99 thousand in 2018 (EUR 668 thousand in 2017) corresponding to rental income of the investment properties (Note 9).

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

b) Cost of sales

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

	Thousands of euros	
	Total Group	
	31.12.2018	31.12.2017
Cost of sales	**272.162**	**232.451**
Sites and land	1.398	15.378
Construction work in progress and completed buildings	270.764	217.073

c) Employee benefits expense and average headcount

Details of "Employee benefits expense" are as follows:

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

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

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

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

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

d) External services

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

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

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

Moreover, in 2017 this heading includes 2.35 million euros that relate to the expenses of the company's shares going public this year.

e) *Contribution to consolidated profit or loss*

The contributions to consolidated profit or loss for the exercise ended 31 December 2018 and 2017 by each company included in the consolidated group are as follows:

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

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

f) *Changes in trade provisions*

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

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

23. Related party transactions

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

and “BDO, Auditores, S.L.” (until November 2018) are also considered to be related companies, due to their relatedness to shareholders and directors.

	Thousands of Euros					
	Income			Expenses		
	Net Revenues (Note 22.a)					
Exercise 2018	Sales	Services Provided	Financial Incomes	Cost of Sales – Purchases (Note 22.c)	External Services (Note 22.d)	Financial costs (Note 17)
Other Group´s “related parties”-						
Banco de Santander, S.A.	-	-	-	-	101	953
Banco Popular Español, S.A.	-	-	-	-	-	219
IDOM, S.A.	-	-	-	-	-	-
1810 Capital Investments, S.L.	4.635	-	-	-	-	-
BDO Auditores, S.L.P. (*)	-	-	-	-	13	-
Global Hespérides, S.L.	2.405	-	-	-	-	-
	7.040	**-**	**-**	**-**	**114**	**1.172**

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

	Thousands of Euros					
	Income			Expenses		
	Net Revenues (Note 22.a)					
Exercise 2017	Sales	Services Provided	Financial Incomes	Cost of Sales – Purchases (Note 22.c)	External Services (Note 22.d)	Financial costs (Note 17)
Other Group´s “related parties”-	-	-	-	-	2	1.417
Banco de Santander, S.A.	-	-	-	2.910	-	119
Banco Popular Español, S.A. (*)	-	-	-	-	-	-
IDOM, S.A.	-	-	-	68	-	-
1810 Capital Investments, S.L.	-	737	-	-	-	-
	-	**737**	-	**2.978**	**2**	**1.536**

(*) Company related to the Group since 7 June 2017. In this regard, the transactions accrued from that date have been included.

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

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

The breakdown of the transactions carried out during 2017 is as follows:

- Financial expenses arising on the loans and credit lines with the financial entity.
- Services provided at the period ended 31 December 2017.

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

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

31 December 2018

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

31 December 2017

Thousands of Euros	Cash a cash equivalents	Short-term Bank borrowings	Customer prepayments
Other Group´s "related parties"-			
Banco Santander, S.A.	27.839	42.615	-
Banco Popular Español, S.A.	69	11.250	-
1810 Capital Investments, S.L.	-	-	1.956
	27.908	**53.865**	**1.956**

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

Information regarding situations of conflict of interest involving the directors

In the exercises ended 31 December 2018 and 31 December 2017 the Parent's current and former directors did not perform any transactions with the Parent or the companies of the Group to which it belongs that were outside the normal course of business or were not on an arm's length basis.

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

Directors' compensation and other benefits

As of December 31, 2018, the Directors of the Parent Company, including those who have at the same time the status of members of the Senior Management (one person), have received a fixed and variable compensation for their position as administrators an amount of EUR 1.902, as well as other remuneration (see Note 4.s) amounting to EUR 2.505 thousand (1.598 and 10.609 thousand euros, respectively, as of December 31, 2017). In addition, the Group has recorded an expense charged to the "Employee benefits expenses" caption in the accompanying consolidated income statement for an amount of EUR 3.134 thousand as a Management incentive plan approved (EUR 3.625 thousand in 2017) (see Notes 15 and 22).

The companies related to them provided to the Group and billed the amounts indicated in Note 23.

The Parent has taken out third-party liability insurance for directors and senior executives the cost of which amounts to EUR 63 thousand in 2018 (EUR 67 thousand in 2017).

The Parent has no pension obligations to the Directors.

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

Senior executives' compensation and other benefits

The remuneration of the Parent's senior executives and persons discharging similar duties, excluding those who are simultaneously members of the Board of Directors (one person), at 31 December 2018 and 31 December 2017 is summarised as follows:

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

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

25. Auditors' fees

Fees for audit services for the exercise ended 31 December 2018 for the different companies in the Neinor Homes Group and subsidiaries, provided by the statutory auditor and companies related thereto have amounted to EUR 100 thousand (EUR 100 thousand at 31 December 2017). Likewise, fees for verification services and other services provided by the statutory auditor for the exercise ended at 31 December 2018 have amounted to EUR 25 thousand and EUR 370 thousand at 31 December 2017.

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

26. Environmental information

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

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

27. Exposure to risk

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

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

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

Market risk:

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

2. Credit risk: the impact that defaults on receivables may have on the income statement.

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

Liquidity risk

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

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

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

The Group's available cash position at 31 December 2018 was EUR 113.760 thousand (76.822 at 31 December 2017) of which EUR 40.698 thousand (41.141 at December 2017) may only be drawn down in connection with the construction of the developments, as indicated in Note 14.

The Company's directors are confident that they will have sufficient funds to meet its cash requirements in the future. In addition, the Group entered into an administration management and property asset management contract with Kutxabank, S.A. in 2016 which provides the Group with relatively stable annual revenue until the contract expires in 2022. In this connection, cash is managed at Neinor Homes Group level, in order to avoid cash strains in the operating subsidiaries and allow them to normally develop their properties that are forecasted to be financed by third parties.

Market risk

Interest rate risk

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

With the new financial structure described in Note 17 the Group has a higher exposure to the risk of interest rate volatility; leading to a change in the Group's finance costs of approximately EUR +/- 3 million if the interest rate applicable to the Group's current borrowings increases or decreases by 1% in relation to 2018 reporting period (+/- 4 million in 2017) (see Note 17).

Credit risk

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

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

28. Events after the reporting period

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

Between January 1, 2019 and the date of formulation of the present consolidated annual accounts for the year ended December 31, 2018, the Board of Directors does not consider that there have been additional significant events that have a significant effect on the mentioned consolidated annual accounts or in the information contained therein.

29. Explanation added for translation to English

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

Appendix I
"Scope of consolidation"

Company	Registered address	Activity	% direct and indirect ownership 31.12.2018	31.12.2017	Shareholder	Auditors
Neinor Norte, S.L.U.	Bilbao	Real Estate Development	100%	100%	Neinor Homes, S.A.	Deloitte, S.L.
Promociones Neinor 1, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 2, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 3, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 4, S.L.U.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Promociones Neinor 5, S.L.	Madrid (*)	Real Estate Development	100%	100%	Neinor Norte, S.L.U.	Deloitte, S.L.
Neinor Península, S.L.U.	Córdoba	Real Estate Development	100%	100%	Neinor Homes, S.A.	Deloitte, S.L.
Neinor Sur, S.A.U.	Córdoba	Real Estate Development	100%	100%	Neinor Península, S.L.U.	Deloitte, S.L.

(*) The registered address moved from Bilbao to Paseo de la Castellana 20, Madrid, by means of a public deed granted on December 13, 2017.

Some financial figures of interest with respect to the consolidated companies are given below:

Company	Total equity at December 31, 2018 (thousands of euros)						
	Share capital	Share premium	Reserves	Previous years' losses	Profit / (Loss)	Other equity	Total equity
Neinor Norte, S.L.U.	235.091		911	(6.040)	19.527	292	249.781
Promociones Neinor 1, S.L.U.	301	-	59	(38)	(9)	-	313
Promociones Neinor 2, S.L.U.	880	-	170	(37)	(14)	-	999
Promociones Neinor 3, S.L.U.	594	-	256	-	(198)	-	652
Promociones Neinor 4, S.L.U.	2.981	-	592	(37)	72	-	3.608
Promociones Neinor 5, S.L.	5.649	593	589	-	30	-	6.861
Neinor Peninsula, S.L.U.	558.422	-	114	(25.620)	(18.456)	354	514.814
Neinor Sur, S.A.U.	158.981	-	657	(7.087)	35.540	4	188.095

Company	Total equity at December 31, 2017 (thousands of euros)					
	Share capital	Reserves	Previous years' losses	Profit / (Loss)	Other equity	Total equity
Neinor Norte, S.L.U.	235.091	912	(126)	(5.914)	99	230.062
Promociones Neinor 1, S.L.U.	301	59	(36)	(3)	-	321
Promociones Neinor 2, S.L.U.	880	170	(10)	(27)	-	1.013
Promociones Neinor 3, S.L.U.	594	122	(22)	156	-	850
Promociones Neinor 4, S.L.U.	2.981	592	(65)	28	-	3.536
Promociones Neinor 5, S.L.U.	2.979	592	(38)	39	-	3.572
Neinor Peninsula, S.L.U.	558.422	114	(6.408)	(19.212)	135	533.051
Neinor Sur, S.L.U.	158.981	657	(4.824)	(2.263)	-	152.551

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

DIRECTORS' REPORT

Year ended 31 December 2018

Neinor Homes, S.A. and Subsidiaries

1. The Group: Organisational structure and operations

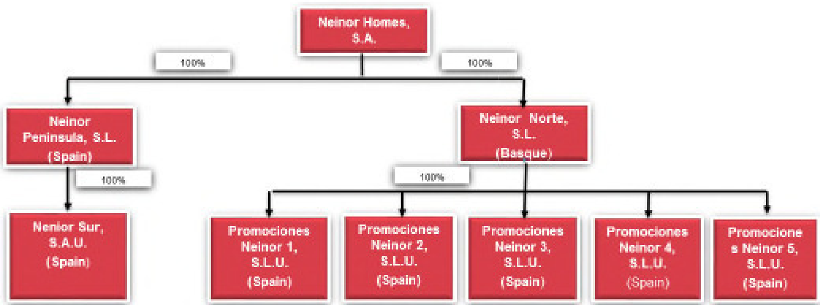
The Neinor Homes Group was incorporated under the memorandum of understanding entered into in 2014 by Kutxabank, S.A. and the Lone Star investment fund, through its investee, Intertax Business, S.L.U. (now Neinor Holdings, S.L.U.), for the purchase and sale of a portion of the Kutxabank Group's property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

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

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

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

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



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

A) Development business line:

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

The Parent's land portfolio is comprised of 190 lots with a total of 13.000 buildable units. The portfolio is distributed over the Parent's five main geographical areas of activity, namely: Madrid, Catalonia, the Basque Country, Valencia and Andalusia.

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

B) Legacy business line:

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

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

C) Servicing business line:

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

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

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

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

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

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

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

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

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

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

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

The balance scorecard of the model includes:

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

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

2. Business performance and earnings - Significant aggregates

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

Revenue and gross margin

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

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

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

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

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

EBITDA

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

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

Profit for the year

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

Financial position

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

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

Borrowings at 31 December 2018

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

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

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

On 28 August 2017, the Group signed a financing agreement with J.P. Morgan for EUR 150 million for land acquisition. The loan is for an initial term of 12 months and may be renewed for an additional 12 months.

3. Matters relating to the environment and employees

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

At 31 December 2018, the average number of employees employed in the various companies that make up the Group was 254 people, representing an increase of 15% on the twelve month period ended 31 December 2017 (216 people). The distribution of the headcount, by gender and professional category, was as follows:

	31/12/17			31/12/16		
	Women	Men	Total	Women	Men	Total
University graduates	118	141	259	72	113	185
Further education college graduates	10	2	12	43	7	50
Total	**128**	**143**	**271**	**115**	**120**	**235**

4. Liquidity and capital resources

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

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

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

5. Main risks and uncertainties

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

The most significant financial risks are:

Market risk

Exposure to interest rate risk

The Group does not use interest rate hedges.

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

Exposure to credit risk

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

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

Exposure to solvency risk

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

Exposure to exchange rate risk

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

6. Significant events after the reporting period

Subsequent to 2018 year-end no additional events took place other than those indicated in Note 28 to the consolidated financial statements which may significantly affect the financial information detailed in this report, or which should be highlighted in view of its importance.

7. ***Information on the outlook for the entity in 2019***

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

Development business line

- Monitoring of the construction projects which the Group had at 2018 year-end, plus the tenders and contracting of new projects.

- Continuing the upward trend in the number of pre-sales reached in 2018. Also, capture the increases in prices that are occurring in each location due to the increase in demand and low supply of quality products.

- Delivering the property developments for which the construction completion date is forecast for 2019, while taking due care of our clients' satisfaction and experience.

Legacy business line

- Continuing with the divestment in order to monetise the majority of the portfolio in 2019.

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

Servicing business line

- Maintaining the level of client satisfaction.

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

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

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

9. ***Treasury shares***

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

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

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

10. ***Alternative performance measures***

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

The most significant APMs are as follows:

Gross profit:

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

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

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

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

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

EBITDA:

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

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

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

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

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

Adjusted EBITDA

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

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

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

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

Consistency: the criterion used to calculate adjusted EBITDA is the same as that used in the previous year. Additionally, and exceptionally, the expenses derived from the IPO and MIP have been adjusted to present the information homogeneous with respect to the previous year.

Adjusted statement of cash flows

The statement of cash flows contains all the equity movements of the year, regardless of whether or not they have assumed an outflow of funds, which are recorded under the section "Net cash flows from financing activities" of the statements consolidated cash flow, with its corresponding counterparts in the operating flows, as it corresponds mainly to a single transaction in cash and shares, and therefore indivisible.

Borrowings

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

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

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

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

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

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

Net financial debt

Definition: Bank borrowings (current and non-current liabilities) + deferred payment for the purchase of land recognised under "Trade and Other Payables" under both non-current and current liabilities (see Note 19 to the consolidated financial statements) - "Cash and Cash Equivalents" (excluding the restricted component associated with the advances received and associated with a property development, which are deposited in a special account and are only available in connection with the construction of the property developments (see Note 14 to the consolidated financial statements).

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

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

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

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

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

Loan to Value (LTV)

Definition: Net financial debt / Assets market value

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

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

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

Loan to Value (LTV) - Adjusted

Definition: Adjusted Net financial debt / Assets market value

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

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

	31 December 2018
Net financial debt - Adjusted	344
Assets market value	1.822
LTV	**14.64%**

Loan to Cost (LTC)

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

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

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

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

Loan to Cost (LTC) - Adjusted

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

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

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

	31 December 2018
Net financial debt - Adjusted	344
Inventories	1.230
Investment Property	1
LTC	**27.96%**