Consolidated Group Realia Accounts 2018

Realia Business, S.A. and Subsidiaries
Consolidated

Consolidated Financial Statements and Consolidated Management Report for the year ended 31 December 2018

REALIA BUSINESS S.A. AND SUBSIDIARIES (REALIA GROUP)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

(Thousands of Euros)

ASSETS	**31/12/2018**	**31/12/2017**		**31/12/2018**	**31/12/2017**
NON-CURRENT ASSETS			**EQUITY (Note 16):**		
Intangible assets (Note 8)	55	45	Share capital	196,864	154,754
Property plant and equipment (Note 9)	3,047	4,755	Share premium	528,492	421,463
Property investment (Note 10)	1,422,334	1,383,076	Reserves	232,696	202,221
Investments in associates (Note 11)	49,566	48,498	Less: Treasury shares	(1,566)	(675)
Non-current financial assets (Note 14.2)	939	13,873	Valuation adjustments	883	(1,892)
Deferred tax assets (Note 21)	119,190	122,151	Total equity attributable to the Parent	40,159	30,461
Other non-current assets (Note 14.3)	9,437	9,116	**Total equity attributable to the Parent**	**997,528**	**806,332**
			Non-controlling interests (Note 17)	**235,978**	**237,922**
Total non-current assets	**1,604,568**	**1,581,514**	**Total Equity**	**1,233,506**	**1,044,254**
			NON-CURRENT LIABILITIES		
			Long-term provisions (Note 18)	4,316	6,298
			Non-current financial liabilities:		
			Bank borrowings (Note 19):	586,547	584,444
			Derivatives (Note 19)	3,466	847
			Deferred tax liabilities (Note 21)	164,856	155,200
			Other non-current liabilities (Note 20.a)	15,682	16,108
			Total non-current liabilities	**774,867**	**762,897**
CURRENT ASSETS			**CURRENT LIABILITIES**		
Inventories (Note 13)	318,190	295,855	Short-term provisions (Note 18)	3,259	3,421
Trade and other receivables (Note 14.1)			Current financial liabilities:		
Trade receivables for sales and services	5,379	7,096	Bank borrowings (Note 19)	23,327	174,968
Other receivables	3,451	3,419	Derivatives (Note 19)	2,613	2,769
Current tax assets (Note 21)	3,711	3,485	Other current financial liabilities (Note 19)	2,011	2,635
Other current financial assets (Note 14.2)	36,647	33,350	Trade and other payables (Note 20.b)		
Other current assets (Note 14.3)	4,749	4,356	Payable to suppliers	8,370	7,170
Cash and cash equivalents (Note 15)	87,498	85,075	Other payables	14,768	14,646
Total current assets	**459,625**	**432,636**	Current tax liabilities (Note 21)	584	595
			Other current liabilities (Note 20.d)	888	795
			Total current liabilities	**55,820**	**206,999**
TOTAL ASSETS	**2,064,193**	**2,014,150**	**TOTAL EQUITY AND LIABILITIES**	**2,064,193**	**2,014,150**

Notes 1 to 31 described in the Financial Statements and Appendices are an integral part of the consolidated statement of financial position as at 31 December 2018.

REALIA BUSINESS, S.A. AND SUBSIDIARIES (REALIA GROUP)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR 2018

(Thousands of Euros)

	2018	**2017**
Revenues (Note 23.a)	76,249	83,492
Other operating income (Note 23.b)	17,635	17,216
Changes in inventories of finished goods and work in progress (Note 13)	10,706	(17,149)
Procurements (Note 23.c)	(24,153)	(554)
Staff costs (Note 23.d)	(6,641)	(6,673)
Other operating expenses (Note 23.c)	(28,524)	(31,509)
Variation in operating provisions (Note 23.j)	5,917	1,076
Provision for amortization (Notes 8 and 9)	(313)	(314)
Gains or losses on disposals of fixed assets (Notes 8 and 9)	(27)	4
Other gains/losses	(1)	33
PROFIT (LOSS) FROM OPERATIONS	**50,848**	**45,622**
PROFT (LOSS) FROM VARIATION OF PROPERTY INVESTMENT (Notes 4.y,10 and 23.f)	**28,930**	**20,559**
Finance income (Note 23.g)	7,329	558
Finance costs (Note 23.g)	(17,680)	(14,797)
Capitalized financial expenses	17	-
Changes in fair value of non-current financial instruments	519	(1,974)
Exchange rate differences	2	24
Impairment and gains or losses on disposals of financial instruments (Notes 23.g and 23.i)	26	-
		-
FINANCIAL PROFIT/LOSS	**(9,787)**	**(16,189)**
Result of companies accounted for using the equity method (Notes 11 and 23.e)	2,547	4,751
Impairment loss	(7)	-
EARNING BEFORE TAXES	**72,531**	**54,743**
Income tax (Note 21)	(17,575)	(11,403)
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**54,956**	**43,340**
CONSOLIDATED EARNINGS FOR THE YEAR	**54,956**	**43,340**
Attributable to:		
Shareholders of the Parent (Note 23.h)	40,159	30,461
Non-controlling interests (Note 17)	14,797	12,879
Earnings per share:		
From continuing operations (€/share)		
Basic	0.062	0.047
Diluted	0.062	0.047

The accompanying Notes 1 to 31 described in the Annual Report and Appendices are an integral part of the consolidated statement of profit and loss at 31 December 2018.

REALIA BUSINESS, S.A. AND SUBSIDIARIES (REALIA GROUP)

CONSOLIDATED STATEMENT OF REVENUES AND EXPENSE FOR 2018

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(Thousands of Euros)

	31/12/2018	31/12/2017
CONSOLIDATED RESULT FOR THE YEAR (from profit and loss account)	**54,956**	**43,340**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that can be reclassified to the profit and loss account in subsequent years:		-
Arising from cash flow hedges (*)	(3,007)	(1,139)
Translation differences	(37)	(69)
Tax effect	752	285
	(2,292)	**(923)**
Other comprehensive income that will not be reclassified to the profit and loss account in subsequent years (net of taxes):		
Asset revaluation	6,723	-
Tax effect	(1,656)	-
	5,067	
TOTAL RECOGNISED INCOME AND EXPENSES	**57,731**	**42,417**
A) Attributable to the Parent	**42,934**	**29,538**
B) Attributable to non-controlling interests	**14,797**	**12,879**

The accompanying Notes 1 to 31 described in the Annual Report and Appendices are an integral part of the consolidated statement of profit and loss at 31 December 2018.

(*) This represents the variation due to the change in value and the settlements that had an impact on the result for the year.

REALIA BUSINESS S.A. AND SUBSIDIARIES (REALIA GROUP)

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY IN 2018

	Thousand Euros											
	Share capital (Note 16)	**Share Premium (Note 16)**	**Reserves of the Parent (Note 16)**	**Treasury Shares (Note 16)**	**Consolidation Reserves (Note 16)**	**Hedges**	**Translation Differences**	**Asset revaluation (Note 10)**	**Result for the year (Note 3)**	**Equity attributable to shareholders of the Parent**	**Non-controlling Interests (Note 16)**	**Total Equity**
Balances at 31 December 2016	**154,754**	**421,463**	**(209,294)**	**(675)**	**295,942**	**-**	**(969)**	**-**	**115,696**	**776,917**	**231,819**	**1,008,736**
Income and expenses recognized in the year	**-**	**-**	**-**	**-**	**-**	**(854)**	**(69)**	**-**	**30,461**	**29,538**	**12,879**	**42,417**
Allocation of 2016 result:												
To reserves	-	-	62,570	-	53,126	-	-	-	(115,696)	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	(700)	(700)
Interim dividends	-	-	-	-	-	-	-	-	-	-	(6,075)	(6,075)
Capital increases and reductions (Note 17)	-	-	(121)	-	-		-		-	(121)	-	(121)
Others	-	-	-	-	(2)	-	-	-	-	(2)	(1)	(3)
Balances at 31 December 2017	**154,754**	**421,463**	**(146,845)**	**(675)**	**349,066**	**(854)**	**(1,038)**	**-**	**30,461**	**806,332**	**237,922**	**1,044,254**
Income and expense recognized in the year	**-**	**-**	**-**	**-**	**-**	**(2,255)**	**(37)**	**5,067**	**40,159**	**42,934**	**14,797**	**57,731**
Allocation of 2017 result:												
To reserves	-	-	3,160	-	27,301	-	-	-	(30,461)	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	(288)	(288)
Interim dividends	-	-	-	-	-	-	-	-	-	-	(5,082)	(5,082)
Capital increases and reductions	42,110	107,029	(7)	-	-	-	-	-	-	149,132	-	149,132
Treasury share transactions	-	-	-	(891)	-	-	-	-	-	(891)	-	(891)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-	-	(11,371)	(11,371)
Other movements	-	-	-	-	21	-	-	-	-	21	-	21
Balances as at 31 December 2018	**196,864**	**528,492**	**(143,692)**	**(1,566)**	**376,388**	**(3,109)**	**(1,075)**	**5,067**	**40,159**	**997,528**	**235,978**	**1,233,506**

The accompanying Notes 1 to 31 described in the Consolidated Financial Statements and Appendices are an integral part of the consolidated statement of profit and loss at 31 December 2018.

REALIA BUSINESS, S.A. AND SUBSIDIARIES (REALIA GROUP)
CONSOLIDATED STATEMENT OF CASH-FLOWS FOR 2018
(Thousands of Euros)

	31/12/2018	31/12/2017
Profit/loss before tax	**72,531**	**54,743**
Adjustments to profit/loss	**(27,343)**	**(12,479)**
a) Depreciation and amortization charge (Notes 8 and 9)	313	314
b) Other adjustments to profit and loss	(27,656)	(12,793)
1. Valuation adjustments due to impairment	(33,118)	(23,495)
2. Adjustments in provisions	(1,944)	(701)
3. Financial revenues	(7,329)	(558)
4. Financial expenses	17,680	14,797
5. Profit/loss from companies using the equity method	(2,547)	(4,751)
6. Others	(398)	1,915
Changes in working capital:	**(15,624)**	**22,777**
a) Inventories, trade and other receivables and other current assets (Notes 13 and 14.1)	(17,045)	21,825
b) Trade and other payables and other current liabilities (Note 20)	1,421	952
c) Other non-current assets and liabilities		
Other cash flows from operating activities:	**(4,556)**	**(4,689)**
a) Dividends received	1,481	1,472
b) Income tax recovered/paid	(6,097)	(6,131)
c) Other amounts received/paid relating to operating activities	60	(30)
CASH FLOWS FROM OPERATING ACTIVITIES	**25,008**	**60,352**
Payments due to investment:	**(3,681)**	**(3,569)**
a) Property, plant and equipment, intangible assets and property investment (Notes 8, 9 and 10)	(2,307)	(3,393)
b) Other financial assets	(1,374)	(176)
Proceeds from disposals:	**365**	**39,151**
a) Group companies, associates and business units	(115)	-
b) Property, plant and equipment, intangible assets and property investment (Notes 8, 9 and 10)	372	38,914
c) Other financial assets	108	237
Other cash flows from investment activities:	**6,213**	**27**
a) Interests received	2,679	531
b) Other proceeds/payments relating to investing activities	3,534	(504)
CASH FLOWS FROM INVESTMENT ACTIVITIES	**2,897**	**35,609**
Proceeds and payments relating to equity instruments:	**148,240**	**(121)**
a) Issue (Note 16)	149,132	(121)
b) Acquisition (Note 16)	(892)	-
Proceeds and payments relating to financial liability instruments:	**(151,148)**	**(95,865)**

a) Issue	18,045	619,562
b) Repayment and redemption	(169,193)	(715,427)
Dividends and returns on other equity instruments paid	**(6,829)**	**(6,529)**
Other cash flows from financing activities	**(15,740)**	**(9,506)**
a) Interest paid	(15,099)	(9,735)
b) Other proceeds/payments relating to financial activities	(641)	229
CASH FLOWS FROM FINANCING ACTIVITIES	**(25,477)**	**(112,021)**
EFFECT OF FOREIGN EXCHANGE RATE CHANGES AND OTHERS	**(5)**	**5**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**2,423**	**(16,055)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**85,075**	**101,130**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**87,498**	**85,075**

The accompanying Notes 1 to 31 described in the Consolidated Financial Statements and Appendices are an integral part of the consolidated statement of profit and loss at 31 December 2018.

Consolidated financial statements for the year ended 31 December 2018

1. Activities of the Realia Group

The Group companies and associated companies listed in Appendices I and II engage respectively, mainly in the development and operation of real estate business. At 2018 year-end, these activities are carried out in Spain, Portugal, Poland and Romania

The Parent was incorporated on August 14 1997 as a result of the spin-off of Proyectos y Desarrollos Urbanísticos, S.A. (PRODUSA) into Produsa Este, S.L. and Produsa Oeste, S.L. Its registered office is currently located at Avenida Camino de Santiago 40, in Madrid. On April 13 2000, the Parent became a public limited liability company and changed its name to Realia Business, S.A. on 16 June 2000. On 5 May 2000, the shareholders at the Annual General Meeting of Produsa Este, S.A. approved the contribution of equity resulting from the spin-off of FCC Inmobiliaria, S.A. and of the equity investments corresponding to Activos Inmobiliarios Caja Madrid, S.L., Centro Inmobiliario Caja Madrid, S.A., Técnicas de Mantenimiento Integral, S.L. and Planigesa, S.A.

Subsequently, in 2001 and 2005, Realia Business approved two merger by absorption projects with 100% fully owned subsidiaries, directly and directly. The disclosures legally required on these merger operations were detailed in the financial statements of the year in which they took place.

On February 5 2007, the shareholders at the Annual General Meeting of Realia Business, S.A. resolved to restructure the Group through the incorporation of a new company known as "REALIA PATRIMONIO, S.L.U." , a single-Director Company, wholly owned by Realia Business, S.A., to which the property management business of the Realia Group was contributed. The disclosures legally required on this operation were explained in detail in the financial statements of the year 2007.

The object and main business of the Parent since its incorporation have been the performance of all activities aimed at the acquisition, disposal, encumbrance, lease, development, construction, urban development, subdivision and operation, by any lawful means, of all manner of rural or urban property assets and rights.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements for 2018 of the Realia Business Group (hereinafter, "the Realia Group"), which were prepared from the accounting records kept by the Parent and by the other Realia Group companies included in its scope of consolidation (listed in Appendices I and II), were authorized for issue by the directors of the Parent at the Board Meeting held on February 25, 2019.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), taking into account all the mandatory accounting principles and rules and measurement bases, so that they present fairly the Realia Business Group's consolidated equity and financial position as of 31 December 2018 and the results of its operations, the changes in the consolidated equity and the consolidated cash flows in the year then ended.

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

In order to uniformly present the various items composing the consolidated financial statements, the accounting policies and measurement bases used by the Parent were applied to all the consolidated companies.

The Group's consolidated financial statements for 2017, drawn up in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (IFRS – EU), were approved by the shareholders at the Annual General Meeting of the Parent held on 27 June 2018. Their shareholders at their respective Annual General Meetings have not yet approved the consolidated financial statements of the Group and the financial statements of the Group entities for 2018. However, the Parent's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Measurement currency

These financial statements are presented in euros since this is the currency of the primary economic environment in which the Group operates. Foreign operations are recognized in accordance with the policies established in Note 4.v.

c) Responsibility for the information and use of estimates

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

In the Group's consolidated financial statements for 2018, senior executives of the Group and the consolidated companies occasionally made estimates, later ratified by the directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported therein. The estimates refer to the following:

- The fair value of certain unquoted assets (Note 4.d)

- The recoverability of deferred tax assets (Note 4.o)

- The amount of certain provisions (Notes 4.m)

- The fair value of some financial instruments (Notes 4.i and 4.j)

- The useful life of intangible assets, property, plant and equipment and property investment (Notes 4.a and 4.b).

The market value on the Group's property assets was calculated based on appraisals conducted by independent valuation experts at 31 December 2018 (Notes 4.c, 4.f, 10 and 13).

Although these estimates were made on the basis of the best information available at 31 December 2018 on the events analyzed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS8, recognizing the effects of the change on the related consolidated statements of profit and loss.

d) Basis of consolidation

Subsidiaries

The subsidiaries listed in Appendix I, the financial and operating policies of which are controlled by Realia Business S.A., either directly or through other companies controlled by it, were fully consolidated.

The interest of non-controlling shareholders in the equity and profit and loss of the consolidated companies is presented within equity under "Non-controlling interests" in the accompanying consolidated statement of financial position and under "Profit (Loss) for the Year – Attributable to Non-Controlling Interests" in the accompanying consolidated statement of profit and loss, respectively.

Joint ventures

In 2018 and 2017, the Group carried on jointly managed business activities through interests in joint property entities. These entities were included in the accompanying consolidated financial statements on the basis of the percentage share of the assets, liabilities, income and expenses arising from their operations, and any reciprocal receivables and payables and any income, expenses, gains and losses not realized vis-á-vis third parties were eliminated (see Appendix III).

Associates

The companies listed in Appendix II, over which Realia Business, S.A. does not exercise control but rather has a significant influence, are included under "Investment in Associates" in the accompanying consolidated statement of financial position at the underlying carrying amount of the ownership interest. The share in after-tax profit and loss for the year of these companies is recognized under "Result of Companies Accounted for Using the Equity Method" in the accompanying consolidated statement of profit and loss.

Transactions between Group companies

Gains or losses on intra-Group transactions between consolidated companies are eliminated and are deferred until they are realized vis-à-vis third parties. The capitalized expenses of the Group work on non-current assets are recognized at production cost, and any intra-Group results are eliminated. Receivables and payables between consolidated Group companies and any intra-Group income and expenses were eliminated. Receivables and payables between the companies included in the scope of consolidation, and internal revenues and expenses within that scope, have been eliminated from the consolidated financial statements.

e) First-time consolidation difference

Since 1 January 2004, the date of the Group's transition to EU-IFRS standards, on acquisition, the assets and contingent liabilities of a subsidiary have been measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If a deficiency of the acquisition cost below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is disclosed, the measurements of the net assets are reviewed and, where appropriate, the deficiency is credited to profit and loss in the period in which the acquisition is made.

f) Changes in the scope of consolidation

The changes in the scope of consolidation of the Realia Group (comprising Realia Business, S.A. and its subsidiaries) in 2018 and 2017 were as follows:

Inclusions in the scope of consolidation

There were no additions to the scope of consolidation of the Realia Group in 2018 and 2017.

Exclusions from the scope of consolidation

- 2018:

On 29 May, the company "Desarrollo Urbanístico de Sevilla Este, S.L. (in liquidation)" was excluded from the scope of consolidation, after it was declared bankrupt and an insolvency administrator was appointed; the Group's stake on the company was consolidated in the Group through the equity method, and its exclusion from the scope of consolidation did not have an impact on equity, for it was fully provisioned. At year end, the company has not been fully liquidated.

On 28 June 2018, the Extraordinary Meeting of Shareholders of the company "Retingle, S.L.", agreed to reduce the share capital in order to refund its contributions to the partner Realia Business, S.A., through the amortization of the company shares it owns. The refund was made through the partial conversion of the debt Retingle holds with Realia Business. Thus, the company Retingle, S.L. leaves the perimeter of the Realia Group. Its stake in the company was consolidated in the Group through the full consolidation method.

- 2017:

No companies have been excluded from the scope of consolidation during 2017.

g) Balance sheet date

The balance sheet date of the companies of the Realia Group is 31 December.

h) Comparative information

The information contained in the 2017 consolidated financial statements is presented solely for the purposes of comparison with the information with the year ended on 31 December 2018. The new financial standards (IFRS9 and IAS5) that came into force on January 1 2018 had no impact of the comparison of information (see Note 5).

i) Changes in accounting standards

No significant changes have taken place during 2018 regarding the standards applied in 2017.

j) Correction of errors

No errors have been detected in the preparation of the attached consolidated statements that required the restatement of the amounts indicated in the consolidated financial statements of 2017.

3. Allocation of profit and loss of the Parent

The proposed allocation of the loss in 2018 formulated by the Directors of the Parent Company and pending approval by the General Meeting of Shareholders is the following:

	2018
Legal reserve	511
Negative results from previous years	4,599
Total	**5,110**

During 2018, the Parent has not paid out interim dividends.

4. Valuation standards

The following accounting policies, standards, and valuation criteria were applied in the preparation of the consolidated financial statements of the Realia Group in 2018:

a) Intangible assets

These are identifiable non-monetary assets that result from a legal transaction or have been conducted by the consolidated entities. These assets are only recognized in the accounts when their cost can be reasonably estimated objectively and from which the consolidated entities expect to make profits in the future.

Intangible assets are initially recognized by their acquisition or production cost and subsequently, are valued at their cost minus, where appropriate, their corresponding accumulated amortization and possible impairment losses.

b) Property, plant and equipment

Property, plant and equipment are valued at their acquisition price or production cost. Some of these assets reflect the effect of the restatement made pursuant to Royal Decree Law 7/1996, of 7 of June.

The costs of extensions, upgrades or improvements that represent an increase in productivity, capacity or efficiency, or an extension of the useful life of the assets, are capitalized as a higher cost of these assets.

Maintenance and repair costs that do not represent an extension of the useful life are allocated to the consolidated profit and loss account of the year where they were made.

For the assets that need more than one year to be ready for use, capitalized costs include financial expenses accrued before they are ready for use and which have been allocated by the supplier or correspond to loans or other form of borrowing, specific or generic, directly attributable to their acquisition or production.

Depreciation is calculated applying the straight-line method on the cost of acquisition of the assets minus their residual value; the land on which the buildings and other constructions stand are considered to have an indefinite life and are therefore not subject to depreciation.

Annual provisions for the amortization of property, plant and equipment are made against the consolidated profit and loss account according to the years elapsed of the estimated useful life, on average, of their different elements, as follows:

	Depreciation coefficients
Buildings (for rent and for internal use) and other constructions	1% - 4%
Other installations, tooling and fixtures	4% - 25%
Other property, plant and equipment	5% - 25%

The assets in construction meant for production or other purposes to be determined, are recognized at their cost, minus their recognized impairment losses. The cost include professional fees. The cost includes professional fees. The depreciation of these assets, just like that of other property assets, starts when the assets are ready to be used as designed.

c) Property investments

Property investments are recognized at their fair value at year-end, and are not subject to annual depreciation. They refer to the land, buildings and other construction that are maintained to operate them for rent, or to generate a capital gain on their sale as a consequence of the increases of their respective market prices that may occur in the future.

The profit and loss resulting from the variations in the fair value of the property investments are included in the results for the period in which they occur, and recognized under “Variation in the fair value of property investments” of the consolidated profit and loss account. These results are not included in the operating result, since value variations are not directly related to their management.

The transfer of ongoing property investments to property investments takes place when the assets are ready to start operating.

According to IAS 40, the Group determines periodically the fair value of the property investments so that, at year-end, the reasonable value reflects the market conditions of the elements of the property investments on that date. Such fair value is determined annually, taking as reference values the valuations from independent experts. The key hypotheses used to determine the fair value of these assets and their sensitivity analysis are explained in Note 10.

The market value of the property investments of the Group at 31 December 2018, calculated based on valuations from independent experts not related to the Group, amounts to EUR 1,422,334 thousand (EUR 1,383,076 thousand at 31 December 2017).

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

At each balance sheet date, the Realia Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss (if any). When the asset itself 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.

When a loss due to value impairment is subsequently reversed, the carrying amount of the asset (or of the cash-generating unit) is increased by the revised estimate of its recoverable amount, but in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years.

e) Leases

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

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, which usually has the option to purchase the asset at the end of the lease term, on the conditions agreed upon in the lease.

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

When the consolidated companies act as the lessor of an asset, the aggregate present values of the lease payments receivable from the lessee plus the price of exercising the purchase option are classified as financing provided to third parties for the Group's net investment in the leases and, simultaneously, recognize a liability for the same amount (which will be the lower of the fair value of the leased asset and the aggregate present value of the amounts payable to the lessor plus, where applicable, the price of exercising the purchase option). The depreciation policy for depreciable-leased assets is consistent with that for depreciable assets that are owned.

In both cases, the finance income and charges arising under finance lease agreements are credited and charged, respectively, to the consolidated statement of profit and loss to reflect a constant periodic rate of return over the term of the agreements.

Operating leases

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

When the consolidated companies act as the lessor, they recognize the acquisition cost of the leased asset under "Property investment" and are valued at their fair value", as described in Note 4.c). Income from leases is recognized in the consolidated statement of profit and loss on a straight-line basis.

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

Asset exchange transactions

"Asset exchange" means the acquisition of property, plant and equipment or intangible assets in exchange for the delivery of other non-monetary assets or of a combination of monetary and non-monetary assets.

As a rule, the asset received in an asset exchange transaction with commercial substance is recognized as the fair value of the asset delivered plus, where appropriate, any monetary consideration paid. The valuation differences that arise on de-recognition of the asset given up in the exchange are recognized in the statement of profit and loss.

An exchange transaction has commercial substance if the configuration (risk, timing and amount) of the cash flows of the asset received differs from the configuration of the cash flows of the assets transferred or if the present value of the after-tax cash flows of the portion of the Company's operations affected by the transaction changes as a result of the exchange.

Assets received in an exchange that lacks commercial substance are recognized at the carrying amount of the asset given up plus, where appropriate, any monetary consideration paid, up to the limit of the fair value of the asset received if this is lower.

f) Inventories

"Inventories" in the consolidated statement of financial position includes assets that the consolidated companies:

1. Hold for sale in the ordinary course of business

2. Have in the process of production, construction or development for such sale; or

3. Expect to consume in the production process or in the provision of services.

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

Land and building lots are recognized at acquisition cost, plus any urban development costs, if any, and the costs incurred in connection with the purchase (Property Transfer Tax, registration expenses, etc.) and the financial expenses derived from their financing during the execution of works, or their realizable value, is this is lower. At the start of the development works, the accumulated cost of the land is transferred to "Developments in Progress", and development starts.

"Ongoing works" include the costs incurred in homebuilding developments, or part of them, whose construction has not been completed at the end of the year. These costs include the cost of the lot, urban development and construction, financial costs, and other direct and indirect costs that can be charged to them.

The Group companies transfer the accumulated costs of developments that are expected to be completed within twelve months from "Long-Cycle Developments in Progress" to "Short-Cycle Developments in Progress". In addition, the accumulated costs of finished developments (or finished parts of developments) are transferred from "Short-Cycle Developments in Progress" to "Completed Developments".

The cost of land and lots and developments in progress are adjusted to their net realizable value and creating, where appropriate, the corresponding provision for depreciation. In addition, property developments are registered at cost, subtracting where appropriate the necessary provision to reduce them to their estimated realizable value.

The carrying amount of the Group's inventories was adjusted by recognizing the corresponding impairment loss, in order to bring it in line with the market value determined by an independent valuation expert in an appraisal conducted on 31 December 2018, when the fair value was lower than the carrying amount.

Thus, the valuations by independent experts have been conducted pursuant to Order ECO 805/2003 of March 27, amended by order EHA 3011/2007 of October 4, and by Order EHA 564/2008 of February 28, that establishes the valuation rules of fixed assets and certain rights for certain financial purposes (which allows for appraisals through different methods, according to the urban development and they type of asset). However, since the purpose of these valuations is the calculation of the fair value to include it, where appropriate, in the financial statements of the Company and this is not a purpose included in the scope of application of that regulation (article 2), the independent expert has not taken into account the "prudential principle" established in that regulation for the purposes therein defined, according to which, in case there are equally likely scenarios or choices, the one that is chosen will be the one resulting in the lowest valuation value. According to the criterion established in that regulation, "*prudence does not justify that the valuation of property assets does not match the fair image that the annual financial statements must reflect".* (See Note 13).

g) Trade receivables

Trade receivables do not earn interest and are recognized at their nominal value net, where appropriate, of the allowances for estimated unrecoverable amounts.

h) Customer advances

Customer advances received before recognition of the sale on delivery of the property are recognized under "Trade and other payables – Customer advances" on the liability side of the consolidated statement of financial position at year-end.

i) Financial assets

Financial assets are recognized initially at their fair value, and are valued subsequently 1) at their depreciated value, 2) at their fair value with changes on equity, or 3) at their fair value with changes in the result, depending on:

a) the business model of the company to manage financial assets and

b) the characteristics of the contractual cash-flows of the financial asset

An asset must be valued by the amortized cost provided two conditions are met;

a) The financial asset is held within a business model whose purpose is to maintain financial assets to generate the contractual cash-flows
b) The contractual conditions of the financial asset generate, on specific dates, cash-flows that are only payments of principal and interest on the amount of the outstanding principal.

Finally, a financial asset will be measured at fair value with changes in results when the conditions for the application of the amortized cost or at fair value with changes in equity are not met.

Financial assets at depreciated cost (debt instruments)

Financial assets at amortized cost (debt instruments) is the most relevant category for the Group is and include trade payables, loans to associated companies and securities.

In this category, the Group measures financial assets at amortized cost, when the two following conditions are met:

- The financial asset is held within a business model whose purpose is to hold these financial assets to collect contractual cash-flows

- The contractual terms of the financial asset generate cash flows on specific dates which are only payments of the principal and interest on the amount of the outstanding principal.

Subsequently, financial assets at depreciated cost are measured using the effective interest method, and are subject to impairment. Profit or loss are recognized under results when the asset is unrecognized, modified or impaired.

Cancellation

A financial assets (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized initially (for example, it is cancelled in the Group's consolidated financial statements) when:

- The rights to receive cash-flows from the asset have expired, or

- The Group has transferred the rights to receive cash-flows from the asset or has assumed the responsibility to pay for all the cash-flows received without delay to a third party under a transfer agreement; and the Group (a) has substantially transferred all risks and benefits of the assets, or (b) has not transferred or substantially retained all the risks and benefits of the asset, but has transferred control over the asset.

When the Group has transferred the rights to receive cash-flows from an asset or has assumed the responsibility to transfer them, it assesses whether it has retained the risks and benefit of the asset and to what extent. When it has not transferred substantially all the risks and benefits of the asset and it has not transferred its control, the Group continues to recognize the transferred asset on the basis of its continued involvement in it. In this case, the Group also recognizes the associated liability. The transferred asset and its corresponding liability are valued according to a criterion that reflects the rights and obligations retained by the Group.

When the continued involvement is the result of a warranty over the transferred assets, it is valued at the lower value between the original carrying amount of the asset and the highest amount of the consideration that the Group would have to pay for the warranty.

Impairment of financial assets

The Group applies the simplified expected loss method for financial assets (trade payables, contractual assets and accounts receivable from leases). Therefore, the group does not follow up changes in the credit risk, but rather recognizes a provision for losses based on the expected credit losses for life at each reporting date. The Group calculates the expected loss considering the risk or likelihood of a credit loss, considering the possibility that such loss occurs, and the possibility of not occurring.

j) Financial liabilities and equity

Financial liabilities and equity instruments are classified in accordance with the content of contractual arrangements. Am equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

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

Conversion differences

In general, the financial statements of foreign operations denominated in currencies other than the euro were translated to euros at the year-end exchange rates, except:

- Capital and reserves, which were translated at the historical exchange rates for the year.

- Profit and losses of the foreign companies, both subsidiaries and associates, which have been translated at the average interest rate for the period.

- All other assets and liability items were translated at the year-end exchange rates.

The conversion differences of the foreign companies included in the scope of consolidation, which applied the closing rate method, are recognized net of tax, under "Equity – Valuation adjustments" in the attached consolidated statement of financial position. These conversion differences are not material.

Equity instruments

Equity instruments issued by the Group are recognized in equity at the proceeds received, less direct issue costs.

Bank borrowings

Interest-bearing bank loans and overdrafts are recognized at the proceeds received, net of direct issue costs. Borrowing costs, including premiums payable on settlement or redemption and direct issue costs, are recognized in the consolidated statement of profit and loss on an actual 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 recognized at their nominal value.

k) Derivative and hedging financial instruments

The Group uses derivative financial instruments such as interest rate swap contracts to hedge against interest rate risks. These derivative financial instruments are initially recognized by their fair value at the contract date of the derivative product and subsequently valued at their fair value. Derivative instruments are recognized as assets when the fair value is positive and as liabilities when their fair value is negative.

Any gain or loss resulting from changes in the fair value of derivatives that do meet the requirements to recognize them as hedges are directly allocated to net profits/losses for the year.

In order to recognize the hedges, these are classified as:

- Fair value hedges, when they cover exchange rate exposure to changes in the fair value of a recognized asset or liability;

- Cash flow hedges, when they cover the exposure to cash flow variations attributable to an specific risk related to an asset or liability, or a scheduled transaction;

- Hedges of a net investment in a business abroad.

At the start of the hedging operation, the Group appoints and documents the hedging ratio to which it wishes to apply the recognition of hedges, the risk management goal, and the strategy to perform the hedge. The documentation includes the identification of the hedging instrument, the item or transaction covered by the hedge, the nature of the risk covered, and how will the entity assess the efficacy of the hedging instrument to compensate the exposure to changes in the fair value of the item covered or the cash flows attributable to the risk covered. It is expected that these hedges will be highly effective to compensate changes in fair value or cash flows, and are continuously evaluated to determine whether they have been highly effective throughout the financial years for which they were designed.

The hedges that meet the strict criteria for the recognition of hedges are recognized as follows:

Fair value hedges

Fair value hedges are Group's hedges against changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment, or a certain part of that asset, liability or firm commitment that can be attributed to a particular risk and may affect the profit and loss. For fair value hedges, the carrying amount of the item covered is adjusted by the gains and losses attributable to the risk covered, the derivative is valued again at its fair value, and the profits and losses of both are recognized in the income statement.

When an unrecognized firm commitment is designated as an item covered, subsequent changes in the fair value of the standing obligation attributable to the risk covered are recognized as an asset or liability, and the corresponding economic profit and loss is recognized in the separate consolidated income statement. Changes in the fair value of hedging instruments are also recognized as profit and loss.

The Group ceases to recognize fair value hedges when the hedging instrument matures, or when it is sold, terminated or is exercised, or ceases to meet the criteria for the recognition of the coverage, or the Group revokes its designation.

Cash flow hedges

Cash flow hedges are hedges to the exposure to cash flow variations that is attributable to an specific risk related to a recognized asset or liability, or to a scheduled transaction very likely to occur, and may affect profits and losses. The effective part of the profit and loss of the hedging instrument is directly recognized as equity, whereas the ineffective part is recognized in the separate consolidated income statement.

The amounts recognized as equity are transferred to the separate consolidated income statement when the transaction covered affects profits and losses, such as when a hedged financial revenue or cost is recognized, or when a scheduled sale or purchase takes place. When the item covered by the hedge is the cost of a non-financial asset or liability, the amounts recognized as equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the transaction covered by the hedge is not expected to take place, the amounts previously recognized as net equity are transferred to the separate consolidated income statement. If a hedging instrument matures or is sold, terminated or exercised with no replacement or renegotiation, or if its designation as a hedge is revoked, the amounts previously recognized as net equity will stay there until the scheduled transaction takes place. If the scheduled transaction is not expected to take place, the amount is transferred to the separate consolidated income statement.

l) Shares of the Parent

All the shares of the Parent are deducted from equity. At 31 December 2018, the Parent held 1,462,902 treasury shares, the acquisition cost of which amounted to EUR 1,566 thousand (1.07 €/share). At 31 December 2017, the Parent held 610,000 treasury shares, at an acquisition cost of EUR 675 thousand (1.11 €/share). During 2018, the Parent acquired 852,902 treasury shares, and no treasury shares were traded during 2017 (see Note 16).

m) 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 recognized in the consolidated financial statements, but rather are disclosed, as required by IAS 37.

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

Provisions for warranty costs, particularly after-sales expenses, other costs and the ten-year warranty required under Spanish regulations governing real estate companies, are recognized at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's liability.

n) Termination benefits

Under current legislation, companies are required to pay termination benefits to employees terminated without just cause, under certain conditions, Therefore, termination benefits that can be reasonably quantified are recognized as an expense in the year in which the decision to terminate the employment relationship is taken.

ñ) Pension plans and similar obligations

The Company has a commitment with employees with at least two years' service, and has externalized a defined contribution pension plan to provide benefits in the form of a lump sum. The Plan is affiliated to Bankia Pensiones IX; Fondo de Pensiones, whose Custodians and Depositaries are Bankia Pensiones S.A.U., E.G.F.P. and Bankia, S.A., respectively. In June 2017, it was agreed to transfer the Pension Plan to Pensions Caixa 97, F.P., whose Custodian and Depositary Institutions are Vida Caixa, S.A.U. de Seguros y Reaseguros and Cecabank, respectively, and the transfer was carried out by Bankia Pensiones on 20 December 2017. The annual contribution consists of 7% of the employees' annual fixed remuneration plus 3% of their annual variable remuneration, excluding incentives and commissions (see Note 23.d). These pension commitments are covered by an insurance policy for contributions above the limits established by Law 35/2006. There are no other additional pension plans or commitments.

o) Income Tax

The income tax expense is recognized in the consolidated statement of profit and loss, except when it results from a transaction recognized directly in equity, in which case the income tax is also recognized in equity.

The income tax expense represents the sum of the current tax expense and the deferred tax assets and liabilities.

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

Deferred tax assets and liabilities are taxes expected to be recovered or payable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit. Deferred tax assets and liabilities are accounted for using the balance sheet liability method and are measures by applying to the related temporary difference or tax asset the tax rate that is expected to apply in the period when the asset is realized or the liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences. A deferred tax liability is recognized for taxable 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 timing of the reversal of the temporary differences and it is probable that they will not reverse in the near future.

Notwithstanding the above:

1. Deferred tax assets are only recognized to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax assets can be used.

2. No deferred tax liabilities are recognized for goodwill arising from an acquisition.

The deferred tax assets and liabilities are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made based on the findings of the analyses performed.

In addition, at consolidated level, any differences between the consolidated carrying amount of an investment in an investee and the related tax base are also taken into account. In general, such differences arise from the undistributed profits generated since the date of acquisition of the investee, from tax credits associated with the investment and, in the case of investees with a functional currency other than the euro, from conversion differences. The deferred tax assets and deferred tax liabilities arising from these differences are recognized, unless, in the case of taxable temporary differences, the investor is able to control the timing of the reversal of the temporary difference and, in the case of deductible temporary differences, it is probable that the temporary difference will reverse in the near future and it is probable that the Group will have sufficient future taxable profits.

Tax system in Spain

The Group has filed consolidated returns since 2007. The tax group is made up of the Parent and all the subsidiaries, both public and private limited liability companies, that are resident in Spain and in which the Parent, directly or indirectly, has an ownership interest of at least 75% (see Appendix I). The tax group number is 135/07.

p) Cash and other cash equivalents

Cash and other cash equivalents include cash on hand, in banks and short-term deposits with a maturity or availability date of three months or less and which are not subject to significant interest rate variations.

q) Revenue and expense recognition

Revenue and expenses are recognized on an accrual basis. Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for the goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Group companies recognize property development sales and the related cost when the properties are handed over and title thereto have been transferred.

Revenue from the sale of land and building lots is recognized when the risks and rewards are transferred to the purchaser, which normally coincides with the date of execution of the related public deeds and the transfer of ownership.

Rent revenue is recognized on an accrued basis and incentive-related income and the initial costs of lease agreements are allocated to income on a straight-line basis.

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

Dividend income from investments is recognized when the shareholder's rights to receive payment have been established.

r) Borrowing costs

Borrowing costs directly attributable to the construction of the Group's property investment and inventories, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale. In 2018, EUR 17 thousand were capitalized, whereas in 2017 no borrowing costs were capitalized in this connection.

All other borrowing costs are recognized in the consolidated statement of profit and loss in the year in which they are incurred, on an accrual basis and by application of the effective cost method.

s) Profit (loss) from operations

The profit and loss from operations is recognized before the share of results of associates, investment income and finance costs.

t) Consolidated cash-flow statement

The following terms are used in the consolidated cash flow statements (prepared using the indirect method) with the meaning specified:

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

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

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

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

u) Non-current assets held for sale

The Parent classifies a non-current asset as held for sale when the decision to sell the asset has been made, and it is expected to take place within the next twelve months. These assets are valued at the lowest of its carrying amount or fair value, after the costs of sale are deducted.

Assets classified as non-current held for sale are not depreciated, but the corresponding valuation corrections are made at the balance sheet date, so that the carrying amount does not exceed its fair value minus the cost of sale.

Revenues and expense generated by non-current, held for sale assets that do not meet the requirements to be considered as discontinued operations, are recognized in their corresponding items in the profit and loss account.

v) Foreign currency transactions and balances

The Group's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed "foreign currency transactions" and are recognized by applying the exchange rates prevailing at the date of the transaction.

At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are converted to euros at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are converted to euros at the exchange rates prevailing at the date when the fair value was determined. Any conversion gains or losses on monetary assets and liabilities are included in net profit and loss for the year; however, in the case of exchange differences arising on non-monetary assets and liabilities, changes in the fair value are recognized directly in equity.

The equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2018, which were not material, related in full to the Group companies Realia Polska Inwesctycje, Z.O.O. and Realia Contesti, S.R.L.

w) Current assets and liabilities

The Group has opted to present current assets and liabilities based on the ordinary course of its business. The current assets and liabilities with an estimated maturity of more than twelve months are as follows:

	Thousands of Euros	
	2018	2017
Inventories (Note 13)	279,203	246,370
Total current assets	**279,203**	**246,370**
Trade and other payables	3,620	2,576
Total current liabilities	**3,620**	**2,576**

x) Costs passed on to tenants

The Group treats as income the costs passed on to the lessees of its property investment. The amounts billed in this connection, which in 2018 and 2017 totaled EUR 17,038 thousand and EUR 16,197 thousand respectively, are recognized under “Other operating income” in the attached consolidated statement of profit and loss (see Note 23.b).

y) Sales of property investment

The Group recognizes the net income obtained from the sale of property investment under “Gains or Losses on Sales of Property investment” in the attached consolidated statement of profit and loss. In 2018, it amounted to a loss of EUR 3,411, as a result of the sale of the Los Cubos building.

5. Accounting standards and interpretations

a) Standards and interpretations approved by the European Union and applied for the first time this year

Accounting standards used in the preparation of these consolidated financial statements are the same applied in the consolidated financial statements of the year ended on 31 December 2017, since none of the changes to the standards that are applicable for the first time this year has had an impact of the Group’s accounting policies.

The standards applied for the first time this year:

- **IFRS 9 – Financial instruments**

IFRS 9 *Financial instruments* replaces IAS 39 *Financial instruments: valuation and classification.* This standard compiles the three phases of the financial instruments project: classification and valuation, impairment and hedge accounting. The application of the new standard had no significant impact, as detailed below:

Classification/ valuation of financial instruments

The main financial assets held by the Realia Group are financial assets acquired with the purpose of holding them to maturity and valued at their amortized cost, are paid at market interest rate in consideration of the credit and term risk, and do not include any special clause referencing them to any other variable that is not the interest itself.

The Group does not hold financial liabilities that were restructured in the past that did not entail a substantial change in the conditions of the existing financial liabilities, and they will be recognized as a cancellation of the original liabilities and subsequent recognition of a new financial liability.

Impairment of financial assets

Financial assets held by the Group are mainly “Trade and other receivables” resulting from its lease and development activities, and most of them mature in the short term. Realia applies the simplified method in the calculation of the provision for these assets, calculating the expected loss considering the risk or likelihood of a credit loss, based on the possibility of it occurring and the possibility of it not occurring, and continues with the Group’s credit policy risk management that resulted in a negligible default volume in the last years. The application of the model does not have a significant impact on the consolidated financial statements.

Impact of the valuation of hedges

One of the relevant changes after the standard came into force in January 2018 is that the analysis of efficacy that was performed previously (through the application of IAS39) is modified.

The 80-125% quantitative test is now replaced by a qualitative test that examines the fundamental conditions or critical terms (nominal amount, maturity and underlying amount) of the hedging instrument and the hedged item, which tries to match them or align them closely. In case the qualitative test is positive, the instrument is considered to be a hedge, and therefore, efficient. For this reason, the quantitative test stays in the background and becomes the basis on which the accounting of instruments is made, but not the decisive measure of efficacy. Accordingly, since January 2018 a qualitative evaluation (which decides whether the instrument is efficient or not) and a quantitative evaluation (which determines the accountability of the instrument) are performed.

The instrument is considered to be a hedging instrument (and therefore, efficient) when it meets the following qualitative requirements:

- The hedging relationship is composed only by hedging instruments and the eligible hedged items.
- At the beginning of the hedging relationship, the hedging ratio and the goal and strategy of the entity’s risk management strategy are described and formally documented.
- The hedging relationship meets the following requirements;

- There is an economic relationship between the hedged item and the hedging instrument

- The effect of credit risk does not prevail over the changes in value originating from the economic relationship.

- There is no excessive hedging

The Realia Group performs a retrospective quantitative efficacy test purely for accounting purposes, and a prospective quantitative efficacy test with the purpose of analyzing future potential deviations in the hedging ratio.

This test is conducted through a test that compares, prospectively and retrospectively, that the changes in fair value of the IRS cash-flows make up for the changes in the fair value of the hedged risk, as it was the case in the prior regulation, although this is not a determination on whether the hedging is effective or not.

According to the proposed qualitative efficacy test, the hedge is considered fully efficacious when all these criteria are met.

In case the hedge is considered as highly effective, the Realia Group recognizes as equity the lowest, in absolute terms, between the change in value of the hypothetical derivative (hedged position) and the change in value of the derivative contracted. The difference between the value of the variation recognized as equity and the fair value of the derivative is considered as the ineffective part, and is directly recognized in profit and loss.

The accounting of the financial instrument described does not undergo any change after IFRS9 came into force because:

- The instrument is still efficient, despite the change in the efficacy evaluation methodology. The critical terms of the instrument and the hedged item are perfectly in line. As a result, the qualitative evaluation of efficacy is positive, and the instrument can adhere to hedge accounting.

- Accounting of the efficacy/inefficacy remains unchanged, for its accounting treatment is not affected by IFRS9. Both accounting standards establish that the Company must recognize as equity the lowest, in absolute terms, of the variation of the hypothetical value change (hedged position) and the variation in value of the derivative contracted. The difference between the value of the variation recognized as equity and the fair value of the derivative at the date of the efficacy test is considered as an ineffective part and is recognized directly as profit or loss.

Therefore, the coming into force of IFRS9 has no impact on the financial statements of the Group for the purposes of hedge accounting.

- **IFRS 15 – Ordinary revenues from contracts with clients**

Regarding IFRS 15, Ordinary revenues from contracts with clients, it replaces IAS 11 Construction contracts, IAS 18 Revenues and related interpretations, and is applied to all revenues from contracts with clients, with some limited exceptions. IFRS 15 establishes a five-stage mode that is applied to the accounting of revenues from contracts with clients, and requires that the income is recognized for an amount that reflects the consideration that the entity expects to be entitled to in exchange for the transfer of good or services to a client. IFRS 15 requires that entities use their judgement, taking into account all relevant facts and circumstances, when applying each stage of the model to their contracts with clients. The standard also specifies the accounting of incremental costs to obtain a contract and the costs directly related to compliance with a contract. Additionally, the standard requires additional break-downs. According to its scope, the standard will be applied to all contracts with clients with the exception of lease contracts, which are regulated by IFRS 16 Leases.

Ordinary revenues of the Realia Group are mainly those obtained from:

a) the operation of property leases; as explained, this activity would be excluded from the application of IFRS 15.

b) the sale of property developments, where no revenues are recognized until the product sold is handed over to clients through a public deed of sale. This criterion is in line with IFRS 15, since the revenue is recognized when the “control” over the asset subject to the transaction is transferred to the client (“control” is interpreted as the capacity to use the asset and obtain the corresponding benefit). Control by the client is based on the legal property of the asset and its physical transfer.

Therefore, in both cases IFRS 15 did not have any impact on the Group’s financial statements.

b) Standards and interpretations issued by the IASB, but not applicable this year

The Group intends to adopt the standards, interpretations and changes to the standards issued by the IASB, which are not mandatory in the European Union at the date of preparation of these consolidated financial statements, when they come into force, if they are applicable to the Group. Though the Group is still analyzing their impact, based on the analyses made so far, the Group believes that their initial application will not have a significant impact on their annual consolidated financial statements.

IFRS 16 – Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives, and SIC-27 Evaluating the substance of transactions involving the legal form of a lease. IFRS 16 establishes the principles for the recognition, valuation, presentation and information to be disclosed on leases, and requires that lessees account all leases under a single balance sheet model similar to the current accounting of financial leases according to IAS 17. The standard includes two exemptions to the recognition of leases by tenants: the leases of assets of low value (e.g. personal computers) and short-term leases (i.e. lease contracts for a leasing term of 12 months or less). At the inception date of a lease, the lessee will recognize a liability for the payments to be made for the lease (i.e. a liability for the lease) and an asset that represents the right to use the underlying asset during the term of the lease (i.e. the asset for the right of use). Lessees must recognize separately the cost of interest corresponding to the liability for the lease and the amortization cost of the right of use.

Lessees are also obligated to reevaluate the liability for the lease in case of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in the rate or index use to determine those payments). Generally, the lessee will recognize the amount of the reevaluation of the liability for the lease as an adjustment of the asset for the right of use.

According to IFRS 16, the accounting of the lessee will not be very different to the current accounting under IAS 17. Lessees will continue to classify leases under the same classification principles as IAS 17 and will recognize two types of leases: operational and financial leases.

IFRS 16, effective for annual periods starting on or after 1 January 2019, requires lessees and lessors to include more extensive information to be disclosed than that stipulated in IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 prospectively, without changing the comparative figures of the previous reported year. The Group will apply the standard to contracts identified as leases according to IAS 17 and IFRIC 4. Therefore, the Group will not apply this standard to contracts not previously identified as leases according to IAS 17 and IFRIC 4.

The Group will apply the exemptions proposed by the standard to lease contracts ending within 12 months of the date of initial application, and to lease contracts with an underlying asset of low value. The Group holds leases of some office equipment that are considered to be of low value.

In 2018, the Group conducted a preliminary evaluation of the impact of IFRS 16. In summary, it is estimated that the adoption of IFRS 16 will involve the recognition at 1 January 2019 of assets for the right of use and liabilities for lease for an approximate amount of EUR 190 thousand.

The operating result of the Group will improve as a result of the adoption of IFRS 16, whereas financial expenses will increase, although with negligible impact. This is due to the change in accounting for the lease expenses classified as operating leases under IAS 17.

The rest of standards and interpretations issued by the IASB, but which are still not applicable to this period and not applicable to the Group are the following:

Standard, interpretation or modification	Date of adoption by the EU	Date of enforcement in the EU	Date of enforcement of the IASB
IFRS 17 – Insurance contracts	Pending	Pending	1 January 2021
IFRIC 23 – Uncertainty over income tax treatments	October 2018	1 January 2019	1 January 2019
Annual improvements to IFRS – Cycle 2015-2017	Pending	Pending	1 January 2019
Changes to IAS 1 and IAS 8 – Definition of material	Pending	Pending	1 January 2020
Changes to IAS 19 – Plan amendment, curtailment of settlement	Pending	Pending	1 January 2019
Changes to IAS 28 – Investments in associates and joint ventures	February 2019	Pending	1 January 2019
Changes to IFRS 3 – Business combinations	Pending	Pending	1 January 2020

Changes to IFRS 9 – Characteristics of early cancellation with negative compensation	March 2018	1 January 2019	1 January 2019
Changes to the Conceptual Framework of IFRS	Pending	Pending	1 January 2020

6. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit and loss attributable to the Group (after tax and non-controlling interests) by the weighted average number of ordinary shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

	2018	2017
Net loss for the year attributable to the Parent (thousands of euros)	40,159	30,461
Weighted average number of shares outstanding	649,114,512	644,197,956
Basic earnings per share (euros)	0.062	0.047

As of 31 December 2018 and 2017, the diluted earnings per share were the same as the basic earnings per share, since there were no debentures or shares that could potentially be converted into ordinary shares.

7. Segment reporting

a) Basis of segmentation

Segment reporting is structured on a primary basis by business segment and on a secondary basis, by geographical segment.

Primary business segments

The business lines described below were established based on the Realia Business Group's organizational structure at the end of 2018 and 2017, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

In 2018 and 2017, the Realia Group engaged mainly in the following major lines of business, which provides the bases on which the Group present the information on its primary segments:

1. Sale of property developments and land

2. Property rentals

Secondary segments – geographical segments

In addition, the Realia Business Group's operations are located mainly in Spain, although it also carries on business activities in other countries (Poland, Romania and Portugal).

b) Basis and methodology for segment reporting

The segment reporting below is based on monthly reports prepared by the Company Managers, which are generated through a computer application used to obtain all of the Group's accounting data.

Segment revenue is the revenue directly attributable to the segment plus the relevant proportion of the Group's general income that can be allocated thereto using reasonable allocation bases. Segment revenue excludes interest income and dividends but includes the proceeds from the sale of fixed assets. It also includes the relevant proportion of the revenue of proportionately consolidated joint ventures.

Segment expenses are determined by the expenses from the operating activities of each segment that are directly attributable to it, plus the corresponding proportion of expenses that can be distributed to the segment using a fair distribution basis. The expenses of the segment must include the corresponding proportion of the expenses of proportionally consolidated joint ventures.

The result of the segment is determined after the adjustments corresponding to non-controlling interests.

The assets and liabilities of each segment are those directly related to their operation, and those that can be directly attributed to it, according to the aforementioned distribution criteria, and include the proportional part corresponding to joint ventures.

Primary segment information

	Thousands of euros							
	Property developments and land		Property rentals		Consolidation adjustments		Total Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenue:								
External sales (1)	15,843	23,791	78,041	76,917	-	-	93,884	100,708
Inter-segment sales	1,886	1,866	208	409	(2,094)	(2,275)	-	-
Total revenue	**17,729**	**25,657**	**78,249**	**77,326**	**(2,094)**	**(2,275)**	**93,884**	**100,708**
Result:								
Profit (loss) from operations	61	(2,506)	50,787	48,128	-	-	50,848	45,622
Variation in property investments	(2,345)	82	31,275	20,477			28,930	20,559
Financial profit (loss)	(1,282)	(1,649)	(8,505)	(14,540)	-	-	(9,787)	(16,189)
Share of result of associates	12	6	2,535	4,745	-	-	2,547	4,751
Net impairment	(7)	-	-	-	-	-	(7)	-
Profit (loss) before tax	(3,561)	(4,067)	76,092	58,810	-	-	72,531	54,743
Income tax	787	2,662	(18,362)	(14,065)	-	-	(15,575)	(11,403)
Non-controlling interests	(78)	15	14,875	12,864	-	-	14,797	12,879
Segment result	(2,696)	(1,420)	42,855	31,881	-	-	40,159	30,461

(1) The revenue of the "Property rentals" segment includes the sales of property investment not subject to the application of IAS 40 at fair value (see Note 4.y) and the billings of costs passed on to tenants (see Note 4.x) and others, since the Group uses this presentation for internal management purposes. Note 23.a contains a breakdown of revenue by geographical area. Inter-segment transactions are performed on an arm's length basis.

	Thousands of Euros							
	Sale of Property Development and Land		Property Rentals		Consolidation Adjustments		Total Group	
	2018	2017	2018	2017	2018	2017	2018	2017
Other information: Additions to fixed assets	52	35	14,310	3,379	-	-	14,362	3,414
Depreciation and amortization charge:	(88)	(95)	(225)	(219)	-	-	(313)	(314)
Net impairment recognized In profit and loss								
Inventories and other assets	3,956	(3,493)	(55)	(2)	-	-	3,901	(3,495)
Balance sheet: Assets Segment assets Equity investments in associate companies	 504,941 12,069	 510,488 12,056	 1,531,975 37,497	 1,479,106 36,442	 (22,289) -	 (23,942) -	 2,014,627 49,566	 1,965,652 48,498
Total consolidated assets	**517,010**	**522,544**	**1,569,472**	**1,515,548**	**(22,289)**	**(23,942)**	**2,064,193**	**2,014,150**
Liabilities Segment liabilities	 517,010	 522,544	 1,569,472	 1,515,548	 (22,289)	 (23,942)	 2,064,193	 2,014,150
Total consolidated liabilities	**517,010**	**522,544**	**1,569,472**	**1,515,548**	**(22,289)**	**(23,942)**	**2,064,193**	**2,014,150**

Secondary segment information

The detail of certain of the Group's consolidated balances based on the geographical location of the companies that gave rise to them is as follows:

	Thousands of Euros							
	Revenues		Non-current assets		Total Assets		Additions to Property Investments, Property Plant and Equipment and Intangible Assets	
	2018	2017	2018	2017	2018	2017	2018	2017
Spain	91,179	100,519	1,608,452	1,581,514	2,060,100	2,008,570	14,362	3,414
Portugal	1,980	-	-	-	432	2,303	-	-
Other	185	189	-	-	3,661	3,277	-	-
	93,884	**100,708**	**1,608,452**	**1,581,514**	**2,064,193**	**2,014,150**	**14,362**	**3,414**

8. Intangible assets

The changes in the various intangible asset items in 2018 and 2017 were as follows:

	Thousands of Euros
	Other Intangible Assets
Cost:	
Balances as at 31 December 2016	**818**
Additions	25
Disposals	-
Balances as at 31 December 2017	**843**
Additions	36
Disposals	(1)
Balances as at 31 December 2018	**878**
Accumulated depreciation:	
Balances as at 31 December 2016	**(770)**
Provisions	(28)
Disposals	-
Balances as at 31 December 2017	**(798)**
Provisions	(26)
Disposals	1
Balances as at 31 December 2018	**(823)**
Net intangible assets:	
Balances as at 31 December 2017	45
Balances as at 31 December 2018	55

The balances as at 31 December 2018 and 2017 relate mainly to computer software.

During 2018 and 2017, the Group recognized an amortization charge for intangible assets of EUR 26 thousand and EUR 28 thousand respectively, under "Depreciation and amortization charge" in the attached consolidated income statement.

Fully amortized intangible assets still in use as of 31 December 2018 and 2017 amounted to EUR 626 thousand and 620 thousand, respectively.

9. Property, plant and equipment

The changes in "Property, Plant and Equipment" in the consolidated statement of financial position in 2018 and 2017 were as follows:

	Thousand Euros		
	Buildings, Plant and Equipment for Own Use	Other items of Property, Plant and Equipment	Total
Cost:			
Balances as at 31 December 2016	**4,837**	**5,344**	**10,181**
Additions	4	18	22
Disposals	-	(148)	(148)
Transfers and other (Note 10)	-	2	2
Balances as at 31 December 2017	**4,841**	**5,216**	**10,057**
Additions	334	59	393
Disposals	-	(649)	(649)
Transfers and others (Note 10)	(2,783)	-	(2,783)
Changes in conversion differences	-	(1)	(1)
Balances as at 31 December 2018	**2,392**	**4,625**	**7,017**

Accumulated depreciation: **Balances as at 31 December 2016**	**(1,395)**	**(3,713)**	**(5,108)**
Provisions	(61)	(230)	(291)
Disposals	-	144	144
Transfers and others	-	(2)	(2)
Balances as at 31 December 2017	**(1,456)**	**(3,801)**	**(5,257)**
Provisions	(71)	(216)	(287)
Disposals	-	640	640
Transfers and others (Note 10)	985	-	985
Changes in conversion differences	-	1	1
Balances as at 31 December 2018	**(542)**	**(3,376)**	**(3,918)**
Impairment losses: **Balances at 31 December 2016**	**(45)**	**-**	**(45)**
Balances as at 31 December 2016	**(45)**	**-**	**(45)**
Provisions	(7)	-	(7)
Balances as at 31 December 2018	**(52)**	**-**	**(52)**
Property, plant and equipment, net: **Balances as at 31 December 2017**	**3,340**	**1,415**	**4,755**
Balances as at 31 December 2018	**1,798**	**1,249**	**3,047**

"Buildings, Plant and Equipment" includes mainly the offices used by the Group in Spain, owned by Realia Business at 31 December 2018, the own-use of the companies Realia Business and Hermanos Revilla, with a carrying amount of EUR 1,210 and at 31 December 2017, recognized for a carrying amount of EUR 3,054 thousand. Since 1 July 2018, the Parent and Realia Patrimonio S.L., ceased to use the offices located at Torre Puerta de Europa (Madrid) as "own-use" property, since it moved its corporate offices to Avenida Camino de Santiago, 40. Accordingly, a change in the active use has taken place since that date, and it is now considered as a property investment. Since property investments are recognized at their fair value for an amount of EUR 9,184 thousand, a revaluation has taken place for an amount of EUR 6,723 thousand (Note 10) that has been recognized in the statement of the consolidated global profit or loss.

At 31 December 2018, the cost of the building lots included under "Buildings, Plant and Equipment for Own-Use" amounted to EUR 248 thousand (EUR 865 thousand at 31 December 2017).

The fair value of the Group's assets or "Net Asset Value", included under "Buildings, Plant and Equipment" at 31 December 2018, calculated on the basis of appraisals conducted by independent experts not related to the Group, as described in Note 4.c, amounted to EUR 6,270 thousand (EUR 15,276 thousand at 31 December 2017).

In 2018 and 2017, the Group recognized a depreciation charge for property, plant and equipment of EUR 287 thousand and EUR 291 thousand, respectively, recognized under "Depreciation and Amortization charge" in the attached consolidated statement of profit and loss.

Fully depreciated items of property, plant and equipment amounted to EUR 2,091 thousand at 31 December 2018, and EUR 2,594 thousand at 31 December 2017.

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2018, the property, plant and equipment were fully insured against this risk.

10. Property investment

The changes in “Property investment” in the consolidated statement of financial position in 2018 and 2017 were as follows:

	Thousands of Euros		
	Rental buildings	**Under construction and advances**	**Total**
Balance as at 31 December 2016	**1,353,354**	**2,386**	**1,355,740**
Additions	803	2,563	3,366
Transfers	3,119	(3,119)	-
Changes in fair value	23,970	-	23,970
Balances as at 31 December 2017	**1,381,246**	**1,830**	**1,383,076**
Additions	1,118	734	1,852
Disposals	-	(45)	(45)
Transfers of assets for own use (Note 9)	1,798	-	1,798
Transfers	782	(782)	-
Changes in fair value(*)	35,653	-	35,653
Balance as at 31 December 2018	**1,420,597**	**1,737**	**1,422,334**
Property investments:			
Balances as at 31 December 2017	1,381,246	1,830	1,383,076
Balances as at 31 December 2018	1,420,597	1,737	1,422,334

(*) From the total Changes in Fair Value, EUR 6,273 thousand correspond to change in value resulting from the transfer of property, plant and equipment “for own-use” to property investments which had a net carrying amount of EUR 1,798 thousand (Note 9).

Property investment is recognized at fair value. The amount recognized in the profit and loss account for the fair value valuation of property investments at year-end 2018 amount to a revenue of EUR 35,653 thousand (EUR 23,970 thousand in 2017), EUR 28,930 thousand of which were recognized under “Variation in value of property investments” in the attached consolidated financial statement (see note 23.f), and EUR 6,723 thousand of which were recognized as changes in value in the consolidated global result due to the “Own-use” explained in Note 9.

Rental Properties

The most significant additions in 2018 and 2017 were the following:

- The subsidiary Realia Patrimonio, S.L.U. capitalized EUR 560 thousand in 2018, EUR 470 thousand of which correspond to refurbishment and improvement works in several of its buildings, and EUR 90 thousand to the arrangement costs corresponding to the swap of the “La Mora” plot with the City Council of Leganés. In 2017, EUR 744 thousand were capitalized in connection with the refurbishment of owned property.

- The subsidiary Hermanos Revilla, S.A. capitalized EUR 558 thousand (EUR 58 thousand at 31 December 2017) in connection with the refurbishment of owned property.

No significant disposals took place in 2018 and 2017.

Property investment under construction and advances

The main additions to and transfers to/from “Property investment under Construction” in 2018 and 2017 related mainly to the following items:

- Realia Patrimonio S.L.U. capitalized EUR 184 thousand (EUR 682 thousand at 31 December 2017), EUR 167 thousand of which correspond to advanced payments and EUR 17 thousand in connection with the refurbishment of owned properties. Additionally, EUR 540 thousand were transferred in 2018 to “Rental Properties” after the completion of works at the Ferial Plaza Shopping Center.

- The subsidiary Hermanos Revilla, S.A. capitalized EUR 550 thousand (EUR 1,881 thousand at 31 December 2017) for the refurbishment and renovation works on several owned properties, EUR 242 thousand of which were transferred to “Rental Properties” for the work completed in 2018.

Pursuant to the revised IAS 23, the Group capitalizes the borrowing costs associated with property investment under construction that takes a period of over twelve months to get ready for its intended use or sale. The Group did not capitalize any interests for this concept in 2018 and 2017.

Measurement of fair value and sensitivity

All the property investments leased or intended for lease under the regime of operational lease (business segment: rental property) and two of the assets of the development segment of the Group are classified as property investments.

According to IAS 40, the Group determines from time to time the fair value of the property investment elements so that, at the end of the reporting period, the fair value reflects the market conditions of the property investment elements at that date. Such fair value is determined annually, taking as a reference the valuations made by independent experts

The determination of the market value of property investments as at 31 December 2018 and 2017, calculated on the basis of appraisals conducted by independent experts not related to the Group, amounts to EUR 1,422,334 thousand and EUR 1,383,076 thousand, respectively.

In the case of property investments owned by the property companies of the Group, the methodology used by the independent expert to determine the fair value of the property investments of the Group followed the RICS principles which basically use the cash-flow discount as valuation method, which consists in capitalizing the net income of each property and updating future flows, applying discount market rates throughout a period of 10 years, and a residual value calculated through the capitalization of the estimated revenues at the end of the period at a certain expected yield. Properties are valued individually, considering all the lease contracts in force at the end of the reporting period and their duration. Buildings with non-leased surface areas have been valued based on future estimated rents, minus their sales period. The valuation criteria applied were identical to those used in previous years.

The key variables of said method are the determination of net revenues, the duration of lease contracts, the time during which they are discounted, the value estimation conducted at the end of each period, and the internal rate of return used to discount the cash flows.

The independent expert applies two valuation methods to property investments: the capitalization method, over 6.7% of the total property assets; and the cash-flow discount method, over a total of 93.3% of the property assets.

The key variables used in the valuations made according to the Cash-Flow discount method are the following:

- Current rent: rents generated by each property at the valuation date, considering not passed-on expenses only for empty spaces.

- Estimated rent of empty spaces and/or new leases during the years of duration of the cash-flow.

- Exit Yield: yield rate targeted at the end of the valuation period by the sale of the asset. At the end of the discount period, it is necessary to determine the exit value for the property. At that moment, it is not possible to apply again a cash-flow discount methodology again, and it is necessary to calculate the selling value according to a profitability at sale based on the rent generated by the property at the time of sale, provided that the cash-flow forecast contemplates a stable rent that can be capitalized to perpetuity.

- IRR: interest rate or profitability offered by an investment, the value of the discount rate that brings VAN to zero, for a given investment project.

- ERV: Market rent of the asset at the date of valuation.

The main hypotheses used in the calculation of the fair value of property investment for 2018 were the following:

	Current average rent	Exit Yield (1)	IRR (1)	ERV
Offices	18.2€/m2/month	4.9%	7.0%	21.4 €/m2/month
Shopping centers	11.2 €/m2/month	6.5%	9.6%	14.5 €/m2/month
Other assets	14.9 €/m2/month	5.3%	6.9%	19.9 €/m2/month

(1) Weighed by the value of the assets

The main hypotheses used in the calculation of the fair value of property investment for 2017 were the following:

	Current average rent	Exit Yield (1)	IRR (1)	ERV
Offices	17.5 €/m2/month	5.1%	7.5%	18.9 €/m2/month
Shopping centers	10.1 €/m2/month	6.7%	10.15%	14.0 €/m2/month

Other assets	14.0 €/m2/month	5.1%	8.5%	19.8 €/m2/month

(1) Weighed by the value of the assets

The effect of a variation of one quarter of a point on the targeted yield rates, calculated as income over the market value of the assets, in terms of "Net Asset Value", in the consolidated assets and the consolidated profit and loss account, with respect to the property investments, would be as follows:

	Thousands of Euros			
	2018		2017	
	Assets	Consolidated net profit (loss)	Assets	Consolidated net profit (loss)
Increase of the yield rate by one quarter of a point	(41,655)	(31,241)	(38,110)	(28,583)
Decrease of the yield rate by one quarter of a point	45,925	34,444	43,075	32,306

Additionally, the sensitivity analysis of a variation of 10% in the ERV (market rent of the asset at valuation date) would be as follows:

	Thousands of Euros			
	2018		2017	
	Assets	Consolidated net profit (loss)	Assets	Consolidated net profit (loss)
10% increase in the ERV	109,490	82,118	119,320	89,490
10% decrease in the ERV	(114,500)	(85,875)	(118,610)	(88,958)

Finally, the sensitivity analysis of a variation by one quarter of a point of the IIR would be as follows:

	Thousands of Euros			
	2018		2017	
	Assets	Consolidated net profit (loss)	Assets	Consolidated net profit (loss)
Increase of the IIR by one quarter of a point	(23,930)	(17,948)	25,640	19,230
Decrease of the IIR by one quarter of a point	24,310	18,233	(14,880)	(11,160)

The breakdown of "Variation in value of property investments" in the consolidated financial statements is the following:

Type of Asset	Thousands of Euros	
	2018	2017
Offices	33,361	28,626
Shopping centers	(2,465)	(5,050)
Other assets	(1,966)	394
	28,930	**23,970**

The valuation report by an independent expert meets the market value definition and does not include any relevant hypothesis or special condition. The independent expert is the regular assessor of the Group's property portfolio and follows an active valuation plan with visits every three years, except in the case of new acquisitions or significant investments in existing assets. Before 2017, the expert reviewed property deeds, licenses and rental contracts. Valuations in 2018 and 2017 were made on the basis of contractual rents.

Breakdown of fair value of property investments

The valuation of the fair value of assets is broken down into three levels, according to the hierarchy established by IFRS 13:

- Level 1: Inputs are based on quoted prices in active markets

- Level 2: Inputs are based on quoted prices in active markets (not included in level 1), quoted prices in non-active markets and valuation model-based techniques in which inputs are observable in the market, or are corroborated by observable market data.

- Level 3: Inputs are not observable, and derive from market assumption estimates for the determination of the asset price; non-observable data used in valuation methods are material for the fair asset prices.

All the assets of the Realia Group are included in the level 3 hierarchy. Fair asset value of the assets of the Realia Group, in thousands of Euros, classified by use, is as follows:

	2018
Recurrent fair value valuations	
Property investments	
Offices	1,078,130
Shopping centers	311,224
Other assets	32,980
Total assets valued at fair price	**1,422,334**

	2017
Recurrent fair value valuations	Level 3
Property investments	
Offices	1,035,109
Shopping centers	313,057
Other assets	34,910
Total assets valued at fair price	**1,383,076**

No assets were transferred between the different levels in 2018.

Other assets	34,910
Total assets valued at fair price	**1,383,076**

No assets were transferred between the different levels during 2018.

Location, occupancy rates and use

The detail, by geographical area, of the location and occupancy rates of rental property is as follows:

	Square meters for rental		Occupancy rate (%)	
	2018	2017	2018	2017
Madrid	249,711	249,826	92.40	96,86
Barcelona	32,325	32,325	97.65	97,75
Logroño	40,544	40,544	100	100
Seville (1)	8,735	8,735	98.63	97.22
Guadalajara	32,507	32,507	79.57	79.73
Rest	16,685	16,707	65.81	62.09
	380,567	**380,644**	**91.34**	**94.29**

(1) Does not include the Guillena Golf Course.

The surface area of the properties, by use, is as follows:

	Square meters for rental		Use (%)	
	2018	2017	2018	2017
Offices	226,674	226,729	59.56	59.56
Commercial	110,636	110,658	29.07	29.07
Other (1)	43,257	43,257	11.37	11.36
	380,567	**380,644**	**100.00**	**100.00**

(1) Does not include the Guillena Golf Course.

Rental income, including income arising from passed-on expenses, from property investment owned by the consolidated companies amounted to EUR 77,800 thousand and EUR 76,934 thousand in 2018 and 2017, respectively (see Notes 23.a and 23.b), and the related operating expenses directly related to the activity amounted to approximately EUR 23,257 thousand and EUR 24,757 thousand, respectively.

The only items of property investment with mortgage charges, broken down by companies, are:

	Thousands of Euros			
	Fair value		Mortgage loan drawn down	
	2018	2017	2018	2017
REALIA PATRIMONIO	825,450	820,266	558,927	572,394
HERMANOS REVILLA	57,580	56,000	18,247	19,996
Total investments with mortgage charge	**883,030**	**858,266**	**577,174**	**592,390**

Insurance has been taken out for all the properties, including insurance against loss of rent due to damages.

At 31 December 2018 and 2017, there were no property access to which the title was restricted.

11. Investments in associates

The detail, by company, of “Investments in Associates” at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
As Cancelas Siglo XXI, S.L.	37,497	34,442
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	11,915	11,920
Ronda Norte Denia, S.L.	154	136
	49,566	**48,498**

On 29 May, the company “Desarrollo Urbanístico de Sevilla Este (in liquidation)” was removed from consolidation perimeter after it was declared bankrupt and an insolvency administrator was appointed. Since it was integrated into the scope of consolidation through the equity method, the exit did not have impact on equity, for it was fully provisioned.

Pursuant to IAS 40, the Group determines periodically the fair value of the elements of the property investments of the Group’s companies by the equity method so that, at the end of the reporting period, the fair value reflects the market conditions of the property investment elements on that date. Such fair value is determined annually taking as a reference the valuations made by the independent expert (see Note 10). As at 31 December 2018 and 2017, the valuation of the property investments of the Group’s companies through the equity method, at 100%, amounted to EUR 54,000 thousand and EUR 54,000 thousand, respectively. This value has been increased in the Group’s ownership interest.

The value of the inventories of the companies accounted for using the equity method in proportion to the ownership interest therein at 31 December 2018 and 2017, calculated on the basis of appraisals conducted by independent experts not related to the Group, as described in Note 4.f, amounted to EUR 18,192 and EUR 18,192 thousand, respectively, excluding the inventories of Desarrollo Urbanístico Sevilla Este, S.L. as value of the ownership interest was considered to be zero.

The changes to this item of the attached consolidated statement of financial position are the following:

	Thousands of Euros				
	As Cancelas Siglo XXI, S.L. (50%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Desarrollo Urbanístico Sevilla Este, S.L. (30.52%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balances as at 1 January 2016	**33,171**	**11,929**	**-**	**120**	**45,220**
Dividends	(1,473)	-	-	-	(1,473)
Profit/loss for the year (Note 23.e)	4,744	(9)	-	16	4,751
Other changes	-	-	-	-	(84)
Balances as at 31 December 2017	**36,442**	**11,920**	**-**	**136**	**48,498**
Dividends	(1,479)				(1,479)
Profit/loss for the year (Note 23.e)	2,534	(5)	-	18	2,547
Others	-	-	-	-	-
Balances as at 31 December 2018	**37,497**	**11,915**	**-**	**154**	**49,566**

No changes in the ownership percentages have taken place in 2018 and 2017.

In 2018, the company As Cancelas Siglo XXI, S.A. paid out dividends to its parent Realia Patrimonio, S.A.U., for an amount of EUR 1,479 thousand (EUR 1,473 thousand at 31 December 2017).

The impact of the change in valuation standard of the property investments to IAS 40 Fair Value is included in the profit (loss) figures for the reporting period (see Note 23.e).

The detail of the assets, liabilities and main figures in the statement of profit and loss of associates at 31 December 2018 and 2017, according to their ownership interest, is as follows:

At 2018 year-end:

	Thousands of Euros			
	As Cancelas Siglo XXI, S.L. (50.00%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balance sheet:				
Non-current assets	37,570	280	0	37,850
Current assets	2,417	18,055	319	20,791
Total assets	**39,986**	**18,335**	**319**	**58,640**
Equity	24,592	11,562	154	36,308
Non-current liabilities	1,046	2,084	0	3,130
Current liabilities	14,349	4,689	165	19,203
Total liabilities	**39,986**	**18,335**	**319**	**58,640**
Statement of profit/loss:				
Revenues	6,278	-	5	6,283
Profit(loss) from operations	2,415	(5)	2	2,412
Profit (loss) before tax	2,244	(8)	19	2,255
Profit (loss) for the year (1)	1,683	(6)	19	1,696

(1) The result for the year is expressed according to PGC criteria, and does not include the application of IAS 40 at fair value

At 2017 year-end:

	Thousands of Euros				
	As Cancelas Siglo XXI, S.L. (50%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Desarrollo Urbanístico Sevilla Este, S.L. (30.52%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balance sheet:					
Non-current assets	38,684	278	1	-	38,962
Current assets	2,625	18,063	31,277	561	52,525
Total assets	**41,309**	**18,341**	**31,278**	**561**	**91,487**
Equity	24,389	11,566	(65,620)	136	(29,527)
Non-current liabilities	1,006	2,084	-	-	3,089
Current liabilities	15,914	4,689	96,897	425	117,925
Total equity and liabilities	**41,309**	**18,341**	**31,278**	**561**	**91,487**
Statement of profit and loss:					
Revenues	6,155	-	12	12	6,179
Profit (loss) from operations	2,179	(6)	(39,592)	9	(37,409)
Profit (loss) before tax	1,974	(12)	(42,582)	3	(40,618)
Profit (loss) for the year (1)	1,480	(9)	(42,582)	3	(41,108)

(1) The result for the year is expressed according to PGC criteria, and does not include the impact of the application of IAS 40 at fair value

12. Joint ventures

Part of the Group's business operations are performed through joint ventures over which the Realia Group exercises joint control together with other non-Group partners. These joint ventures were proportionately consolidated as indicated in Note 2.d. Joint control over these ventures is established through interest in joint-property entities.

The required uniformity adjustments, reconciliations and reclassifications were made and the reciprocal asset and liability balances and income and expenses were eliminated appropriately.

The main aggregates at 31 December 2018 and 2017 of the joint property entities (included in Appendix III) included in the consolidated financial statements of Realia Business are as follows:

	Thousands of Euros	
	Joint Property Entities	
	2018	2017
Revenue	2,193	2,347
Profit (loss) from operations	357	334
Financial income	40	-
Non-current assets	1	1
Current assets	9,404	11,093
Liquid assets	217	249
Non-current liabilities	-	49
Current liabilities	355	433
Current financial liabilities	8,862	10,521

At 31 December 2018 and 2017, the Group companies did not have any commitments to purchase property, plant and equipment to be contributed to the joint ventures. Similarly, no commitments to purchase property, plant and equipment had been assumed directly by the joint ventures in those years.

In addition, in the businesses managed through unincorporated temporary joint ventures and joint property entities the venture partners are jointly and severally liable for the business activity carried on. However, for interests in companies formed under the Spanish commercial code such as public and private limited liability companies, the shareholders' liability is limited to their share of capital of such jointly controlled entities.

13. Inventories

The detail of "Inventories" at 31 December 2018 and 2017, which relate mainly to property for residential use, is as follows:

	Thousands of Euros					
	2018			2017		
	Cost	Write-downs	Net	Cost	Write-downs	Net
Land and building lots	681,189	(444,432)	236,757	674,437	(453,097)	221,340
Sundry materials	5	-	5	6	-	6
Long-cycle construction work in progress	74,338	(31,892)	42,446	49,266	(24,236)	25,030
Completed buildings	48,493	(12,492)	36,001	62,846	(15,406)	47,440
Advances to suppliers	2,981	-	2,981	2,039	-	2,039
	807,006	**(488,816)**	**318,190**	**788,594**	**(492,739)**	**295,855**

The market value of the Group's inventories at 31 December 2018 and 2017, calculated based on the appraisals conducted in 2018 and 2017 by independent experts not related to the Group, amounted to EUR 344,502 thousand and EUR 319,708 thousand, respectively. As a result, due to eliminations due to sales and write-downs and reversals recognized for these inventories in line with their market value, the Group recognized a net reversal of write-downs amounting to EUR 718 thousand (2017: impairment loss of EUR 3,495 thousand in 2017).

The market value was determined on the basis of valuations from independent experts not related to the Group, in accordance with the principles and methodology provided in Ministry of Finance Order ECO/805/2003 of 27 March, amended by Order EHA/3011/2007 of 4 October and by Order EHA/564/2008 of 28 February, which establishes the measurement bases for property and certain rights for certain financial purposes (whereby appraisals may be conducted using various methods, according to the urban development and the type of assets involved).

However, since the purpose of these valuations is the calculation of the fair value to incorporate them, where applicable, in the Company's financial statements, and since that purpose is not included within the scope of application of that regulation (art.2), the independent expert has not considered the "prudence principle" established under the regulation according to which, in case there are several scenarios or choices equally probable, the one that must be selected is the one that results in the lowest appraisal value. According to the criterion established in the accounting regulation, which establishes that "*prudence does not justify that the valuation of the assets does not respond to the fair presentation that must be reflected by the financial statements".*

Consequently, in the valuations made for the accounting purposes indicated, the fair value is obtained as defined in the accounting regulation. To calculate the market value, two valuation methods have been used: the comparison method and the dynamic residual method.

The dynamic residual method is the basic, essential and fundamental method use in the valuation of land and land plots, and it is widely accepted by actors in the real estate sector. However, due to the use of different variables in its operation, the data to be used as variables must be acquired directly from the market, through the instrumental use of the comparison method.

Through the application of the comparison method, the analysis of the real estate market based on specific data produces the comparable data required to apply them as variables within the dynamic residual method. In this selection, the value of the variables that are abnormal has been previously checked, in order to identify and remove those resulting from transactions and offers that do not meet the conditions required by the definition of fair value, and those that may contain speculative elements or contain conditions specific to an specific agent that are removed from the market reality. Once the variables to be used in the dynamic residual method have been defined, determined and specified, the current value of land today is calculated taking into account the future flows associated to the development of the land, both payments and collections, based on an hypothesis on market prices (mainly selling and construction prices) and periods of urban development, construction and sale according to specific circumstances in each case.

In valuations made by the independent expert specialized in completed properties, the valuation method used in the direct comparison with market transactions.

In the case of inventories of the property companies of the Group, in 2018 and 2017, the methodology used in the valuations for the determination of the fair value of the Group's inventories is determined according to the Valuation and Appraisal Standards published by the Royal Institute of Chartered Surveyors (RICS) and the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), the organizations that bring together the international and European appraisers organizations, respectively.

The key hypotheses considered in these valuations are:

1. Deadlines affecting securing licenses and the start of urban development and/or construction work
2. Range of sales: affecting both a range of selling prices, and the percentage and selling period, and the actual and effective date of the different properties
3. Discount rates of the generated cash flows that incorporate the risk and the value of money through time

Additionally, the impact of the following hypotheses on the value of the inventories was also analyzed:

- Selling price of final products, and their increase-decrease between 1% and 5%.
- The type of revision, its increase or decrease by 1%.

The result of the sensitivity analysis for the year ended on 31 December 2018 is as follows:

	Fluctuation of revision rate		Fluctuation of price of final products			
	-1%	+1%	-1%	+1%	-5%	+5%
Variation of the value of Portfolio (million €)	17.2	(16.4)	(15.5)	15.6	(76.0)	87.3

The changes in "Inventories" in the years ended 31 December 2018 and 2017, excluding impairment losses, were as follows:

	Thousands of Euros					
	Land and building lots	Short-cycle developments in progress	Long-cycle developments in progress	Completed buildings	Embodiment items	Total
Balance as at 31 December 2016	**673,651**	**-**	**49,047**	**80,219**	**5**	**802,922**
Conversion differences	(283)	-	(19)	18	-	(284)
Exchange rate changes	-	-	-	-	-	-
Additions	1,067	-	624	-	7	1,698
Disposals	(61)	-	(323)	(17,391)	(6)	(17,781)
Transfers	63	-	(63)	-	-	-
Balance as at 31 December 2017	**674,437**	**-**	**49,266**	**62,846**	**6**	**786,555**
Conversion differences	(28)	-	(2)	(4)	-	(34)
Exchange rate changes	-	-	-	-	-	-
Additions	29,409	-	2,445	-	6	31,860
Disposals	-	-	-	(14,349)	(7)	(14,356)
Transfers	(22,629)	-	22,629	-	-	-
Balance as at 31 December 2018	**681,189**	**-**	**74,338**	**48,493**	**5**	**804,025**

Land and building lots

During 2018, the main additions to "Land and building lots" corresponds to the purchase of land in Alcalá de Henares (Madrid) for an amount of EUR 27,524 thousand after public auction.

During 2017, the main additions to "Land and building lots" were Teatinos (Málaga), for EUR 231 thousand, and Plaza Glorias (Barcelona), for EUR 305 thousand. These additions correspond mainly to planning and urban development costs.

Commitments with clients for the sale of developments and land as at 31 December 2018 and 2017 (formalized in the form of advances and contracts) amounted to EUR 15,977 thousand and EUR 6,407 thousand respectively. In 2018, EUR 4,962 thousand were recognized as "Customer Down Payments" (in 2017, EUR 2,805 thousand were recognized under that heading) under "Trade and other Payables" in the attached consolidated statement of financial position (see Note 20.b). The amounts that were then collected amounted to EUR 1,342 thousand and EUR 206 thousand, respectively; the rest are commitments arising from asset exchange transactions.

Advances to suppliers

The detail of "Advances to Suppliers" at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Realia Business, S.A.:		
Valdebebas	2,963	2,021
El Molar	18	18
Total land purchases	**2,981**	**2,039**

Advances to suppliers during 2018 and 2017 relate mainly to urban development costs paid to the Valdebebas Development and Apportionment Board. No losses are expected to arise in relation to the value of land purchase commitments associated with these advances.

Pursuant to revised IAS 23, the Group capitalizes the borrowing costs associated with property investment under construction, which takes a period of over twelve months to get ready for its intended use. In 2018, no borrowing costs were capitalized in this connection.

Builder's all risk insurance has been taken out for all the property developments in progress and completed, and the appropriate community association insurance has been taken out for completed developments.

At 31 December 2018, certain assets were recognized under inventories, with an aggregate carrying amount of EUR 4,891 thousand, which serve as a mortgage security for the "syndicated" loan arranged by Realia Patrimonio. At 31 December 2017, certain assets were recognized under inventories, with an aggregate carrying amount of EUR 9,730 thousand, which serve as a mortgage security for the loan arranged between Realia Business and Banco Santander for EUR 1,199 thousand, and by Realia Patrimonio for the "syndicated" loan for EUR 3,466 thousand (see Note 19).

Inventory write-downs

The changes with an impact on inventory write-downs in 2018 and 2017 were as follows:

	Thousands of Euros	
	2018	2017
Initial balance	(492,739)	(489,482)
Net impairment losses – land (Note 23.j)	(9,930)	(4,014)
Net amounts used/reversed – property developments in progress and completed (Note 23.j)	13,830	519
Effect of exchange rate changes	23	238
Final balance	**(488,816)**	**(492,739)**

Pursuant to the applicable accounting rules, the Group recognizes write-downs for all the losses on its inventories and does not recognize increases in value until they have been effectively realized, through their sale (see Notes 4.f and 4.q).

14. <u>Other assets</u>

14.1 Trade and other receivables

The breakdown of “Trade and other receivables” is as follows:

	Thousands of Euros	
	2018	2017
Trade and other receivables	5,365	7,096
Unpaid trade receivables and notes	8,207	8,195
Doubtful trade receivables	438	593
Impairments - customers	(8,631)	(8,788)
Sundry accounts receivable	3,904	3,960
Impairments - receivables	(671)	(671)
Other accounts receivable from public authorities (Note 21)	218	130
Current tax assets (Note 21)	3,711	3,485
Total trade and other receivables	**12,541**	**14,000**

“Trade and other Receivables” at 2018 year-end relates mainly to invoices yet to be issued by the property management companies due to the straight-line recognition of amounts in rent-free periods ad rent rebates, of EUR 4,054 thousand (EUR 5,911 thousand in 2017), in accordance with the accounting treatment provided for under International Accounting Standards (IAS 17).

During 2018, the Parent did not recover trade loans provisioned as bad debts. During 2017, the Parent recovered commercial loans for an amount of EUR 4,302, recognized under “Variations in trade forecasts” (Note 23.j) in the accompanying financial statement.

The Directors consider that the carrying amount of the accounts receivable approximates their fair value.

14.2 Current and non-current financial assets

The detail of "Non-Current Financial Assets" and "Other Current Financial Assets" at 31 December 2018 and 2017 is as follows:

	Thousands of Euros			
	2018		2017	
	Non-current	Current	Non-current	Current
Credit facilities	-	31,553	13,873	31,158
Other	939	5,094	-	2,192
Total other financial assets	**939**	**36,647**	**13,873**	**33,350**

At 31 December 2018 and 2017, non-current financial assets recognize the following credit facilities:

- In 2018, they include a long-term deposit in a special account for the advances on sales of an ongoing development for an amount of EUR 939 thousand.

- In 2017, it included the current value of the amount pending collection for the sale of the Los Cubos building for EUR 13,873 thousand.

Regarding current financial assets, "Loans" in 2018 and 2017 recognize EUR 31,553 thousand and EUR 31,158 thousand, respectively, corresponding to:

- EUR 13,970 thousand for the short-term transfer of the amount receivable from the sale in 2017 of the Los Cubos building (EUR 13,873 thousand), expected to be collected in April 2019.

- Loan maturing on 31 January 2019 for an amount of EUR 13,000 thousand (EUR 14,501 thousand at 31 December 2017 that Realia Patrimonio granted its subsidiary As Cancelas, S.L. The loan was novated in January 2019 for an additional year, and EUR 1,500 thousand from the loan were repaid.

- Credit facility and interest payable that the Parent has granted to Inversiones Inmob. Rústicas y Urbanas 2000, S.L. and Ronda Norte Denia, S.L., amounting to EUR 4,457 thousand and EUR 126 thousand (EUR 4,454 and 348 thousand at 31 December 2017), respectively. These loans matured in March and February 2018 respectively, and have been tacitly renewed for one more year.

- Additionally, in December 2017, the credit facility and interest payable that the company Retingle, S.L. granted to Inmosineris, S.L. (its other partner) was also included, for an amount of EUR 11,708 thousand, and which has been written off after the capital reduction that took place in June 2018.

All the credit facilities granted earn interest at a market rate.

14.3 Other current and non-current assets

"Other current and non-current assets" recognizes as current assets anticipated payments amounting to EUR 4,749 thousand and EUR 4,356 thousand in 2018 and 2017, respectively. Non-current assets relates to the long-term guarantees and deposits provided to the Public Authority bodies, which amounted to EUR 9,437 thousand and EUR 9,116 thousand in 2018 and 2017, respectively.

15. Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash and unrestricted short-term bank deposits. The detail of the carrying amount of these assets, which approximates their fair value, is as follows:

	Thousands of Euros	
	2018	2017
Short-term deposits held at banks	549	599
Cash and current accounts	86,949	84,476
Total cash and cash equivalents	**87,498**	**85,075**

Current accounts accrue the market interest rate for this type of accounts.

At 31 December 2018 and 2017, there are no amounts pledged for this concept.

16. Equity

On 15 November 2018, the Board of Directors of the Company approved a capital increase through the issue and distribution of 175,457,742 ordinary shares, with a nominal value of EUR 0.24 per share, and a share premium of EUR 0.61 per share. After this increase, the share capital of the Company is increased by a nominal amount of EUR 42,110 thousand, and a global premium of EUR 107,029 thousand, and was registered at the Mercantile Register on 28 December 2018. The shares of the capital increase have been fully subscribed and paid.

At year-end 2018, after this capital increase, the share capital of the Company is represented by 829,265,698 shares. The majority shareholders at 31 December 2018, according to the statement of ownership interest registered with the Comisión Nacional del Mercado de Valores (CNMV) are the following:

	% of Ownership
Inversora Carso, S.A. de Capital Variable	33.85%
Fomento de Construcciones y Contratas, S.A.	34.34%
Asesoría Financiera y de Gestión (Fomento de Construcciones y Contratas)	2.22%
Per Gestora Inmobiliaria, S.L. (Fomento de Construcciones y Contratas)	0.36%
Other (free float)	29.23%
	100%

At 31 December 2017, the share capital of the company was composed by 644,807,956 shares. Their distribution, according to the statement of ownership interest registered with the Comisión Nacional del Mercado de Valores (CNMV) is as follows:

	% of Ownership
Inversora Carso, S.A. de Capital Variable	33.85%
Fomento de Construcciones y Contratas, S.A.	34.34%
Asesoría Financiera y de Gestión (Fomento de Construcciones y Contratas)	2.22%
Per Gestora Inmobiliaria, S.L. (Fomento de Construcciones y Contratas)	0.36%
Other (free float)	29.23%
	100.00%

Inversora Carso, S.A. de C.V. is the majority shareholder of Fomento de Construcciones y Contratas, S.A., and as such, owns directly and indirectly an interest of 56.41%.

AT 31 December 2018 and 2017, the shares of the Company are listed in the Madrid and Barcelona Stock Exchange Markets. The price of the shares of the Company at 31 December 2018 and the average share price in the last quarter amounted to EUR 0.91 and 0.93 per share, respectively (EUR 1.1 and 1.076 per share, respectively, at 31 December 2017).

Share premium

The consolidated text of the Corporations Act expressly allows for the use of the balance of the share premium to increase capital and does not establish any specific restriction on the availability of the balance for other purposes. The share premium amounts to EUR 528,492 thousand at 31 December 2018 (EUR 421,463 thousand in 2017).

Reserves of the Parent

Legal reserve

Under the Spanish Law on Corporations, the Parent must transfer 10% of the net profit for each year to the legal reserve until the balance of this reserve reaches at least 20% of the share capital. The legal reserve can be used to increase capital in the part of the balance that exceeds 10% of the increased capital. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided sufficient other reserves are not available for this purpose.

At 2018 year-end, the legal reserve amounts to EUR 21,864 thousand (EUR 21,548 thousand at 31 December 2017), and was not fully established.

Other reserves

At 31 December 2018, this item includes special and voluntary reserves, for EUR 43,877 thousand and EUR 262,775 thousand, respectively (EUR 43,877 thousand and EUR 262,782 thousand at 31 December 2017).

Special reserves are composed by restricted reserves for EUR 43,764 thousand, generated on 15 June 2000 as a result of a transfer from capital to reserves due to a capital decrease in Produsa Este, S.A, currently Realia Business, S.A., and EUR 113 thousand, created on the coming into force of the euro in 2002 (the same amount at 31 December 2017).

Additionally, there are “Negative results from previous years” for a negative amount of EUR 472,208 thousand (EUR 475,052 thousand at 31 December 2017).

Reserves in consolidated companies

The breakdown of reserves in consolidated companies is as follows:

	Thousands of Euros	
	2018	2017
Realia Business, S.A. and consolidation adjustments	24,865	34,592
Subgroup Planigesa	139,286	132,750
Inversiones Inmobiliarias Rústicas y Urbanas 2000, S.L.	(14)	(22)
Realia Polska SP ZOO	(485)	(576)
As Cancelas Siglo XXI, S.L.	12,786	9,521
Realia Contesti, S.R.L.	1,112	1,421
Ronda Norte Denia, S.L.	1	-
Servicios Índice, S.A.	1	-
Realia Patrimonio, S.L.U.	198,169	170,744
Valaise, S.L.U.	1	2
Retingle, S.L.	666	634
Total	**376,388**	**349,066**

Treasury shares

The General Meeting of Shareholders held on 21 June 2016 authorized the buyback of treasury shares, during the maximum period permitted by law, and in keeping with Section 146 of the Corporation Act.

The changes in treasury shares during 2018 and 2017 were as follows:

	Number of shares	Thousands of Euros
Balances at 31 December 2016	**610,000**	**675**
Balances at 31 December 2017	**610,000**	**675**
Acquisitions	852,902	891
Balances at 31 December 2018	**1,462,902**	**1,566**

The average price of treasury shares at year-end 2018 is 1.07 €/share (1.11 €/share in 2017). The number of treasury shares represents 0.18% of the total shares.

17. Non-controlling interests

The changes in “non-controlling interests” and in the profit and loss attributable to non-controlling interests were as follows:

	Thousands of Euros
Balance as at 31 December 2016	**231,819**
Changes in the scope of consolidation (Note 2.f)	(1)
Dividends paid	(6,775)
Profit (loss) for 2017	12,879
Balance as at 31 December 2017	**237,922**
Changes in the scope of consolidation (Note 2.f)	(11,371)
Dividends paid	(5,370)
Profit (loss) for 2018	14,797
Balance as at 31 December 2018	**235,978**

The detail, by company, of “Non-controlling Interests” at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Planigesa Subgroup	233,831	224,301
Servicios Índice, S.A.	2,147	2,213
Retingle, S.A.	-	11,408
Final balance	**235,978**	**237,922**

The companies holding ownership interests of more than 10% in a Group Company included under “Non-Controlling Interests” are the following:

		Percentage of Ownership	
	Company	2018	2017
Nozar, S.A.	Servicios Índice, S.A.	39.92%	39.92%
Ecohabitalia S.L.U.	Planigesa, S.A.	23.48%	23.48%
Inmosirenis, S.L.U.	Retingle, S.L.	-	49.90%

18. Provisions

Long-term provisions

The changes in “Long-term provisions” in 2018 and 2017 were as follows:

	Thousand Euros		
	Warranty Provision	Other Provisions	Total
Balance as at 31 December 2016	**5,153**	**1,877**	**7,030**
Charges for the year	-	5	5
Amounts used/reversed	-	(737)	(737)
Balance as at 31 December 2017	**5,153**	**1,145**	**6,289**
Charges for the year	-	85	85
Amounts used/reversed	(1,557)	(198)	(1,755)
Transfers	327	-	327
Changes in scope of consolidation	(639)	-	(639)
Balance as at 31 December 2018	**3,284**	**1,032**	**4,316**

“Warranty Provision” reflects the Group’s estimate of the amount required to cover at any given time any liability arising as a result of defects in quality, latent defects or extraordinary repairs or other contingencies relating to the properties delivered, completed or pending sale, that might arise during the developer’s maximum liability period (ten years).

In 2018, the Group recognized provisions for guarantees for EUR 1,557 thousand, whereas in 2017 no provisions were made for this concept.

In 2018, the Group recognized and reversed provisions for EUR 85 thousand and EUR 198 thousand, respectively (EUR 5 thousand and EUR 737 thousand respectively at 31 December 2017); of these reversed amounts, EUR 63 thousand were used for that purpose and EUR 135 thousand from "Excess Provisions", recognizing it under "Changes in Trade Provisions" in the attached consolidated profit and loss account (EUR 36 thousand and EUR 701 thousand respectively, at 31 December 2017) (Note 23.j).

Current provisions

Current provisions include provisions for "Guarantees" recognized in the short-term, and the capital gain recognized in 2017 for the sale of the Los Cubos building. The total amount of the provision at 31 December 2018 amounts to EUR 3,259 thousand (EUR 3,421 thousand at 31 December 2017).

During 2018, "Provisions for Guarantees for after-sales expenses" proceeded to the transfer of a total of EUR 327 thousand to "Long-term Guarantees", and a total of EUR 165 thousand were recognized under provisions for this purpose.

During 2017, a provision was made for the payable capital gain resulting from the sale of the Los Cubos building for EUR 2,281 thousand.

19. Bank borrowings and other financial liabilities

The detail of the Group's "Bank Borrowings and Other Financial Liabilities" as at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Non-current:		
Loans and other bank borrowings	596,748	597,023
(Loan arrangement costs)	(10,201)	(12,579)
Derivatives	3,466	847
Total bank borrowings and other non-current financial liabilities	**590,013**	**585,291**
Current:		
Loans and other bank borrowings	23,897	175,236
Loans and other payables to third parties	-	-
(Loan arrangement costs)	(2,351)	(2,502)
Interest	1,781	2,234
Derivatives	2,613	2,769
Property, plant and equipment – suppliers	701	714
Other	1,310	1,921
Total bank borrowings and other current financial liabilities	**27,951**	**180,372**
Total	**617,964**	**765,663**

At 31 December 2018 and 2017, bank borrowings and payables to third parties, broken down by types of guarantee, are as follows:

Type of guarantee	Thousands of Euros			
	2018		2017	
	Limit	Drawn Down	Limit	Drawn Down
Personal and other guarantees	46,000	40,049	181,649	175,204
Mortgage guarantee	18,247	18,247	21,195	21,195
Syndicated guarantees – Property (1)	562,349	562,349	575,860	575,860
Loan arrangement costs	(12,552)	(12,552)	(15,081)	(15,081)
Interest from current accounts	-	1,781	-	2,234
Gross bank borrowings	614,044	609,874	763,623	759,412
Derivatives	6,079	6,079	3,616	3,616
Total gross bank borrowings	**620,123**	**615,593**	**767,239**	**763,028**

(1) Mortgage guarantee and others, restricted to assets financed in 2017 and 2018

The detail, by type, of the bank borrowings as at 31 December 2018 and 2017 is as follows:

Current and non-current Loans and Credit Facilities	Thousands of Euros	
	2018	2017
Mortgage loan	18,247	21,195
Syndicated property loan	562,349	575,860
Bilateral loan	40,049	175,204
Loan arrangement costs	(12,552)	(15,081)
Interest	1,781	2,234
Derivatives	6,079	3,616
Total	**615,953**	**763,028**

The maturity of the loans and bank borrowings is as follows:

	Thousands of Euros	
	2018	2017
2018	-	177,470
2019	25,678	23,116
2020	36,705	29,924
2021	38,785	22,785
2022 and subsequent years	521,258	521,198
Loan arrangement costs	(12,552)	(15,081)
Derivatives	6,079	3,616
	615,593	**763,028**

At 31 December 2018, loan arrangement costs are recognized as a deduction from the balance of “Loans and other bank borrowings” in the accompanying balance, and amount to EUR 12,552 thousand (EUR 15,081 thousand in 2017).

Syndicated loans – Rental property

On 27 April 2017, the subsidiary Realia Patrimonio, S.L.U. entered into a new syndicated loan contract with six banks, for an amount of EUR 582,000 thousand, one-off, in force for 7 years. This loan was used solely for the cancellation of the syndicated property loan the Company had that expired on that date and amounted to EUR 678,158 thousand.

The applicable interest rate for this new loan is Euribor plus a differential margin varying according to the “Loan to Value” ratio (amount of the loan divided by the gross market value of assets) within a range of 170 to 200 basis points. At 31 December 2018, the syndicated loan amounted to EUR 562,349 thousand (EUR 575,860 thousand in 2017), excluding loan arrangement costs for an amount of EUR 12,393 thousand, and interest accrued for EUR 1,708 thousand.

As collaterals of the syndicated loan, and as debentures resulting from the hedging contracts associated to the loan, mortgage guarantees on property investments were created, as provided for in Note 10, and on some land classified under “Inventories”, and also as a pledge over the credit risks derived from lease contracts, insurance contracts, inter-group loans and dividends received by Realia Patrimonio, S.L.U. and as pledge on the shares of Hermanos Revilla S.A., Planigesa S.A. and As Cancelas Siglo XXI, S.L.

During the term of the loan, the Company must meet several ratios related to the debt service hedge (equal or higher than 1.10x) and to net indebtedness levels over the GAV of property assets ("Loan to Value" or LTV lower than 60%). At 31 December 2018, the Company fulfils the covenants established in the loan contract. Similarly, the Company must transfer annually an amount equivalent to 50% of the cash surplus to early debt servicing, according to the loan contract.

Additionally, the Company entered into an interest rate swap (IRS) with a floor of 0%, for 70% of the outstanding balance of the loan to reduce the risk of exchange rate variation and its impact on the cash flows associated to the hedged loan. The life of such hedging instrument is the same as the one established for the syndicated loan; the current notional amount is EUR 393,844 thousand.

Bilateral development loan

In April and December 2017, the bilateral loan was extended by EUR 50,000 thousand and EUR 20,000 thousand were repaid respectively, and its maturity was maintained. The outstanding debt at 31 December 2017 amounted to EUR 133,649 thousand. On 21 June 2018, the loan was renewed for an additional amount of EUR 120,000 thousand, maturing on December 2020, with the difference to be repaid in April 2018.

On 15 November 2018, the Board approved the capital increase registered on 28 December 2018 (Note 16). The Company used part of these funds for the early repayment of the novated loan, for an amount of EUR 120,000 thousand.

Mortgage loans and bilateral property loans

In June 2018, the Company repaid in full the development mortgage loan (EUR 1,199 thousand at 31 December 2017).

At 31 December 2018, Hermanos Revilla S.A. holds a mortgage-secured loan for an amount of EUR 18,247 thousand (at 31 December 2017, it held a mortgage-secured loan for EUR 19,996 thousand). Additionally, at 31 December 2018, it holds credit and loan policies for a limit of EUR 46,000 thousand (EUR 48,000 thousand in 2017), of which EUR 40,049 thousand have been drawn down (EUR 41,541 thousand at 31 December 2017).

Information on hedges

Realia Patrimonio, S.L.U. has risk hedge transactions in place for interest rate variations in order to cover the risks to which its future cash flows are exposed. The detail of derivate instruments entered into during 2018, and the details of the maturity of their notional values is as follows:

			Maturity of notionals					
Thousands of Euros	**Valuation**	**Notional**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
IRS + Floor	6,079	393,844	10,332	12,542	14,456	15,575	16,736	324,213

The notional value of the financial swap is reduced in a similar manner to that of the principal of the syndicated loan entered into in 2017, and its final maturity is on 2024.

The expected charge to the profit and loss account during the next years resulting from the cash flow hedging derivatives amounts to EUR 2,613 thousand for 2019 and the remaining EUR 3,466 thousand, for subsequent years.

Realia Patrimonio S.L.U. identifies at the time of their contract the cash flow hedging instruments, since they allow the hedging of debt-related cash flows.

According to the requirements of current Spanish accounting regulations, the Group has conducted efficiency tests, both prospective and retrospective, to all the hedging derivative instruments. As a result, derivatives have been classified into two categories:

- Efficient coverage, provided that the ratio between the evolution of the hedging instrument and the underlying is within 80%-125%, in which case, the valuation of the derivative is recognized against equity.

- Inefficient coverage, in which case, the effect of the variation of the derivatives designated as inefficient or speculative is recognized in the result for the year.

The expected charge to the profit and loss account during the next periods for the cash-flow hedging derivatives is as follows:

In 2018, the Company recognized as a positive financial result the part whose inefficient hedging amounts to EUR 519 thousand, under “Variation of fair value in financial instruments” (Note 23.g).

The amount recognized under Equity at 31 December 2018 is negative for EUR 3,109 thousand, net of taxes. During 2018, a negative amount of EUR 2,764 was transferred to profit and loss as a result of the interest rate hedge, EUR 2,286 thousand of which were settled in 2018, and EUR 504 thousand in 2017. These amounts have been recognized under financial expenses.

For financial instruments valued at fair value, the Group uses the following three hierarchical levels depending on the relevance of the variables used in the valuations:

- Level 1: prices quoted (unadjusted) on active markets for identical assets and liability.

- Level 2: variables different to quoted prices included in Level 1 that are directly observable for the asset or liability, i.e. as prices, or indirectly, i.e. derived from prices.

- Level 3: variables that are not based on observable market data (non-observable variables).

Thousands of Euros	Level 1	Level 2	Level 3	Total
Financial Liabilities at fair value Hedging derivatives		6,079	-	-
	-	**6,079**	**-**	**-**

No transfers between the different fair value hierarchies took place during 2018.

19.1 Changes in liabilities originating from financial activities

The following table summarized the variations in the cash-flows of the gross bank borrowings during 2018 and 2017:

	31 December 2017	Cash flows	Others	31 December 2018
Non-current bank borrowings	584,444	(93,444)	95,547	586,547
Current bank borrowings	174,968	(58,645)	(92,996)	23,327
Non-current derivatives	847	-	2,619	3,466
Current derivatives	2,769	-	(156)	2,613
Total liabilities from financial activities	**763,028**	**(152,089)**	**5,014**	**615,953**

In the statement of cash-flows at 31 December 2018, "Issues" includes collections and payments through financial liability instruments for an amount of EUR 941 thousand, corresponding to financial liabilities with entities other than banks.

	1 January 2017	Cash flows	Others	31 December 2017
Non-current bank borrowings	157,585	619,562	(192,703)	584,444
Current bank borrowings	601,132	(623,446)	197,282	174,968
Non-current derivatives	-	-	847	847
Current derivatives	-	-	2,769	2,769
Other current financial liabilities	91,981	(91,981)	-	-
Total liabilities from financial activities	**850,698**	**(95,865)**	**8,195**	**763,028**

"Others" includes the effect of reclassification between current and no-current due to the passing of time, and the effect of interest earned outstanding payment resulting from credit and loans.

19.2 Fair values of financial instruments

The detail of carrying amounts of financial assets and liabilities of the Group according to the definition of the International Financial Reporting Standards included in the financial statement at 31 December, compared to their fair values, is the following:

	Thousands of Euros			
	Carrying amount		Fair value	
	2018	2017	2018	2017
Financial assets (Note 14.2)				
Non-current loans	939	13,873	939	14,000
Current loans	36,647	33,350	36,677	33,350
	37,586	47,223	37,616	47,350
Financial liabilities				
Bank borrowings (Note 19)	609,874	759,412	609,874	759,412
Debts to third parties (Note 19)	2,011	2,635	2,011	2,635
Derivatives (Note 19)	6,079	3,616	6,079	3,616
	619,964	765,663	617,964	765,663

The Management considers that cash and current deposits, accounts receivable, accounts payable and other current liabilities have a fair value very close to their carrying amount due to a great extent to their short-term maturity.

20. Other liabilities

a) Other non-current liabilities

The detail of this heading at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Other non-current liabilities payable	2,462	2,404
Non-current guarantees and deposits received	13,220	13,704
	15,682	**16,108**

b) Trade and other payables

The detail of "Trade and other payables" is as follows at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Suppliers of Group companies and associates	2,352	1,242
Suppliers for the purchase of land: No payment instruments	3,170	3,149
Suppliers - Rest	2,848	2,779
Customer advances – development (Notes 13 and 4.h)	4,962	2,805
Other customer advances	7	3
Creditors	6,127	5,614
Tax payable (Note 21)	3,672	6,224
Current tax liabilities (Note 21)	584	595
	23,722	**22,411**

This includes mainly amounts payable for construction and associated costs, land purchase and the amounts corresponding to advances paid by customers before the recognition of the sale, and amounts payable to the Administration.

The Directors consider that the carrying amount of commercial creditors is very close to its fair value.

c) Average period of payment to suppliers

Below is a summary of the disclosure required by the third additional provision of Law 15/2010, of 5 July (amended by the second additional provision of Law 31/2014, of 3 December) prepared in accordance with ICAC's Resolution of 29 January 2016, regarding the information to be included in the annual consolidated financial statement report on the average payment period to suppliers in commercial operations.

	2018	2017
	Days	Days
Average payment period to suppliers	46.09	59.44
Ratio of transactions paid	47.86	61.45
Ratio of transactions pending payment	38.24	45.74
	Thousands of Euros	
Total payments made	66,323	34,923
Total outstanding payments	6,356	5,555

According to ICAC's Resolution, commercial transactions corresponding to the delivery of goods or services accrued from the date of enforcement of Law 31/2014, of 3 December, have been taken into account for the calculation of the average payment period to suppliers.

Exclusively for the purposes of providing the information required by this Resolution, suppliers are those commercial creditors for the provision of goods or services, included under "Suppliers" and "Creditors" on the liability side of the balance sheet.

"Average payment period to suppliers" is the time elapsed from the delivery of goods or services by the supplier to the time of payment of the transaction.

The ratio of transactions paid is the ratio between the sum of the products corresponding to the amounts paid, times the number of payment days (the difference between the calendar days elapsed from the day that the calculation of the period starts until the payment of the transaction), divided by the total amount of payments made.

Additionally, the ratio of transactions outstanding payment corresponds to the ratio between the sum of the products corresponding to the amounts pending payment, times the number of days payment (difference between the calendar days elapsed from the day the calculation of the period starts until the last day of the period the annual accounts refer to), divided by the total amount of outstanding payments.

The maximum deadline for payment applicable to the Company, according to Law 3/2004, of 29 December, that establishes measures to fight against default in commercial transactions, and according to transitory provisions established by Law 15/2010, of 5 July, is of 60 days, as the conditions established by Law 11/2013, of 26 July, are met.

d) Other current liabilities

This includes mainly rents from the billing of advanced leases, charged against profit and loss, depending on their accrual.

21. Public Bodies and fiscal situation

Since 2007, the Group pays its taxes under a fiscal consolidation regime, with the dominant company as the Parent of the Tax Group. The fiscal consolidation group, regulated on Section VI of Article VII of Law 27/2014, of 27 November, is made up by the parent company and all the subsidiaries, public or limited, resident in Spanish territory in which the parent has a direct or indirect ownership of at least 75% of the equity (see Appendix I).

On 2 February 2007, the Parent Company received from the Tax Agency the tax group assigned, No.135/07.

Therefore, since 2007, the Realia Group files its taxes under the regime of consolidated tax return, and therefore the heading “Taxes on Profits” in the accompanying financial statement, reflects the sum of the amounts of the individual tax return of each of the companies of the Group, as well as the effects of the process of consolidation and conversion to International Financial Reporting Standards.

The main credit and debit balances with Tax Authorities are the following:

	Thousands of Euros							
	Fiscal Assets				Fiscal Liabilities			
	Current		Deferred		Current		Deferred	
	2018	2017	2018	2017	2018	2017	2018	2017
Prepaid taxes	-	-	36,066	35,950	-	-	-	-
Credits for loss carryforwards	-	-	67,093	69,594	-	-	-	-
Tax credit carryforwards	-	-	16,031	16,607	-	-	-	-
Tax payable- VAT / IGIC (Canary Island Tax)	215	130	-	-	1,081	2,298	-	-
Tax refund	3,711	3,485	-	-	-	-	-	-
Tax payable – Corporate Tax	-	-	-	-	584	595	-	-
Tax payable – Personal Income Tax	-	-	-	-	1,092	1,032	-	-
Social Security	-	-	-	-	92	89	-	-
Other public bodies	-	-	-	-	1,407	2,805	-	-
Deferred taxes	-	-	-	-	-	-	164,856	155,200
	3,929	**3,615**	**119,190**	**122,151**	**4,256**	**6,819**	**164,856**	**155,200**

At each balance sheet date, the deferred taxes recognized are reviewed (both assets and liabilities), in order to confirm they are still current, and the corresponding corrections are made according to the analyses carried out.

Deferred tax assets are only recognized in as far as it is considered likely that the Company or Tax Group will have future taxable income to offset them.

The movement of deferred tax assets and liabilities in 2018 and 2017 was as follows:

	Thousands of Euros	
	Deferred Tax Assets	Deferred Tax Liabilities
Balance as at 31 December 2016	**124,115**	**150,715**
Derivatives	285	-
Tax credits and deductions for the year	(33,022)	-
Provisions for expenses	1,076	-
Loan provisions	-	(28)
Consolidation adjustments	178	(1,888)
Accelerated amortization and depreciation	-	(221)
Merger securities	-	-
Non-deductible financial expenses	29,757	-
Non-deductible amortization costs	(238)	-
IAS 40 adjustment at fair Value (Note 4.c)	-	7,772
Other	-	(1,150)
Balance as at 31 December 2017	**122,151**	**155,200**
Derivatives	752	-
Tax credits and deductions for the year	(3,077)	-
Provisions for expenses	308	-
Loan provisions	-	(13)
Consolidation adjustments	(7)	(988)
Accelerated amortization and depreciation	-	(143)
Merger securities	-	-
Non-deductible financial expenses	(700)	-
Non-deductible amortization costs	(237)	-
IAS 40 adjustment at Fair Value (Note 4.c)	-	11,395
Other	-	(595)
Balance as at 31 December 2018	**119,190**	**164,856**

The detail of deferred tax assets and liabilities at year-end 2018 and 2017 is as follows:

	Thousands of Euros			
	Deferred Assets		Deferred Liabilities	
	2018	2017	2018	2017
Credits for loss carryforwards	67,093	69,594	-	-
Tax credit carryforwards	16,031	16,607	-	-
Derivatives	1,037	285	-	-
Provisions for expenses	4,124	3,816	-	-
Intragroup adjustments	303	310	-	-
Non-deductible financial expenses	29,057	29,757	-	-

Non-deductible amortization costs	1,431	1,668	-	-
Other	114	114	-	-
Securities portfolio	-	-	28	41
Capital gains	-	-	5,604	5,604
Consolidation adjustments	-	-	1,921	2,909
IAS 40 adjustment at fair Value (Note 4.c)	-	-	150,911	139,516
Accelerated amortization and depreciation	-	-	5,166	5,309
Other	-	-	1,226	1,821
Total	**119,190**	**122,151**	**164,856**	**155,200**

Deferred tax assets have been recognized in the consolidated statement of financial position, for the Directors of the Company deem that, according to the best estimate of future Company results, it is likely that these assets will be recovered.

The conciliation between the accounting result before taxes and the tax base of the Corporate Tax for 2018 is the following:

	Thousands of Euros		
	Increases	Decreases	Total
Result before taxes			**72,531**
Permanent differences:			**(41,251)**
Permanent differences:			(45,986)
Surcharges and penalties			
Consolidation adjustments:			
Result of consolidated companies equity method		(2,555)	
Application of IAS 40 (Fair value adjustment/ no amortization)		(38,959)	
Other consolidation adjustments		(4,495)	
Financial adjustments from haircuts			
Reassignment of values			
Non-deductible provisions			
Other adjustments and participating interests	23		
Unrealized temporary differences:			4,735
Non-deductible financial costs			
Provision for expenses and liabilities			
Provision for impairment of inventories, plant and equipment	241		
Non-deductible amortizations		(1)	
Securities portfolio	4,495		
Temporary differences arising in the year:			**(1,026)**
Non-deductible financial costs		(2,528)	
Provisions for expenses		(9)	
Provisions for inventories, plant and equipment	1,511		
Other			
Temporary differences arising in prior years:			**(8,161)**
Accelerated amortization and depreciation	739		
Non-deductible amortization		(953)	
Securities portfolio	55		
Other consolidation adjustments			
Provision for inventories, plant and equipment		(252)	
Revenues from deferred haircuts	2,216		
Other		(55)	
Offset of capitalized tax losses		(9,911)	
Offset of non-capitalized tax losses from prior years		(548)	**(548)**
Tax base (taxable profit)			**21,545**

The conciliation between the accounting result before taxes and the tax base of the Corporate Tax for 2017 is the following:

	Thousands of Euros		
	Increases	Decreases	Total
Result before taxes			**54,743**
Permanent differences:			**(33,784)**
Permanent differences:			(40,246)
Surcharges and penalties	3		
Consolidation adjustments:			
Result of consolidated companies equity method		(4,751)	
Application of IAS 40 (Fair value adjustment/ no amortization)		(30,975)	
Other consolidation adjustments		(4,287)	
Financial adjustments from haircuts			
Reassignment of values	85		
Non-deductible provisions			
Other adjustments and participating interests		(321)	
Unrealized temporary differences:			6,462
Non-deductible financial costs	1,240		
Provision for expenses and liabilities	4		
Provision for impairment of inventories, plant and equipment	932		
Non-deductible amortizations		(1)	
Securities portfolio	4,287		
Temporary differences arising in the year:			**8,353**
Non-deductible financial costs	3,944		
Provisions for expenses	2,281		
Provisions for inventories, plant and equipment	2,289		
Other		(161)	
Temporary differences arising in prior years:			**(8,094)**
Accelerated amortization and depreciation	577		
Non-deductible amortization		(953)	
Securities portfolio	55		
Other consolidation adjustments		(55)	
Provision for inventories, plant and equipment		(252)	
Revenues from deferred haircuts	4,432		
Other	166		
Offset of capitalized tax losses		(12,064)	
Offset of non-capitalized tax losses from prior years			-
Tax base (taxable profit)			**21,218**

The main permanent differences of 2018 and 2017 are the result of:

- “Consolidation adjustments” includes the following adjustments:

- Negative adjustment of EUR 2,555 thousand due to the elimination of the result of consolidated companies through the equity method (positive adjustment of EUR 4,744 thousand in 2017).

- Negative adjustment of EUR 38,959 thousand, corresponding to the revaluation at fair value and the elimination of amortization of its property investments (EUR 30,975 thousand in 2017).

- Negative adjustment of EUR 4,495 thousand corresponding to the reversal of the individual securities portfolio adjustment of the consolidated result (EUR 4,287 thousand in 2017).

The main temporary differences, recognized and unrecognized of 2018 and 2017, are the result of:

- "Non-deductible financial expenses" recognizes the adjustments required by the current Corporate Tax regulation, article 16 of Law 27/2014, of 27 November that establishes a restriction on the deduction of "net financial expenses" and which in practice becomes a rule of specific temporary allocation, allowing for deductions in subsequent years, similarly to the compensation of negative tax bases.

  Thus, net financial expenses will be deductible to a maximum of 30% of the operating profit for the year. To this end, the rule considers that "net financial expenses" are the excess financial expenses with respect to the revenues derived from the assignment to third parties of equity accrued during the fiscal year. In any case, net financial expenses of the fiscal year will be deductible, without limitation, up to 1 million Euros. In 2018, non-deductible net financial expenses amounted to EUR 2,528 thousand, recognized against the tax credit (EUR 5,184 thousand in 2017, of which EUR 3,944 were recognized against the tax credit and EUR 1,240 thousand were not recognized).

- "Securities portfolio" includes a positive adjustment of EUR 4,495 thousand as permanent difference and EUR 55 thousand as temporary difference in 2018 (EUR 4,287 thousand as permanent difference as EUR 55 thousand as temporary difference in 2017), pursuant to transitory provision sixteen of Royal Decree-Law 3/2016, of 2 December, approved in 2016, that establishes that the impairment losses of the securities representing equity holdings in companies that have been tax deductible on the Corporate Tax base in fiscal years before 1 January 2013, this will be equally divided into the tax base corresponding to each of the first fiscal years starting after 1 January 2016. At 31 December 2018, the Company is pending consolidation of EUR 8,524 thousand over the next two years.

- "Adjustment from deferred haircuts" recognizes a positive adjustment for EUR 2,216 thousand from the application of current Income Tax regulation, article 11.13 of Law 27/2014, of 27 November, that established that the revenue corresponding to the recognition of debt reductions and moratoriums as a consequence of the enforcement of Bankruptcy Law 22/2003, of 9 July, will be allocated to the tax base of the debtor, in as far as it is possible to recognize later financial expenses from the same debt, and up to the limit of the aforementioned revenue (negative adjustment of EUR 4,432 thousand in 2017).

The Parent company has offset the whole tax base resulting from the fiscal consolidation, for an amount of EUR 9,911 thousand (EUR 12,064 thousand in 2017), pursuant to the provisions of the current Corporate Tax, article 26 of Law 27/2014, of 27 November, that establishes that the limitation on the compensation of tax losses will not result in the application of the amounts of the revenues resulting from debt haircuts or moratoriums resulting from an agreement with the taxpayer's creditors.

The Income Tax payable amount recognized in the accompanying consolidated financial statements is determined based on the consolidated profit before taxes, plus or minus the permanent differences between the tax base of that tax and the carrying amount. The carrying amount is applied the corresponding tax rate applicable to each company according to the legislation, and reduced by the bonuses and deductions accrued during the year, and adding the differences, positive or negative, between the estimated tax payable calculated upon the balance sheet date of the previous year and the subsequent settlement of the tax upon payment.

The income tax expense accrued in 2018 amounts to EUR 17,575 thousand (EUR 11,403 thousand in 2017), as shown in the accompanying consolidated financial statements. The conciliation of the expense to the tax charge payable is as follows:

	Thousands of Euros	
	2018	2017
Income tax expense	72,531	54,743
Result of consolidated companies accounted for using the equity method	(2,555)	(4,751)
Application of IAS 40 (Adjustment to fair value/ no amortization)	(38,959)	(30,975)
Other consolidation adjustments	(4,495)	(4,287)
Rest of permanent differences	23	(233)
Financial adjustments from haircuts	-	-
Offset of unrecognized tax losses	-	-
Unrecognized tax losses (*)	625	998
Unrecognized temporary differences	4,187	6,462
Adjusted accounting profit	**31,357**	**21,957**
Tax charge	7,839	5,489
Deductions	(12)	(11)
Accrued income tax expense	7,827	5,478
Adjustments to the tax charge	9,748	5,925
Income tax expense (benefit)	**17,575**	**11,403**
Tax loss and tax credit carryforwards	(2,725)	(3,982)
Deferred tax assets and liabilities in the year	185	3,066
Adjustments to prior years' income tax	(9,748)	(5,925)
Tax refunds receivable	1,353	2,944
Tax withholdings and prepayments	(6,048)	(6,902)
Tax payable	(592)	(604)

(*) In 2018 and 2017, the Group recognized tax credits up to the limit of the recoverable amount based on the best estimate by the Parent's directors (Note 4.ñ).

During 2017, as a result of the analysis made by the Group to assess the recoverability of deferred tax assets and analyze the positive impact of the new financial restructuring of the group, non-current assets in the consolidated statement of financial position recognized temporary differences for unrecognized financial expenses for an amount of EUR 29,757 thousand. Additionally, the Group capitalized in 2017 tax credits for loss carryforwards and deductions (net from the offset of tax losses of the year) for an amount of EUR 31,114 thousand, and the corresponding impact on “Profit tax” in the profit and loss account amounted to EUR 1,357 thousand.

At 31 December 2018, tax credits for loss carryforwards and deductions amounted to EUR 67,093 thousand (EUR 69,594 thousand in 2017). The directors think that these can be recovered in the future from the expected evolution of both the development and property businesses, and by the high potential gains of the property investments of the Group, for which it has recognized a deferred tax liability of EUR 150,911 thousand (EUR 139,516 thousand in 2017).

The breakdown of the income tax charge adjustment is as follows:

	Thousands of Euros	
Concept	2018	2017
From adjustments to IAS 40	9,746	7,744
From the elimination of financial expense tax credit	-	(28,770)
From the recognition of tax credits by BINs	-	28,770
From settlement of income tax in prior years	2	(572)
Other consolidation adjustments	-	(1,247)
Total adjustments to tax charge	9,748	5,925

The breakdown of the income tax charge for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Current tax	(5,530)	(5,543)
Deferred tax	(12,045)	(5,860)
Total income tax charge	**(17,575)**	**(11,403)**

The detail of the Group companies' tax loss carryforwards as at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
Year Earned	2018	2017
1998	61	61
1999	393	393
2000	177	177
2001	830	830
2002	185	185
2003	547	547
2004	-	-
2005	585	585
2006	500	500
2007	527	527
2008	164	279

2009	8,806	18,114
2010	64,514	64,514
2011	67,064	67,064
2012	249,164	249,164
2013	32,638	32,638
2014	33,642	33,642
2015	1,527	1,527
2016	6,054	6,054
2017	596	596
2018	167	-
	468,141	**477,397**

Tax loss carryforwards of the companies in the Tax Group after the settlement of taxes in July 2017 amount to EUR 445,895 thousand and EUR 453,852 thousand in 2018 and 2017, respectively.

The Group only recognized deferred taxes associated to tax losses that the directors expect to recover (see Note 4.o). The tax losses not recognized by the Group as at 31 December 2018 amount to EUR 199,772 thousand (EUR 199,034 thousand at 31 December 2017).

The detail of the Group's tax credit carryforwards is as follows:

	Thousands of Euros			
	Tax Credit Carryforwards			
Year Earned	2018	2017	Recognized in 2018	Recognized in 2017
2008	737	2,288	737	2,288
2009	6,011	4,309	5,561	4,309
2010	325	325	325	325
2011	5,675	4,816	5,675	4,816
2012	1,987	3,000	1,987	3,000
2013	1,278	1,283	1,217	1,217
2014	1,262	1,825	309	309
2015	220	273	220	273
2016	-	35	-	35
2017	-	35	-	35
2018	-	-	-	-
	17,495	**18,189**	**16,031**	**16,607**

Under current legislation, taxes cannot be considered to be definitively settled until the tax authorities have reviewed the tax returns filed or the four-year statute of limitation period has elapsed. On 10 December 2018 and 11 December 2018, the parent of the tax group number 235/07 and the subsidiary Realia Patrimonio received respectively, a notice of the commencement of a tax audit for the years 2014 and 2015 for the consolidated Income Tax and for the period between November 2014 and December 2015 for the Value Added Tax. This is a general tax audit and includes the review of all the tax charges and tax loss carryforwards or the tax credit carryforwards according to the provisions of article 66.Bis 2 of the General Tax Law. For the rest of state taxes, at 2018 year-end, the Company is open for review from 2014 to 2018, and from 2016 to 2018 for Corporate Tax and Value Added Tax. The Directors of the Company considered that the aforementioned taxes have been settled correctly, so that, in case discrepancies arise regarding the interpretation of the current tax regulations due to the tax treatment given to the transactions, the eventual liabilities resulting, in case they materialize, would not have a significant impact on the accompanying financial statements.

Additionally, Law 34/2015, of 21 September, partially amended by General Tax Law 58/2003, of 17 December, the tax authorities establish that the right of the Administration to start the procedure of review of tax charges or charges offset or pending offset or deductions applied or carried forward will have a statute of limitation of ten years from the day after the end of the regulatory period established for the filing of taxes or reverse charges corresponding to the tax period in which the right to offset such charges or rates to apply such deductions was generated.

No material tax contingencies are expected to arise as a result of the approach that the tax authorities might adopt in relation to the years open for review.

22. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2018 and 2017, the Group has provided the following guarantees to third parties:

	Thousands of Euros	
	2018	2017
Guarantees relating to purchases of land, urban development charges, litigation and other (1)	4,104	2,852
Guarantee from Inversora Carso to loan from Caixa	-	133,650
	4,104	**136,502**

(1) "Other" relates mainly to bid bonds provided in public tenders, urban development guarantees and guarantees relating to claims filed with public agencies and authorities. The directors of the Group companies do not expect any material liabilities to arise in relation to the guarantees provide or unresolved litigation and claims.

23. Income and expenses

a) Revenue

The detail, by region, of the Group's revenue from the sale of property developments and building lots and property rentals is as follows:

2018

	Thousands of Euros				
	Sale of Property, Developments, Building Lots and Other	Leases	Services	Total	%
Madrid	494	46,189	2,040	48,723	73.42%
Catalonia	1,062	5,754	34	6,850	7.95%
Valencia	3,627	-	-	3,627	2.14%
Andalusia	2,834	896	485	4,215	4.83%
Balearic Islands	-	-	-	-	0.54%
Castilla y León	2,746	69	-	2,815	1.84%
Castilla-La Mancha	-	3,789	-	3,789	4.35%
Murcia	-	1,014	-	1,014	1.09%

Rest of Communities	-	3,051	-	3,051	3.61%
Abroad	2,165	-	-	2,165	0.23%
TOTAL	**12,928**	**60,762**	**2,559**	**76,249**	**100.00%**

2017

	Thousands of Euros				
	Sale of Property, Developments, Building Lots and Other	Leases	Services	Total	%
Madrid	13,809	46,215	1,218	61,242	73.41%
Catalonia	1,167	5,475	15	6,657	7.95%
Valencia	1,781	-	7	1,788	2.14%
Andalusia	2,763	779	504	4,046	4.83%
Balearic Islands	452	-	-	452	0.54%
Castilla y León	1,460	83	-	1,543	1.84%
Castilla-La Mancha	-	3,642	-	3,642	4.35%
Murcia	-	910	-	1,014	1.09%
Rest of Communities	-	3,023	-	3,023	3.61%
Abroad	189	-	-	189	0.23%
TOTAL	**21,621**	**60,127**	**1,744**	**83,492**	**100%**

The Group ended 2018 with sales of developments, building lots and other sales recognized in the statement of profit and loss, for a total amount of EUR 12,928 thousand (EUR 21,621 thousand in 2017).

In 2018 and 2017, net income from property rental and other services amounted to EUR 60,762 thousand, and EUR 60,127 thousand, respectively.

At 31 December 2018 and 2017, the Group had contracted with tenants 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 for 2015 and subsequent years or future contractual lease payment revisions:

	Thousands of Euros	
	2018	2017
Within one year	57,905	59,357
Between two and five years	124,922	103,598
After five years	84,679	90,813
	267,506	**253,768**

b) Other operating income

The detail of the amounts recognized in the accompanying consolidated statement of profit and loss is as follows:

	Thousands of Euros	
	2018	2017
Expenses passed on in connection with property rentals and other (Note 4.x)	17,038	16,197
Income from sundry services	597	1,019
Total other operating income	**17,635**	**17,216**

c) *Procurements and other external expenses*

The detail of "Procurements" in the Group's consolidated statement of profit and loss for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Purchases of land and building lots	(28,508)	(1,079)
Changes in inventories	6,782	1,064
Construction work and services rendered by third parties	(2,427)	(539)
Total procurements	**(24,153)**	**(554)**

The purchases of land and building lots relate mainly to urban development costs incurred by the Group's companies.

The expense recognized under this heading relates mainly to transactions performed in Spain.

The detail of the Group's other external expenses in 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Rent and royalties	92	34
Repair and upkeep expenses	7,710	7,640
Independent professional services	327	375
Insurance	307	337
Banking and similar services	30	23
Advertising, publicity and public relations	647	704
Utilities	3,178	2,975
After-sales service and other services provided by third parties	9,535	9,977
Taxes other than income tax	6,524	9,321
Other current operating expenses	174	123
Total other external expenses	**28,524**	**31,509**

d) *Staff costs and average headcount*

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2018	2017
Wages, salaries and similar expenses	5,411	5,399
Employee benefit costs	892	914
Pension contributions and provisions (1)	200	207
Other employee benefit costs	138	153
Total staff costs	**6,641**	**6,673**

(1) The contributions to pension plans have been externalized (Note 4.ñ)

The average number of employees in the different Group companies in 2018 and 2017 was 90 and 91 respectively. The detail of the headcount at 2018 and 2017 year-end, by professional category, is as follows:

	Average number of employees				
	2018				
	Total	Men	Women	Spain	Abroad
Executives and university graduates	32	21	11	32	-
Other line personnel and further education college graduates	9	9	-	9	-
Clerical and similar staff	16	4	12	15	1
Other salaried employees	33	33	-	33	-
	90	**67**	**23**	**89**	**1**

	Average number of employees				
	2017				
	Total	Men	Women	Spain	Abroad
Executives and university graduates	33	22	11	33	-
Other line personnel and further education college graduates	8	8	-	8	-
Clerical and similar staff	16	4	12	15	1
Other salaried employees	34	34	-	34	-
	91	**68**	**23**	**90**	**1**

The number of employees at the various Group companies at 31 December 2018 and 2017 was 91 and 91, respectively.

At the end of 2018 and 2017, the Group does not have any employee with a degree of disability of 33% or higher.

e) Result of companies accounted for using the equity method

The detail of "Result of Companies Accounted for Using the Equity Method" in the consolidated statement of profit and loss is as follows:

	Thousands of Euros	
	2018	2017
Associates:		
Ronda Norte Denia, S.L.	18	16
As Cancelas Siglo XXI, S.L.	2,534	4,744
Inversiones Inmob. Rústicas y Urbanas 2000, S.L.	(5)	(9)
Total	**2,547**	**(4,751)**

f) Change in value of property investment

The detail of "Change in Value of Property Investments" is as follows:

	Thousands of Euros	
	2018	2017
Change in value from independent expert valuations (Note 10)	28,930	23,970
Change in value from the sale of assets (Note 13)	-	(3,411)
Result of change in value of property investment	**28,930**	**20,559**

g) Finance income and finance costs

The detail of "Finance Income and finance cost" in the consolidated statement of profit and loss is as follows:

	Thousands of Euros	
	2018	2017
Finance income:		
Interest on financial assets	228	307
Other finance income (1)	7,101	251
	7,329	558
Finance costs:		
Interest on loans	(14,861)	(13,058)
Finance cost of cash flow hedging instruments	(2,764)	(1,694)
Other	(55)	(45)
	(17,680)	**(14,797)**
Change in fair value of financial instruments (Note 19)	519	(1,974)
Exchange rate differences	2	24
Impairment and gain or losses on disposals of financial instruments (Note 24.i)	26	-
Capitalized financial expenses	17	-
Financial result	**(9,787)**	**(16,189)**

Other financial income were registered in 2018 for an amount of EUR 6,493 thousand for the credit claim that a company of the Group had with the City Council of Leganés for the interest on arrears recognized in a court ruling on the asset exchange of Finca La Mora. In 2018, the Group has capitalized borrowing costs for a total of EUR 17 thousand, according to IAS 23 (no borrowing costs were capitalized during 2017).

h) *Contribution to consolidated result*

The contribution of each company included in the scope of consolidation to the result for the year was as follows:

	Thousands of Euros					
	2018			2017		
	Profit (Loss) attributable to the Parent	Profit (Loss) Attributable to External Partners	Total	Profit (Loss) Attributable to the Parent	Profit (Loss) Attributable to External Partners	Total
Fully consolidated:						
Realia Business, S.A.	(2,644)	-	(2,644)	(13,368)	-	(13,368)
Valaise	(2)	-	(2)	(2)	-	(2)
Realia Business Portugal-Unipessoal, Lda.	-	-	-	(171)	-	(171)
Servicios Índice, S.A.	(68)	(66)	(134)	(43)	(43)	(86)
Planigesa Subgroup	14,154	14,874	29,028	11,695	12,864	24,559
Retingle, S.L.	(11)	(11)	(22)	58	58	116
Realia Polska Inwestycje, ZOO	(28)	-	(28)	(4)	-	(4)
Realia Patrimonio, S.L.U.	26,118	-	26,118	28,284	-	28,284
Realia Contesti	547	-	547	(339)	-	(339)
Guillena Golf	(455)	-	(455)	(400)	-	(400)
Accounted for using the equity method:						
As Cancelas Siglo XXI, S.L.	2,535	-	2,535	4,745	-	4,745
Inversiones Inmob. Rústicas y Urbanas 2000, S.L.	(6)	-	(6)	(9)	-	(9)
Ronda Norte Denia, S.L.	19	-	19	15	-	15
	40,159	**14,797**	**54,956**	**30,461**	**12,879**	**43,340**

i) Impairment and gains or losses on disposals of financial instruments

The detail of "Impairment and Gains or Losses on Disposals of Financial Instruments" in the consolidated statement of profit and loss is as follows:

	Thousands of Euros	
	2018	2017
Gains or losses on disposals and changes in the scope of consolidation (Note 2.f)	26	-
	26	**-**

j) Changes in write-downs, impairment losses and provisions

The detail of "Changes in Write-Downs, Impairment Losses and Provisions" in the consolidated statement of profit and loss is as follows:

	Thousands of Euros	
	2018	2017
Net write-down of work in progress and finished goods (Note 13)	3,183	519
Net impairment losses on land and building lots (Note 13)	718	(4,014)
Excessive provisions (Note 18)	135	701
Net write-downs, impairment losses and provisions	1,881	3,870
	5,917	**1,076**

24. Balances and transactions with related companies

The Group had the following balances with related companies at 2018 year-end:

	Thousands of Euros								
	Assets			Financial Liabilities			Other Liabilities		
	Non-Current	Current	Total	Non-Current	Current	Total	Non-Current	Current	Total
FCC Indust. E Infraest. Energ, S.A.U.	-	-	-	-	195	195	-	511	511
Fedemes, S.L.	-	-	-	-	-	-	34	-	34
Fomento Construcciones y Contratas, S.L.	-	768	768	-	-	-	-	-	-
Serv. Especiales de Limpieza, S.A.	-	-	-	-	-	-	-	737	737
Studio Residence	-	-	-	-	23	23	-	-	-
Ronda Norte Denia, S.L.	154	127	281	-	-	-	-	-	-
Inmob. Rústica y Urbana	11,915	4,866	16,781	-	-	-	-	-	-
As Cancelas Siglo XXI	38,521	13,052	51,573	-	-	-	-	-	-
Soinmob	-	174	174	-	561	561	-	-	-
FCC, S.A.	-	-	-	-	-	-	25	34	59
FCC Construcción	-	-	-	-	-	-	-	1,041	1,041
FCC Ambito	-	-	-	-	-	-	-	29	29
	50,590	**18,987**	**69,577**	**-**	**779**	**779**	**59**	**2,352**	**2,411**

The Group had the following balances with related companies at 2017 year-end:

	Thousands of Euros								
	Assets			Financial Liabilities			Other Liabilities		
	Non-Current	Current	Total	Non-Current	Current	Total	Non-Current	Current	Total
FCC Indust. E Infraest. Energ, S.A.U.	-	-	-	-	143	143	-	526	526
Fedemes, S.L.	-	-	-	-	-	-	51	2	53
Fomento Construcciones y Contratas	-	319	319	-	-	-	-	-	-
Serv. Especiales de Limpieza, S.A.	-	-	-	-	-	-	-	656	656
Studio Residence	-	-	-	-	23	23	-	-	-
Ronda Norte Denia, S.L.	136	349	485	-	-	-	-	-	-
Inmob. Rústica y Urbana	11,921	4,863	16,784	-	-	-	-	-	-
As Cancelas Siglo XXI	37,299	14,552	51,851	-	-	-	-	-	-
Soinmob	-	229	229	-	-	-	-	-	-
FCC, S.A.	-	-	-	-	-	-	27	58	85
	49,356	**20,312**	**69,668**	**0**	**166**	**166**	**78**	**1,242**	**1,320**

The purchases, sales, services provided and other transactions with Group companies and associates, and the related interest charged and paid, were as follows:

	Thousands of Euros	
	Associates	
	2018	2017
Rental income	1,978	2,217
Services provided	2,040	1,197
Other income	102	152
Construction and services	(1,179)	-
Services received	(2,842)	(2,701)
Financial income	178	219

In 2018 and 2017 no significant transactions were carried out with related companies other than those disclosed herein.

25. Situations of conflict of interest involving the directors

AT 2018 year-end, the members of the Board of Directors have reported that they or persons related to them were not involved in any situations of conflict, either directly or indirectly, as defined by the Capital Companies Act, the with the interests of the Company. However, they did report the following:

- Mr. Juan Rodríguez Torres, Mr. Gerardo Kuri Kaufmann, Meliloto, S.L., E.A.C. Inversiones Corporativas and Mr. Carlos Manuel Jarque Ubrique, abstained from attending and voting on several agreements related to the awarding of service provision contracts to companies of the FCC Group.

26. Remuneration and other benefits of directors and senior executives

The detail of the remuneration received in 2018 and 2017 by the members of the Board of Directors and senior executives of Realia Business, S.A. is as follows:

2018:

	Thousands of Euros						
	No. of People	Salaries	Variable Remuneration	Bylaw-stipulated Directors' Emoluments	Pension Plans	Insurance Premiums	Other
Directors	7	-	355	393	-	-	-
Senior executives	3	571	-	-	37	3	2
	10	**571**	**357**	**393**	**37**	**3**	**2**

2017:

	Thousands of Euros						
	No. of People	Salaries	Variable Remuneration	Bylaw-stipulated Directors' Emoluments	Pension Plans	Insurance Premiums	Other
Directors	7.0	-	355	341	-	-	-
Senior executives	6.0	1,169	-	-	82	7	6
	13.0	**1,169**	**355**	**341**	**82**	**7**	**6**

Details of each of the directors' remuneration are provided in the Parent's annual remuneration report for 2018.

The Parent Company has a civil liability insurance policy to cover directors, executives and representatives, for which it paid a premium of EUR 8 thousand in 2018 (EUR 28 thousand in 2017).

27. Fees paid to auditors

In 2018 and 2017, the fees for financial audit and other services provided by the auditor of the Group's and its subsidiaries' consolidated financial statements (see Annexes I-II), Ernst & Young, S.L. in 2017 and by Deloitte, S.L., and by companies belonging to the Deloitte network in 2016, and the fees for services billed by other auditors and by companies related thereto through control, common ownership or management, were as follows:

2018

	Services provided by the Auditor and by related firms
Audit services	106
Other attest services	6
Total audit and related services	**112**

2017

	Services provided by the Auditor and by related firms
Audit services	105
Other attest services	3
Total audit and related services	**108**

28. Information on the environment

The Group companies pay particular attention to the environmental impact of the projects carried out and the investments made by them in the normal course of their property development projects. However, it was not necessary to incorporate any environmental protection and improvement systems, equipment or installations into its property, plant and equipment.

In 2018, the Group incurred environmental expenses amounting to EUR 117 thousand (EUR 112 thousand in 2017).

The Group companies consider that they do not have any environmental risks, contingencies or liability and, accordingly, no provision was made in this connection.

In addition, no environmental grants were received and no material income was obtained from environmental activities.

29. Risk management

The Realia Business Group is exposed to certain risks that it manages by applying risk identification, measurement, concentration limitation and oversight systems. For this purpose, the Parent has a risk map in which the procedures that may give rise to these risks within its organization are analyzed and quantified, and measures are taken to prevent them.

Capital management

The Group manages its capital to ensure that the Group companies are able to continue to operate as profitable businesses while maximizing the return for shareholders through an optimum debt-to-equity balance. The Group assesses whether to approve or reject the investments proposed by the Business Areas through a review of the cost of capital and the risks associated with each class of capital.

The Financial Area is responsible for the management of financial risks, and reviews the capital structure every six months, in addition to net debt/GAV ratio.

The main principles defined by the Realia Business Group when establishing its policy for the management of the principal risks are as follows:

1 - Compliance with all the Group's rules

2 - Establishment by the businesses and corporate areas, for each market in which they operate, of the level of risk that they are prepared to assume, on a basis consistent with the strategy defined.

3 - Establishment by the businesses and corporate areas of the risk management controls required to ensure that the transactions performed in the markets comply with the Group's policies, rules and procedures.

The main risks worth noting are:

Financial risks

The concept of financial risk refers to the changes in the financial instruments arranged by the Group as a result of market and other factors and the repercussion thereof on the consolidated financial statements.

The Realia Business Group's risk management policy is consistent with its business strategy and seeks to achieve maximum efficiency and solvency at all times. To this end, strict financial risk management and control criteria have been established, consisting of identifying, measuring, analyzing and controlling the risks incurred in the Group's operations, and the risk policy has been integrated into the Group organization in the appropriate manner.

In view of the Group's activities and the transactions through which it carries on its business, it is currently exposed to the following financial risks:

Credit risk

The Group engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received upon delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 8.2 Million, which have been fully written down by the company. Lastly, there is no material risk with regard to the lease of property assets, and it is maintained at levels similar to those of 2017. Company management has recognized provisions for all these contingencies based on the late payment period or bad debts.

Interest rate risk

At 31 December 2018, Realia Patrimonio S.L.U., a company of the Realia Group, does have hedge contracts in place to manage its exposure to interest rate fluctuations. These contracts have been entered into with 5 of the 6 banks that granted the Syndicated Loan to Realia Patrimonio S.L.U. The total amount hedged is 70% of the outstanding loan balance; at 31 December 2018 it amounted to EUR 393,844 thousand (EUR 402,904 thousand in 2017), and the loan term is 7 years (maturing on 27 April 2024). The type of hedging instrument is an IRS plus an option for Euribor floor rate at 0%.

The purpose of interest rate risk management is to achieve a balanced debt structure that allows for the minimization of borrowing costs over a multi-year time horizon with reduced volatility in the statement of profit and loss. Based on a comparative analysis of the finance costs included in the business plan and yield curve trends, the Company decides whether to hedge the interest risk to minimize borrowing costs over the aforementioned period.

The Managers of the Parent company closely monitor the trends in interest rate curves for the coming years and do not rule out using new interest rate hedges in the future.

At 2018 year-end, the market value of this hedge had a positive impact of EUR 519 thousand on profit and loss, and a negative impact of EUR 2,255 thousand on equity.

The following table shows the structure of this financial risk at 2018 and 2017 year-end, detailing the risk hedged at a fixed interest rate:

	Thousands of Euros			
	2018	%	2017	%
Debt at fixed interest rate	393,844	70%	402,904	70%
Debt at variable interest rate	168,505	30%	172,956	30%
Total Financial Debt (*)	**562,349**	**100%**	**575,860**	**100%**

(*) This financial debt does not include interest or arrangement costs

Clearly, the interest rate risk has been limited through derivative instrument contracts that act as financing hedges, ensuring a maximum fixed rate payable for the loans associated to assets for rent. The effect of these instruments is that a raise of one point in the Euribor rate, the generic reference rate for financing operations, is buffered by 70% by the effect of the instruments.

The sensitivity analysis in terms of results and equity against interest rate changes is the following:

	Million €	
	2018	
Impact on Results (Before Taxes)	+1%	-0.25%
Financial expense at average cost	(1.45)	-
Variation in hedging		
Impact on Profit and Loss	1.9	-
Impact on Equity	13.6	(1.98)

Accordingly, an increase of one point in EURIBOR is buffered by the effect of the hedges.

The movements assumed in the basis points for the interest rate sensitivity analyses are based on the current market situation, which shows higher volatility than in prior years.

Liquidity risk

Some signs of improvement in the sector started to appear back in 2015, although they were highly concentrated on medium-high segment products in prime locations, as well as improvements in access to borrowing for new developments commercially viable. This trend was ratified during 2018, the financial system continues to be very liquid and low interest rates continue to provide borrowing to individuals and developers of proven solvency and economically and commercially viable projects; without these requirements, the market continues to be very restricted.

Additionally, at 2018 year-end, the Group has positive working capital for EUR 403.8 Million, a 79% increase over 2017 year-end.

The main aggregates of the cash projections for the next 12 months of the consolidated group, based on a minimum basis of recurring business, dividends and other payments received from services rendered to Group companies, lead to estimated collections of EUR 160.2 Million, which together with estimated payments of EUR 112.6 Million, result in a positive net cash flow of EUR 47.6 Million, which, together with the current cash position, will be used to repay debt and to undertake new investments.

Foreign currency risk

A consequence of the Realia Business Group's positioning in the international markets is the exposure resulting from net positions in foreign currencies with respect to the euro or in one foreign currency with respect to another when the investment and financing of an activity cannot be arranged in the same currency. In view of the Group's limited activity in markets outside the Eurozone, its exposure to foreign currency risk is barely material.

Solvency risk

At 31 December 2018, the net borrowings and valuation of derivatives of Realia Business Group's amounted to EUR 528,455 thousand, as shown in the following table:

Thousands of Euros	December 2018
Credit institutions	
Mortgage loans	580,596
Syndicated	562,349
Others	18,247
Bilateral loans	40,049
Arrangement costs	(12,552)
Interest	1,781
Derivatives	**6,079**
Gross bank borrowings	**615,953**
Cash and cash equivalents	87,498
Net bank borrowings	**528,455**

The most relevant ratios for the purposes of measuring solvency are as follows:

	Consolidated
Indebtedness ratio	
Net borrowing costs / Asset GAV (LTV)	28.7%
Coverage ratio	
EBIDTA/Financial loss	2.56

At 2018 year-end, the Group had positive working capital of EUR 403,805 thousand (EUR 225,637 thousand positive working capital in 2017).

Concentration risk

This risk arises from the concentration of financing activities with common features such as:

- Sources of financing: the Realia Business Group obtains financing from 7 Spanish and foreign banks, which mainly finance one syndicated loan.

- Markets/geographical area (Spanish, foreign): the Realia Business Group operates in Spanish and international markets and 100% of its borrowings are concentrated in euros.

- Products: the Realia Business Group has arranged a spectrum of financial products, including, inter alia, loans and syndicated transactions.

- Currency: the Realia Business Group manages its statements of profit and loss in a variety of currencies. Investments tend to be financed in the local currency whenever this is possible in the country of origin.

Market risks

The property market started to show some signs of growth back in 2015, and this positive trend continued during 2018. Even in some areas of cities like Madrid or Barcelona, where there is a very limited supply of product, new developments have started. In view of this situation, Realia is analyzing the launch of new developments in those cities and in some others that also offer an interesting demand of residential housing.

However, despite the improvement mentioned above, the product stock is still high in most of the national territories, and therefore the recovery of prices, compared to the beginning of the crisis, is still scarce, highly selective and concentrated on areas of great demand, and access to financing by developers and buyers is very restrictive.

Regarding the rental market, where the Group operates through its subsidiary Realia Patrimonio S.L.U., and Hermanos Revilla, a modest recovery of demand for space is observed, rent price stability and a reduction in the incentives to rent requested by customers. On the other hand, property investment activity continues to evolve positively, albeit below that of 2017. In these circumstances, Realia Business Group, S.A. believes that it must focus its efforts on its two current business lines. In the property management area, where its exceptional portfolio gives it an outstanding position; it must optimize asset management to increase operational margins and the creation of asset value. In the development area, it must optimize the value of its current assets through the increase in prices of finished products, the management of the land in its portfolio, and the construction of developments in locations with consistent demand.

Legal and fiscal risk

The Group's activities are subject to tax, legal, urban development and other legislation. The local, regional, Spanish and EU authorities may impose sanctions for non-fulfilment of the aforementioned legislation. A change in the legal and fiscal environment could affect the general planning of the Group's activities. The Group monitors and analyzes these changes through the relevant internal departments and, as appropriate, takes specific measures to deal with them.

The mains risks related to compliance with the specific legislation include the following:

a) Judicial claims and out-of-court complaints. – Realia's activities may give rise to judicial claims related to the materials used or the finishing of the properties sold, even in case of actions from third parties contracted by Realia (architects, engineers, construction contractors and subcontractors).

   To mitigate this risk, the company has taken out ten-year insurance policies, which are mandatory for property developers, before handing out the homes to their buyers. Additionally, all work contracts incorporate a clause that withholds 5% of every certification issued by contractors to respond to the strict compliance of their obligations, and especially, of the defects detected in the provisional acceptance and the repair costs resulting from poor execution or defects in the quality of works or facilities during the warranty period after the date of provisional acceptance of the works. Additionally, during the execution of work, Realia technicians monitor the works to ensure that they are been performed according to plan.

b) Realia's responsibilities resulting from its actions with contractors and subcontractors. It may be the case that the contractors contracted by Realia do not fulfil their commitments, fall behind in delivering, or go through financial difficulties that prevent them from meeting the deadlines of the contract, which would force Realia to incur in additional expenses in order to fulfil its own commitments with third parties.

   In order to reduce this risk, contracting has been limited to entities of proven solvency.

Economic risks

The Group attempts to control these risks during acquisitions by carefully analyzing the transactions, examining and anticipating problems that could arise in the future, and proposing possible solutions in this connection. In disposals, the main risk is failing to collect the prices agreed upon in the agreements due to default by the purchasers. The Group attempts to control these risks by arranging guarantees of all types which allow, should the need arise, collection of the full price or the recovery of the property being sold.

Money laundering and financial crimes risk

These risks are controlled through a prevention and control system implemented by the Group in accordance with the applicable legislation, together with the related Manual that includes the internal rules related to these matters and a Control, Information and Communication body that maintains relations with the Group's employees and the prevention services; and a Technical Unit for information processing and analysis, that analyzes and processes the communication on potentially suspect transactions. The Manual is updated annually, in order to adapt its wording to changes in legislation, the recommendations proposed by the independent expert, or simply to the enforcement of the measures therein contained.

As in previous years, in 2018 the company has been subject to an annual audit by an independent expert, as required by Law. Once again, the conclusion is that there were no significant risks for the company related to money laundering and financial crimes.

Personal data protection risk

These risks are controlled by special and standardized clauses included in agreements in different situations which, in accordance with the legislation governing this area, allow the Group to limit and even eliminate any type of liability for Realia Business, S.A. In 2018, the Group adapted its personal data protection system to the provisions of the General Regulation on Data Protection (Regulation EU 2016/879 on Data Protection).

In 2017, the company was subject to the biennial audit by the independent expert as required by Law.

Consumer and user protection risk

The Group complies with the requirements of the various state and autonomous community regulations regarding consumers and users. It has specific model contracts for autonomous communities that contain specific legislation in this connection. Additionally, the Group's policy to respond to all claims it might receive from public consumer organizations with a conciliatory and constructive spirit.

In addition, Realia Business S.A. is equipped with a series of tools to ensure ethical behavior. The most notable, in addition to the above-mentioned money laundering prevention tools, are as follows:

The Internal Code of Conduct for matters related to the securities market was approved in April 2007 by the Board of Directors of Realia, and focuses on matters related to Stock Markets. The Internal Code of Conduct defines the rules for conduct and actions that must be followed in relation to transactions and the treatment, use and dissemination of relevant information in order to promote transparency in the performance of business activities and the provision of adequate information and protection for investors. The code applies at the very least to the directors and executives of the Realia Group, external advisers and the employees in the Stock Market and Investor Relations Departments.

The Ethical Code was approved for the first time in November 2010, and a new version of the same was approved by the Board of Directors of the Company in its session held on April 2018; its purpose is to establish the principles, values and rules of conduct that must govern the action of the companies of the Realia Group and all their employees, and to define the criteria for the conduct of managers and employees of the Realia Group. Compliance with this Code is mandatory.

The PRINEX System is a global business solution that combines the characteristics of universal business management software with the advantages of an ERP designed specifically for companies that operate in the property sector. It is intended to ensure ethical behavior as it allows the commercial department to identify customers who have performed fraudulent transactions in the past and therefore to avoid transactions with them.

30. Events after the reporting period

Since 2018 year-end and until the date of preparation of these consolidated financial statements, no relevant events have occurred that have an impact on financial statements.

31. Additional note for English translation

These consolidated financial statements were originally prepared in Spanish. In the event of a discrepancy, the Spanish language prevails. These consolidated financial statements are presented on the basis of Spanish General Accounting rules. Consequently, certain accounting practices applied by the Group may not conform to generally accepted accounting principles in other countries.

MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

CONSOLIDATED STATEMENTS

MANAGEMENT REPORT

1. THE COMPANY AND ITS ORGANIZATIONAL STRUCTURE AND OPERATION:

Realia Business S.A. is the head of the REALIA holding, that carries on its activities directly or through ownership interests in various companies.

Business activities are mainly focused on two lines of business:

a) PROPERTY MANAGEMENT: this activity is carried on directly by Realia Patrimonio, S.L. (wholly owned by Realia Business, S.A.), or through subsidiaries in which it has controlling or significant ownership interests. This activity is carried on in Spain.

These financial investments amount to 19.3% approximately of the asset value in the balance sheet of Realia Business, S.A.

b) PROPERTY DEVELOPMENT AND LAND MANAGEMENT: this line of business is carried on either directly by Realia Business S.A. or through companies with ownership interests though which control is exercised or with significant ownership interests.

The property development business is carried on in Spain, Portugal, Poland and Rumania. In Spain, activities are focused in the following geographical areas:

1) Madrid, Castilla-La Mancha, and Castilla y León.
2) Catalonia
3) Valencia, Murcia and the Balearic Islands
4) Andalusia

Activities abroad are carried on mainly by wholly owned subsidiaries (direct and indirect control) of Realia Business, S.A.

The parent Realia Business S.A. is a company listed on the continuous market of Madrid; its most significant shareholders include the FCC Group, with an ownership interest of 36.925%, and the Mexican company Inversora Carso, S.A. de C.V., with a stake of 33.844%. The latter is the controlling shareholder of the FCC Group, and therefore controls, directly or indirectly, 56.409% of Realia Business, S.A.

Its organization structure can be summarized as follows:

BOARD OF DIRECTORS: this is composed of 7 directors and is advised by the Audit Committee and the Appointment and Remuneration Committee.

NON-EXECUTIVE CHAIRMAN: Chairs the Board of Directors.

CHAIRMAN’S OFFICE: this reports directly to the Board of Directors of which it is also a member.

The Development and Land Management business is managed daily on a joint basis by the head office in Madrid and by a territorial sales office in each geographical region where the company is present.

The control over the investments in the property management companies is managed through representation on, and involvement in, their decision-making bodies (Board of

Directors and Management Committees), and through control by the various central departments of Realia Business and Realia Patrimonio.

2. CHANGES IN THE EQUITY INVESTMENT PORTFOLIO

The following changes took place within the scope of consolidation during 2018:

1) At the Extraordinary General Meeting of Retingle, held on 28 June 2018, it was agreed to reduce the share capital in order to refund the contributions from Realia Business; this was achieved through the amortization of the company shares of the latter, and the cancellation of the loan Realia Business had granted Retingle. Thus, Retingle was removed from the consolidation perimeter on that date.

2) At the Annual Meeting held on 1 March 2018, the company Duse S.L. agreed to its dissolution. Later, on 29 May 2018, the Commercial Court No. 1 of Seville, at the company's request, declared Duse S.L. to be in a situation of voluntary bankruptcy. This led to the exit of Duse from the consolidation perimeter on that date.

3) In March and October 2018, Realia Business made two monetary contributions to the company Guillena Golf, S.L.U. for EUR 272 thousand and EUR 255 thousand, respectively. The purpose of these contributions was to cover losses and restore the equity balance, and did not entail any change in the percentage of ownership.

4) In October 2018, Realia Business Portugal, Unipersonal LDA reduced its equity by EUR 1,846 thousand, after the repayment of its supplementary provisions to its sole partners Realia Business. This did not change its ownership interest.

3. AVERAGE PAYMENT PERIOD TO SUPPLIERS

Below is the detail of the information required by additional provision three of Law 15/2010, of 5 of July (amended by Final provision two of Law 31/2014, of 3 of December) prepared in accordance with ICAC's Resolution of 29 January 2016, related to the information to be included in the annual financial statements regarding the average payment period to suppliers in commercial transactions:

	2018
	Days
Average payment period to suppliers	46
Ratio of transactions paid	48
Ratio of transactions outstanding	38
	Thousands of Euros
Total payments made	66,323
Total outstanding payments	6,356

According to ICAC's Resolution, commercial transactions corresponding to the provision of good or services accrued since the effective date of Law 31/2014, of 3 of December, have been taken into account in the calculation of the average payment period to suppliers.

For the purposes of providing the information required by this Resolution, suppliers are the commercial creditors for debts with the suppliers of goods or services included under "Suppliers", "Suppliers, Group companies and Associates", and "Creditors" in the current liability side of the balance sheet.

"Average payment period to suppliers" is the time elapsed from the delivery of goods or provision of services by the supplier and the effective payment of the transaction.

The ratio of transactions paid is the ratio between the sum of the products corresponding to the amounts paid, times the number of payment days (difference between the calendar days elapsed from the initial date of the period until the payment of the transaction), divided by the total amount of payments made.

Additionally, the ratio of transactions outstanding corresponds to the ratio between the sum of the products corresponding to the amounts outstanding, times the number of days outstanding (difference between the calendar says from the initial date of the period until the last day of the period that the financial statements refer to), divide by the total amount of payments outstanding.

The maximum payment deadline applicable to the Company in 2018, according to Law 3/2004, of 29 of December, that establishes measures to fight against default in commercial transactions and according to the transitory provisions of Law 15/2010, is of 60 days, since the conditions required by Law 11/2013, of 26 of July, are fulfilled. Suppliers are paid on the 15th or following working day of each month.

4. RELEVANT EVENTS DURING THE PERIOD:

A) CAPITAL INCREASE SUBSCRIBED

On 28 December 2018, the Mercantile Registry of Madrid registered the capital increase agreed by the Board of Directors of the Company on 15 November 2018 through the issue and distribution of 175,457,742 ordinary shares, for a nominal value of 0.24 € per share, and a share premium of 0.61 € per share, fully subscribed and paid on 24 December 2018. The capital increase amounted to EUR 42,109,858.08, with a share premium of EUR 107,029,222.62.

B) CANCELLATION OF DEBT

In order to fulfil the purpose of the aforementioned capital increase, the parent Realia Business S.A. cancelled on 26 December 2018 the loan for an amount of EUR 120,000 thousand with Caixa, and consequently released the corresponding security granted by the shareholder Inversora Carso S.A.

C) PROPERTY INVESTMENTS

No property, plant and equipment were acquired during 2018, and investments on the upkeep and refurbishment of some assets have been very limited, with a total amount of EUR 1.8 Million.

The asset investment market in offices and shopping centers, where the Realia Group concentrates most of its activity, has remained active, with a good volume of sales transactions. Very low capitalization yields are applied to the transactions conducted during the year; however, the yields are attractive to investors compared to the yields offered by financial markets.

Regarding the rental market, there is a slow but constant improvement in the number of transactions and the contractual conditions with the different tenants.

D) INVENTORIES

The improvement that started at the end of 2016 has continued during 2018. This has led to price increases, albeit with great differences, depending on the type of product and the corresponding areas or Autonomous Communities. Mortgage lending has been very dynamic, despite the turmoil experienced in 2018 due to judicial sentences (stamp duties, mortgage loans in foreign currencies, floor clauses...), offers for buyers are still very attractive, and so far, no signs of a pickup in margins applied by financial entities have appeared, despite the increase in costs that these judicial sentences represent for them. It is to be expected that these offers will gradually extend to direct developer funding, without the current restrictions, mainly related to the existence of a high level of pre-sales; and hopefully, there will soon be funding available for the purchase of land, which is currently at an all-time low in the number of transactions signed. All of this, together with the upcoming Mortgage Law that will introduce transparency to the mortgage lending sector, will help the residential property sector consolidate its improvement and reach the levels of performance and delivery anticipated by all the agents in the sector.

Stress must be made on the difficulties that real estate companies find to obtain the Work Permits, which in many cases take more than one year to process and grant. Also, no new urban developments are approved that could allocate new land to continue the residential property sector activity in the near future.

The Realia Group continues its policy of careful analysis of its portfolio of finished product for sale and has established a sales policy according to an estimate of the evolution of its market prices. On the other hand, regarding new real estate developments, Realia analyzes its land portfolio to start promotions that are viable in terms of demand and profitability, and maintains a pipeline of projects ready to start developments that can be absorbed by the market and contribute profits to the Group.

5. MAIN AGGREGATES OF 2018

- Realia generated total revenues in 2018 for EUR 93.9 Million, 6.8% lower than in 2017, due to higher revenues in the property area (1.4%), and a drop of 38.9% in the development area (EUR 8.8 Million), justified by the gradual reduction in the stock of finished residential product, whose average price is lower than that of finished product in prior years. Additionally, in 2017 some units were being delivered from a development in Valdebebas (Madrid), at very high unit prices. Another factor is the stock of units reserved but not delivered yet to their buyers, which are expected to be delivered during the first quarter of 2019.

- EBITDA of the Realia Group (see APMS, item 5) reached EUR 45.3 Million, a 0.9% increase over 2017, despite the fact that revenues decreased in 2018 compared to 2017, as explained above. This improvement in Ebitda was the result of a reduction of operating and structural costs.

- Earnings before taxes in 2018 reached EUR 72.5 Million, and the net profit attributed to the parent was EUR 40.2 Million, an increase of 32.5% and 31.8% on 2017, respectively. These increases are mainly the result of the improvements of operating provisions, the higher reevaluation of property investments, and the improved financial income. Their quantification is as follows:

  - The result of the valuation of property assets conducted by independent experts was a positive impact of the net profit attributable to the parent of EUR 15.1 Million in 2018 and EUR 10.3 Million in 2017.

  - The variation in provisions, mainly in inventories and trading, had an impact in 2018 on the net profit attributable to the parent of EUR 4.3 Million; in 2017, the impact amounted to EUR 0.8 Million.

  - Other financial results from interest on arrears collected by Realia Patrimonio had a positive impact in 2018 on the net profit attributed to the parent of EUR 5.2 Million; no amounts were registered for this concept in 2017.

INDEBTEDNESS

After the cancellation of the loan of the Parent Realia Business for EUR 120 Million with part of the funds from the abovementioned capital increase, the most relevant indebtedness parameters are the following:

- At 2018 year-end, Realia reduced its gross bank indebtedness by EUR 147 Million, down to EUR 616 Million, 19.3% lower than in 2017.

- At 2018 year-end, the Realia Group had net bank borrowings (see APMS item 5) for EUR 528.5 Million (including the valuation of derivatives at EUR 6.1 Million), 22% lower than at 2017 year-end, EUR 677.9 Million (including the valuation of derivatives at EUR 3.1 Million), with a loan to value (LTV) (see APMS item 6) of 28.7%.

- The group has interest rate hedging contracts with 5 of the 6 entities that participate in the Syndicated Loan of Realia Patrimonio. The total amount hedged represents EUR 393.8 Million, maturing on 27 April 2024. The type of hedging instrument is an IRS plus a Euribor floor rate of 0%. At 2018 year-end, this hedge, valued at market value, produced a positive impact of EUR 0.5 Million on profit and loss, and a negative impact of EUR 2.3 Million on equity.

- After the reduction of the debt, net financial loss at 2018 year-end amounts to EUR -9.8 Million, versus EUR -16.2 Million at 2017 year-end. This reduction is mainly explained by the higher financial income.

- The average weighted interest of the gross borrowings at 2018 year-end, excluding the cost of rate hedging, stands at 1.70%,, versus 1.62% at 2017 year-end. The average cost in December 2018, including the cost of hedging, amounts to 2.13%.

ASSET VALUATION

- At year-end 2018, property assets, including those of the companies consolidated using the equity method, have a market value of EUR 1,844.3 Million, a 3.1% increase over the same period in 2017. This positive evolution is mainly due to the evolution of the property market, since the rental assets are the same in 2018 and 2017, and regarding inventories, some finished product in stock have been delivered, and this has been offset by the purchase of land in Alcalá de Henares (Madrid), with a market value at December 2018 of EUR 29.1 Million.

- The net net asset value (NNAV) (see APMS point 5) at 31 December 2018 is EUR 1,022 Million, versus EUR 833 Million at 2017 year-end. In unit terms, the price is 1.25 € per share, 3.1% lower than in 2017 (1.25 € per share), justified by the diluting effect of the capital increase of 0.85 €/share for 175,457,742 new shares.

- 80% of the value of assets corresponds to the property activity (EUR 1,479.1 Million), and 19% (EUR 365.2 Million) to the homebuilding business.

PROPERTY MANAGEMENT BUSINESS

- Rent revenues in 2018, excluding passed-on expenses, amount to EUR 60.8 Million, a 1.2% increase over 2017, mainly due to higher rents paid by tenants, thanks to the high occupancy of the assets.

- Global occupancy of rental buildings is at 91.8% at 2018 year-end, versus 94.6% in 2017. This drop in occupancy is a one-off event, and took place in the final part of the year, with not enough time to restart the sales effort. It is expected that historical levels of occupancy will be recovered in the first quarter of 2019. The office segment reached an occupancy of 92.8%, and 87.6% in Shopping Centers.

- No new investments in property assets for rent took place during the year. Gross leasable surface area in the Realia Group amounts to 405,699 sq. m. The valuation of property assets at 2018 year-end, including 127,291 sq. m. of buildable land pending development, reached EUR 1,479.1 Million, a 2.2% increase over 2017.

- Our buildings have undergone improvements, to upgrade their performance (Energy efficiency measures, Hospitality areas, common services, gyms...) and to adapt rental spaces to the new modes of demand (co-working, flexible spaces...), in order to be proactive to the demands of our current and future clients. The amount invested in capex for our buildings was EUR 1.8 Million.

HOMEBUILDING DEVELOPMENT BUSINESS

- In 2018, 89 units were delivered for an amount of EUR 14 Million, a 13.6% decrease over the 103 units of 2017, due to the depletion of finished product stock and the lower quality and price of the units, since new developments have not started to deliver their units yet. At December 2018, Realia has a stock of 444 units (homes, commercial premises and offices), 298 of which are finished and 146 are still in construction (37 of them sold or pre-sold). Additionally, it holds 41 single-family lots for housing self-development.

- Realia's land portfolio, at their different stages of urban development at 31 December 2018 amounts to 5,742,359 sq. m. of gross buildable land, 26.9% of which is land ready for construction and 26.6% of it is located in Madrid.

- At December 2018, the fair value resulting by the valuation of an independent expert, applying the ECO 805/2003 valuation (with the exception of the principles and provisions on the necessary documentation, and the purpose of the valuation not included in those defined by article 2 of that regulation) of land, ongoing developments and finished product under "Inventories" amounts to EUR 333.8 Million.

- In January 2018, Realia executed in public deed the awarding of a land in Alcalá de Henares (MADRID), sold in public auction by the Ministry of Defense through INVIED. The auction was awarded for a final price of EUR 27.5 Million, and a buildable area of 44,755 sq. m.

STOCK MARKET INFORMATION

The main Stock market parameters of the Parent company Realia Business S.A. in 2018 and their evolution are the following:

Share price at year-end 2018 (€/share)	0.91
Share price at year-end 2017 (€/share)	1.1
Variation in share price (%)	-17.3%
Market capitalization at 2018 year-end (€) (*)	586.77 M €
Maximum share price during the year (€/share)	1.18
Minimum share price during the year (€/share)	0.846
Average share price during the year (€/share)	1.027
Average daily traded volume (€)	212,000
Average daily traded volume (shares)	206,000

(*) Does not include the shares issued during the capital increase of 24 December 2018, which started trading on 4 January 2019.

At the General Shareholders' Meeting held on 22 June 2015, it was agreed to authorize to buy back treasury stock for the maximum legal period, and according to the requirements established on article 146 of the Law on Corporations.

The movements during the year were the following:

	No. of shares	Thousands of Euros
Balances at 31 December 2017	**610,000**	**675**
Disposals	-	-
Acquisitions	852,902	891
Balances at 31 December 2017	**1,462,902**	**1,566**

The average price of treasury shares at 2018 year-end was 1.11 €/share, and 1.07 €/share at 2017 year-end.

6. ALTERNATIVE PERFORMANCE MEASUREMENTS (APMS)

In order to meet the ESMA Guidelines on APMs, the following additional information is presented, to facilitate comparability, reliability and understanding of its financial information. The Group presents its results in accordance with the generally accepted accounting standards (IFRS), and some Alternative Performance Measurements that provide useful additional financial information to assess its performance and that are used by the Group to make its financial decisions and to evaluate the Company's performance. Below is the additional information about the indicators included in this management report.

EBITDA

The Group defines EBITDA as the operating profit, minus the impact of allocations to amortizations and changes in trade provisions.

EBITDA provides an analysis of the operating profit, excluding depreciation and amortization, since these are variable and do not represent cash and may vary substantially from one company to another, depending on accounting policies and the book value of assets. EBITDA is the best approximation to the Operating Cash-Flow before taxes, and reflects the generation of cash before the changes in Working Capital, and is an indicator widely used by investors in the valuation of businesses (valuation by multiples), and by rating agencies.

EBITDA	**Thousands of Euros**	
Profit and loss account	**2018**	**2017**
Operating result	50,848	45,622
Provision for amortization	313	314
Changes in trade provisions	-5,914	-1,076

NET FINANCIAL BORROWINGS:

The Group defines net financial borrowings as the current and non-current debt with credit institutions, plus the rest of current and non-current financial liabilities, excluding from them the financing through participating loans and debts with property, plant and equipment suppliers, minus the balance of cash and cash equivalents.

Net financial borrowings is a financial indicator used by investors, financial analysts, rating agencies, creditors and others to determine the indebtedness position of a company.

Net bank borrowings	Thousands of Euros	
	2018	2017
Balance sheet data		
+ Non-current debt with credit institutions	586,547	584,444
+ Derivatives	3,466	847
+ Current debt with credit institutions	23,327	174,968
+ Derivatives	2,613	2,769
+ Other current financial liabilities	2,011	2,635
- Suppliers of fixed assets and others	2,011	2,635
- Cash and cash equivalents	87,498	85,075
	528,455	**677,953**

NET NET ASSET VALUE (NNAV):

The Group calculates the NNAV based on the equity attributable to the Parent, adjusted by the gains implicit in working capital assets and own assets valued at market price, and deducting the taxes accrued for these implicit gains, in accordance with the fiscal regulation at the time of calculation.

Net Net Asset Value (NNAV)	Million Euros	
	2018	2017
Equity attributable to the Parent	997.53	806.33
+ Net gains from fixed assets for own use	1.90	7.30
+ Net gains from inventories	22.00	19.39
	1,021.43	**833.02**

LOAN TO VALUE (LTV):

Calculated as the ratio between the net indebtedness EFN and the GAV value of asset replacement (market value of assets increased by transaction costs), determined by an independent expert (CB Ellis according to RICS criterion and TINSA according to ECO criterion).

Loan to Value (LTV)	Thousands of Euros	
	2018	2017
Ratio between		
Net indebtedness (EFN)	528,455	677,953
GAV Asset replacement value	1,889,744	1,830,000
	28.0%	**37.0%**

GAV (Liquidation Value):

Value of the assets, determined by independent experts (Tinsa and CBRE).

The conciliation of the GAV asset replacement value and the GAV liquidation value recognized in the Group’s financial statements is:

Valuation by independent experts		
	Million Euros	
GAV. Replacement value	**2018**	**2017**
Appraisal value of property assets Richard Ellis CB	1,524.03	1,486.70
Appraisal value of development assets TINSA	365.71	343.30
	1,889.74	**1,830.00**
• Transaction costs	**Million Euros**	
Appraisal value of property assets Richard Ellis CB	44.94	40.10
Appraisal value of development assets TINSA	0.52	0.50
	45.46	**40.60**
GAV. Liquidation value	**Million Euros**	
	2018	**2017**
Appraisal value of property assets Richard Ellis CB	1,479.09	1,446.60
Appraisal value of development assets TINSA	365.19	342.80
Total	**1,844.28**	**1,789.40**
Conciliation with Consolidated Financial Statements		
	Million Euros	
GAV. Liquidation value	**2018**	**2017**
Appraisal value of property assets Richard Ellis CB (1)	**1,479.09**	**1,446.60**
- Valuation of assets of companies consolidated with the equity method	-54.00	-54.00
- Valuation of property, plant and equipment (self-consumption)	-6.27	-15.31
+ Valuation of Guillena Golf Course, not considered a property asset	2.50	4.93
- Valuation of property investments for sale	-	-
+ Carrying amount of advances to property investments non-valuated	1.01	0.86
Market value of Property Investments Financial Statements of the Group (Note 10)	**1,422.33**	**1,383.08**
Appraisal value of development assets TINSA (2)	**365.19**	**342.80**
- Asset valuation of companies consolidated using the equity method	-18.19	-18.16
- Valuation of the Guillena Golf Course, not included under inventories	-2.50	-4.93
Market value of Inventories Financial Statements of the Group (Note 13)	**344.50**	**319.71**
Total GAV. Liquidation Value (1+2)	**1,844.28**	**1,789.40**

7. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

Macroeconomic forecasts for 2019 are positive, despite some uncertainties, and GDP is expected to grow around 2.2%. This GDP growth is expected to have a positive impact on the property sector, and hopefully it will result in:

a) Greater demand for housing, which will allow starting new developments in some areas. At the same time, prices will recover.

b) Increased lending for developers, with a relaxation of the strict requirements currently in place, mainly the demand of a high percentage of pre-sales.

c) Increased lending for the purchase of land, since the banks believe these transactions should be financed with equity.

d) Regarding the segment of rental assets, it is expected that rents will continue their slow but continued upward trend, with greater moderation in the requirements for incentives to rent (rent-free period, aids to establishment, etc.); however, the value of assets is expected to continue in maximum values if the current profitability levels of the financial system do not change and there is confidence in the political system at home and abroad.

The sum of all these factors may affect the accounts of the Group, and it is expected that the macroeconomic forecasts about the Spanish economy will have a positive impact.

Internally, after achieving the shareholding stability of the Realia Group, the most important risks for the company will be tackled, namely:

1) Increased development activity, with the start of new homebuilding developments, in areas with demand such as Madrid, Barcelona, Palma de Mallorca, Valencia, Canaries, etc., which will provide cash flow and profits to the group.

2) Acquisition of new assets and/or land with value potential, either by their management or by the market, which are expected to increase the activities and the size of the Realia Group in the future.

Financial risk management objectives and policies:

The main principles defined by the Realia Business Group when establishing its policy for the management of the principal risks are as follows:

- Compliance with the Group’s rules.

- Establishment by the businesses and corporate areas, for each market in which they operate, of the level of risk that they are prepared to assume, on a basis consistent with the strategy defined.

- Establishment by the businesses and corporate areas of the risk management controls required to ensure that the transactions performed in the markets comply with the Group’s policies, rules and procedures.

The Parent has a risk map in which procedures that may give rise to these risks in the organization are analyzed and quantified, and measures are taken to prevent them.

The most significant financial risks are:

Credit risk

The Group engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received on delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 8.2 Million, which the Company wrote down in full. Lastly, there is no material risk with regard to the lease of property assets, and it is maintained at levels similar to those of 2017. Company management has recognized provisions for all these contingencies based on the late payment period or bad debts.

Interest rate risk

The group has interest rate hedging contracts with 5 of the 6 lender banks of Realia Patrimonio's lender banks. The total amount hedged is 70% of the outstanding balance of the loan; at 31 December 2018, this amounted to EUR 393.8 Million, maturing on 27 April 2024. The rate is IRS plus an Euribor rate floor option at 0%. At 2018 year-end, this hedge, valued at market price, resulted in a positive impact of EUR 0.5 Million on profit and loss and a negative impact of EUR 2.3 Million on equity.

The goal of interest rate risk management is to reach a balanced debt structure that allows to minimize the cost of debt over a multi-year time horizon with reduced volatility on profit and loss. The comparative analysis of the financial cost and the rate curve trends will influence the decision of the company on whether to hedge against interest rate risk in order to minimize the cost of borrowings for that period.

The Management of the Parent closely monitors rate curve trends for the coming years and does not rule out arranging interest rate hedges in the future.

Liquidity risk

Some signs of improvement in the sector appeared back in 2015, although largely concentrated on the demand for products in prime location in the medium-high segment, financing is increasingly available, mostly for new developments commercially viable. This trend was ratified during 2018 and the continued strong liquidity of the financial market, together with low interest rates, have made it possible to provide financing to individuals and developers of proven solvency, for economically and commercially viable projects; in other cases, the market continues to be very restricted.

At 2018 year-end, the Group has EUR 403.8 Million in positive working capital, a 79% increase over 2017 year-end.

The main aggregates of the cash forecasts for the next twelve months of the consolidated group, prepared on the basis of recurrent business, dividends and other collections from services provided to companies of the group, record a figure of EUR 106.2 Million in collections forecast, which together with a payment forecast of EUR 112.6 million, generate a positive net cash flow of EUR 47.6 million, which will be allocated, together with the current cash position, to the partial repayment of debt and to new investments.

Solvency risk

At 31 December 2018, the Realia Business Group's net borrowings, and the valuation of its derivatives amounted to EUR 528,455 thousand, as shown in the following table:

Thousands of Euros	December 2018
Credit Institutions	
Mortgage loans	580,596
Syndicated loan	562,349
Others	18,247
Bilateral loans	40,049
Arrangement costs	-12,552
Interest	1,781
Derivatives	**6,079**
Gross bank borrowings	**615,953**
Cash and cash equivalents	87,498
Net financial borrowings	**528,455**

The most relevant ratios for measuring solvency are as follows:

	Consolidated
Indebtedness ratios	
Net bank borrowings / GAV Liquidation Value (LTV)	28.7%
Coverage ratio	
EBITDA/ Financial loss	2.56

At 2018 year-end, the Group had positive working capital for EUR 403.8 Million.

Foreign currency risk

The Realia Business Group does not have a significant foreign currency risk.

Other risks: Market Risk

Positive growth rate has been recorded in the real estate market since 2015; this improvement continued during 2018, and even in some areas of cities like Madrid or Barcelona, there is scarce demand, and new developments are about to start. In view of this situation, Realia plans to launch new developments in these cities and in other which offer a similar interesting demand for residential homebuilding.

However, despite the improvement mentioned above, the product stock is still high is most locations in Spain, and price recovery is accordingly very selective, and access to lending by developers and buyers is highly selective.

Regarding rents, market in which the Group operates through its subsidiary Realia Patrimonio S.L.U. and Hermanos Revilla, a continued recovery of the demand for space is observed, as well as the reduction of incentives for settlement requested by customers. On the other hand, investment activity in the property sector has increased, although at lower levels than in 2017. In view of this situation, the Realia Business Group believes it must focus its efforts on its two current lines of business. In the property area, where its extraordinary building portfolio gives it an outstanding position; it must optimize management of its assets to increase operating margins and value creation of its assets.

In the development business, it must optimize the value of its current assets, through price increases in finished products, management of the land in its portfolio, and the building of developments in locations with consistent demand.

8. OUTLOOK FOR 2019

The main lines of action of the Realia Business Group for 2019 will focus on:

1) Increasing and strengthening its revenues in the development business. To this end, it plans to start new developments in areas of consistent demand and very low or nonexistent supply, especially in areas of Madrid, Barcelona, Canaries, Valencia and others with similar market characteristics.

2) Improvement of margins in the development business, due to both rationalization and optimization of expenses, and through production costs and price recovery.

3) Continue all the actions seeking to optimize revenues and expenses of all its assets for rent.

4) Continue with the upgrade and improvement of office buildings and Shopping Centers, in order to incorporate the latest technological advances and to adapt them to the demands of customers, to make them more attractive to our current customers and potential future tenants, so that the operator gains an added interest on the center, thus strengthening its commercial operation.

5) Invest in the acquisition of new assets for rent. Segments and assets to invest must be those with the characteristics, uses and locations that do not distort the current portfolio of the company.

6) Manage its current portfolio of tenants to optimize occupancy levels in all its assets, and the satisfaction of current tenants.

During 2018, the investment market in offices and shopping center has continued with a high activity, with good volumes of purchase and sale operations. The capitalization yields applied to the transactions made during the year are still very low, but attractive to investors in view of the yields offered by financial markets. It is expected that this trend will continue in 2019, in view of the delayed upturn of interest rates.

If we analyze the type of assets that the Realia Group owns, most of its office assets are located on prime areas; the same applies to its shopping centers, located in the downtown of cities. This will help the Realia Group to attain high levels of occupancy, increase its profitability and generate value for the shareholder, just like in prior years.

Finally, despite the competitiveness of investment markets, and the subsequent increase in asset value, the Realia Group will remain attentive of any possible investment opportunity that meets the requirements of the current portfolio in terms of location, segments and profitability, in order to create shareholder value.

9. RESEARCH AND DEVELOPMENT POLICY

The Company has not allocated any budget to research and development activities.

10. EVENTS AFTER THE REPORTING PERIOD

No relevant events have taken place after the reporting date.

APPENDIX I: 2018

COMPANY	REGISTERED OFFICE	OWNER	LINE OF BUSINESS	EFFECTIVE PERCENTAGE OF OWNERSHIP	THOUSANDS OF EUROS			
					NET COST OF THE OWNERSHIP INTEREST	Investee Data (100%)		
						EQUITY		PROFIT (LOSS) BEFORE TAX
						SHARE CAPITAL	RESERVES AND PROFIT /LOSS (d)	
FULLY CONSOLIDATED COMPANIES:								
REALIA BUSINESS PORTUGAL UNIPESSOAL LDA.	Avda. Libertade, 249 (Lisbon)	REALIA BUSINESS S.A.	Property development	100.00%	417	250	167	0
REALIA POLSKA INWESTYCJE SP, ZOO (S.L. POLAND) (b)	Ul Pulawska, 228 (Warsaw)	REALIA BUSINESS S.A.	Property development	100.00%	101	4,491	(4,390)	(28)
SERVICIOS INDICE, S.A.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS S.A.	Property development	50.50%	2,190	4,180	177	(134)
VALAISE, S.L.U.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS S.A.	Real estate services	100.00%	9	10	(1)	(2)
REALIA PATRIMONIO, S.L.U. (*)	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS, S.A.	Lease	100.00%	118,781	90,000	23,613	17,997
REALIA CONTESTI S.R.L. (c)	Candiano Popescu, 63c (Bucharest)	REALIA BUSINESS, S.A.	Property development	100.00%	3,438	3,997	(559)	547
GUILLENA GOLF, S.L.U.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS, S.A.	Services	100.00%	102	4	98	(455)
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	10.04%	37,940	54,881	163,486	18,544
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	PLANIGESA, S.A.	Lease	48.57%	57,600	54,881	163,486	18,544
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	BOANE 2003, S.A.U.	Lease	4.76%	8,414	54,881	163,486	18,544
BOANE 2003, S.A.U. (a)	P. Castellana, 41 (Madrid)	HERMANOS REVILLA, S.A.	Lease	100.00%	13,913	7,961	1,627	694
PLANIGESA, S.A. (a)	Avda. Camino de Santiago, 40 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	76.00%	44,564	46,878	33,034	6,951

(a) Companies belonging to the Planigesa Group
(b) Share capital of Realia Polska Inwestcyje S.P., ZOO is 19,041 thousand zloty. The figure indicated corresponds to the translation of this figure into euros at the exchange rate in force at the date of the capital injection.
(c) Share capital of the company Realia Contesti, S.R.L. is 15,428 thousand Ron. The figure indicated in the result of the translation to euros at the exchange rate in force at the date of the capital injection
(d) Including the result of 2018 (*) Company audited by Ernst & Young, S.L.

APPENDIX I: 2017

COMPANY	REGISTERED OFFICE	OWNER	LINE OF BUSINESS	EFFECTIVE PERCENTAGE OF OWNERSHIP	THOUSANDS OF EUROS			
					NET COST OF THE OWNERSHIP INTEREST	Investee Data (100%)		
						EQUITY		
						SHARE CAPITAL	RESERVES AND PROFIT /LOSS (d)	PROFIT (LOSS) BEFORE TAX
FULLY CONSOLIDATED COMPANIES:								
REALIA BUSINESS PORTUGAL UNIPESSOAL LDA.	Avda. Libertade, 249 (Lisbon)	REALIA BUSINESS S.A.	Property development	100.00%	2,263	250	2,013	-171
REALIA POLSKA INWESTYCJE SP, ZOO (S.L. POLAND) (b)	Ul Pulawska, 228 (Warsaw)	REALIA BUSINESS S.A.	Property development	100.00%	184	4,491	-4,350	-4
RETINGLE, S.A.	P. Castellana, 216 (Madrid)	REALIA BUSINESS S.A.	Property development	50.10%	10,762	21,481	1,380	181
SERVICIOS INDICE, S.A.	P. Castellana, 216 (Madrid)	REALIA BUSINESS S.A.	Property development	50.50%	2,258	8,000	-3,529	-86
VALAISE, S.L.U.	P. Castellana, 216 (Madrid)	REALIA BUSINESS S.A.	Services	100.00%	10	10	0	-2
REALIA PATRIMONIO, S.L.U. (*)	P. Castellana, 216 (Madrid)	REALIA BUSINESS, S.A.	Lease	100.00%	118,781	90,000	19,157	13,522
REALIA CONTESTI S.R.L. (c)	Candiano Popescu, 63c (Bucharest)	REALIA BUSINESS, S.A.	Property development	100.00%	3,283	3,997	-1,098	-339
GUILLENA GOLF, S.L.U.	P. Castellana, 216 (Madrid)	REALIA BUSINESS, S.A.	Services	100.00%	30	4	26	-400
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	10.04%	37,940	54,881	163,821	18,160
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	PLANIGESA, S.A.	Lease	51.00%	57,600	54,881	163,821	18,160
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	BOANE 2003, S.A.U.	Lease	4.76%	8,414	54,881	163,821	18,160
BOANE 2003, S.A.U. (a)	P. Castellana, 41 (Madrid)	HERMANOS REVILLA, S.A.	Lease	100.00%	13,913	7,961	1,528	662
PLANIGESA, S.A. (a)	P. Castellana, 216 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	76.00%	44,564	46,878	26,072	6,645

(a) Companies belonging to the Planigesa Subgroup

(b) The share capital of the company Realia Polska S:P., ZOO is 19,401 thousand zlotys. The figure shown is the result of the conversion to euros at the exchange rate in force at the time of the capital injection.
(c) The share capital of the company Realia COntesti S.R.L. is 15,428 thousand ron. The figure shown is the result of the conversion to euros at the exchange rate in force at the time of the capital injection.
(d) Includes the result of 2017.

(*) Company audited by Erns & Young, S.L.

2018

APPENDIX II:

COMPANY	REGISTERED OFFICE	OWNER	LINE OF BUSINESS	EFFECTIVE PERCENTAGE OF OWNERSHIP	Thousands of Euros			
					NET COST OF THE OWNERSHIP INTEREST	Investee Data (100%)		
						EQUITY		
						SHARE CAPITAL	RESERVES AND PROFIT/LOSS (d)	PROFIT (LOSS) BEFORE TAX
ASSOCIATES								
RONDA NORTE DENIA, S.L.	Pza. Nicolás María Garelly, 2 – (Valencia)	REALIA BUSINESS, S.A.	Property development	32.63%	154	475	(2)	57
INVERSIONES INMOBILIARIAS RÚSTICAS Y URBANAS 200, S.L.	c/ Ayala, 3 (Madrid9	REALIA BUSINESS, S.A.	Property development	33.36%	11,930	20	34,638	(24)
AS CANCELAS SIGLO XXI, S.L. (*)	Avda. Camino de Santiago, 40 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	50.00%	22,176	900	48,283	4,487

(a) Including the result for 2018

(*) Company audited by Ernst & Young, S.L.

2017

APPENDIX II:

COMPANY	REGISTERED OFFICE	OWNER	LINE OF BUSINESS	EFFECTIVE PERCENTAGE OF OWNERSHIP	Thousands of Euros			
					NET COST OF THE OWNERSHIP INTEREST	Investee Data (100%)		
						EQUITY		
						SHARE CAPITAL	RESERVES AND PROFIT/LOSS (d)	PROFIT (LOSS) BEFORE TAX
ASSOCIATES								
DESARROLLO URBANÍSTICO SEVILLA ESTE, S.L.	Aljarafe Center, Pza. De las Nacionaes, Edificio oficinas (Mairena del Aljarafe – Seville9	REALIA BUSINESS S.A.	Property development	30.52%	0	1,392	-216,397	-139,523
RONDA NORTE DENIA, S.L.	Pza. Nicolás María Garelly (Jurista), 2 – 2ºE (Valencia)	REALIA BUSINESS, S.A.	Property development	32.63%	136	475	-59	8
INVERSIONES INMOBILIARIAS RÚSTICAS Y URBANAS 200, S.L.	c/ Ayala, 3 (Madrid9	REALIA BUSINESS, S.A.	Property development	33.36%	11,935	20	34,656	-35
AS CANCELAS SIGLO XXI, S.L. (*)	P. Castellana, 216 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	50.00%	22,176	900	47,878	3,947

(a) Including the result for 2017

(*) Company audited by Deloitte, S.L.

APPENDIX III: Detail of Joint Ventures and Joint Property Interests. 2018

	Thousands of Euros		
	Total Revenue	**% of Ownership**	**Company in Which it is Consolidated**
Joint Ventures:			
Comunidad de Bienes Turó del Mar	2,193	50.00%	Realia Business, S.A.

APPENDIX III: Detail of Joint Ventures and Joint Property Interests. 2017

	Thousands of Euros		
	Total Revenue	**% of Ownership**	**Company in Which it is Consolidated**
Joint Ventures:			
Comunidad de Bienes Turó del Mar	2,347	50.00%	Realia Business, S.A.

The Consolidated Financial Statements and the Management Report of the Company REALIA BUSINESS, S.A. for 2018 have been drawn up by the Board of Directors of the Company on 25 February 2019, and are described in the back of eighty five (85) pages of stamped paper numbered sequentially from ON5311007 to ON5311091, both inclusive.

For the purposes of Royal Decree 1362/2007, of 19 October (art.8.1.b.), the undersigned Directors of REALIA BUSINESS, S.A. make the following statement of liability:

That, to the best of their knowledge, the Financial Statements prepared in accordance with the applicable accounting principles, offer an accurate picture of the equity, the financial situation and the results of the company, and of all the companies included in the consolidation perimeter, and the Management Report includes the accurate picture of the evolution and the corporate results and the position of the company and all the companies included in the consolidation, together with the description of the main risks and uncertainties that they face.

The Directors, in witness whereof, have undersigned this page of stamped paper numbered ON2258995 on both sides.

MR. JUAN RODRIGUEZ TORRES

Non-Executive Chairman

Proprietary Director

Chairman of the Executive Committee

Member of the Appointment and

Remuneration Committee

Member of the Audit and Control Committee

MR. GERARDO KURI KAUFMANN

Chairman of the Board

Executive Director

Member of the Executive Committee

EAC INVERSIONES CORPORATIVAS, S.L.

Rep: MRS. ESTHER ALCOCER KOPLOWITZ

Member of the Board

Proprietary Director

Member of the Executive Committee Committee

Member of the Appointment and and

Remuneration Committee

MELILOTO, S.L.

Rep: MRS. ALICIA ALCOCER KOPLOWITZ

Member of the Board

Proprietary Director

Member of the Executive

Member of the Appointment and

Remuneration Committee

MRS. CARMEN IGLESIAS CANO

Member of the Board

Independent Director

Member of the Appointment and

Remuneration Committee

Chairperson of the Audit and Control Committee

MR. CARLOS MANUEL JARQUE URIBE

Member of the Board

Proprietary Director

MRS. MARÍA ANTONIA LINARES LIÉBANA

Member of the Board

Independent Director

Chair of the Appointment and Remuneration Committee

Member of the Audit and Control Committee