Realia Business Accounts 2018

Audit Report on the Financial Statements
issued by an Independent Auditor

REALIA BUSINESS, S.A.
Financial Statements and Directors' Report
for the year ended
December 31, 2018

Building a better working world

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (Note 22)

To the shareholders of REALIA BUSINESS, S.A.:

Audit report on the financial statements

Opinion

We have audited the financial statements of REALIA BUSINESS, S.A. (the Company), which consist of the balance sheet at December 31, 2018, the income statement, the statement of changes in equity, the statement of cash flows, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and policies contained therein.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

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

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Key audit matters

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

Measurement of inventories

Description	At December 31, 2018, the Company carried inventories at 301,808 euros, which mainly comprise land and other properties that are being held for sale or are part of real estate developments. The disclosures pertaining to these assets can be found in Note 10 to the accompanying financial statements. As explained in Note 4. g, the Company's inventories are measured at their acquisition cost, grossed up primarily by the cost of any development works and the borrowing costs incurred during execution of the works, or their estimated market value, if lower, recording the corresponding provision for depreciation. At each reporting date, Company management determines fair values or realizable values, using appraisals by an independent expert in accordance with the methodology and checks established by 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. The determination of these values requires the making of significant judgments and estimates by independent experts. The various methodologies used and the valuations carried out are described in Note 10 to the accompanying financial statements. Due to the significance of the amounts, the high sensitivity of the analyses conducted in connection with changes in the assumptions used in the valuations, as well as the cost hypotheses and development, construction, and marketing periods applied to estimate the cash flows associated with inventories, we determined this to be a key audit matter.
Our response	With regard to this matter, our procedures included a review of the reasonableness of the valuation models used by independent experts, in collaboration with our valuation specialists, focusing, based on a sample of valuations carried out by the latter, on the reasonableness of the discount rate, the principal hypotheses (e.g., costs, development, construction, and marketing periods) and comparable data used to estimate the projected future cash flows, as well as value testing procedures where applicable. In addition, we reviewed disclosures included in the notes to the financial statements required by prevailing accounting regulations.

Valuation of investments in group companies, jointly controlled entities, and associates

Description	As explained in Notes 4.f and 9 to the accompanying financial statements, the Company has investments in group companies, jointly controlled entities, and associates at December 31, 2018 amounting to 137,122 euros. At least at each year-end, the Company tests these investments for impairment and, if necessary, estimates their recoverable amounts. To determine recoverable amount, the Company estimates impairment by taking into account the investee's equity, adjusted for any unrealized capital gains existing on the measurement date (including goodwill, if any), net of the related tax effect. To estimate the aforementioned unrealized capital gains, the Company uses valuations carried out by independent experts on land and sites, as well as developments in progress, finished products and investment properties owned by each the group companies, jointly controlled entities, and associates and compares them to the net book value of the related assets. We determined this to be a key audit matter due to the significance of the amounts and the hypotheses used in the valuations used by independent experts when calculating unrealized capital gains.
Our response	In this regard, our audit procedures included: ► Reviewing the analysis carried out by the Company to identify indications of the impairment of investments in group companies, jointly controlled entities, and associates, as well as calculating recoverable amount. ► Reviewing the reasonableness of the valuation models used by independent experts to analyze the unrealized capital gains taken into account by the Company, in collaboration with our valuation specialists, focusing on a sample of valuations carried out by the latter, the reasonableness of the rents and/or comparable data used, the discount rates and initial yields used in calculations, in addition to performing value testing procedures where applicable. ► Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory reporting framework.

Recoverability of deferred tax assets

Description	In accordance with the Company's policies, as explained in Notes 4. j to the accompanying financial statements, deferred tax assets are only recognized when it is considered probable that there will be sufficient future taxable income to enable their application. As explained in Note 16.4 to the accompanying financial statements, at December 31, 2018, the Company recognized deferred tax assets amounting to 79,963 thousand euros. The assessment by management of the recoverability of deferred tax assets is based on estimates of future taxable profit using the financial projections of the tax group, of which the Company is the parent, and taking into account applicable tax legislation. Given the significance of the amount, we determined the assessment of the Company's ability to recover its deferred tax assets to be a key audit matter.

Our response

Our audit procedures primarily included assessing management's assumptions and estimates regarding the probability of the tax group obtaining sufficient future taxable profit based on budgets, business performance, historical experience, and meetings with management. We also evaluated whether the information disclosed in Note 16 of the accompanying financial statements meets the requirements established in the applicable regulatory financial reporting framework.

Other information: Management report

Other information refers exclusively to the 2018 management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the financial statements.

Our opinion on the financial statements does not cover the management report. Our responsibility for the information contained in the management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a) A specific level applicable to certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the management report, and if not, disclose this fact.

b) A general level applicable to the remaining information included in the management report, which requires us to evaluate and report on the consistency of said information in the financial statements, based on knowledge of the Company obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described above, we have verified that the information mentioned in the paragraph a) above is included in the management report, and the other information contained in the management report is consistent with that provided in the 2018 financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the directors and the audit committee for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the management company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by company's directors.

- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee of the Company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee of the Company, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Additional report to the audit committee

The opinion expressed in this audit report is consistent with the additional report we issued to the audit committee on February 25, 2019.

Term of engagement

The ordinary general shareholders' meeting held on May 21, 2016 appointed us as auditors for three years, commencing on December 31, 2017.

ERNST & YOUNG, S.L.
(Registered in Spain's Official Register of Auditors under No. S0530)

(signed in the original version)

Francisco V. Fernández Romero
(Registered in Spain's Official Register of Auditors under No. 2918)

February 25, 2019

Realia Business, S.A.

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

REALIA BUSINESS, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2018

(Thousands of Euros)

ASSETS	Notes	2018	2017	EQUITY AND LIABILITIES	Notes	2018	2017
NON-CURRENT ASSETS		**233,170**	**252,212**	**EQUITY**	**Note 12**	**585,209**	**431,858**
Intangible assets	**Note 5**	**51**	**43**	***SHAREHOLDERS'S EQUITY***			
Computer software		19	43	**Share capital**		**196,864**	**154,754**
Other intangible assets		32	-	**Share premium**		**528,492**	**421,463**
Property, plant and equipment	**Note 6**	**389**	**433**	**Reserves**		**328,517**	**328,208**
Properties for own use		13	21	Legal and bylaw reserves		21,864	21,548
Plant and other items of property, plant and equipment		376	412	Other reserves		306,653	306,660
Investment property	**Note 7**	**4,683**	**5,553**	**Treasury shares**		**(1,566)**	**(675)**
Land		1,665	2,097	**Prior years' losses**		**(472,208)**	**(475,052)**
Buildings		2,607	2,859	**Profit/ (loss) for the year**		**5,110**	**3,160**
Other fixtures		411	597				
Non-current investments in Group companies and associates	**Notes 9.1 and 18.2**	**137,122**	**162,970**				
Equity instruments		137,122	149,642	**NON-CURRENT LIABILITIES**		**6,966**	**8,877**
Loans to companies		-	13,328	**Long-term provisions**	**Note 13.1**	**6,711**	**8,054**
Non-current financial investments	**Note 9.1**	**939**	**-**	**Non-current payables**	**Note 16.5**	**28**	**595**
Deferred tax assets	**Note 16.4**	**79,963**	**83,141**	**Other non-current payables**		**227**	**228**
Other non-current assets		**23**	**72**				
CURRENT ASSETS		**391,240**	**353,078**	**CURRENT LIABILITIES**		**22,235**	**164,555**
Inventories	**Note 10**	**301,808**	**278,013**	**Short-term provisions**	**Note 13.1**	**978**	**1,140**
Land and building lots		220,555	205,640	**Current payables**	**Note 14**	**242**	**135,053**
Long-cycle construction work in progress		42,447	25,030	Bank borrowings		-	134,934
Completed buildings		35,825	45,304	Other financial liabilities		242	119
				Current payables to Group companies and associates	**Notes 14 and 8.2**	**6,849**	**18,036**
Advances to suppliers		2,981	2,039	Other payables to Group companies and associates		6,849	18,036
Trade and other receivables	**Note 9.4**	**8,257**	**7,314**				
Trade receivables for sales and services		7	14	**Trade and other payables**	**Note 15**	**13,806**	**10,151**
Trade receivables from Group companies and associates	**Note 18.2**	1,870	1,338	Suppliers		6,017	5,915
Sundry accounts receivable		2,568	2,475	Payable to suppliers, Group companies and associates	**Note 18.2**	1,060	5
Current tax assets	**Note 16.1**	3,711	3,485	Sundry payables		1,151	728

Accounts receivable from public entities	**Note 16.1**	101	2	Employees		5	42
Current investments in Group companies and associates	**Notes 9.2 and 18.2**	**20,195**	**8,986**	Other payables to public entities	**Note 16.1**	611	625
Loans to companies		20,195	8,986	Customer advances	**Notes 10 and 15**	4,962	2,782
Current financial assets	**Note 9.2**	**548**	**1,869**	**Current accruals and deferrals**		**360**	**175**
Loans to companies		148	7				
Other financial assets		400	1,862				
Current accruals and deferrals		**110**	**11**				
Cash and cash equivalents	**Note 11**	**60,332**	**56,885**				
TOTAL ASSETS		**614,410**	**605,290**	**TOTAL EQUITY AND LIABILITIES**		**614,410**	**605,290**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2018.

REALIA BUSINESS S.A.

INCOME STATEMENT FOR 2018

(Thousands of Euros)

	Notes	2018	2017
CONTINUING OPERATIONS			
Revenue	**Note 17.1**	**14,987**	**24,360**
Sales		10,988	21,197
Services		3,999	3,163
Other operating income		**480**	**516**
Non-core and other current operating income		480	516
Procurements	**Note 17.2**	**(23,883)**	**(4,218)**
Land and building lots used		(21,720)	(12)
Work performed by other companies		(2,438)	(539)
Write-down of land and building lots	**Note 10**	275	(3,667)
Changes in inventories of finished goods and work in progress	**Note 10**	**15,845**	**(15,999)**
Changes in inventories of finished goods and work in progress		13,349	(17,117)
Write-down of inventories of finished goods and work in progress		2,496	1,188
Personnel costs		**(4,234)**	**(4,279)**
Wages, salaries and similar expenses		(3,404)	(3,427)
Employee benefit costs	**Note 17.4**	(830)	(852)
Other operating expenses		**(2,945)**	**(2,165)**
Outside services	**Note 17.5**	(3,834)	(4,918)
Taxes other than income tax		(537)	(1,279)
Losses on impairment and changes in allowances for trade receivables	**Notes 11 and 13.1**	1,426	4,032
Property depreciation	**Notes 5, 6 and 7**	**(387)**	**(395)**
Excess provisions	**Note 13.1**	**135**	**379**
Impairment and gains or losses on disposals of non-current assets		**(572)**	**139**
Impairment and other losses	**Note 6 and 7**	(562)	135
Other gains or losses from disposals		(10)	4
Other gains or losses		**(2)**	**33**
LOSS FROM OPERATIONS		**(576)**	**(1,629)**
Finance income	**Note 17.6**	**7,656**	**6,196**
From investments in equity instruments	**Note 9.1**	7,525	5,869
- Group companies and associates	**Note 18.1**	7,525	5,869
From marketable securities and other financial instruments		131	327
- Group companies and associates	**Note 18.1**	104	238
- Third parties		27	89
Finance costs	**Note 17.6**	**(1,527)**	**(2,141)**
On debts to Group companies and associates	**Note 18.1**	(33)	(871)
On debts to third parties		(1,494)	(1,270)
Impairment and gains or losses on disposals of financial instruments	**Note 17.6**	**243**	**(724)**
Impairment and other losses	**Note 9.1 and 9.4**	(299)	(724)
Gains or losses on disposals and others	**Note 9.1**	542	-
Recognition of financial charge	**Note 17.6**	**17**	**-**
FINANCIAL PROFIT (LOSS)		**6,389**	**3,331**
PROFIT/ (LOSS) BEFORE TAX		**5,813**	**1,702**
Income tax	**Note 16.3**	(703)	1,458
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**5,110**	**3,160**
PROFT/LOSS FOR THE YEAR		**5,110**	**3,160**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2018.

REALIA BUSINESS, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2018

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	Notes	2018	2017
LOSS/PROFIT PER PROFIT AND LOSS STATEMENT (I)	**Note 3**	**5,110**	**3,160**
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY (II)		**-**	**-**
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		**-**	**-**
TOTAL RECOGNIZED INCOME AND EXPENSE (I+II+III)		**5,110**	**3,160**

The accompanying Notes 1 to 21 are an integral part of the statement f recognized income and expense as at 31 December 2018.

B) STATEMENT OF CHANGES IN TOTAL EQUITY

(Thousands of Euros)

	Share capital	Share premium (Note 12)	Reserves (Note 12)	Treasury shares (Note 12)	Prior Years' Profit/Loss	Profit/Loss for the year	TOTAL
2016 FINAL BALANCE	**154,754**	**421,463**	**322,072**	**(675)**	**(531,365)**	**62,570**	**428,819**
Total recognized income and expense	-	-	-	-	-	3,160	3,160
Transactions with shareholders:							
Allocation of results 2106	-	-	6,257	-	56,313	(62,570)	-
Capital increases and decreases (Note 12)	-	-	(121)	-	-	-	(121)
2017 FINAL BALANCE	**154,754**	**421,463**	**328,208**	**(675)**	**(475,052)**	**3,160**	**431,858**
Total recognized income and expense	-	-	-	-	-	5,110	5,110
Transactions with shareholders:							
Allocation of 2017 result	-	-	316	-	2,844	(3,160)	-
Capital increases and decreases	42,110	107,209	(7)	-	-	-	149,132
Treasury stock transactions	-	-	-	(891)	-	-	(891)
2018 FINAL BALANCE	**196,864**	**528,492**	**328,517**	**(1,566)**	**(472,208)**	**5,110**	**585,209**

The accompanying Notes 1 to 21 are an integral part of the statement of changes in equity at 31 December 2018.

REALIA BUSINESS, S.A.
STATEMENT OF CASH FLOWS FOR 2018
(Thousands of Euros)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**(11,943)**	**17,429**
Profit/Loss for the year before tax		**5,813**	**1,702**
Adjustments:		**(9,681)**	**(6,416)**
- Depreciation and amortization charge	**Notes 5, 6 and 7**	387	395
- Impairment losses	**Notes 6, 7, 9.1 and 10**	(1,909)	(2,377)
- Changes in provisions		(1,480)	(373)
- Gains/losses on de-recognition and disposal of non-current assets		10	(6)
- Results of sale of financial instruments		(542)	-
- Finance income	**Note 17.6**	(7,656)	(6,196)
- Finance costs	**Note 17.6**	1,510	2,141
Changes in working capital:		**(17,986)**	**21,381**
- Inventories	**Note 10**	(21,006)	16,078
- Trade and other receivables	**Note 9.4**	(721)	5,502
- Other current assets		(99)	12
- Trade and other payables	**Note 15**	3,656	(379)
- Other current liabilities		184	168
Other cash flows from operating activities		**9,911**	**762**
- Interest paid		(1,142)	(1,100)
- Dividends received	**Note 9.1**	7,500	80
- Interest received		179	262
- Income tax recovered (paid)	**Note 16**	3,400	1,556
- Other amounts received (paid) relating to operating activities		(26)	(36)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(2,084)**	**(15,124)**
Payments due to investment		**(2,001)**	**(75,068)**
- Group companies and associates		(666)	(73,210)
- Intangible assets		(34)	(23)
- Property, plant and equipment		(19)	(33)
- Other financial assets		(1,282)	(1,802)
Proceeds from disposals		**4,085**	**59,944**
- Group companies and associates		2,282	58,459
- Property, plant and equipment		-	-
- Intangible assets		-	7
- Other financial assets		1,803	1,478
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**13,296**	**1,592**
Proceeds and payments relating to equity instruments	**Note 12**	**148,241**	**(121)**
- Proceeds from issue of equity instruments		149,132	(121)
- Acquisition of equity instruments		(891)	-

Proceeds and payments relating to financial liability instruments	**Note 14**	**(134,945)**	**1,713**
- Proceeds from issue of borrowings with banks		-	49,848
- Repayment of borrowings with Group companies and associates		776	218
- Proceeds from issue of other debts		3	49
- Repayment and write-down of bank borrowings (other)		(135,324)	(22,447)
- Repayment and write-down of borrowings with Group companies and associates		(400)	(25,955)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**3,437**	**3,897**
Cash and cash equivalents at beginning of year		**56,885**	**52,988**
Cash and cash equivalents at end of year	**Note 11**	**60,322**	**56,885**

The accompanying Notes 1 to 21 are an integral part of the cash flow statement as at 31 December 2018.

Realia Business, S.A.

Annual Report

for the year ended

31 December 2018

1. Activities of the company

The Company was incorporated on 14 August 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, Madrid. On 13 April 2000, the Company became a limited liability company and changed its name to Realia Business S.A. on 16 June 2000. On May 5 2000, the shareholders at the Annual General Meeting of Produsa Este, S.A. approved the contributions of equity resulting from the spin-off of FCC Inmobiliaria, S.A. and of the ownership interest corresponding to Activos Inmobiliarios Caja Madrid, S.L., Centro Inmobiliario Caja Madrid, S.A., Técnicas de Mantenimiento Integral, S.L. and Planigesa, S.A.

Later on, on 2001 and 2005, Realia Business approved two merger by absorption projects of two companies fully owned 100% directly or indirectly. The legally required disclosures for these merger transactions was detailed in the financial statements of the year in which they took place.

On 5 February 2007, the shareholders at the Company's Annual General Meeting approved the restructuring of the Realia Group through the incorporation of a new company, REALIA PATRIMONIO, S.L. (Sole-Shareholder Company), whose sole shareholder is Realia Business, S.A., and to which the property management activity of the Realia Group was contributed. The legally required disclosures relating to this transaction were included in the 2007 financial statements.

The object and main business activity of the Company 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 financial statements

2.1 Regulatory financial information framework applicable to the Company

The Directors, according to the regulatory financial reporting framework applicable to the Company, have prepared these financial statements, consisting of:

a. The Spanish Commercial Code and all other Spanish corporate law.

b. The Spanish National Chart of Accounts approved via Royal Decree 1514/2007 of 16 November, amended in 2016 by Royal Decree 602/2016, of 2 December, and the rest of the applicable mercantile law and its industry adaptations.

c. The mandatory rules approved by the Spanish Accounting and Audit Institute in order to implement the Spanish National Chart of Accounts and the relevant secondary legislation.

d. All other applicable Spanish accounting legislation.

2.2 Fair presentation

The accompanying financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory framework for financial information applicable to the Company. Accordingly, they present fairly the Company's equity, financial position, results of operations and cash flows.

These financial statements, which were formally drawn up by the Company's directors, will be submitted for approval by the shareholders at the Annual General Meeting, and it is expected that they will be approved without any changes.

The figures in all the financial statements of the company (balance sheet, profit and loss account, statements of changes in equity, cash-flow statements and the current annual report) are presented in euros. The operating currency of the Company is the Euro.

The Company is the head of a group of subsidiaries and is obliged under current legislation to draw up consolidated financial statements separately, in accordance with International Reporting Standards as adopted by the European Union. The Realia Group's consolidated financial statements for 2018 were formally prepared by the Company's directors on 25 February 2019. The shareholders at the Annual General Shareholders' Meeting of Realia Business, S.A. approved the separate and consolidated financial statements for 2017, held on 27 June 2018, and were filed at the Madrid Mercantile Registry.

2.3 Accounting principles

The Directors formally prepared these financial statements taking into account all the obligatory accounting principles and standards with a significant effect hereon. All obligatory accounting principles were applied.

2.4 Key issues in relation to the measurement and estimation of uncertainty

In preparing the accompanying financial statements estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate to the following:

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

- The recoverable amount of property assets (Notes 4.c and 4.g).

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

- The fair value of certain financial instruments (Note 4.f).

- The amount of certain provisions (Notes 4.l, 4.m and 4.n).

Impairment losses were calculated based on measurements undertaken by independent valuation experts (see Notes 4.b, 4.c and 4.g).

Although these estimates were made on the basis of the best information available at 2018 year-end, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

2.5 Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding. However, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

2.6 Correction of errors

No significant errors were detected in the preparation of the accompanying financial statements that would have made it necessary to restate the amounts included in the financial statements for 2017.

2.7 Changes in accounting policies

In 2018, there were no significant changes in accounting policies with respect to those applied in 2017.

2.8 Comparative information

The financial statements in this 2018 annual report are presented for the purposes of comparison with the information related to 2017.

2.9 Current assets and liabilities

The Company has decided to report current assets and liabilities according to the normal operating conditions of the company. The current assets and liabilities with an estimated maturity higher than twelve months are the following:

	Thousands of Euros	
	2018	2017
Inventories	263,002	230,670
Total current assets	**263,002**	**230,670**
Trade and other payables	3,620	2,576
Total current liabilities	**3,620**	**2,576**

3. Allocation of profit or loss

The proposed allocation of profit/loss for the year that the Company's directors will submit for approval by the shareholders at the Annual General Meeting is as follows:

	Thousands of Euros
Legal reserve	511
To prior year's losses	4,599
Total	**5,110**

4. Accounting policies

The principal accounting policies used by the Company in preparing its financial statements for 2018, in accordance with the Spanish National Chart of Accounts, were as follows:

a) Intangible assets

As a rule, intangible assets are recognized initially at acquisition or production cost. They are subsequently measured at cost minus any accumulated amortization and any accumulated impairment losses. These assets are amortized over their years of useful life.

The Company recognizes under "Intangible Assets" the costs incurred in the acquisition and development of computer programs, including website development costs. Computer software maintenance costs are recognized with a charge to the income statement for the year in which they are incurred. Computer software is amortized on a straight-line basis over 3 years.

Impairment of intangible assets and property, plant and equipment

At the end of each reporting period or whenever there are indications of impairment, the Company performs an "impairment test" on the possible loss of value that reduces the recoverable value of the assets below their carrying amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

Company management has established the following procedure to perform the impairment test:

Recoverable amounts are calculated for each cash-generating unit, although in the case of property, plant and equipment, wherever possible, the impairment tests are performed individually for each asset.

Where an impairment loss subsequently reverses, the carrying amount of the assets or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized as income.

b) Property, plant and equipment

Property, plant and equipment are initially recognized at acquisition or production cost and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognized, if any, as indicated in Note 4.a.

The surpluses or net increases in value resulting from revaluations are depreciated over the tax periods in the remaining useful lives of the revalued assets.

Property, plant and equipment upkeep and maintenance expenses are recognized in the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

For non-current assets that necessarily take a period of more than twelve months to get ready for their intended use, the capitalized costs include such borrowing costs as might have incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans or other funds borrowed specifically or generally directly attributable to the acquisition or production of the assets.

In-house work on non-current assets is measured at accumulated cost (external costs plus in-house costs, determined based on in-house materials consumption, direct labor and general manufacturing costs calculated using absorption rates similar to those used for the measurement of inventories).

The Company depreciates its property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life of the assets, the detail being as follows:

	Depreciation rate
Buildings	1% - 4%
Plant	2% - 12%
Furniture and computer hardware	10% - 25%

c) Investment property

“Investment Property” in the balance sheet reflects the values of the land, buildings and other structures held either to earn rents or for capital appreciation as a result of future increases in market prices.

Investment property is measured as described in Note 4.b) on property, plant and equipment.

The Company estimates the impairment losses on its investment property based on the fair value obtained from an appraisal performed by an independent expert.

d) Leases

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

Operating leases

Lease income and expenses from operating leases are recognized as income on an accrual basis.

Additionally, the acquisition cost of the leased asset is presented in the balance sheet according to the nature of the asset, increased by the costs directly attributable to the lease, which are recognized as an expense over the lease term, applying the same method as that used to recognize lease income.

Any payment or collection that may be made upon entering into an operational lease will be considered as an advanced payment or collection that will be charged to results throughout the lease period, depending on whether the benefits of the leased asset are received or transferred.

Financial leases

The Company did not perform any finance lease transactions as lessor or lessee.

e) Asset exchange transactions

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

As a rule, the asset received in an asset exchange transaction with commercial substance is recognized at the fair value of the asset given, 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 profit and loss statement.

An asset exchange transaction is considered to have commercial substance when the cash flow configuration of the asset is different (risk, calendar and amount) from the configuration or if the asset delivered or the current value of the cash flow after taxes of the activities of the company affected by the exchange is modified as a consequence of the transaction.

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) Financial instruments

f.1) Financial assets

Financial assets are classified in the following categories:

a. Loans and receivables: financial assets arising from the sale of goods or the provision of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.

b. Equity investments in Group companies, associates and jointly controlled entities: Group companies are deemed those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises influence. Jointly controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other partners.

c. Guarantees provided: these relate mainly to the amounts paid to the owners of leased premises, suppliers, municipal councils or other urban development entities to guarantee the fulfilment of specific obligations. They are recognized at the amounts paid, which do not reasonably differ from fair value.

Initial recognition

Financial assets are initially recognized at the fair value of the consideration given, plus any direct attributable transaction costs.

In the case of equity investments in Group companies affording control over the subsidiary, since 1 January 2010 the fees paid to legal advisers and other professionals relating to the acquisition of the investment have been recognized directly in profit or loss.

Subsequent measurement

Loans, receivables and held-to-maturity investments are valued at amortized cost.

Held-for-trading financial assets and those classified as at fair value through profit or loss are measured at fair value and the gains and losses arising from changes in fair value are recognized in the net profit or loss for the year.

Investments in Group companies and associates and interests in jointly controlled entities are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealized gains existing at the date of measurement (including any goodwill, if any), net of the related tax effect. In order to estimate these latent capital gains, the Company uses valuations made by independent experts of the land and building lots, developments in progress, finished constructions and property investments held by each of the companies of the Group, associates and joint controlled interests and compares them with the net carrying amount of those assets, taking into account the tax effect of said capital gains.

Impairment losses and, where applicable, their reversal, are recognized as an expense or income, respectively, in the income statement. Impairment losses may be reversed up to the limit of the original carrying amount of the investment.

Group companies are considered those in which the articles of association or other agreements grant Realia Business, S.A. control over the investee; associated companies are those in which ownership interest is higher than 20% or has significant influence over their management.

The Company is the head of a group of companies, in which it holds direct interests, which are detailed in Note 9.1. The detail of the main aggregates in the financial statements of the Realia Group for 2018, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, is as follows:

	Thousands of Euros	
	2018	2017
Total assets	**2,064,193**	**2,014,150**
Equity:		
Of the Parent	997,528	806,332
Attributable to non-controlling interests	235,978	237,922
Revenue	76,249	83,492
Profit/loss for the year:		
Of the Parent	40,159	30,461
Attributable to non-controlling interests	14,797	12,879

The carrying amount of financial assets is corrected by the Company and charged to the profit and loss statement when there is objective evidence that an impairment loss has occurred. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognized in the income statement.

The Company derecognizes a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales, factoring of trade receivables in which the Company does not retain any credit or interest rate risk, sales of financial assets under an agreement to repurchase them at fair value and the securitization of financial assets in which the transferor does not retain any subordinated debt, provide any kind of guarantee or assume any other kind of risk.

However, the Company does not derecognize financial assets, and recognizes a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, such as in the case of note and bill discounting, recourse factoring, sales of financial assets subject to an agreement to buy them back at a fixed price or at the selling price plus a lender's return and the securitization of financial assets in which the transferor retains a subordinated interest or any other kind of guarantee that absorbs substantially all the expected losses.

f.2) Financial liabilities

Financial liabilities include accounts payable by the Company that have arisen from the purchase of goods or services in the normal course of the Company's business and those that, not having commercial substance, cannot be classified as derivative financial instruments.

Accounts payable are initially recognized at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortized cost.

Liability derivative financial instruments are measured at fair value using the same methods corresponding to held-for-trading financial assets described in the previous section.

The Company derecognizes financial liabilities when the obligations giving rise to them are extinguished.

f.3) Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of a company after deducting all of its liabilities.

Equity instruments issued by the Company are recognized under "Equity" for the proceeds received, net of issue costs.

Treasury shares acquired by the Company during the year are recognized at the value of the consideration paid and are deducted directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognized directly from equity. Gains and losses on the acquisition, sale, issue or retirement of treasury shares are recognized directly in equity and in no case they are recognized as profit or loss.

g) Inventories

"Inventories" in the balance sheet includes the assets that the Company:

1. Holds for sale in the ordinary course of business;

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

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

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 their acquisition cost, plus any urban development costs and other costs incurred in connection with the purchase (transfer tax, registration expenses, etc.) and, since 1 January 2008, any borrowing costs incurred during the construction period, or their fair value, if this is lower. When work on the property development commences, the capitalized cost of the land is transferred to property developments in progress, and development begins.

The costs incurred in property development (or in portions thereof) construction of which had not been completed at year-end are classified as work in progress. The cost relating to property developments for which construction was completed in the year is transferred from "Property Developments in Progress" to "Completed Properties". These costs include those relating to building lots, urban development and construction, together with the related borrowing costs.

In the year ended 31 December 2018, the Company capitalized EUR 17 thousand in borrowing costs as a higher value of inventories (see Note 10).

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

h) Cash and cash equivalents

"Cash and cash equivalents" includes available cash, bank current accounts, and deposits and temporary asset acquisitions that meet all the following requirements:

- They are convertible to cash
- At their time of acquisition, their maturity was not greater than three months.
- They are not subject to a significant risk of change in value
- They are part of the normal treasury management policy of the Company.

For the purposes of the cash flow statement, the occasional overdrafts that are part of the cash management of the Company are included as negative cash and other cash equivalents.

i) Foreign currency transactions

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

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to Euros at the rate then prevailing. Any resulting gains or losses are recognized directly in the income statement in the year in which they arise.

j) Income tax

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by the Company as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year, reduce the income tax expense.

The deferred tax expense or income relates to the recognition and de-recognition of deferred tax assets and liabilities. These include temporary differences measures at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are 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, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination, and those related to investments in subsidiaries, associates and joint ventures in which the Company is able to control the timing of the reversal of their reversal, and it is probable that they will not be reversed in the foreseeable future.

Deferred tax assets are recognized to the extent that it is considered probable that the Company will have taxable profits in the future against which the deferred tax assets can be utilized.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity will have taxable profits in the future against which the deferred tax assets can be utilized.

Deferred tax assets recognized are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. In addition, unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that they will be recovered through future taxable profits.

Since 2007, the Company has filed consolidated tax returns pursuant to Law 27/2014, of 27 November, with Realia Business, S.A. as the Parent of the tax group.

The filing of consolidated tax returns gives rise to the inclusion in the Parent (Realia Business, S.A.) of the individual income tax receivables and payables of the companies in the tax group.

k) Revenue and expense recognition

Revenue and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discount and taxes.

In this regard, the expenses yet to be incurred in delivering and settling property developments are recognized as “Trade Payables – Unreceived Invoices”.

Sales of goods and revenue from services provided are recognized net of the related taxes, less all discounts, whether or not included in the invoice, except for cash discounts, which are considered to be finance costs or income.

Revenue from sales of property units and the related costs are recognized on the date on which the keys are handed over to the customers, provided that the risks and rewards are transferred to the buyer, and the amount recognized in this connection under “Customer Advances” in the accompanying balance sheet is derecognized at that time.

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.

Interest income from financial assets is recognized using the effective interest method and dividend income is recognized when the shareholder’s right to receive payment has been established. Interest and dividends from financial assets accrued after the date of acquisition are recognized as income in the income statement.

l) Provisions and contingencies

When preparing the financial statements the Company’s directors made a distinction between:

a. Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations.

b. Contingency liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Company's control.

The financial statements include all the 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 financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognized at interest cost on an accrual basis.

The Company recognizes provisions for the expenses expected to be incurred from the completion of a property development to the definitive settlement thereof and of the period in which it is liable for quality flaws, latent defects, extraordinary repairs, after-sales services and other contingencies relating to delivered, completed or unsold properties.

The compensation to be received from a third party on settlement of the obligation is recognized as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalized as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognized.

m) Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated 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.

n) Pension obligations

For employees with at least two years' service, the Company has externalized a defined contribution pension plan to provide benefits in the form of a lump sum. The Plan is included in the Bankia Pensiones IX, Fondo de Pensiones, the manager and custodian of which are Bankia Pensiones S.A.U., E.G.F.P. and Bankia, S.A., respectively. On July 2017, it was agreed to transfer the Pension Plan to Pensions Caixa 97, F.P., the managers and custodians of which are Vida Caixa S.A.U. de Seguros y Reaseguros and Cecabank, respectively. 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 17.4). The aforementioned pension obligations are covered by an insurance policy for contributions exceeding the limits established by Law 35/2006. There are no other pension plans or additional obligations.

o) Joint ventures

For each item in the balance sheet and income statement, the Company includes the proportional part of the related balance sheets and income statements of the joint property entities in which it has ownership interests.

The joint property entities were included by making the required uniformity adjustments, reconciliations and reclassifications and by eliminating reciprocal asset and liability balances, and income and expenses.

The main aggregates at 31 December 2018 and 2017 of the joint property entities included in the financial statements of Realia Business, S.A. are as follows:

	Thousands of Euros	Thousands of Euros
	Joint Property Entities 2018	Joint Property Entities 2017
Revenue	1,096	1,174
Profit from operations	179	167
Assets	4,811	5,672
Liabilities	171	234

None of the joint property entities included in the Company's balance sheet and income statement at 31 December 2018 are subject to statutory audit.

p) Related party transactions

The Company performs all its transactions with related parties on an arm's length basis. Additionally, the transfer prices are adequately supported and, therefore, the Company's directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future. The main balances and transactions with related parties are detailed in Note 18.

q) Cash flow statements

In the cash-flow statements, the following expressions are used with the following meanings:

- Cash flows: Inflows and outflows of cash and cash equivalents.
- Cash flows of operating activities: payments and collection of the company's routine activities, and any other activity that cannot be classified as investment or financing.
- Cash flow of investment activities: payments and collections from purchases and disposals of non-current assets.
- Cash flow of financing activities: payments and collections from the placing and cancellation of financial liabilities, equity instruments or dividends

5. Accounting policies

The changes in 2018 and 2017 in “Intangible Assets” in the balance sheet and the most significant information affecting this item were as follows:

Thousands of Euros	Computer Software	Other intangible assets	Total
Cost			
Balances as at 31 December 2016	**581**	**16**	**597**
Additions	23	-	23
Transfers	16	(16)	-
Disposals	-	-	-
Balances as at 31 December 2017	**620**	**-**	**620**
Additions	1	32	33
Transfers	-	-	-
Disposals	-	-	-
Balances as at 31 December 2018	**621**	**32**	**653**
Accumulated amortization – Balances as at 31 December 2016	**(551)**	**-**	**(551)**
Charges for the year	(26)	-	(26)
Balances as at 31 December 2017	**(577)**	**-**	**(577)**
Charges for the year	(25)	-	(25)
Balances as at 31 December 2018	**(602)**	**-**	**(602)**
Intangible assets – Balances as at 31 December 2017	**43**	**-**	**43**
Balances as at 31 December 2018	**19**	**32**	**51**

At year-end 2018 and 2017, the Company had fully amortized intangible assets still in a condition to be used according to the following breakdown:

	Thousands of Euros	
	2018	2017
Intangible assets	539	539
	539	**539**

5. Property, plant and equipment

The changes in 2018 and 2017 in “Intangible Assets” in the balance sheet and the most significant information affecting this heading were as follows:

	Thousands of Euros		
	Properties for Own Use	Plant and other items of Property, Plant and Equipment	Total
Cost			
Balances as at 31 December 2016	**73**	**1,852**	**1,925**
Additions	-	8	8
Disposals	-	(57)	(57)
Balances as at 31 December 2017	**73**	**1,803**	**1,876**
Additions	-	19	19
Disposals	-	(637)	(637)
Balances as at 31 December 2018	**73**	**1,185**	**1,258**
Accumulated amortization Balances as at 31 December 2016	**(6)**	**(1,392)**	**(1,398)**
Charges for the year	(1)	(54)	(55)
Disposals	-	55	55
Balances as at 31 December 2017	**(7)**	**(1,391)**	**(1,398)**
Charges for the year	(1)	(45)	(46)
Disposals	-	55	55
Balances as at 31 December 2017	**(7)**	**(1,391)**	**(1,398)**
Charges for the year	(1)	(45)	(46)
Disposals	-	627	627
Balances as at 31 December 2018	**(8)**	**(809)**	**(817)**
Impairment losses – Balances as at 31 December 2016	**(45)**	**-**	**(45)**
Balances as at 31 December 2017	**(45)**	**-**	**(45)**
Charges for the year	(7)	-	(7)
Balances as at 31 December 2018	**(52)**	**-**	**(52)**
Property, Plant and Equipment - net Balances as at 31 December 2017	**21**	**412**	**433**
Balances as at 31 December 2018	**13**	**376**	**389**

At the end of 2018, the Company had fully depreciated items of property, plant and equipment still in use, the detail being as follows:

	Thousands of Euros	
	2018	2017
Plant and other items of property, plant and equipment	438	1,000
	438	**1,000**

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At 2018 year-end, the property, plant and equipment were fully insured against these risks.

7. Property investment

The changes in 2018 and 2017 in “Intangible Assets” in the balance sheet and the most significant information affecting this heading were as follows:

	Thousands of Euros			
	Land and building lots	Rental properties	Other fixtures	Total Investment Property
Cost				
Balances as at 31 December 2016	**5,408**	**10,546**	**3,069**	**19,023**
Additions	-	-	-	-
Balances as at 31 December 2017	**5,408**	**10,546**	**3,069**	**19,023**
Additions	-	-	-	-
Balances as at 31 December 2018	**5,408**	**10,546**	**3,069**	**19,023**
Accumulated depreciation				
Balances as at 31 December 2016	**-**	**(1,780)**	**(905)**	**(2,685)**
Charges for the year	-	(205)	(109)	(314)
Balances as at 31 December 2017	**-**	**(1,985)**	**(1,014)**	**(2,999)**
Charges for the year	-	(207)	(109)	(316)
Balances as at 31 December 2018	**-**	**(2,192)**	**(1,123)**	**(3,315)**
Impairment losses				
Balances as at 31 December 2016	**(3,360)**	**(5,785)**	**(1,461)**	**(10,606)**
Charges for the year/ Provisions	49	83	3	135
Transfers	-	-	-	-
Balances as at 31 December 2017	**(3,311)**	**(5,702)**	**(1,458)**	**(10,471)**
Charges for the year/ allocations	(432)	(45)	(77)	(554)
Transfers	-	-	-	-
Balances as at 31 December 2018	**(3.743)**	**(5,747)**	**(1,535)**	**(11,025)**
Investment property, net				
Balances as at 31 December 2017	**2,097**	**2,859**	**597**	**5,553**
Balances as at 31 December 2018	**1,665**	**2,607**	**411**	**4,683**

At 2018 year-end, the Company had the following property investments fully written-down in use:

	Thousands of Euros	
	2018	2017
Other facilities	12	12
	12	**12**

The fair value of the Company’s investment property at 31 December 2018 and 2017, calculated on the basis of appraisals conducted by independent valuation experts not related to the Group, amounted to EUR 4,500 thousand and EUR 6,844 thousand, respectively.

During 2018, the company commissioned a valuation of its property investments to an independent expert, according to the Valuation and Appraisal Standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain. For the calculation of the fair value, discount rates acceptable by a potential investor have been applied, in line with the rates applied by the market for assets of similar characteristics and locations. In 2017, the fair market value was determined based on valuations by independent experts, following the principles and methodology of Ministry of Economy Order ECO/805/2003, of 27 March, amended by Ministry of Economy and Finance Order EHA/3011/2007, of 4 October, and by Ministry of Economy and Finance Order EHA/564/2008, of 28 February, and Royal Decree 1060/2015, except in the aspects related to the principles and provisions on the necessary documentation, since the purpose of the valuation was the calculation of the fair value to include it in the financial statements, and such purpose is not included among those defined by art.2 of the aforementioned regulation.

In 2018, the Company allocated net property impairment provisions amounting to EUR 554 thousand (EUR 135 thousand in reversed impairment provisions due to depreciation in 2017).

Location and use

The detail of the investments included under “Investment Property” in the accompanying balance sheet, which consists of buildings held to earn rents, and of the use thereof, is as follows:

- The María Tubau office building (Madrid) has a gross leasable area of 1,539 square meters and 5 parking spaces, and it is currently fully occupied.

- The Hato Verde Golf course (Seville), which has a gross area for sports use of 339,136 square meters and a gross buildable area of 2,661 square meters, both fully leased to a Group company

Related income and expenses

In 2018 and 2017, the rental income for the investment property owned by the Company amounted to EUR 224 thousand and EUR 217 thousand, respectively (Note 17.1) and the operating expenses of all kinds relating thereto passed on to the tenants amounted to EUR 32 thousand (EUR 32 thousand in 2017) to the lessee of the María Tubau office building in Madrid, and EUR 96 thousand (EUR 78 thousand in 2017) to the company Guillena Golf, S.L., a wholly-owned investee of Realia Business, S.A.

At year-end 2018 and 2017, there were no restrictions on making new property investments, on the collection of rental income thereof or in connection with the proceeds obtained from a potential disposal thereof.

8. Leases

8.1 Operating leases (lessee)

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

Minimum operating lease payments	Nominal value	
	2018	2017
Within one year	95	314
Between two and five years	59	215
After five years	9	12
	163	**541**

Lease payments in 2017 related mainly to the lease of the Puerta Europa Este (Madrid) building, which houses the Company's head offices. The lease contract for these offices expired on 30 June 2018. The new head office is located on Avenida Camino de Santiago, 40, and the lease contract for the new head office was entered into with the company FEDEMES, S.L. (FCC), commenced on 1 July 2018, and the rent paid is lower.

8.2 Operating leases (lessor)

At the end of 2018 and 2017, the Company 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 or future contractual lease payment revisions:

Minimum operating lease payments	Thousands of Euros	
	Nominal value	
	2018	2017
Within one year	164	161
Between one and five years	263	298
After five years	-	37
	427	**496**

The detail of the operating lease payments recognized as income in 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Minimum lease payments	224	217
Total, net	**224**	**217**

9. Financial assets (non-current and current) and other non-current assets

9.1 Non-current financial assets

The detail of "Non-Current Investments in Group Companies and Associates" at the end of 2018 and 2017 is as follows:

2018

	Thousands of euros		
Non-current Financial Instruments	Equity Instruments	Loans to companies (Note 18.2)	Total
Investments in Group companies and associates	137,122	-	137,122
Non-current financial investments	-	939	939
Total	**137,122**	**939**	**138,061**

2017

	Thousands of Euros		
Non-current Financial Instruments	Equity Instruments	Loans to companies (Note 18.2)	Total
Investments in Group companies and associates	149,642	13,328	162,970
Total	**149,642**	**13,328**	**162,970**

1) Ownership interest:

Company	Address	Statutory activity	% of Ownership			
			2018		2017	
			Direct	Effective	Direct	Effective
Group						
Servicios Índice, S.A.	Avda. Camino de Santiago, 40 (Madrid)	Real estate development	50.50%	50.50%	50.50%	50.50%
Realia Business Portugal Unipessoal Lda.	Avda. Libertade, 249 (Lisbon)	Real estate development	100.00%	100.00%	100.00%	100.00%
Retingle, S.L.	-	Real estate development	-	-	50.10%	50.10%
Valaise, S.L.	Avda. Camino de Santiago, 40 (Madrid)	Real estate services provision	100.00%	100.00%	100.00%	100.00%
Realia Polska Inwestycje S.P. ZOO	UI Pulawska, 228 (Warsaw)	Real estate development	100.00%	100.00%	100.00%	100.00%
Realia Patrimonio, S.L.U.	Avda. Camino de Santiago, 40 (Madrid)	Property lease	100.00%	100.00%	100.00%	100.00%
Realia Contesti, S.R.L.	Candiao Popescu, 63 (Bucharest)	Real estate development	100.00%	100.00%	100.00%	100.00%
Guillena Golf, S.L.	Avda. Camino de Santiago, 40 (Madrid)	Real estate services provision	100.00%	100.00%	100.00%	100.00%
Associates						
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	C/ Ayala, 3 (Madrid)	Real estate development	33.36%	33.36%	33.36%	33.36%
Desarrollo Urbanístico Sevilla Este, S.L. (DUSE)	Alajarafe Center, Plaza de las Naciones, Edificio de Oficinas (Mairena de Aljarafe - Sevilla)	Real estate development	30.50%	30.50%	30.52%	30.52%
Ronda Norte Denia, S.L.	Pza. Nicolás Mª Garelly, 2 (Valencia)	Real estate development	32.63%	32.63%	32.63%	32.63%

None of the investee companies is listed on the Stock Market.

2) Equity position:

At 31 December 2018:

Thousands of Euros						
Company	Share Capital	Profit or Loss		Other Equity Items	Total Equity	Dividends Received
		From Operations	Net			
Servicios Índice, S.A. (b)	4,160	(134)	(134)	311	4,337	-
Realia Business Portugal Unipessoal Lda. (b)	250	-	-	167	417	-
Retingle, S.L. (b)	-	-	-	-	-	25
Valaise S.L.U. (b)	10	(2)	(2)	1	9	-
Realia Polska Inwestcyje SP, ZOO (b)	4,491	(28)	(28)	(4,362)	101	-

Realia Patrimonio, S.L.U. (a)	90,000	22,631	14,211	9,402	113,613	7,500
Realia Contesti, SRL (b)	3,997	541	547	(1,106)	3,438	-
Guillena Golf, S.L.U. (b)	4	(455)	(455)	553	102	-
Total Group	**102,912**	**22,553**	**14,139**	**4,966**	**122,017**	**7,525**
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L. (b)	20	(15)	(18)	34,656	34,658	-
Desarrollo Urbanístico Sevilla Este, S.L. (a)	1,392	(133)	(3,653)	(216,434)	(218,695)	-
Ronda Norte Denia, S.L. (b)	475	5	57	(59)	473	-
Total associates	**1,887**	**(143)**	**(3,614)**	**(181,837)**	**(183,564)**	**-**
Total	**104,799**	**22,410**	**10,525**	**(176,871)**	**(61,547)**	**7,525**

(a) Financial statements audited by Ernst & Young, S.L. in 2018
(b) Unaudited financial statements

As at 31 December 2017:

Thousands of Euros						
		Profit or Loss				
Company	Share Capital	From Operations	Net	Other Equity Items	Total Equity	Dividends Received
Servicios Índice, S.A. (b)	8,000	(87)	(86)	(3,443)	4,471	-
Realia Business Portugal Unipessoal Lda. (b)	250	(153)	(171)	2,184	2,263	-
Retingle, S.L. (b)	21,481	25	115	1,265	22,861	80
Valaise S.L.U. (b)	10	(2)	(2)	2	10	-
Realia Polska Inwestcyje SP, ZOO (b)	4,491	(27)	(4)	(4,346)	141	-
Realia Patrimonio, S.L.U. (a)	90,000	18,891	25,122	(5,965)	109,157	5,789
Realia Contesti, SRL (b)	3,997	(340)	(339)	(759)	2,899	-
Guillena Golf, S.L.U. (b)	4	(400)	(400)	426	30	-
Total Group	**128,233**	**17,907**	**24,235**	**(10,636)**	**141,832**	**5,869**
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L. (b)	20	(17)	(26)	34,682	34,676	-
Desarrollo Urbanístico Sevilla Este, S.L. (a)	1,392	(129,724)	(139,523)	(76,874)	(215,005)	-
Ronda Norte Denia, S.L. (b)	475	29	8	(67)	416	-
Total associates	**1,887**	**(129,712)**	**(139,541)**	**(42,259)**	**(179,913)**	**-**
Total	**130,120**	**(111,805)**	**(115,306)**	**(52,895)**	**(38,081)**	**5,869**

(a) Financial statements audited by Ernst & Young, S.L. in 2017
(b) Unaudited financial statements

3) Investments

As at 31 December 2018:

Company	Thousands of Euros			
	Carrying Amount			
	Cost	Impairment Loss (recognized) reversed in the year (Note 17.6)	Accumulated Impairment Losses	Total
Group:				
Servicios Índice, S.A.	6,498	(68)	(4,308)	2,190
Realia Business Portugal Unipessoal Lda.	7,353	-	(6,936)	417

Valaise, S.L.	10	(1)	(1)	9
Realia Polska Inwestycje SP ZOO	6,175	(83)	(6,074)	101
Realia Patrimonio, S.L.U.	118,781	-	-	118,781
Realia Contesti S.R.L.	13,611	155	(10,173)	3,438
Guillena Golf S.L.	5,394	(455)	(5,292)	102
Total Group	**157,822**	**(452)**	**(32,784)**	**125,038**
Associates:				
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	20,179	(5)	(8,249)	11,930
Desarrollo Urbanístico Sevilla Este,S.L. in liquidation	61,401	-	(61,401)	-
Ronda Norte Denia, S.L.	155	18	(1)	154
Total associates	**81,735**	**13**	**(69,651)**	**12,084**
Total	**239,557**	**(439)**	**(102,435)**	**137,122**

As at 31 December 2017:

Company	Thousands of Euros			
	Carrying Amount			
	Cost	Impairment Loss (recognized) reversed in the year (Note 17.6)	Accumulated Impairment Losses	Total
Group:				
Servicios Índice, S.A.	6,498	(43)	(4,240)	2,258
Realia Business Portugal Unipessoal Lda.	9,199	(171)	(6,936)	2,263
Retingle, S.L.	10,762	-	-	10,762
Valaise, S.L.	10	-	-	10
Realia Polska Inwestycje SP ZOO	6,175	(80)	(5,911)	184
Realia Patrimonio, S.L.U.	118,781	-	-	118,781
Realia Contesti S.R.L.	13,611	(29)	(10,328)	3,283
Guillena Golf S.L.	4,867	(400)	(4,837)	30
Total Group	**169,903**	**(723)**	**(32,332)**	**137,571**
Associates:				
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	20,179	(16)	(8,224)	11,935
Desarrollo Urbanístico Sevilla Este, S.L.	61,401	0	(61,401)	-
Ronda Norte Denia, S.L.	155	15	(19)	136
Total associates	**81,735**	**(1)**	**(69,664)**	**12,071**
Total	**251,638**	**(724)**	**(101,996)**	**149,642**

The impairment losses registered in 2018 are based on estimates of the fair value of investments made using the principles described in Note 4.f).

The detail of the most significant transactions carried out in 2018 is as follows:

a) *Capital reduction at Retingle, S.A.*

On 28 June 2018, it was agreed through a public deed, to reduce capital of the company Retingle, S.L. for an amount of EUR 10,672 thousand. The purpose of this capital decrease was to repay the funding by Realia Business, S.A. through a partial repayment of the loan the Company held with Retingle. This transaction generated a positive result of EUR 541 thousand.

b) *Provision of funds to Guillena Golf, S.L.*

In March and October 2018, Realia Business, S.A. made two injections of capital for a total amount of EUR 527 thousand, with the goal of restoring the equity balance.

c) Repayment of equity capital from Realia Business Portugal, LDA

In October 2018, Realia Business Portugal, Unipersonal LDA, reduced its equity capital by EUR 1,846 thousand, after the repayment of the additional services to its sole owner Realia Business. This had no impact on the ownership interest.

The detail of the most significant transactions carried out in 2017 is as follows:

a) Dividend pay-out in Realia Patrimonio, SLU

In April 2017, Realia Patrimonio S.L.U. agreed to payout a dividend against reserves (share premium) for an amount of EUR 434,179 thousand, reducing accordingly the cost of investment in that company for the same amount.

This dividend, together with the dividend paid out in April 2017 charged to income for 2016 for an amount of EUR 5,789 thousand, was allocated to the amortization of the balance of the loans that the Company held from Realia Patrimonio, S.L.U. (see Note 14).

b) Provision of funds to Guillena Golf, S.L.

In March and July 2017, Realia Business S.A. made two injections of capital for EUR 411 thousand in order to restore the equity balance.

c) Capital increase and share premium at Realia Polska Inwestycje, SP ZOO

In March 2017, Realia Polska Inwestycje, SP ZOO undertook a capital increase and share premium for EUR 139 thousand to compensate the loan granted by Realia Business, S.A. in September 2009 (see Note 14).

d) Provision of funds to Realia Business Portugal, LDA

In September 2017, Realia Business Portugal Unipessoal Lda. made a provision for “supplementary services” for an amount of EUR 1 Million.

4) Loans to Group companies

In April 2017, the Company granted a loan for EUR 50 Million to Realia Patrimonio S.L.U., maturing in April 2024. The loan accrues an interest referenced to EURIBOR plus a market spread.

During 2017, partial repayments of the loan have been made for EUR 36,825 thousand, and the interest accrued amounted to EUR 153 thousand.

At 31 December 2018, the Company has proceeded to reclassify the short-term loan for a total of EUR 13,466 thousand.

5) Non-current financial investments

“Non-current financial investments” includes advanced payments from clients of the development Brisas de Son Dameto, amounting to EUR 939 thousand, deposited in a special bank account, which will be available at the time of handing over of the keys and the refund of the amounts paid as security on these advances.

9.2 Current financial assets and current investments in Group companies and associates

The detail of "Current Investments in Group Companies and Associates" and "Current Financial Assets" at the end of 2018 and 2017 is as follows:

2018

	Thousands of Euros	
Current financial instruments	Loans and other	Loans to Group Companies/ Associates (Note 18.2)
Loans and receivables	148	20,195
Other financial assets	400	-
	548	**20,195**

2017

	Thousands of Euros	
Current financial instruments	Loans and other	Loans to Group Companies/ Associates (Note 18.2)
Loans and receivables	7	8,986
Other financial assets	1,862	-
	1,869	**8,986**

"Loans and Receivables" includes mainly loans to Group companies and associates that earn interest at market rates.

9.3 Information on the nature and level of risk of financial instruments

Qualitative information

The Company 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.

The Company's financial risk management is centralized in its Financial Department, which has established the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk.

The main financial risks affecting the Company are as follows

a) *Credit risk*

The Company 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 8,188 thousand (EUR 8,188 thousand at 31 December 2016), which the Company wrote down in full for the related risk (see Note 9.4). Lastly, there is no material risk with regard to the lease of property assets. Company management has recognized provisions for all these contingencies based on the late payment period of doubtful debts or insolvencies.

b) Liquidity risk

Some signs of improvement in the sector appeared back in 2015, albeit highly concentrated on the demand for product of the medium-high segment on prime locations, and access to lending also improved for new developments with positive commercial prospects. This trend has been ratified during 2018, with continued strong liquidity of the financial system and low interest rates, which creates financing opportunities for individuals and developers with proven financial solvency and economically and commercially viable projects; barring these requirements, access to borrowing continues to be very restricted.

At 2018 year-end, the company does not have any banking debt with credit institutions, after the cancellation of the only loan it had with Caixabank, for EUR 120 Million. This loan was repaid in full with funds from the capital increase formalized on 28 December 2018 (see note 12).

Additionally, at 2018 year-end Realia Business has positive working capital for EUR 369 Million, a 95.7% increase versus 2017 year-end.

The main aggregates of the cash projections of Realia Business for the next twelve months, based on a minimum basis of recurring business, dividends and other payments received for services rendered to Group companies, led to estimated collections of EUR 57.4 Million which, together with estimated payments of EUR 67.5 Million, give rise to a negative net cash flow of EUR 10.1 Million, which will be covered by the current cash flow position. The increase in collection forecasts is the result of the investments made in new developments, which will generate positive cash flow in the next years.

c) Solvency risk

At 31 December 2018, Realia Business, S.A. has no bank borrowings, and has cash and cash equivalents amounting to EUR 60,322 thousand and has improved its solvency compared to 2017, when it had bank borrowings for EUR 78,049 thousand, as shown in the following table:

	Thousands of Euros	
	2018	2017
Gross bank borrowings by type of loan:		
Subrogate mortgage loan	-	1,199
Bilateral loan	-	133,499
Accrued interest	-	236
Cash and cash equivalents (Note 11)	(60,322)	(56,885)
Net bank or similar borrowings	**(60,322)**	**78,049**

Ay 2018 year-end, the Company has positive working capital of EUR 369,005 thousand.

d) Interest rate risk

Realia Business, S.A. does not use hedges to manage its exposure to interest rate fluctuations.

The aim of interest rate management is to achieve a balanced debt structure that makes it possible to minimize the cost of the debt over several years with reduced income statement volatility. In view of the comparative analysis of finance costs contained in the Business Plan and the yield curve trends, the Company opted not to hedge interest rate risk in order to minimize the borrowing costs in the period covered by the business plan.

The Company's management monitors very closely the short and long-term yield curve trends, and does not rule out the possibility of hedging interest rates in the future.

e) Foreign currency risk

The Company is not exposed to a significant level of foreign currency risk.

f) Market risk

The property market started to record positive growth rates since 2015. This recovery continued during 2018, and even in some areas or cities like Barcelona or Madrid, the supply of product is very low, and new developments are starting again. In view of this situation, Realia is analyzing the launch of new developments in these cities and some other that offer an interesting homebuilding demand.

However, despite the improvement described in the previous paragraph, the stock of product is still very high in most locations in Spain, and therefore the recovery of prices with respect to the beginning of the crisis is scarce and access to lending by developers and buyers is still very restrictive.

Regarding the rental market, in which Realia Business operates through its subsidiaries Realia Patrimonio S.L.U. and Hermanos Revilla, a continued recovery of demand for space is visible, rental prices are stabilizing, and the incentives to rent demanded by customers are reduced. On the other hand, investment activity in the property management sector continues its positive evolution albeit it is still lower than in 2017. For all these reasons, the Realia Business Group believes that it must focus its efforts on its two current lines of business. In the property management area, where its exceptional portfolio gives it an outstanding position, it must optimize the value of its assets to increase operating margins and to generate value for its assets. In the development area, it must optimize the value of its assets through the rise in prices of finished products and developments in locations with consistent demand.

9.4 Trade and other receivables

"Trade and other receivables" includes the following concepts:

	Thousands of Euros	
	2018	2017
Clients and accounts receivable	7	14
Group companies and associates (Note 18.2)	1,870	1,338
Sundry receivables	2,568	2,475
Employees	-	-
Current tax assets (Note 16.1)	3,711	3,485
Other receivables from Public Administrations (Note 16.1)	101	2
Total trade and other receivables	**8,257**	**7,314**

"Clients and accounts receivable" in the current assets of the balance sheet includes mainly commercial loans resulting from the sale of property developments and land; the main item is the gross value of commercial loans from the sale of land, amounting to EUR 8,188 thousand, with the following detail of movements during 2018:

	Thousands of Euros			
	Balance at 31.12.2017	Additions	Disposals	Balance at 31.12.2018
Clients and accounts receivable	8,206	-	-	8,206
Impairment of loans from commercial transactions	(8,192)	-	(7)	(8,199)
Total	**14**	**-**	**(7)**	**7**

	Thousands of Euros			
	Balance at 31.12.2016	Additions	Disposals	Balance at 31.12.2017
Clients and accounts receivable	13,710	-	(5,504)	8,206
Impairment of loans from commercial transactions	(13,674)	-	5,482	(8,192)
Total	**36**	**-**	**(22)**	**14**

During 2017, the Company recovered commercial loans provisioned as bad debts for an amount of EUR 4,032 thousand, recognized under "Losses, impairment and changes in provision from commercial transactions" on the accompanying income statement. The rest of derecognized provisions in the year correspond to amounts definitively considered as charged-off.

"Sundry receivables" includes mainly the account receivable from the refund of the advanced payments made for the purchase of the Valdemoro (R7) land, after the final court judgement rendering the contract void. On 7 June 2018, the company was awarded in public auction and an amount of EUR 2,300 thousand the plot RC 1.9, located at the West-North UDE unit of Valdemoro. At 31 December 2018, the judicial writ formalizing the award and that will allow the cancellation of the outstanding debt is still pending.

The Directors think that the amount recognized in the debt ledger is very close to its fair value.

10. Inventories

The detail of "Inventories" at 31 December 2018 and 2017 is as follows:

	Thousands of Euros					
	2018			2017		
	Cost	Write-downs	Net	Cost	Write-downs	Net
Land and building lots	639,309	(418,754)	220,555	632,593	(426,953)	205,640
Long-cycle construction work in progress	73,589	(31,142)	42,447	48,516	(23,486)	25,030
Completed buildings	48,339	(12,514)	35,825	60,046	(14,742)	45,304
Advances to suppliers	2,981	-	2,981	2,039	-	2,039
Total	**764,218**	**(462,410)**	**301,808**	**743,194**	**(465,181)**	**278,013**

The fair value of inventories at 31 December 2018 and 2017, calculated on the basis of appraisals conducted by independent valuation experts not related to the Group, as described in Note 4.g, amounted to EUR 328,435 thousand and EUR 301,723 thousand, respectively. In 2018, the Company reversed the write-down of inventories in order to adjust their carrying amount to market value, which gave rise to a positive net reversal of EUR 275 thousand for the wrote-down of land and building plots (net loss for write-down of EUR 3,667 thousand in 2017) and a net positive reversal for the write-down of impairment of finished products and construction in progress for delivery of finished products, and the adaptation of their carrying amount to market value of EUR 2,496 thousand (net reversal of EUR 1,118 thousand in 2017), recognized under "Write-down of land and building plots" and "Write-down of inventories of completed buildings and construction in progress" in the accompanying profit and loss statement .

The aforementioned market value was calculated based on appraisals conducted by independent valuation experts, performed in accordance with the principles and methodology of Ministry of Economy Order ECO/805/2003 of 27 March, amended by Ministry of Economy Order EHA/3011/2007 of 4 October and Ministry of Economy Order EHA/564/2008 of 28 February, which establishes the measurement bases for property assets 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).

In any case, since the purpose of these valuations is the calculation of the fair value to incorporate it, where appropriate, in the financial statements of the Company, and that is not one of the purposes defined in the scope of the regulation (art.2), the independent expert did not take the "principle of prudence" established under that regulation into account, according to which in view of several scenarios or possibilities equally likely, the chosen scenario will be the one that result in the lowest valuation. According to the criterion established in the accounting regulation, that states that "prudence does not justify that the valuation of the property assets does not respond to the fair representation that the financial statements must reflect".

Consequently, in valuations made for the aforementioned accounting purposes, the fair value is calculated pursuant to the accounting regulation. Two methods have been used in the calculation of the market value: the comparison method and the residual dynamic method.

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 lots, and is the method with the widest acceptance by the main actors of the real estate market. However, since it functions according to different variables, the data to be used as variables must be directly taken from the market, through the use of the comparison method as an instrument.

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 any case, the current situation of the residential market could generate differences between the fair value of the Company's inventories and the effective receivable value of the inventories.

The changes in terms of gross cost in "Inventories" during the years ended 31 December 2018 and 2017 were the following:

	Thousands of Euros				
	Land and Building Lots	Long-Cycle developments in progress	Completed Buildings	Net Write-Downs	Total
Balance as at 31 December 2016	**631,554**	**48,278**	**77,401**	**(462,632)**	**294,601**
Additions	1,037	625		(6,148)	(11.433)
Disposals	(61)	(324)	(17,355)	3,599	(7,194)
Balance as at 31 December 2017	**632,593**	**48,516**	**60,046**	**(465,181)**	**275,974**
Additions	29,345	2,444	-	(9,810)	21,979
Disposals	-	-	(11,707)	12,581	874
Transfers	(22,629)	22,629	-	-	-
Balance as at 31 December 2018	**639,309**	**73,589**	**48,339**	**(462,410)**	**298,827**

Land and building lots

In 2018, the main addition corresponds to the purchase of a land lot in Alcalá de Henares (Madrid), for EUR 27,740 thousand, after public auction. During 2017, the main additions took place in Teatinos (Málaga), for EUR 231 thousand, and Plaza Glorias (Barcelona) for EUR 305 thousand. These additions are mainly related to planning and urban development costs.

Advances to suppliers

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

		Thousands of Euros	
Land	Province	2018	2017
Valdebebas	Madrid	2,963	2,021
El Molar	Madrid	18	18
Total		**2,981**	**2,039**

Advances to suppliers in 2018 and 2017 related to urban development costs charged by the Valdebebas Development and Apportionment Entity.

Inventories held as collateral for mortgage loans

At 31 December 2017, there was one asset recognized under inventories, with a net carrying amount of EUR 4,815 thousand, which serves as a mortgage security for the loan with Banco Santander, with an outstanding balance of EUR 1,199 thousand. In June

2018, that loan was fully repaid, and at 31 December 2018 there are no amounts under mortgage loan security.

Sale commitments

Property development and land sale commitments entered into with customers at 31 December 2018 and 2017 (arranged as earnest money and other agreements) amounted to EUR 15,977 thousand and EUR 5,697 thousand, respectively. EUR 4,962 thousand and EUR 2,782 thousand are recognized under "Trade Payables – Customer Advances" in the accompanying balance sheet (see Note 15). Of these amounts, EUR 1,342 thousand were collected in 2018 (EUR 206 thousand in 2017). The remainder amount, EUR 3,620 thousand, relates to commitments from asset exchange transactions and transfer of rights to the Valdebebas Development and Apportionment Entity.

Capitalized borrowing costs

As described in Note 4-g, the Company capitalizes the borrowing costs incurred in the year which relate to inventories that have a production cycle of more than one year. In 2018, EUR 17 thousand were capitalized for this concept (no borrowing costs were capitalized in this connection during 2017).

The detail of the capitalized borrowing costs is as follows:

	Thousands of Euros			
	31.12.2018		31.12.2017	
	Interest capitalized in the year	Accumulated capitalized interest	Interest capitalized in the year	Accumulated capitalized interest
Land and building lots	-	8,725	-	8,633
Long-cycle construction work in progress	(17)	1,402	-	1,385
Completed buildings	-	2,117	-	2,442
Total	**(17)**	**12,244**	**-**	**12,460**

11. Cash and cash equivalents

The detail of "Cash and cash equivalents" at year-end 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Current accounts	60,316	56,879
Other cash equivalents	6	6
Total	**60,322**	**56,885**

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

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

12. Equity and Shareholders' equity

On 15 November 2018, the Board of Directors of the Company agreed a capital increase through the issue and distribution of 175,457,742 new shares, of a nominal value of 0.24 € per share, and a share premium of 0.61 € per share. After this increase, the share capital of the Company increased by a nominal amount of EUR 42,110 thousand, and a global share premium of EUR 107,029 thousand, filed at the Mercantile Registry on 28 December 2018. All the shares of this capital increase have been fully paid up.

After this capital increase, at 2018 year-end, the share capital of the Company is represented by 820,265,698 shares:

The most significant shareholders at 31 December 2018, according to the shares reported to the Comisión Nacional del Mercado de Valores (hereinafter, CNMV) are the following:

Shareholders	% 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%
Rest (free float)	29.23%
	100%

Furthermore, according to statements filed with CNMV, Inversora Carso S.A. de Capital Variable has an interest in the FCC Group, and controls, either directly or indirectly, 56.409% of the company.

At 31 December 2017, the share capital of the company was represented by 644,807,956 shares. The most significant shareholders, according to the shares reported to the CNMV, are the following:

Shareholders	% interest
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%
Rest (free float)	29.23%
	100%

At 31 December 2018 and 2017, the shares of the company were traded in the Madrid and Barcelona Stock Markets. The price of the company shares at 31 December 2018 and the average price in the last quarter were 0.91 and 0.93 € per share, respectively (1.1 € and 1.076 € per share respectively at 31 December 2017).

12.1 Legal reserve

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

At 2018 year-end, the balance of this reserve amounted to EUR 21,864 thousand (EUR 21,548 at 31 December 2017), and is still not fully constituted.

12.2 Treasury shares

At the General Shareholders' Meeting held on 21 June 2016, authorization was granted to buy back treasury shares, during the maximum period legally allowed, and pursuant to the requirements of article 146 of the Law on Corporations.

The changes in 2018 were as follows:

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

The average price of the treasury shares at 2018 year-end was 1.07 €/share (1.11 €/share in 2017). The total number of treasury shares accounts for 0.178% of the total shares.

12.3 Restricted reserves

At 31 December 2018 and 2017, there are restricted reserves for an amount of EUR 43,764 thousand, and arose on 15 June 2000 as a result of the transfer of capital to reserves following the capital reduction at Produsa Este, S.A., now Realia Business, S.A.

12.4 Share premium

The Consolidated Spanish Law on Corporations expressly permits the use of the share premium balance to increase capital and does not establish any specific restrictions as to its use for other purposes.

13. Provisions and contingencies

13.1 Provisions

The detail of the provisions in the balance sheets as at 31 December 2018 and 2017 and of the main changes therein in the years then ended is as follows:

Long term

	Thousands of Euros		
Long-term Provisions	Warranty Provisions	Other Provisions	Total
Balance as at 31 December 2016	**6,918**	**1,546**	**8,464**
Additions	-	5	5

Amounts used and reversed	-	(415)	(415)
Transfers	-	-	-
Balance as at 31 December 2017	**6,918**	**1,136**	**8,054**
Additions	-	85	85
Amounts used and reversed	(1,557)	(198)	(1,755)
Transfers	327	-	327
Balance as at 31 December 2018	**5,688**	**1,023**	**6,711**

The amount recognized under "Warranty Provisions" at 2018 year-end relates firstly, to the estimate made by the Company to cover the expenses expected to be incurred from the completion of a property development to the definitive settlement thereof and the end of the period in which it is liable for quality flaws, latent defects, extraordinary repairs, after-sales services and other contingencies relating to properties delivered in the last ten years, arising out of claims from third parties or litigations in progress, and secondly, to the guarantee for the sale of financial stakes. Additionally, the amount recognized under "Other Provisions" corresponds to the estimates made by the Company to cover possible liability from lawsuits of other types arising from claims filed by third parties. During 2018, EUR 198 thousand were reversed, EUR 63 thousand of which were used for that purpose, and EUR 135 thousand were recognized under "Excess Provisions" in the accompanying income statement.

Short term

	Thousands of Euros
Short-term Provisions	Warranty Provisions
Balance as at 31 December 2016	**1,140**
Amounts used and reversed	-
Transfers	-
Balance as at 31 December 2017	**1,140**
Amounts used and reversed	165
Transfers	(327)
Balance as at 31 December 2018	**978**

13.2 Contingencies

The Company is the defendant in certain disputes in relation to the liability arising from its business activities. The lawsuits, which may be significant in number, represent scantily material amounts when considered individually and none of them is particularly noteworthy. In any case, the Company considers that the provisions recognized in the accompanying financial statements for the risk of litigation are sufficient, and there are no possible risks requiring disclosure.

14. Financial liabilities (current)

The detail of "Current Payables", and "Current Payables to Group Companies and Associates" at 31 December 2018 and 2017 is as follows:

2018

Class	Thousands of Euros		
Categories	Current Financial Instruments		
	Bank Borrowings and Other Financial Liabilities	Other	Total
Payables to Group Companies and Associates (Note 18.2)	-	6,849	6,849
Other financial liabilities	-	242	242
Total	**-**	**7,091**	**7,091**

2017

Class	Thousands of Euros		
Categories	Current Financial Instruments		
	Bank Borrowings and Other Financial Liabilities	Other	Total
Payables (1)	134,934	-	134,934
Payables to Group Companies and Associates (Note 18.2)	-	18,036	18,036
Other financial liabilities	-	119	119
Total	**134,934**	**18,155**	**153,089**

(1) Includes borrowings for the financing of inventories for EUR 1,198 thousand

The detail, by maturity date, of "Current Payables" and "Current Payables to Group Companies and Associates" at 31 December 2018 and 2017, is as follows:

	Thousands of Euros				
	2019	2020	2021	2022 and subsequent years	Total
Group companies and associates and interest	6,849	-	-	-	6,849
Interest on borrowings and others	242	-	-	-	242
	7,091	**-**	**-**	**-**	**7,091**

	Thousands of Euros				
	2018	2019	2020	2020 and subsequent years	Total
Mortgage loans	1,199				1,199
Bilateral loans	133,499				133,499
Group companies and associates and interest	18,036				18,036
Interest on borrowings and others	355				355
	153,089	**-**	**-**	**-**	**153,089**

The movements in “Current and non-current debts and items due” during 2018 was as follows:

	31.12.2017	Provisions	Write-downs	31.12.2018
Debts and items due				
Bilateral loan	133,499	-	(133,499)	-
Mortgage loans	1,199	-	(1,199)	-
Interest	236	-	(236)	-
Debts and items payable to Group companies and associates				
To other Group companies, current	18,036	568	(11,755)	6,849
Other financial liabilities	119	177	(54)	242
Total	**153,089**	**745**	**(146,743)**	**7,091**

The movements in “Current and non-current debts and items due” during 2017 was as follows:

	31.12.2016	Provisions	Write-downs	31.12.2017
Debts and items due				
Bilateral loan	103,465	50,000	(19,966)	133,499
Mortgage loans	3,597	-	(2,398)	1,199
Interest	184	52	-	236
Debts and items payable to Group companies and associates				
To Realia Patrimonio, S.L.U., non-current	465,036	-	(465,036)	-
To other Group companies, current	16,128	4,145	(2,237)	18,036
Other financial liabilities	150	-	(31)	119
Total	**588,560**	**54,197**	**(489,668)**	**153,089**

Bilateral loan

In April and December 2017, the bilateral loan was extended by EUR 50,000 thousand, and an amortization of EUR 20,000 thousand, respectively, with the same maturity. The outstanding debt at 31 December 2017 amounted to EUR 133,649 thousand. On 21 June 2018, the loan was renewed for an amount of EUR 120,000 thousand, maturing on December 2020, and EUR 13,649 thousand were repaid in April 2018.

On 15 November 2018, the Board approved the capital increase formalized on 28 December 2018 (Note 12). 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

At 31 December 2018, the Company had fully repaid the mortgage loan (EUR 1,199 thousand at 31 December 2017).

Payable to Group companies

Realia Patrimonio, S.L.U.

In April 2017, the company cancelled its loan with Realia Patrimonio, a company of the group, for an amount of EUR 465,036 thousand, using the dividends paid against reserves (See Note 9.1).

Retingle, S.L.

At 31 December 2018, the Company repaid in full the loan and interest accrued with Retingle, S.L., for an amount of EUR 11,755 thousand (Note 9.1).

Additionally, "Payables to Group companies" include mainly the creditors corresponding to the balance of the tax liability resulting from the fiscal consolidation and interest, for an amount of EUR 6,288 thousand (EUR 6,280 thousand at 31 December 2017).

15. Trade and other payables

The detail of "Trade and Other Payables" at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Payable to suppliers		
For purchase of land	3,170	3,149
Payable to other suppliers	2,847	2,766
Payable to suppliers – Group companies and associates	1,060	5
Sundry accounts payable	1,151	782
Employee receivables	5	42
Other payables to public entities (Note 16.1)	611	625
Customer advances (Notes 10 and 4.j)	4,962	2,782
	13,806	**10,151**

"Trade and Other Payables" includes mainly the amounts payable for construction projects and associated costs, purchases of land and advances received from customers prior to recognition of the sale of properties.

The Directors consider that the carrying amount of trade payables approximates their fair value.

Following is the detailed information required by Additional Provision Three provided for in Law 15/2010 of 5 July (amended through Final Provision Two of Law 31/2014, of 3 December), prepared according to the ICAC (Accounting and Account Audit Institute) Resolution of 29 January 2016, on disclosures required related to the average payment period to suppliers in commercial transactions.

	2018	2017
	Days	Days
Average payment period to suppliers	26	58
Paid transactions ratio	25	59
Transactions pending payment ratio	36	50

	Thousands of Euros	Thousands of Euros
Total payments made in the year	38,703	5,591
Total outstanding payments	1,452	529

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

Solely for the purposes of providing the information required by this Resolution, suppliers are the trade creditors for the supply of goods and services and therefore, include the figures relating to "Suppliers", "Suppliers Group companies and Associates" and "Sundry Accounts Payable" under "Current Liabilities" in the current liabilities of the balance sheet.

The "average payment period to suppliers" is the time between the delivery of goods or services by the supplier and the payment of the transaction.

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

Additionally, the ratio of outstanding payment transactions corresponds to the ratio whose numerator is the sum of the products corresponding to late payments, by the number of days of late payment (difference between the calendar days elapsed from the start of the payment period until the payment of the transaction) and whose denominator is the total amount of outstanding payments.

The maximum payment period applicable to the Company in 2018 under Law 3/2004, of 29 December, on combating later payments in commercial transactions and pursuant to the transitory provisions of Law 15/2010, of 5 July, is of 60 days, since the conditions provided for in Law 11/2013, of 26 July, are fulfilled. The Company makes all its payments on the 15th of every month.

16. Tax matters

The Company has filed consolidated tax returns as parent of the tax group since 2007. A consolidated tax group, as regulated in Title VI, Chapter VII of Law 27/2014, of 27 November, is made up of a parent and all the subsidiaries, whether public or private limited liability companies, that are resident in Spain and in which the parent has a direct ownership interest of at least 75%.

The tax group number assigned is 135/07.

16.1 Current tax receivables and tax payables

The detail of the current tax receivables and payables is as follows:

Tax receivables

	Thousands of Euros	
	2018	2017
VAT and Canary Islands general indirect tax payable	98	2
Social Security bodies	3	-
Income tax refundable	3,711	3,485
Total (Note 9.4)	**3,812**	**3,487**

The balance of Income Tax payables at 31 December 2018 corresponds to tax withholdings and advanced payments of the Income Tax for the year for an amount of EUR 1,342 thousand, and EUR 2,369 thousand in 2017 (EUR 2,943 thousand and EUR 542 thousand at 31 December 2017):

Tax payables

	Thousands of Euros	
	2018	2017
Income tax refundable	118	90
VAT and canary Islands general indirect tax payable	215	354
Accrued social security payables	55	52
Other	223	129
Total	**611**	**625**

“Other” includes mainly local taxes (tax on increase in urban land value, taxes on economic activities, etc.).

16.2 Reconciliation of the accounting profit/loss to the tax loss

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

2018

	Thousands of Euros		
	Profit and Loss Statement		
	Increase	Decrease	Total
Result before tax			**5,813**
Income tax:			
Permanent differences			**(3,550)**
Life insurance contributions	19		
Penalties and surcharges			
Donations	2		
Dividend exemptions (Note 9.1)		(8,066)	
Reversion of the deductible portfolio provision	4,495		
Temporary differences			**2,257**
Arising in the year -			**6,380**
Non-deductible financial expenses			
Impairment of securities	614		
Other provisions	5,775		
Capital increase expenses		(9)	

Arising in prior years -			**(4,123)**
Other provisions		(5,674)	
Non-deductible depreciation and amortization charge		(30)	
Tax adjustment of securities portfolio	55	(690)	
Deferred tax benefit due to haircuts (Note 16.5)	2,216		
Prior tax loss of Parent of tax group			4,520
Taxable income rest of companies in tax group			13,088
Offset of prior year's tax losses of tax group			(9,911)
Taxable profit of tax group			**(7,697)**

2017

	Thousands of Euros		
	Profit and Loss Statement		
	Increase	Decrease	Total
Result before tax			**1,702**
Income tax:			
Permanent differences			**(1,912)**
Life insurance contributions	27	(360)	
Penalties and surcharges	3		
Dividend exemptions (Note 9.1)		(5,869)	
Reversion of the deductible portfolio provision	4,287		
Temporary differences			**6,682**
Arising in the year -			**7,626**
Non-deductible financial expenses	1,240		
Impairment of securities	724		
Other provisions	5,823		
Capital increase expenses		(161)	
Arising in prior years -			**(944)**
Other provisions		(4,886)	
Non-deductible depreciation and amortization charge		(30)	
Fiscal adjustment of securities portfolio	55	(515)	
Deferred tax benefit due to haircuts (Note 16.5)	4,432		
Prior tax loss of Parent of tax group			6,472
Taxable income rest of companies in tax group			13,224
Offset of prior year's tax losses of tax group			(12,604)
Taxable profit of tax group			**7,632**

Pursuant to the provisions of the applicable regulation on Income Tax, article 26 of Law 27/2014, of 27 November, the limitation to the offset of negative tax bases will not be the result of the inclusion in the amount of the income corresponding to haircuts or deferrals as a consequence of an agreement with the taxpayer's creditors, during 2018 and 2017, the Company offset tax losses for EUR 2,216 thousand and EUR 4,432 thousand, respectively, of the haircuts included in the tax base, and to the applications of the limits established in additional provision fifteen, to the tax base exceeding said haircuts.

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

- Negative adjustment for the amount of dividends received from Group companies, as a result of fulfilling the requirements of article 21 of Law 27/2014 of 27 November, that establishes an exception for reporting periods after 1 January 2015, for dividends or profit sharing of companies in which the ownership interest, direct or indirect, in the equity or share capital of the company, is at least 5 per cent, or the value of acquisition of the interest is higher than EUR 20 Million.

- Pursuant to the amendment of Transitory Provision Sixteen of the Tax Law, introduced by Royal Decree Law 3/2016, of 2 December, that establishes that the reversion of the loss resulting from the value impairment of stakes that were tax deductible for years before 2013 and not after that date, should be made for a minimum annual amount on a straight-line basis during five years, a positive adjustment to the carrying amount has been made for EUR 4,495 thousand as a permanent difference (EUR 4,287 thousand at 31 December 2017), and EUR 55 thousand as reversion of a temporary difference in liabilities recognized in prior years (EUR 55 thousand in 2017) and EUR 8,524 thousand are pending consolidation over the next three reporting periods (EUR 13,027 thousand at 31 December 2017).

The main temporary differences in 2018 and 2017 are related to:

- Positive adjustment of EUR 1,240 thousand in 2017, pursuant to the current Corporate Tax regulation, article 16, by Law 27/2014, of 27 November, that establishes a general restriction on the deduction of "net financial expenses" and that becomes in practice a specific temporary allocation rule, permitting the deduction in future reporting periods, similarly to the offset of negative tax bases.

  Accordingly, net financial expenses will be deductible up to a maximum of 30% of the operational profit of the year. For these purposes, the rule considers "net financial expenses" the excess financial costs related to the revenue resulting from the transfer of own capital accrued during the fiscal year to third parties. In any case, net financial costs of the year will be fully deductible, without limitation, up to an amount of EUR 1 Million. In 2018, non-deductible financial expenses amounted to EUR 0 thousand (EUR 1,240 thousand in 2017).

- Positive adjustment of EUR 614 thousand (EUR 724 thousand in 2017), pursuant to the current Corporate Tax regulation, article 13.2 by Law 27/2014, of 27 November, that established that losses due to the impairment of the equity securities of treasury shares of the company cannot be deducted (see Note 9.1).

- Positive adjustment for EUR 5,775 thousand for asset provisions and EUR 5,674 thousand as negative adjustment from the reversal of assets considered as non-deductible in 2017.

- Positive adjustment of EUR 2,216 thousand, pursuant to the current Corporate Tax regulation, article 11.13 by Law 27/2014, of 27 November, that established that the revenue corresponding to the carrying amount of haircuts and deferrals as a consequence of Law 22/2003, of 9 July, Bankruptcies, will be charged to the tax base of the debtor, in as far as it is possible to recognize subsequently the financial cost derived from that debt, up to the limit of said revenue (positive adjustment of EUR 4,432 thousand in 2017).

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

2018

	Thousands of Euros							
Year Incurred	Tax Losses		Total Tax Loss	Consolidation Adjustments (Dividends/ Investment Securities)	Tax Loss Offset	Total Tax Loss of Tax Group	Total Tax Loss Recognized	Tax Asset Recognized
	Parent Companies	Tax Group Subsidiaries						
2008	21,186	(15,807)	5,379	59,636		-	-	-
2009	43,221	(27,005)	16,216	11,475	-	6,996	6,996	1,749
2010	52,849	10,229	63,078	550	-	63,628	63,628	15,907
2011	45,804	1,347	47,151	17,724	-	64,876	64,876	16,219
2012	259,438	(24,581)	234,857	11,968	-	246,824	56,369	14,092
2013	48,582	(31,337)	17,245	13,879	-	31,125	-	-
2014	(3,798)	15,177	11,379	21,066	-	32,446	-	-
2015	14,947	(19,646)	(4,699)	-	(1,314)	-	-	-
2016	(39,081)	(25,294)	(64,375)	-	(63,213)	-	-	-
2017	(6,993)	(12,550)	(19,543)	-	(11,730)	-	-	-
2018	(4,519)	(12,629)	(17,148)		(9,911)	-	-	-
Total	**431,636**	**(142,096)**	**289,540**	**136,298**	**(86,168)**	**445,895**	**191,869**	**47,967**

2017

	Thousands of Euros							
Year Incurred	Tax Losses		Total Tax Loss	Consolidation Adjustments (Dividends/ Investment Securities)	Tax Loss Offset	Total Tax Loss of Tax Group	Total Tax Loss Recognized	Tax Asset Recognized
	Parent Companies	Tax Group Subsidiaries						
2008	21,186	(15,807)	5,379	59,636		-	-	-
2009	43,221	(27,005)	16,216	11,475	-	14,953	14,953	3,738
2010	52,849	10,229	63,078	550	-	63,628	63,628	15,907
2011	45,804	1,347	47,151	17,724	-	64,875	64,875	16,219
2012	259,438	(24,581)	234,857	11,968	-	246,825	58,419	14,605
2013	48,582	(31,337)	17,245	13,879	-	31,124	-	-
2014	(3,798)	15,177	11,379	21,066	-	32,445	-	-
2015	14,947	(19,646)	(4,699)	-	(1,314)	-	-	-
2016	(39,081)	(25,294)	(64,375)	-	(64,375)	-	-	-
2017	(6,472)	(12,821)	(19,293)	-	(12,064)	-	-	-
Total	**436,676**	**(129,738)**	**306,938**	**136,298**	**(77,753)**	**453,850**	**201,875**	**50,469**

In 2018, the variation in tax credits for loss carryforwards amounted to EUR 2,502 thousand (EUR 2,343 thousand in 2017), as a consequence of the carryforward of tax based applied by the Company.

The consolidation adjustments arose mainly from the elimination of dividends paid among the various companies composing the tax group. The elimination thereof led to a reduction in tax credit carryforwards, which were used to increase the tax group's tax loss carryforwards.

The Company only recognizes deferred tax assets associated with tax losses that the Directors expect to recover (see Note 4.i), within the periods allowed by current legislation (see Note 16.4).

At 2018 year-end, the Company had unrecognized tax loss carryforwards amounting to EUR 64,971 thousand (EUR 64,575 thousand at 2017 year-end): EUR 63,507 thousand from negative tax base and EUR 1,464 thousand from deductions (see Note 16.4); (EUR 62,994 thousand and EUR 1,581 thousand respectively, at 31 December 2017). The detail of unrecognized tax loss carryforwards is as follows:

Year	Total unrecognized tax loss	Credit from unrecognized BIN	Credit from unrecognized loss carryforward
2009	-	-	-
2010	-	-	-
2011	-	-	-
2012	190,455	47,614	450
2013	31,125	7,781	61
2014	32,446	8,111	953
Total	**254,026**	**63,057**	**1,464**

16.3 Reconciliation of the accounting profit/loss to the income tax expense

The reconciliation of the accounting profit/loss to the income tax expense in 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Accounting profit/loss before tax	5,813	1,702
Permanent differences	(3,550)	(1,912)
Unrecognized temporary differences	540	2,897
Total tax base	**2,803**	**2,687**
Tax charge at 25%	(701)	(672)
Tax credits:		
Other	(2)	2,130
Total income tax benefit (expense) recognized in the income statement	**(703)**	**1,458**

The breakdown of "Others" is as follows:

	Thousands of Euros	
	2018	2017
Adjustment from the settlement of income tax of prior year	2	1,150
De-recognition of recognized non-deductible financial cost	-	-
Adjustment to new interest rates		1,035
De-recognition of tax assets for negative tax bases	-	(55)
Deferred tax adjustment to Law 27/2014	**-**	**-**
Total	**2**	**2,130**

In 2017, following the analysis made by the Company to assess the recoverability of deferred tax assets, temporary differences from recognized financial cost for EUR 15,154 thousand were removed from the non-current assets of the balance, and allocated to “Tax on profits” in the accompanying profit and loss statement.

The breakdown of the Income Tax for 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Current tax	(272)	275
Net deferred asset (Notes 16.4 and 16.5)	(429)	(947)
Tax adjustment from prior years	(2)	2,130
Total tax income/(expense)	**(703)**	**1,458**

16.4 Deferred tax assets recognized

The detail of “Deferred Tax Assets” at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
Deferred Tax Assets	2018	2017
Temporary differences:		
Non-deductible finance costs	15,154	15,154
Non-deductible depreciation and amortization charge	45	52
Provision for charges	604	604
Elimination of provisions in tax consolidation	258	387
Other	114	114
Tax asset recognized	63,788	66,830
Total deferred tax assets	**79,963**	**83,141**

At 31 December 2018, tax assets and credits are recognized for EUR 63,789 thousand (EUR 66,830 thousand at 31 December 2017) that, even though the recovery period for part of them might be higher than 10 years, are recognized in the balance sheet since the Directors of the Company believe that based on the best estimate about future results of the Company and latent capital gains of the Group’s assets, it is likely that these assets will be recovered.

The total “recognized tax asset” at 31 December 2018 amounts to EUR 63,788 thousand (EUR 66,830 thousand at 31 December 2017) and corresponds to the tax charge from negative tax bases from 2008 to 2014 for EUR 47,967 thousand (EUR 50,649 thousand at 31 December 2017), as detailed in Note 16.2, and EUR 15,821 thousand from tax credit carryforwards (EUR 16,361 thousand at 31 December 2017), the detail being as follows:

	Thousands of Euros						
	Tax Credit Carryforwards		Total Tax Credits	Consolidation Adjustments (Dividends)	Unrecognized Tax Credits	Recognized Tax Credits	Total Tax Credits
	Companies	In the Tax Group					
	Parent	Subsidiaries					
2008	15,402	455	15,856	(15,120)	-	737	737
2009	3,119	5,893	9,011	(3,000)	603	6,011	6,011
2010	605	170	775	(450)	-	325	325
2011	3,359	7,717	11,076	(5,401)	860	5,675	5,675
2012	3,189	1,983	5,172	(3,185)	(1,013)	1,537	1,987
2013	1,664	2,046	3,710	(2,432)	61	1,217	1,278
2014	4,558	1,969	6,527	(5,265)	953	309	1,262
2015	10	-	10	-	-	10	10
	31,906	**20,232**	**52,138**	**(34,853)**	**1,464**	**15,821**	**17,285**

Most of the unrecognized tax credits included under “Total Tax Credits” correspond to the deduction resulting from double taxation of dividends from the parent of the Tax Group and the Group Companies, which, after consolidation adjustments, became tax charges in the consolidated tax statement.

According to Transitory Provision 24.3 of Law 27/2014 of the Income Tax, the detail of tax benefits with a time limit for their application depending on their maturity, and corresponding to the reinvestment of extraordinary income and international double taxation, is as follows:

Thousands of Euros		
Deadline for offset	Tax benefits outstanding 2018	Tax benefits outstanding 2017
2018	-	-
2019	-	-
2020	-	-
2023	-	-
2024	5,775	5,775
2025	15	15
Total	**5,790**	**5,790**

16.5 Deferred tax liabilities

The detail of “Deferred Tax Liabilities” at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Investment securities - 2012	13	13
Investment securities – 2010	11	11
Investment securities – 2008	4	17
Deferred tax from haircut on refinanced debt (Note 16.2)	-	554
Total deferred tax liabilities	**28**	**595**

16.6 Years open for review and tax audits

Under current legislation, taxes cannot be deemed to have been definitely settled until the tax authorities have reviewed the tax returns filed or until the four-year statute-of-limitations has expired. At 2018 year-end, the Company, as the Parent of Tax Group 135/07, received a notification that it had years 2014 to 2015 open for review by the tax authorities for the consolidated Income Tax, and the periods between November 2014 and December 2015 for the Value Added Tax. These audits are of a general nature, and include the review of all of the tax bases pending application, or tax benefits pending application, 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 had years 2014 to 2018 open for review, and years 2016 to 2018 for the Value Added Tax. The Company's directors consider that the tax returns for the aforementioned taxes have been filed correctly and therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions such liabilities as might arise would not have a material effect on the accompanying financial statements.

Additionally, Law 34/2015 of 21 September, which amends partially Tax Law 58/2003, of 17 December, establishes that the right of the authorities to start the process of review of the tax bases settled or pending settlement or deductions applied or pending application, will have a statute of limitations of ten years, counted from the day after the conclusion of the regulatory period established for the filing of tax returns or tax returns corresponding to the fiscal year or period in which the right to offset such tax bases or charges, or to apply such benefits, was generated.

17. Revenues and expenses

17.1 Revenues

The sales figure relates in full to sales made in Spain.

The detail of sales, by type of revenue, for 2018 and 2017, is as follows:

Line of Business	Thousands of Euros	
	2018	2017
Revenue from the sale of property developments and land	10,764	20,980
Rent revenue (Note 7)	224	217
Revenue from services	3,999	3,163
	14,987	**24,360**

The breakdown by geographical market of the revenue for 2018 and 2017 is as follows:

	Thousands of Euros	
Geographical Markets	2018	2017
Spain:		
Andalusia	2,987	2,921
Madrid	4,530	17,009
Catalonia	1,096	1,182
Valencia	3,628	1,788
Castilla y León	2,746	1,460
	14,987	**24,360**

17.2 Procurements

The detail of "Procurements" at 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Purchases and procurements	(24,158)	(551)
Write-down of land and building lots	275	(3,667)
	(23,883)	**(4,218)**

In 2018, purchases and procurements increased over the figure for 2017, mainly due to the transfer to "Long-Cycle Developments in Progress" of the developments Las Brisas de Son Dameto and La Essencia de Sabadell.

The Company wrote down the value of its land and building lots by an amount of EUR 275 thousand (EUR 3,667 thousand in 2017), to adapt it to their fair value, according to appraisals made by independent experts (see Note 10).

17.3 Detail of purchases by origin

The Company made all of its purchases in 2018 and 2017 in Spain.

17.4 Employee benefit costs

The detail of "Employee Benefit Costs" in 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Employee benefit costs:		
Contributions to pension plans (Note 4.n)	(176)	(184)
Other employee benefit costs	(654)	(668)
	(830)	**(852)**

17.5 External services

The breakdown of "External Services" in the profit and loss statement corresponding to reporting periods ended on 31 December 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Leases and taxes	273	428
Repair and upkeep	24	27
Independent professional services	200	135
Insurance premiums	28	56
Bank and related expenses	15	6
Publicity, advertising and PR	224	138
Supplies	34	38
Other services	3,036	4,090
Total external services	**3,834**	**4,918**

17.6 Finance income and finance costs

The detail of the finance income and finance costs in 2018 and 2017 is as follows:

	Thousands of Euros	
	2018	2017
Income from investment securities (Note 9.1):		
Retingle	25	80
Realia Patrimonio	7,500	5,789
Income from investment securities in Group companies	104	238
Income from investment securities in third parties	27	89
Total finance income	**7,656**	**6,196**
Borrowing costs	(890)	(2,028)
Other finance costs	(637)	(113)
Total finance costs	**(1,527)**	**(2,141)**
Impairment losses on investment securities in Group companies and associates	(299)	(724)
Profit (loss) from disposals and others	542	-
Recognition of financial charge	17	-
Financial profit/loss	**6,389**	**3,331**

Pursuant to the ruling contained in Official Gazette of the Spanish Accounting and Audit Institute 79 (BOICAC 79) relating to the recognition by holding companies of income from equity investments, this income was not reclassified as revenue since it was considered that the Company's business activity is purely industrial and accordingly, the shareholdings in Group companies relate to the corporate organization itself and under no circumstances can its ordinary activity be considered to include the activity of a holding company.

18. Related party transactions and balances

18.1 Related party transactions

The detail of the transactions with related parties in 2018 and 2017 is as follows:

2018

	Thousands of Euros	
	Group Companies	Associates
Sales	153	-
Services provided and received	2,388	1,577
Non-core and other current operating income	98	-
Procurements	-	(1,179)
External services	(209)	(141)
Dividends (Notes 9.1 and 17.6)	7,525	-
Finance income	98	7
Finance costs	(33)	-
Impairment and loss of financial instruments (Note 9.1)	(451)	12
	9,569	**276**

2017

	Thousands of Euros	
	Group Companies	Associates
Sales	151	-
Services provided and received	2,275	838
Non-core and other current operating income	83	-
Outside services	(409)	2
Dividends (Notes 9.1 and 17.6)	5,869	-
Finance income	225	13
Finance costs	(871)	-
Impairment and loss of financial instruments (Notes 9.1 and 17.6)	(724)	-
	6,599	**853**

18.2 Related party balances

The detail of the on-balance sheet balances with related parties at 31 December 2018 and 2017 is as follows:

At 2018 year-end

	Thousands of Euros	
	Group Companies	Associates
Non-current financial assets:		
Equity instruments (Note 9.1)	125,038	12,084
Loans to companies (Note 9.1)	-	-
Other non-current assets	-	-
Trade receivables (Note 9.4)	639	1,231
Current financial assets:		
Loans to companies (Note 9.2)	15,613	4,582
Non-current payables	25	-
Current payables (Note 14)	6,849	-
Trade payables	-	1,060
	148,164	**18,957**

At 2017 year-end

	Thousands of Euros	
	Group Companies	Associates
Non-current financial assets:		
Equity instruments (Note 9.1)	137,571	12,071
Loans to companies (Note 9.1)	13,328	-
Other non-current assets	51	-
Trade receivables (Note 9.4)	555	783
Current financial assets:		
Loans to companies (Note 9.2)	4,184	4,802
Non-current payables	25	-
Current payables (Note 14)	18,036	-
Trade payables	-	5
	173,750	**17,661**

18.3 Remuneration of Directors and senior executives

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

2018

		Thousands of Euros				
	Average No. of Persons	Salaries	Other Remuneration	Bylaw-Stipulated Emoluments	Pension Plans	Insurance Premiums
Directors	7	-	355	393	-	-
Senior executives	3	571	2	-	37	3
TOTAL		**571**	**357**	**393**	**37**	**3**

2017

		Thousands of Euros				
	Average No. of Persons	Salaries	Other Remuneration	Bylaw-Stipulated Emoluments	Pension Plans	Insurance Premiums
Directors	7	-	355	341	-	-
Senior executives	5	907	4	-	64	5
TOTAL		**907**	**359**	**341**	**64**	**5**

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

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

18.4 Situations of conflict of interest involving the directors

At 2018 year-end, the members of the Board of Directors of Realia Business, S.A. have not reported to the rest of members of the Board any situation of conflict of interest, either direct or indirect, that they or any party related to them may have with the interests of the Company, according to the provisions of the Limited Liability Company Law. However, they did report the following:

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

19. Environmental information

In view of the business activities carried on by the Company, it does not have any environmental liability, expenses, assets, provisions or contingencies that may be material with respect to its equity, financial position or results.

20. Additional information

20.1 Headcount

The average number of employees, by professional category, in 2018 and 2017, is as follows:

Professional Category	Average Number of Employees	
	2018	2017
Directors	-	-
Senior executives	3	5
Management and university graduates	20	19
Other line personnel and further education college graduates	8	7
Clerical staff	9	9
	40	**40**

At 2018 and 2017 year-end, the number of employees at the Company was 42 and 40 respectively.

In addition, the headcount at the end of 2018 and 2017, by gender and category, was as follows:

Professional Category	2018		2017	
	Men	Women	Men	Women
Senior executives	2	1	4	1
Management and university graduates	12	10	11	8
Other line personnel and further education college graduates	8	-	7	-
Clerical staff	4	5	3	6
	26	**16**	**25**	**15**

At 2018 and 2017 year-end, the Company does not have any employee with a degree of disability equal of higher than 33%.

20.2 Fees paid to auditors

In 2018, the fees for financial audit and other services provided by the Company's auditors, Ernst & Young, S.L. or by a firm in the same group or related to the auditors, were as follows:

2018

Description	Services provided by the Financial Auditor and by Related Companies
Audit services	60
Total audit and related services	**60**
Other services	-
Total professional services	**-**

2017

Description	Services provided by the Financial Auditor and by Related Companies
Audit services	59
Total audit and related services	**59**
Other services	-
Total professional services	**59**

21. Events after the reporting period

No events or circumstances that have a significant impact on the financial statements at 31 December 2018 have occurred after the reporting date.

22. Additional note for English translation

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

Realia Business, S.A.

Management Report

For the year ended

31 December 2018

THE COMPANY AND ITS ORGANIZATIONAL AND OPERATING STRUCTURE:

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

Business activities are focused mainly on two lines of business:

a) PROPERTY MANAGEMENT: this activity is directly carried on by the company Realia Patrimonio S.L. (wholly owned by Realia Business, S.A.) and through its controlling or significant interests in investees. This activity is carried on entirely in Spain.

These equity investments represent around 19.3% of the value on the asset side of the Realia Business, S.A.'s balance sheet.

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

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

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

Activities abroad are carried on by (directly or indirectly) wholly owned subsidiaries of Realia Business, S.A.

Realia Business, S.A. is listed on the Spanish Stock Market Interconnection System in Madrid and its most significant shareholders include the FCC Group, with an ownership interest of 36.92% and the Mexican open-ended company Inversora Carso, S.A. de Capital Variable, with 33.85%. The latter owns a stake in the FCC Group, direct and indirect, amounting to an interest of 56.409%.

Its organizational structure may be summarized as follows:

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

NON-EXECUTIVE CHAIRMANSHIP: This chairs the Board of Directors.

CHIEF EXECUTIVE OFFICER: Reports directly to the Board of Directors and is a Member of the Board.

The Development and Land Management business is managed daily on a joint basis by the head office in Madrid and by an area 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 (Boards 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:

During 2018, the following incorporations and exclusions were made to the Company's financial investments:

1) At the Extraordinary General Meeting of Retingle, held on 28 June 2018, it was agreed to decrease the share capital in order to repay the capital injections from Realia Business. This was made through the amortization of the company shares of the latter, and the cancellation of the loan between Retingle and Realia Business. As a consequence, Retingle left the consolidation perimeter.

2) At the Annual General Meeting, held on 1 March 2018, the company Duse, S.L. agreed its winding down. Later, on 29 May 2018, the Mercantile Court No.1 of Seville, at the company's request, declared Duse S.L. in voluntary bankruptcy. This meant the exit of Duse from the consolidation perimeter on that date.

3) In March and October 2018, Realia Business made two capital injections to Guillena Golf for EUR 272 thousand and EUR 255 thousand, respectively. The purpose of these injections was to cover losses and restore the equity balance, and did not represent any change in the % of its ownership interest.

4) In October 2018, Realia Business Portugal, Unipersonal LDA, reduced its equity by EUR 1,846 thousand, after the refund of the supplementary benefits to its sole partner, Realia Business. This did not have any change on its ownership interest.

3. AVERAGE PAYMENT PERIOD

Following is the information required by Additional Provision Three of Law 15/2010, of 5 July (amended through Final Provision Two of Law 31/2014, of 3 December), prepared in accordance with ICAC's Resolution of 29 January 2016, relating to the disclosures to be included in the financial statements on the average payment period to suppliers in commercial operations.

	2018
	Days
Average payment period to suppliers	26
Ratio of paid transactions	25
Ratio of payable transactions	36
	Thousands of Euros
Total payments made	38,703
Total outstanding payments	1,452

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

Solely for the purposes of providing the information provided for in this Resolution, suppliers are the trade creditors for the supply of goods and services and therefore, include the figures relating to “Suppliers”, “Suppliers Group companies and Associates” and “Sundry Accounts Payable” under “Current Liabilities” in the balance sheet.

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

The ratio of paid transactions is the quotient whose numerator is the sum of the products corresponding to the amounts paid, by the number of payment days, (difference between calendar days elapsed from the date the payment period starts and the payment of the transaction) and whose denominator is the total amount of payments made.

Likewise, the ratio of transactions payable corresponds to the ratio whose numerator is the sum of the products corresponding to the amounts payable, by the number of days of outstanding payment (difference between the calendar days elapsed from the date the payment period starts until the last day of the period of the financial statements) and whose denominator is the total amount of outstanding payments.

The maximum payment period applicable to the Company in 2018 under Law 3/2004, of 29 December, on combating later payments in commercial transactions and pursuant to the transitory provisions of Law 15/2010, of 5 July, was 60 days, since the conditions provided for in Law 11/2013, of 26 July, are fulfilled, and payment date to suppliers is made on the 15th or next working day of every month.

4. RELEVANT EVENTS DURING THE REPORTING PERIOD

A) CAPITAL INCREASE REGISTRATION

On 28 December 2018, the capital increase agreed by the Board of Directors of the Company on 15 November 2018 was registered at the Mercantile Registry of Madrid, through the issue and distribution of 175,457,742 ordinary shares, of 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, and the share premium, EUR 107,029,222.62.

B) LOAN CANCELLATION

According to the purpose of the capital increase mentioned above, on 26 December 2018, Realia Business S.A. cancelled its loan with Caixa on 26 December 2018, for an amount of EUR 120,000 thousand, and subsequently released the security on that loan granted by shareholder Inversora Carso, S.A.

5. MAIN AGGREGATES OF 2018:

The main aggregates of the Company during 2018 were the following:

- Realia Business recorded total revenues of EUR 15.5 Million in 2018, versus EUR 24.9 Million in 2017, a 37.8% increase, due to two factors:

1) The gradual reduction of product stock, which entails in turn lower average prices. In 2017, product was being delivered from a development in Valdebebas (Madrid), whose unit price was very high compared to units from other developments delivered in 2018.

2) The absence of deliveries from new ongoing developments that cannot be handed over to their buyers for they are not finished yet.

- Ebitda in 2018 (see APMS, item 6) was EUR -3.9 Million, versus EUR -3.2 Million in 2017, 21.8% lower than in 2017, due to the completion of the sale of the Valdebebas (Madrid) development in 2017, where margin was markedly positive, with a high contribution to Ebitda on that period. The application/reversal of the impairment related to completed and delivered product causes the gross operating profit to vary respect to Ebitda: EUR -1.6 Million in 2018 and EUR 0.4 Million in 2017.

- During 2018, the company reversed the impairment of its land and building lot inventories for EUR 0.3 Million, and of developments in progress and completed for EUR 2.5 Million, Additionally, it reversed/applied provisions for litigation or insolvency for EUR 1.4 Million, versus EUR 4 Million in 2017.

- Financial income during 2018 amounted to EUR 7.7 Million, versus EUR 6.2 Million in 2017; in both cases, they correspond to dividends received from financial investments in Group companies and associates.

- Financial expenses in 2018 reached the figure of EUR 1.5 Million, versus EUR 2.1 Million in 2017. This improvement is due to the reduction of the company's indebtedness, after the financial restructuring of the debt in 2017.

- Accordingly, the financial result of Realia at 31 December 2018 was EUR 6.4 Million, versus EUR 3.3 Million in 2017, for the reasons explained above.

- Earnings before taxes at 31 December 2018 amounted to EUR 5.8 Million, and net earnings after taxes reached EUR 5.1 Million, versus EUR 1.7 Million and EUR 3.2 Million respectively, in 2017. This marked improvement in earnings before taxes is basically explained by the improvement of financial results mentioned before.

BANK BORROWINGS

After the completion of the capital increase mentioned above, the loan the company had with Caixa was fully written-off for EUR 120 Million; accordingly, the parent Realia Business did not have any outstanding financial debt at 2018 year-end.

All property assets are free from mortgage charges, ant the security Inversora Carso had provided as counter guarantee of the loan mentioned in the previous paragraph has been released.

INTRA-GROUP INDEBTEDNESS

At 31 December 2018, the balance of the intra-group loan that Retingle (investee) had granted to the parent for an amount of EUR 11.7 Million, on the occasion of the capital decrease through the write-off of shares described under "Changes to the portfolio of financial investments", which meant the exit of Retingle from the group.

ASSET VALUATION

- At 2018 year-end, the property assets of the Realia Group, including assets of companies consolidated through the equity method, have a market value of EUR 1,844.3 Million, a 3.1% increase over 2017. This positive evolution is due to:

  1) The purchase of residential property land in Alcalá de Henares, valued at EUR 29.1 Million

  2) The 2.2% improvement in valuation of property assets for rent, from EUR 1,446.6 Million in 2017 to EUR 1,479.1 Million in 2018.

  - The net net asset value (NNAV) (See APMS, item 5) at December 2018, is EUR 1,022 Million, versus EUR 833 Million in December 2017. In unit terms, the share price was 1.25 per share, 3.1% lower than in 2017 (1.29 €/share), due to the diluting effect of the capital increase completed in December at 0.85€/share.

  - 80% of the asset value corresponds to the property activity (EUR 1,479.1 Million), and 20% (EUR 365.2 Million), to the residential homebuilding business.

PROPERTY MANAGEMENT BUSINESS

This business is carried out through the ownership interests the Company has on its subsidiaries Realia Patrimonio, Hermanos Revilla and the equity method accounting of As Cancelas Siglo XXI.

- Rental revenues in 2018, including As Cancelas Siglo XXI and excluding passed-on expenses to tenants, amount to EUR 65.4 Million, an increase of 1.2% over 2017, mainly due to the update of rental prices.

- Global occupancy of rent properties reached 91.8% at 2018 year-end, versus 94.6% in 2017. This drop in occupancy is a one-off event, and was reflected in the last quarter of the year with the expiration of some contracts with tenants, which are currently being renovated and will be back in commercial operation during the first quarter of 2019. It is expected that after this, these properties will recover the occupancy levels they had at 2017 year-end. As can be seen from the rent revenues, the impact on revenues is negligible, since this took place in the last quarter of the year.

- No investments in property assets took place in 2018; however, investments are being made in the upgrade of some of the services in some of these buildings, (such as energy efficiency, hospitality areas, communal services, gyms...) as well as the adaptation of rental spaces for the new market demands (co-working, flexible space...), with the goal of responding proactively to the latest demands from our current and future clients. The amount allocated to capex in our buildings has reached EUR 1.8 Million.

HOMEBUILDING DEVELOPMENT BUSINESS

This business in carried out mainly by the parent Realia Business S.A., with smaller participations from subsidiaries like Realia Polska, Realia Portugal and Retingle. In the case of Retingle and Realia Polska, all of the finished product has already been handed over to their buyers, and they have no more assets to develop. As a result, our interest in Retingle was reduced to zero, through the repayment of our shares and the offset of the outstanding debt; in the case of Realia Polska, the intention of its Parent is to liquidate it during 2019.

The main aggregates of this activity are:

- In 2018, 89 units were delivered, for an amount of EUR 14 Million, whereas 103 units were handed over in 2017; an decrease of 13.6% At December 2018, Realia holds a stock of 444 units (homes, commercial premises and offices) finished and pending delivery (37 of them sold or pre-sold). Additionally, it holds 41 single-family housing lots for sale for self-development.

- Realia's land reserve at 31 December 2018 amounts to 5,742,359 sq. m. of buildable land, with an estimated buildable area of 1,877,207 sq. m.

- At December 2018, the fair value of land, ongoing developments and finished products included under "Inventories", according to the valuation using the methodology ECO 805/2003, with the exception of the principles and provisions of the necessary documents, and given that the purpose of the valuation is not included among those defined in article 2 of that regulation, amounts to EUR 333.8 Million, according to a valuation from an independent expert.

STOCK MARKET INFORMATION

The main stock exchange market aggregates in 2018 and their evolution are as follows:

Share price at year-end 2018 (€/share)	0.91
Share price at year-end 2017 (€/share)	1.10
Variation in share price (%)	-17.3%
Market capitalization at year-end (€)	586,775,240
Maximum share price during the year (€/share)	1.18
Minimum share price during the year (€/share)	0.85
Average share price during the year (€/share)	1.03
Average daily traded volume (€)	212,000
Average daily traded volume (shares)	206,000

The figure of stock market capitalization does not include the 175,457,742 shares from the capital increase concluded on 24 December 2018, which were admitted for trading on 4 January 2019.

At the General Meeting of Shareholders held on 21 June 2016, authorization was approved to buy back treasury shares, for the maximum period legally permitted, and pursuant to the requirements established in art.146 of the Law on Corporations.

The movements during the year were as follows:

	No. of shares	Thousands of Euros
Balances as at 31 December 2017	**610,000**	**675**
Disposals	-	-
Acquisitions	852,902	891
Balances as at 31 December 2018	**1,462,902**	**1,566**

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

6. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

Macroeconomic forecasts for 2019 are positive. Despite some uncertainties, GDP is expected to grow around 2.2%, and this GDP will probably have a positive impact on the real estate sector, and hopefully this will translate into:

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

b) Greater lending for developers, relaxing current strict conditions for access, such as the requirement of high percentage of pre-sales

c) Greater financing for the purchase of land, since currently banks believe equity should be used for these operations.

d) Regarding rental asset segment, rents are expected to continue their slow but continued upward trend, with greater moderation in incentives to rent (rent-free periods, aids to settlement, etc.); however, regarding the value of assets, these are expected to remain at their current maximum levels if the current profit levels of the financial system do not change and there is confidence in the international and domestic political systems.

Together, all these factors may affect the result of the Group, and it is expected that the macroeconomic forecasts for Spain will have a positive impact.

Internally, after having achieved the shareholding and financial stability of the Realia Group, the most important risks the company faces will be tackled, specifically:

1) Increased development activity, with the start of new homebuilding developments on areas with great demand, such as Madrid, Barcelona, Palma Mallorca, etc..., which will generate cash flow and results for the group.

2) Acquisition of new assets and/or land with potential value growth, either from management or the market, which will increase the activity and future size of the Realia Group, led by the parent company, Realia Business S.A.

Financial risk management objectives and policies

The basic principles defined by Realia Business in the establishment of its management policy for the most significant risks are:

- Full compliance with the Company's regulatory system.
- Business areas and corporate areas will define their risk appetite in a consistent manner with the strategy defined for each area of the market where they operate.
- Business areas and corporate areas will establish the necessary risk management to ensure that market transactions agree with the policies, rules and procedures of the Group.

Realia Business has a risk map, prepared after the analysis of the procedures in the organization that may give rise to these risks, which are then quantified and measures are taken to prevent them.

The main financial risks affecting the company are:

Credit risk

The Company 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 the Company fully wrote down. Lastly, there is no material risk with regard to the lease of property assets, and the risk is at the same level as last year. Company management has recognized provisions for all these contingencies in case of late payment period or doubtful debts.

Interest rate risk

At 31 December 2018, the parent company Realia Business does not have net bank borrowings, and therefore there is no interest rate risk for the company, although this risk is present in some of the company in which it owns interest. The group of companies holds interest rate hedge contracts with 5 of the 6 lender banks in the Syndicated Loan of Realia Patrimonio. The total amount hedged is 70% of the outstanding balance of the loan; at 31 December 2018, this amounted to EUR 393.8 Million, due on 27 April 2024. The type of hedging instrument is an IRS plus a floor option of Euribor at 0%. At 2018 year-end, this hedge, valued at market value, had a positive impact of EUR 0.5 Million on profit and loss, and a negative impact of EUR -2.3 Million on equity.

The aim of interest rate management is to achieve a balanced debt structure that makes it possible to minimize the cost of borrowings over several years with reduced volatility on profit and loss. In view of the comparative analysis of finance costs contained in the Business Plan and the yield curve trends, the Company chooses whether to hedge interest rate risk or not, in order to minimize the borrowing costs in the period covered by the business plan.

The Company's management monitors very closely the short and long-term yield curve trends, and does not rule out the possibility of new interest rate hedges in the future.

Liquidity risk

Some signs of improvement appeared in the sector back in 2015, albeit highly concentrated on demand for medium-high segment product in prime locations. Additionally, lending for new developments with commercial potential also improved. This trend was ratified during 2018; the financial system maintains its strong liquidity, and interest rates are still low, making financing available to individuals and developers of proven financial solvency for commercially and economically viable projects; without these conditions, access to lending will remain quite restricted.

Furthermore, at 2018 year-end Realia Business has a positive working capital of EUR 369 Million, a 95.7% increase over 2017.

The main aggregates of the cash projections of Realia Business for the next 12 months, based on a minimum basis of recurring business, dividends and other payments received for services rendered to Group companies, led to estimated collections of EUR 57.4 Million which, together with estimated payments of EUR 67.5 Million, gives rise to a negative net cash flow of EUR 10.1 Million, which together with new investments in land, will be covered with the cash available at year-end. The increase in collection forecasts is a result of investments made in new developments, which will generate positive cash flow in the following years.

Solvency risk

At 31 December 2018, Realia Business S.A. has no net bank borrowings, and holds cash and cash equivalents for EUR 60,322 thousand, as has improved its solvency compared to 2017 year-end, when net bank borrowings amounted to EUR 78,049 thousand, as shown in the following table:

	Thousands of Euros	
	2018	2017
Gross bank borrowings:		
Transferable mortgage loan	-	1,199
Bilateral loan	-	133,499
Accrued interest	-	236
Cash and cash equivalents (Note 11)	(60,332)	(56,885)
Net bank or similar borrowings	**(60,322)**	**78,049**

At 2018 year-end, the company has a positive working capital of EUR 369,005 thousand.

Foreign currency risk

The Company is not exposed to a significant level of foreign currency risk.

Other risks: Market risk

Positive growth rates have been recorded in the real estate sector since 2015. This trend continued in 2018, and even in some areas of cities like Madrid or Barcelona, product supply is very scarce, and new developments are starting again. In view of this situation, Realia plans to launch new developments in these cities and in some others where there is an attractive demand for residential homebuilding.

However, despite the improvement described above, there is still a high stock of product in most locations and regions, therefore the recovery of prices compared to pre-crisis levels is scarce and concentrated on areas with demand, and access to financing by developers and buyers is highly restricted.

Regarding the rental market, in which Realia Business operates through its subsidiary Realia Patrimonio S.L.U. and Hermanos Revilla, continued recovery of demand for space is visible, rent prices are stabilizing, and the incentives to rent demanded by customers are reduced. On the other hand, investment activity in the property management sector has grown, although it is still below 2017 levels. For all these reasons, Realia estimates that it must make focus its efforts on its two current business lines. In the property management area, where its exceptional portfolio provides it with an outstanding position, it must optimize asset management to increase operational margins and create value for the assets. In the development business, it must optimize the value of current assets, through price increases in finished products, managing the land in its portfolio and the start of developments in locations with consistent demand.

7. ALTERNATIVE PERFORMANCE MEASURES (APMS)

The following information is presented in order to comply with ESMA's Guidelines on APMs, to improve comparability, reliability and comprehension of its financial information. Following is the additional information of the indicators included in this management report.

EBITDA = Gross operating result

The Group defines EBITDA as the operating result, minus the amount of provisions for write-downs and impairments.

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

NET BANK BORROWINGS:

The group defines net bank borrowings as the current and non-current debt with banks, plus the rest of current and non-current financial liabilities, excluding financing from participating loans and debts to property, plant and equipment suppliers, minus the cash and cash equivalents balance.

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

NET NET ASSET VALUE (NNAV):

The Group calculates NNAV based on the net equity attributed to the parent, adjusted by the capital gains implicit in the current assets for own use valued at market price and deducting the tax accrued for the implicit gains, according to the tax regulation applicable at the time of calculation.

LOAN TO VALUE (LTV):

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

GAV (Liquidation Value)

Market value of assets determined by independent experts (TINSA and CBRE).

8. FORECAST FOR 2019

The main lines of activity for Realia Business in 2019 will focus on:

1) Improvement and strengthening of 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 other with similar market characteristics.

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

3) Continuing the activities that optimize revenues and expenses in each and every one of its rental assets.

4) Continuing the upgrade and renovation activities of office buildings and Shopping Centers, in order to adapt them to the latest technological trends and customer demands, to make them more attractive for our current customers and future tenants, to increase the interest of the operator on the shopping center and support its commercial efforts.

5) Investing in the acquisition of new properties for rent. The segments and assets selected for investment must have characteristics, uses and locations that fit in with the current portfolio of the company.

6) Managing its current customer base to optimize occupancy levels of all its assets, and the satisfaction of current tenants.

In 2018, the investment market on offices and shopping centers has remained active, with a good volume of purchase and sale transactions. In the transactions conducted during the year, very low capitalization yields were applied, even though they are still attractive to investors, given the alternative yields offered by financial markets. This situation is expected to continue in 2019, in view of the delay in the upturn of interest rates.

If we analyze the type of assets owned by the Realia Group, most of its office buildings are located on prime areas, just like all its shopping centers, located in the downtown of cities. This will help the Realia Group, just like in prior years, to record high levels of occupancy, increase its profitability and generate value for the shareholder.

Finally, despite the competitiveness of investment markets, and the subsequent increase in the value of assets, the Realia Group will remain vigilant to any investment opportunity that may arise and that meets the parameters of its current portfolio in terms of location, segments and profitability, with the purpose of creating value for the shareholder.

9. RESEARCH AND DEVELOPMENT POLICY

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

10. EVENTS AFTER THE REPORTING PERIOD

No relevant events have taken place after the closing of the 2018 accounts.