Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

REALIA BUSINESS, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2019

Building a better
working world

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (Note 31)

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

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of REALIA BUSINESS, S.A. (the parent) and its subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2019, the consolidated statement of profit and loss, the consolidated statement of revenues and expense, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes thereto, for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of consolidated equity and the consolidated financial position of the Group at December 31, 2019 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain

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 consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to auditor independence, that are relevant to our audit of the consolidated financial statements in Spain, in accordance with applicable financial statement auditing standards. 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.

Key audit matters

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

Measurement of investment properties and inventories

Description

At December 31, 2019, the Group has "Investment properties" and "Inventories" amounting to 1,483,546 thousand euros and 342,960 thousand euros, respectively, which, in the case of investment properties, mainly correspond to office buildings and shopping centers held either to earn rentals or for capital appreciation upon future sale and, in the case of inventories to land, construction in progress and other properties held either for sale or to be part of real estate developments.

The Group's accounting policy is to value its investment properties (IAS 40) at fair value, recording the difference between the fair value and carrying amount in the consolidated statement of profit and loss, as explained in Note 4 to the accompanying consolidated financial statements. In addition, the Group values inventories at acquisition cost plus, primarily, any development and construction costs and the borrowing costs incurred during execution of the development and construction work, and writes them down to fair value when it is lower than the former, recording the corresponding provision (IAS 2), as explained in Note 4 to the accompanying consolidated financial statements.

At the reporting date, Group management determines fair values or realizable values, using appraisals by an independent expert in accordance with the valuation standards of the Royal Institution of Chartered Surveyors ("RICS") for investment properties and inventories. The determination of these values requires the making of significant judgments and estimates by an independent expert. The breakdown of the various methodologies used for the appraisals, as well as the sensitivity analyses are provided in Notes 10 and 13 to the accompanying financial statements.

We determined this to be a key audit matter due to the significance of the amounts and due to the high sensitivity of the analyses conducted with respect to changes in the assumptions used in the valuations, e.g., estimated rents, discount rates, and initial yields used in the calculations for investment properties, as well as the cost hypotheses and the development, construction, and marketing periods applied to estimate the cash flows associated with the calculation bases for inventory.

Our response

In this regard, our audit procedures included:

- Reviewing 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 rents and/or comparable data used, the discount rates and initial yields considered in calculations, the cost hypotheses and the development, construction, and marketing periods applied to estimate the cash flows associated with the calculation bases for inventory, as well as sensitivity analyses carried out by independent experts, in addition to performing value testing procedures applicable.

- Reviewing whether the rents used in a sample of valuations carried out by independent experts are in line with existing lease agreements.
- Reviewing the disclosures included in the notes to the Group's consolidated financial statements in accordance with the applicable regulatory reporting framework.

Recoverability of deferred tax assets

Description	In accordance with the Group's policies, as explained in Note 4 to the accompanying consolidated 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 21 to the accompanying consolidated financial statements, at December 31, 2019, the Group recognized deferred tax assets amounting to 115.044 thousand euros. The assessment by management of the recoverability of deferred tax assets is based on estimates of future taxable profit using the Group's financial projections and taking into account applicable tax legislation. Given the significance of the amount, we determined the assessment of Group'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 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 21 of the statement accompanying consolidated financial statements meets the requirements established in the applicable regulatory financial reporting framework.

Other information: Consolidated management report

Other information refers exclusively to the 2019 consolidated management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover the consolidated 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 the non-financial information statement, as well as certain information included in the 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 consolidated management report, and if not, disclose this fact.

b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group 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 consolidated 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 2019 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Responsibilities of the parent company's directors and the audit and control committee for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The parent company's audit and control committee is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 consolidated 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 consolidated 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 Group's internal control.

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

- Conclude on the appropriateness of the parent company directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.

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

- We obtain sufficient appropriate audit evidence about the financial information of the components of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

We communicate with the audit and control committee of the parent 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 and control committee of the parent 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 and control committee, we determine those matters that were of most significance in the audit of the consolidated 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 parent's audit and control committee

The opinion expressed in this audit report is consistent with the additional report we issued for the Parent's audit and control committee on February 26, 2020.

Term of engagement

During the Ordinary General Shareholders' Meeting held on May 21, 2016, we were appointed auditors for a period of three years, commencing the year ended December 31, 2017. Additionally, the General Meeting of Shareholders held on May 8, 2019 appointed us as Group's auditors for an additional year, and therefore our contract will expire on the fiscal year ending on December 31, 2020.

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

(signed in the original version)

Fernando González Cuervo
(Registered in Spain's Official Register of Auditors under No. 21268)

February 26, 2020

Realia Business, S.A. and Subsidiaries Consolidated

Consolidated Financial Statements and Consolidated Management Report for the year ended 31 December 2019

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(Thousands of Euros)

ASSETS	31/12/2019	31/12/2018		31/12/2019	31/12/2018
NON-CURRENT ASSETS			**EQUITY (Note 16):**		
Intangible assets (Note 8)	77	55	Share capital	196,864	196,864
Property plant and equipment (Note 9)	2,468	3,047	Share premium	528,492	528,492
Property investment (Note 10)	1,483,546	1,422,334	Reserves	272,757	232,696
Investments in associates (Note 11)	50,283	49,566	Less: Treasury shares	(3,277)	(1,566)
Non-current financial assets (Note 14.2)	-	939	Valuation adjustments	(2,490)	883
Deferred tax assets (Note 21)	115,044	119,190	Total equity attributable to the Parent	44,877	40,159
Other non-current assets (Note 14.3)	9,207	9,437	**Total equity attributable to the Parent**	**1,037,223**	**997,528**
			Non-controlling interests (Note 17)	**243,128**	**235,978**
Total non-current assets	**1,660,625**	**1,604,568**	**Total Equity**	**1,280,351**	**1,233,506**
			NON-CURRENT LIABILITIES		
			Long-term provisions (Note 18)	11,636	4,316
			Non-current financial liabilities (Note 19):		
			Bank borrowings	559,511	586,547
			Derivatives	6,900	3,466
			Other non-current financial liabilities	30	-
			Deferred tax liabilities (Note 21)	173,470	164,856
			Other non-current liabilities (Note 20.a)	16,705	15,682
			Total non-current liabilities	**768,252**	**774,867**
CURRENT ASSETS			**CURRENT LIABILITIES**		
Inventories (Note 13)	342,960	318,190	Short-term provisions (Note 18)	909	3,259
Trade and other receivables (Note 14.1)			Current financial liabilities (Note 19):		
Trade receivables for sales and services	5,859	5,379	Bank borrowings	27,331	23,327
Other receivables	4,388	3,451	Derivatives	2,553	2,613
Current tax assets (Note 21)	5,331	3,711	Other current financial liabilities	4,831	2,011
Other current financial assets (Note 14.2)	20,276	36,647	Trade and other payables (Note 20.b)		
Other current assets (Note 14.3)	4,664	4,749	Payable to suppliers	13,566	8,370
Cash and cash equivalents (Note 15)	75,895	87,498	Other payables	20,589	14,768
Total current assets	**459,373**	**459,625**	Current tax liabilities (Note 21)	623	584
			Other current liabilities (Note 20.d)	993	888

			Total current liabilities	**71,395**	**55,820**
TOTAL ASSETS	**2,119,998**	**2,064,193**	**TOTAL EQUITY AND LIABILITIES**	**2,119,998**	**2,064,193**

Notes 1 to 30 described in the Financial Statements and Appendices are an integral part of the consolidated statement of financial position as at 31 December 2019.

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

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR 2019

(Thousands of Euros)

	2019	**2018**
Revenues (Note 23.a)	76,104	76,249
Other operating income (Note 23.b)	18,805	17,635
Changes in inventories of finished goods and work in progress (Note 13)	26,871	10,706
Procurements (Note 23.c)	(38,816)	(24,153)
Employee costs (Note 23.d)	(6,478)	(6,641)
Other operating expenses (Note 23.c)	(29,073)	(28,524)
Variation in operating provisions (Note 23.j)	11,521	5,917
Profit or loss on disposals of investment property (Note 10)	2,121	-
Provision for amortization (Notes 8 and 9)	(327)	(313)
Profit or loss on disposals of fixed assets (Note 10)	(75)	(27)
Other profits/losses	(3)	(1)
PROFIT (LOSS) FROM OPERATIONS	**60,650**	**50,848**
PROFT (LOSS) FROM VARIATION OF PROPERTY INVESTMENT (Notes 4.y,10 and 23.f)	**30,772**	**28,930**
Finance income (Note 23.g)	1,188	7,329
Finance costs (Note 23.g)	(15,633)	(17,680)
Capitalized financial expenses	-	17
Changes in fair value of non-current financial instruments	432	519
Exchange rate differences	428	2
Impairment and gains or losses on disposals of financial instruments (Notes 23.g and 23.i)	110	26
FINANCIAL PROFIT/LOSS	**(13,475)**	**(9,787)**
Result of companies accounted for using the equity method (Notes 11 and 23.e)	2,555	2,547
Impairment loss	-	(7)
EARNING BEFORE TAXES	**80,502**	**72,531**
Income tax (Note 21)	(20,322)	(17,575)
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**60,180**	**54,956**
CONSOLIDATED EARNINGS FOR THE YEAR	**60,180**	**54,956**
Attributable to: Shareholders of the Parent (Note 23.h)	**44,877**	**40,159**

Non-controlling interests (Note 17)	**15,303**	**14,797**
Earnings per share:		
From continuing operations (€/share)		
Basic	**0.055**	**0.062**
Diluted	**0.055**	**0.062**

The accompanying Notes 1 to 30 described in the Annual Report and Appendices are an integral part of the consolidated statement of profit and loss at 31 December 2019.

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

CONSOLIDATED STATEMENT OF REVENUES AND EXPENSE FOR 2019

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(Thousands of Euros)

	2019	2018
CONSOLIDATED RESULT FOR THE YEAR (from profit and loss account)	**60,180**	**54,956**
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that can be reclassified to the profit and loss account in subsequent years:		
Arising from cash flow hedges (*)	(6,509)	(3,007)
Translation differences	(87)	(37)
Tax effect	1,627	752
	(4,969)	**(2,292)**
TRANSFER TO THE PROFIT AND LOSS ACCOUNT		
Arising from cash flow hedges	(2,698)	-
Translation differences	(428)	-
Tax effect	(674)	-
	1,596	-
Other comprehensive income that will not be reclassified to the profit and loss account in subsequent years (net of taxes):		
Asset revaluation	-	6,723
Tax effect	-	(1,656)
	-	**5,067**
TOTAL RECOGNISED INCOME AND EXPENSES	**56,807**	**57,731**
A) Attributable to the Parent	**41,504**	**42,934**
B) Attributable to non-controlling interests	**15,303**	**14,797**

The accompanying Notes 1 to 30 described in the Annual Report and Appendices are an integral part of the consolidated statement of profit and loss at 31 December 2019.

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

CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY IN 2019

	Thousand Euros											
	Share capital (Note 16)	**Share Premium (Note 16)**	**Reserves of the Parent (Note 16)**	**Treasury Shares (Note 16)**	**Consolidation Reserves (Note 16)**	**Hedges**	**Translation Differences**	**Asset revaluation (Note 10)**	**Result for the year (Note 3)**	**Equity attributable to shareholders of the Parent**	**Non-controlling Interests (Note 17)**	**Total Equity**
Balances at 31 December 2017	**154,754**	**421,463**	**(146,845)**	**(675)**	**349,066**	**(854)**	**(1,038)**	**-**	**30,461**	**806,332**	**237,922**	**1,044,254**
Income and expense recognized in the year	**-**	**-**	**-**	**-**	**-**	**(2,255)**	**(37)**	**5,067**	**40,159**	**42,934**	**14,797**	**57,731**
Allocation of 2017 result:												
To reserves	-	-	3,160	-	27,301	-	-	-	(30,461)	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	(288)	(288)
Interim dividends	-	-	-	-	-	-	-	-	-	-	(5,082)	(5,082)
Capital increases and reductions	42,110	107,029	(7)	-	-	-	-	-	-	149,132	-	149,132
Treasury share transactions	-	-	-	(891)	-	-	-	-	-	(891)	-	(891)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-	-	(11,371)	(11,371)
Other movements	-	-	-	-	21	-	-	-	-	21	-	21
Balances as at 31 December 2018	**196,864**	**528,492**	**(143,692)**	**(1,566)**	**376,388**	**(3,109)**	**(1,075)**	**5,067**	**40,159**	**997,528**	**235,978**	**1,233,506**
Income and expenses recognized in the year	**-**	**-**	**-**	**-**	**-**	**(2,858)**	**(515)**	**-**	**44,877**	**41,504**	**15,303**	**56,807**
Allocation of 208 result												
To reserves	-	-	5,110	-	35,049	-	-	-	(40,159)	-	-	-
To dividends	-	-	-	-	-	-	-	-	-	-	(2,123)	(2,123)
Interim dividends	-	-	-	-	-	-	-	-	-	-	(6,030)	(6,030)
Capital increases and reductions (Note 16)	-	-	(90)	-	(4)	-	-	-	-	(94)	-	(94)
Treasure shares transactions	-	-	-	(1,171)	-	-	-	-	-	(1,711)	-	(1,711)
Other	-	-	-	-	(4)	-	-	-	-	(4)	-	(4)
Balances as at 31 December 2019	**196,864**	**528,492**	**(138,672)**	**(3,277)**	**411,429**	**(5,967)**	**(1,590)**	**5,067**	**44,877**	**1,037,223**	**243,128**	**1,280,351**

The accompanying Notes 1 to 30 described in the Consolidated Financial Statements and Appendices are an integral part of the consolidated statement of profit and loss of 2019

REALIA BUSINESS, S.A. AND SUBSIDIARIES (REALIA GROUP)
CONSOLIDATED STATEMENT OF CASH-FLOWS FOR 2019
(Thousands of Euros)

	2019	2018
Profit/loss before tax	**80,502**	**72,531**
Adjustments to profit/loss	**(33,142)**	**(27,343)**
a) Depreciation and amortization charge (Notes 8 and 9)	327	313
b) Other adjustments to profit and loss	(33,469)	(27,656)
1. Valuation adjustments due to impairment	(30,772)	(28,930)
2. Adjustments in provisions	(11,521)	(5,917)
3. Financial revenues	(1,188)	(7,329)
4. Financial expenses	15,633	17,680
5. Profit/loss from companies using the equity method	(2,555)	(2,547)
6. Others	(3,066)	(613)
Changes in working capital:	**3,665**	**(15,624)**
a) Inventories, trade and other receivables and other current assets (Notes 13 and 14.1)	(7,453)	(17,045)
b) Trade and other payables and other current liabilities (Note 20)	11,118	1,421
Other cash flows from operating activities:	**(6,449)**	**(4,556)**
a) Dividends received (Note 11)	1,683	1,481
b) Income tax recovered/paid	(8,194)	(6,097)
c) Other amounts received/paid relating to operating activities	62	60
CASH FLOWS FROM OPERATING ACTIVITIES	**44,576**	**25,008**
Payments due to investment:	**(30,438)**	**(3,681)**
a) Property, plant and equipment, intangible assets and property investment (Notes 8, 9 and 10)	(29,220)	(2,307)
b) Other financial assets	(1,218)	(1,374)
Proceeds from disposals:	**16,812**	**365**
a) Group companies, associates and business units	264	(115)
b) Property, plant and equipment, intangible assets and property investment (Notes 8, 9 and 10)	2,153	372
c) Other financial assets (Note 14.2)	14,395	108
Other cash flows from investment activities:	**5,522**	**6,213**
a) Interests received	5,017	2,679
b) Other proceeds/payments relating to investing activities	505	3,534
CASH FLOWS FROM INVESTMENT ACTIVITIES	**(8,104)**	**2,897**
Proceeds and payments relating to equity instruments:	**(1,805)**	**148,240**
a) Issue (Note 16)	(94)	149,132
b) Acquisition (Note 16)	(1,711)	(892)

Proceeds and payments relating to financial liability instruments:	**(25,498)**	**(151,148)**
a) Issue	21,832	18,045
b) Repayment and redemption	(47,330)	(169,193)
Dividends and returns on other equity instruments paid (Note 17)	**(8,153)**	**(6,829)**
Other cash flows from financing activities	**(12,609)**	**(15,740)**
a) Interest paid	(13,151)	(15,099)
b) Other proceeds/payments relating to financial activities	542	(641)
CASH FLOWS FROM FINANCING ACTIVITIES	**(48,065)**	**(25,477)**
EFFECT OF FOREIGN EXCHANGE RATE CHANGES AND OTHERS	**(10)**	**(5)**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(11,603)**	**2,423**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**87,498**	**85,075**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**75,895**	**87,498**

The accompanying Notes 1 to 30 described in the Consolidated Financial Statements and Appendices are an integral part of the consolidated statement of profit and loss at 31 December 2019

Consolidated financial statements for the year ended 31 December 2019

1. Activities of the Realia Group

The Group companies and associated companies listed in Appendices I and II engage respectively, mainly in the development and operation of real estate business. At 2019 year-end, these activities are carried out in Spain, Portugal, Poland and Romania

The Parent 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, in Madrid. On April 13 2000, the Parent became a public limited liability company and changed its name to Realia Business, S.A. on 16 June 2000.

Subsequently, in 2000, 2001 and 2005, several corporate operations took place with companies of the group, recognized in the financial statements of the periods mentioned, and provided the Realia group with a structure and size closer to its current conditions.

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

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements for 2019 of the Realia Business Group (hereinafter, "the Realia Group"), which were prepared from the accounting records kept by the Parent and by the other Realia Group companies included in its scope of consolidation (listed in Appendices I and II), were authorized for issue by the directors of the Parent at the Board Meeting held on 26 February 2020.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), taking into account all the mandatory accounting principles and rules and measurement bases, so that they present fairly the Realia Business Group's consolidated equity and financial position as of 31 December 2019 and the results of its operations, the changes in the consolidated equity and the consolidated cash flows in the year then ended.

However, since the accounting policies and measurements bases used in preparing the Group's consolidated financial statements for 2019 may differ from those used by certain companies of the Group, the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards as adopted by the European Union.

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

The Group's consolidated financial statements for 2018, drawn up in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (IFRS – EU), were approved by the shareholders at the Annual General Meeting of the Parent held on 8 May 2019. Their shareholders at their respective Annual General Meetings have not yet approved the consolidated financial statements of the Group and the financial statements of the Group entities for 2019. However, the Parent's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Measurement currency

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

c) Responsibility for the information and use of estimates

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

In the Group's consolidated financial statements for 2019, senior executives of the Group and the consolidated companies occasionally made estimates, later ratified by the directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported therein. The estimates refer to the following:

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

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

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

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

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

The market value on the Group's property assets was calculated based on appraisals conducted by independent valuation experts at 31 December 2019 (Notes 4.c, 4.f, 10 and 13).

Although these estimates were made on the basis of the best information available at 31 December 2019 on the events analyzed, future events might make it necessary to change these estimates (upwards or downwards) in coming years.

Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS8, recognizing the effects of the change on the related consolidated statements of profit and loss.

d) Basis of consolidation

Subsidiaries

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

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

Joint ventures

In 2019 and 2018, the Group carried on jointly managed business activities through interests in joint property entities. These entities were included in the accompanying consolidated financial statements on the basis of the percentage share of the assets, liabilities, income and expenses arising from their operations, and any reciprocal receivables and payables and any income, expenses, gains and losses not realized vis-á-vis third parties were eliminated (see Appendix III).

Associates

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

Transactions between Group companies

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

e) First-time consolidation difference

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

f) Changes in the scope of consolidation

The changes in the scope of consolidation of the Realia Group (comprising Realia Business, S.A. and its subsidiaries) in 2019 and 2018 were as follows:

Inclusions in the scope of consolidation

There were no additions to the scope of consolidation of the Realia Group in 2019 and 2018.

Exclusions from the scope of consolidation

- 2019:

In February 2019, the liquidation of the company “Realia Polska Inwestycje” was approved, after the purpose of its activity ended and not having any more property development assets in Poland. The liquidation of the company was effective on 31 December 2019. The exit from the perimeter did not have a significant impact, for it was fully provisioned.

On 10 April 2019, the associate “Ronda Norte Denia, S.L.” exited the consolidation perimeter, after the agreement for its dissolution approved by the General Meeting of Shareholders, and the allocation to its partners according to their ownership interest.

- 2018:

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

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

g) Balance sheet date

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

h) Comparative information

The information contained in the 2018 consolidated financial statements is presented solely for the purposes of comparison with the information with the year ended on 31 December 2019. The new financial standards (IFRS-16) that came into force on 1 January 2019 had no impact of the comparison of information (see Note 5).

i) Changes in accounting standards

No significant changes have taken place during 2019 regarding the standards applied in 2018.

j) Correction of errors

No errors have been detected in the preparation of the attached consolidated statements that required the restatement of the amounts indicated in the consolidated financial statements of 2018.

3. Allocation of profit and loss of the Parent

The proposed allocation of the loss in 2019 formulated by the Directors of the Parent Company and pending approval by the General Meeting of Shareholders is the following:

	2019
Legal reserve	334
Negative results from previous years	3,009
Total	**3,343**

During 2019, the Parent has not paid out interim dividends.

4. Valuation standards

The following accounting policies, standards, and valuation criteria were applied in the preparation of the consolidated financial statements of the Realia Group in 2019:

a) Intangible assets

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

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

b) Property, plant and equipment

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

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

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

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

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

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

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

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

c) Property investments

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

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

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

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

The market value of the property investments of the Group at 31 December 2019, calculated based on valuations from independent experts not related to the Group, amounts to EUR 1,483,546 thousand (EUR 1,422,334 thousand at 31 December 2018) (See Note 10).

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

At each balance sheet date, the Realia Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets might have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is calculated in order to determine the extent of the impairment loss (if any). When the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

e) Leases

The Group as a lessee

The Group applies a single method for the recognition and valuation of all leases in which it acts as a lessee, except for low value assets and short-term leases.

- *Rights of use*

The Group recognizes the rights of use at the start of the lease; i.e. the date at which the underlying assets is ready to be used. The rights of use are valued at cost minus accumulated depreciation and impairment losses, and are adjusted by any change in valuation of the associated lease liabilities. The initial cost of the rights of use includes the recognized lease liabilities, initial direct costs and the lease payments made before the starting date of the lease. The incentives received are discounted from the initial cost.

The rights of use are amortized on a straight line basis by the lowest between the estimated useful life and the lease term. However, if the Group considers that it is reasonably certain to obtain the property of the leased assets at the end of the lease term or to exercise the purchase option, the rights of use would be amortized according to the useful life of the asset. Rights of use are subject to impairment analysis.

The lease contracts of the Group do not include dismantlement or restoration obligations.

Lease liabilities

At the start of the lease, the Group recognizes lease liabilities at the current value of lease payments to be made during the lease term. Lease payments include fixed payments (including payments that could be considered as variable contractually, but are essentially fixed) minus lease incentives, variable payments that depend on a rate or index and the amounts expected to be paid as residual value guarantees. Variable lease payments not dependent on a rate or index are recognized as expenses in the period the event or the condition that triggered payment took place.

In the calculation of the current value of lease payments, the Group uses the incremental interest rate at the start of the lease if the interest rate implicit in the lease cannot be determined easily. After the start date, the amount of lease liabilities are increased to reflect the accrual of interest and decreased by the lease payments made. Additionally, the lease liabilities will be valued again in case of change in the lease term or a change in the valuation for the purchase of the underlying asset. Liabilities are also increased in case of change in the future lease payments arising from a change in the index or rate used to determine these payments.

- *Short term leases and low value asset leases*

The Group applies the exemption of short-term lease to those leases with a lease term of 12 months or less after the start date and with no purchase option. It also applies the exemption of recognition of low value assets to the lease of low value office equipment. Lease payments for short-term leases and low value asset leases are recognized as straight line expenses during the lease term.

- *Judgements used in the determination of the lease term of contracts with extension option*

The Group determines the lease term as the non-cancellable term of a lease, to which the optional periods of lease extension are added, if it is reasonable to think that the option will be exercised. It also includes the periods covered by the lease termination option, if it is reasonable to think that the option will not be exercised.

By virtue of some of its contracts, the Group has the option of leasing the assets for additional periods of time. The Group assesses whether it is reasonable to think that the extension option will be exercised. In other words, in considers all the relevant factors that generate an incentive to extend the contracts. After the start date, the Group reassesses the lease term if there is a significant event or a change in the circumstances under its control that affects its capacity to exercise the extension option, or not.

The Group as operational lessor

If the contract does not transfer substantially all the risks and benefits inherent to the property of the asset, the lease is considered as operational. The revenues generated by the contract are recognized on a straight line basis during the contract and are included as revenues in the profit and loss account in as far as they are of an operational nature. Direct costs incurred upon signing a lease contract are included as the highest value of the leased asset and are amortized during the lease period using the same criterion as that of the revenues. Contingent payments are recognized as revenues in the period in which they are earned.

Asset exchange transactions

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

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

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

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

f) Inventories

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

1. Hold for sale in the ordinary course of business

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

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

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

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

At the start of the development works, the accumulated cost of the land is transferred to “Developments in Progress”, and development starts.

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

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

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

The carrying amount of the Group’s inventories was adjusted by recognizing the corresponding impairment loss, in order to bring it in line with the market value determined by an independent valuation expert in an appraisal conducted on 31 December 2019, when the fair value was lower than the carrying amount.

On 21 March 2019, the company reported a relevant event to the CNMV: the Board of Directors had agreed unanimously to replace the method for the determination of the market value of its development business activity recognized under “Inventories”. As a result, the current method regulated by Order ECO/805/2003 of 27 of March, applied to the consolidated financial statements of the Group in prior years, was replaced by the Professional Valuation Standards of July 2017 of the Royal Institution of Chartered Surveyors (RICS). This change in methodology did not have a significant impact on the value of Realia’s development assets (See Note 13).

g) Trade receivables

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

h) Customer advances

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

i) Financial assets

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

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

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

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

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

Finally, a financial asset will be measured at fair value with changes in equity when the two following conditions are met:

a) The financial asset is part of a business model whose objective is met attaining contractual cash-flows and selling financial assets, and
b) The contractual conditions of the financial asset give rise, on specified dates, to cash-flows that are only payments of principal and interest on the outstanding principal.

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

Financial assets at amortized cost (debt instruments)

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

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

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

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

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

Cancellation

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

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

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

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

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

Impairment of financial assets

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

j) Financial liabilities and equity

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

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

Conversion differences

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

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

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

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

The conversion differences of the foreign companies included in the scope of consolidation, which applied the closing rate method, are recognized net of tax, under

“Equity – Valuation adjustments” in the attached consolidated statement of financial position. These conversion differences are not material.

Equity instruments

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

Bank borrowings

Interest-bearing bank loans and overdrafts are recognized at the proceeds received, net of direct issue costs. Borrowing costs, including premiums payable on settlement or redemption and direct issue costs, are recognized in the consolidated statement of profit and loss on an actual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

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

k) Derivative and hedging financial instruments

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

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

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

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

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

- Hedges of a net investment in a business abroad.

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

l) Shares of the Parent

All the shares of the Parent are deducted from equity. At 31 December 2019, the Parent held 3,434,241 treasury shares, the acquisition cost of which amounted to EUR 3,277 thousand (0.95 €/share). At 31 December 2018, the Parent held 1,462,902 treasury shares, at an acquisition cost of EUR 1,566 thousand (1.07 €/share). During 2019, the Parent acquired 1,971,339 treasury shares, whereas it acquired 852,902 treasury shares in 2018 (see Note 16).

m) Provisions

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

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

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

n) Termination benefits

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

ñ) Pension plans and similar obligations

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

o) Income Tax

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

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

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

Deferred tax assets and liabilities are taxes expected to be recovered or payable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit.

Deferred tax assets and liabilities are accounted for using the balance sheet liability method and are measures by applying to the related temporary difference or tax asset the tax rate that is expected to apply in the period when the asset is realized or the liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences. A deferred tax liability is recognized for taxable temporary differences arising from investments in subsidiaries and associates and from interests in joint ventures, except when the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the near future.

Notwithstanding the above:

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

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

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

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

Tax system in Spain

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

p) Cash and other cash equivalents

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

q) Revenue and expense recognition

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

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

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

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

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

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

r) Borrowing costs

Borrowing costs directly attributable to the construction of the Group's property investment and inventories, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale. In 2019, no borrowing costs were capitalized, whereas in 2018 EUR 17 thousand were capitalized under Inventories in this connection.

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

s) Profit (loss) from operations

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

t) Consolidated cash-flow statement

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

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

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

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

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

u) Non-current assets held for sale

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

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

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

v) Foreign currency transactions and balances

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

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

The equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2019, which were not material, related in full to the Group company Realia Contesti, S.R.L.

w) Current assets and liabilities

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

	Thousands of Euros	
	2019	2018
Inventories (Note 13)	282,773	279,203
Total current assets	**282,773**	**279,203**
Trade and other payables	6,050	3,620
Total current liabilities	**6,050**	**3,620**

x) Costs passed on to tenants

The Group treats as income the costs passed on to the lessees of its property investment. The amounts billed in this connection, which in 2019 and 2018 totaled EUR 17,444 thousand and EUR 17,038 thousand respectively, are recognized under "Other operating income" in the attached consolidated statement of profit and loss (see Note 23.b).

y) Sales of property investment

The Group recognizes the net income obtained from the sale of property investment under “Gains or Losses on Sales of Property investment” in the attached consolidated statement of profit and loss. At 31 December 2019, the amount recognized corresponds to the refund by the City of Madrid, of the amounts paid as IIVTNU (Urban Land Value Increase Tax) of the properties sold of the La Vaguada building after the sentence from the Higher Court of Justice of Madrid, which resolved in favor of the appeals and claims filed by the Company requesting the refund due to the undue payment of those taxes.

5. Accounting standards and interpretations

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

Accounting standards used in the preparation of these consolidated financial statements are the same applied in the consolidated financial statements of the year ended on 31 December 2018, with the exception of the following standards and interpretations and changes applied for the first this year:

Standard, interpretation or change	**Date of enforcement in the EU**
IFRS 16 – Leases	01-Jan-19
IFRIC 23 – Uncertainties on the treatment of profit tax	01-Jan-19
Annual improvements to IFRS – Cycle 2015-2017	01-Jan-19
Changes to IAS 19 – Recognition of a change, reduction or liquidation of a defined benefit plan	01-Jan-19
Changes to IAS 28 – Non-current investments in associates and joint ventures	01-Jan-19
Changes to IAS 9 – Characteristics of advanced payments with negative offset	01-Jan-19

IFRS 16 – Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a lease, SIC-15 Operating leases – Incentives, and SIC-27 Evaluating the substance of transactions involving the legal form of a lease*. IFRS 16 establishes the principles for the recognition, valuation, presentation and information to be disclosed on leases, and requires that lessees account all leases under a single balance sheet model. However, this standard does not substantially change the accounting of the lessor compared to IAS 17. Therefore, IAS 16 did not have an impact on the leases in which the Group acts as a lessor.

The Group has adopted IAS on its initial effective date, 1 January 2019, using the prospective method without changing the comparative figures of the prior year.

For the purposes of the transition, on its initial effective date, the Group decided to use the practical solution of applying IAS 16 only to the leases identified as such according to the previous standards (IAS 17 and IFRIC 4). Additionally, the Group decided to apply the exemptions proposed by the standard to lease contracts ending within the 12 months following the initial effective date (“short-term leases”) and for lease contracts for which the underlying asset is of low value (“low value assets”).

Impact on the statement of financial position (increase/decrease) at 1 January 2019:

	Thousands of Euros
Assets	
Assets for rights of use	40
Total	**40**
Liabilities	
Liabilities for long-term leases	18
Liabilities for short-term leases	22
Total	**40**

Property, plant and equipment have been included as a part of the rights of use related to leases previously classified as operational leases, for an amount of EUR 40 thousand. Apart from the lease liabilities recognized upon the initial application of the standard, at 1 January 2019, the Group held lease liabilities for EUR 40 thousand, corresponding to the liabilities of lease contracts previously classified as financial leases.

Nature of the impact of IFRS 16

The Group acts as a lessor of several offices for operational purposes. Before the adoption of IFRS 16, at the beginning of these contracts, the Group assessed whether it was an operational lease or a financial lease. The lease was classified as financial if the risks and benefits inherent to the property of the asset were substantially transferred. Otherwise, it was classified as an operational lease.

Financial leases recognized a fixed asset for the fair value of the property or, in case this was lower, by the current value of the minimum payments of the contract. Financial liabilities were recognized after the amortized cost, since the Group does not have any financial leases.

In operational leases, an asset was not recognized in the statement of financial situation and in exchange, a straight-line expenditure was recognized in the profit and loss account during the lease period. Any advanced payment or rent accrued was recognized as an advanced expenditure or account payable, respectively.

However, with the adoption of IFRS 16, the Group applies a single model of recognition and valuation for all leases in which it acts as a lessee, except for low value assets and short-term leases.

The standard provides certain practical solutions and requirements for the transition that have been applied by the Group:

- *Leases previously classified as operational leases*

The Group has recognized the rights of use and the lease liabilities of leases previously classified as operational, except short-term leases and low value asset leases.

Lease liabilities have been calculated for the current value of outstanding payments, using the incremental interest rate at the initial date of the lease. The rights of use have been calculated by the same amount as the lease liabilities, adjusting the advanced payments made.

Additionally, the Group has applied the following practical solutions available:

- To consider short-term lessees those which will finish their lease in the next 12 months following the initial effective date
- To use current information
- To not include direct incremental costs in the valuation of the right of use

As to the presentation, the rights of use and the lease liabilities have been presented separately from other assets and liabilities in the statement of financial situation.

IFRIC 23 – Uncertainties on the treatment of capital gains

The Interpretation refers to the recognition of the capital gain tax when the tax regimes involve an uncertainty that affects the application of IAS 12. This interpretation is not applied to taxes or levies beyond the scope of IAS 12, and excludes the treatment of interest and related sanctions that may arise. The interpretation covers specifically the following aspects:

- If an entity must take into account tax uncertainties separately.
- The hypotheses an entity must make on whether the tax treatment is going to be revised by the tax authorities.
- How an entity must determine the tax result, the tax bases, the losses pending offset, tax deductions and the tax rates.
- How an entity must consider the changes in facts and circumstances.

An entity must determine whether it considers each tax uncertainty separately, or together with one or more tax uncertainties. The approach best suited to the resolution of the uncertainty must be followed.

Neither the Group nor its investees have uncertain tax treatments in which it is estimated that it is unlikely that they will be accepted by the tax authorities. This interpretation had no significant impact on the consolidated financial statements of the Group.

b) Standards and interpretations issued by the IASB, but not applicable yet in this reporting period

The Group intends to adopt the standards, interpretations and changes to the standards issued by the IASB, which are not mandatory in the European Union, when they come into force, in case they are applicable. Even though the Group is currently analyzing their impact, according to the analysis made to date, the Group considers that their initial application will not have a significant impact on its consolidated financial statements.

Standard, interpretation or modification	**Date of adoption by the EU**	**Date of enforcement in the EU**	**Date of enforcement of the IASB**
Revised version of the conceptual framework of IFRS	6 December 2019	1 January 2020	1 January 2020
Changes to IAS 1 and IAS 8 – Definition of material	10 December 2019	1 January 2020	1 January 2020
IFRS 19 – Insurance contracts	Pending	Pending	1 January 2021
Changes to IFRS 3 – Business combinations	Pending	Pending	1 January 2020
Changes to IFRS 9, IAS 39 and IFRS 7: Change to the reference interest rate	16 January 2019	1 January 2020	1 January 2020

6. Basic and diluted earnings per share

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

Accordingly:

	2019	2018
Net loss for the year attributable to the Parent (thousands of euros)	44,877	40,159
Weighted average number of shares outstanding	818,376,123	649,114,512
Basic earnings per share (euros)	0.055	0.062

As of 31 December 2019 and 2018, the diluted earnings per share were the same as the basic earnings per share, since there were no debentures or shares that could potentially be converted into ordinary shares.

7. Segment reporting

a) Basis of segmentation

Segment reporting is structured on a primary basis by the different lines of business of the Group and on a secondary basis, by geographical segment.

Primary business segments

The business lines described below were established based on the Realia Business Group's organizational structure at the end of 2019 and 2018, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

In 2019 and 2018, the Realia Group engaged mainly in the following major lines of business, which provides the bases on which the Group present the information on its primary segments:

1. Sale of property developments and land

2. Property leases

Secondary segments – geographical segments

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

b) Basis and methodology for segment reporting

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

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

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

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

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

Primary segment information

	Thousands of Euros							
	Property investments and land		Property rentals		Consolidation adjustments		Total Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenue:								
External sales (1)	14,634	15,843	82,396	78,041	-	-	97,030	93,884
Inter-segment sales	1,916	1,886	3	208	(1,919)	(2,094)	-	-
Total revenue	**16,550**	**17,729**	**82,399**	**78,249**	**(1,919)**	**(2,094)**	**97,030**	**93,884**
Result:								
Profit (loss) from operations	6,924	61	53,726	50,787	-	-	60,650	50,848
Variation in property investments	10	(2,345)	30,762	31,275	-	-	30,772	28,930
Financial profit (loss)	683	(1,282)	(14,158)	(8,505)	-	-	(13,475)	(9,787)
Share of result of associates	(8)	12	2,563	2,535	-	-	2,555	2,547
Net impairment	-	(7)	-	-	-	-	-	(7)
Profit (loss) before tax	**7,609**	**(3,561)**	**72,893**	**76,092**	**-**	**-**	**80,502**	**72,531**
Income tax	(2,770)	787	(17,552)	(18,362)	-	-	(20,322)	(15,575)
Non-controlling interests	(53)	(78)	15,356	14,875	-	-	15,303	14,797

Segment result	4,892	(2,696)	39,985	42,855	-	-	44,877	40,159

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

	Thousands of Euros							
	Sale of Property Development and Land		Property Rentals		Consolidation Adjustments		Total Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Other information: Additions to fixed assets	96	52	32,449	14,310	-	-	32,545	14,362
Depreciation and amortization charge:	(121)	(88)	(206)	(225)	-	-	(327)	(313)
Net impairment recognized in profit and loss:								
Inventories and other assets	18,670	3,956	-	(55)	-	-	18,670	3,901
Balance sheet:								
Assets								
Segment assets	524,474	504,941	1,579,767	1,531,975	(34,526)	(22,289)	2,069,715	2,014,627
Equity investments in associate companies	11,907	12,069	38,376	37,497	-	-	50,283	49,566
Total consolidated assets	**536,381**	**517,010**	**1,618,143**	**1,569,472**	**(34,526)**	**(22,289)**	**2,119,998**	**2,064,193**
Equity and Liabilities								
Equity by segments	487,953	485,363	801,407	748,143	(9,009)	-	1,280,351	1,233,506
Rest of liabilities by segment	48,428	31,647	816,736	821,329	(25,517)	(22,289)	839,647	830,687
Total consolidated Equity and Liabilities	**536,381**	**517,010**	**1,618,143**	**1,569,472**	**(34,526)**	**(22,289)**	**2,119,998**	**2,064,193**

Secondary segment information

The following table shows the detail of certain consolidated balances of the Group based on the geographical location of the companies that gave rise to them:

	Thousands of Euros							
	Revenues		Non-current assets		Total Assets		Additions to Property Investments, Property Plant and Equipment and Intangible Assets	
	2019	2018	2019	2018	2019	2018	2019	2018
Spain	97,030	91,719	1,660,625	1,608,452	2,116,084	2,060,100	32,545	14,362
Portugal	-	1,980	-	-	418	432	-	-
Rest	-	185	-	-	3,496	3,661	-	-
	97,030	**93,884**	**1,660,625**	**1,608,452**	**2,119,998**	**2,064,193**	**32,545**	**14,362**

8. Intangible assets

The changes in the various intangible asset items in 2019 and 2018 were as follows:

	Thousands of Euros
	Other Intangible Assets
Balances as at 31 December 2017	**843**
Additions	36
Disposals	(1)
Balances as at 31 December 2018	**878**
Additions	59
Disposals	(1)
Balances as at 31 December 2019	**936**
Accumulated amortization:	
Balances as at 31 December 2017	**(798)**
Charges	(26)
Disposals	1
Balances as at 31 December 2019	**(859)**
Net intangible assets:	
Balances as at 31 December 2018	55
Balances as at 31 December 2019	77

The balances as at 31 December 2019 and 2018 relate mainly to computer software.

During 2019 and 2018, the Group recognized an amortization charge for intangible assets of EUR 37 thousand and EUR 26 thousand respectively, under "Depreciation and amortization charge" in the attached consolidated income statement.

Fully amortized intangible assets still in use as of 31 December 2019 and 2018 amounted to EUR 662 thousand and 626 thousand, respectively.

9. Property, plant and equipment

The changes in "Property, Plant and Equipment" in the consolidated statement of financial position in 2019 and 2018 were as follows:

	Thousand Euros		
	Buildings, Plant and Equipment for Own Use	Other items of Property, Plant and Equipment	Total
Cost:			
Balances as at 31 December 2017	**4,841**	**5,216**	**10,057**
Additions	334	59	393
Disposals	-	(649)	(649)
Transfers and others (Note 10)	(2,783)	-	(2,783)
Changes in conversion differences	-	(1)	(1)
Balances as at 31 December 2018	**2,392**	**4,625**	**7,017**
Provisions	95	20	115
Disposals	(119)	(466)	(585)
Transfers and others	(359)	(15)	(374)
Impact of IFRS 16 (Note 5)	41	-	41
Balances as at 31 December 2019	**2,050**	**4,164**	**6,214**
Accumulated amortization:			
Balances as at 31 December 2017	**(1,456)**	**(3,801)**	**(5,257)**

Provisions	(71)	(216)	(287)
Disposals	-	640	640
Transfers and other (Note 10)	985	-	985
Variation in conversion differences	-	1	1
Balances as at 31 December 2018	**(542)**	**(3,376)**	**(3,918)**
Charges	(78)	(212)	(290)
Disposals	65	449	514
Balances as at 31 December 2019	**(555)**	**(3,139)**	**(3,694)**
Impairment losses:			
Balances as at 31 December 2017	**(45)**	**-**	**(45)**
Charges	(7)	-	(7)
Balances as at 31 December 2018	**(52)**	**-**	**(52)**
Balances as at 31 December 2019	**(52)**	**-**	**(52)**
Net intangible assets:			
Balances as at 31 December 2018	**1,798**	**1,249**	**3,047**
Balances as at 31 December 2019	**1,443**	**1,025**	**2,468**

"Buildings, Plant and Equipment" includes mainly the offices used by a subsidiary of the Group in Spain, recognized for a carrying amount of EUR 1,198 thousand and EUR 1,210 thousand at 31 December 2019 and 2018, respectively. Since 1 July 2018, the Parent and Realia Patrimonio S.L., ceased to use the offices located at Torre Puerta de Europa (Madrid) as "own-use" property, since it moved its corporate offices to Avenida Camino de Santiago, 40.

At 31 December 2019, the cost of the building lots included under "Buildings, Plant and Equipment for Own-Use" amounted to EUR 248 thousand (EUR 248 thousand at 31 December 2018).

The fair value of the Group's assets or "Net Asset Value", included under "Buildings, Plant and Equipment" at 31 December 2019, calculated on the basis of appraisals conducted by independent experts not related to the Group, as described in Note 4.c, amounted to EUR 6,896 thousand (EUR 6,270 thousand at 31 December 2018).

In 2019 and 2018, the Group recognized a depreciation charge for property, plant and equipment of EUR 290 thousand and EUR 287 thousand, respectively, recognized under "Depreciation and Amortization charge" in the attached consolidated statement of profit and loss.

Fully depreciated items of property, plant and equipment amounted to EUR 1,716 thousand at 31 December 2019, and EUR 2,091 thousand at 31 December 2018.

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2019, the property, plant and equipment were fully insured against this risk.

10. <u>Property investment</u>

The changes in "Property investment" in the consolidated statement of financial position in 2019 and 2018 were as follows:

	Thousands of Euros		
		Under construction and advances	**Total**

	Rental buildings		
Balances as at 31 December 2017	**1,381,246**	**1,830**	**1,383,076**
Additions	1,118	734	1,852
Disposals	-	(45)	(45)
Transfers of assets for own use (Note 9)	1,798	-	1,798
Transfers	782	(782)	-
Changes in fair value(*)	35,653	-	35,653
Balance as at 31 December 2018	**1,420,597**	**1,737**	**1,422,334**
Additions	1,731	30,640	32,371
Disposals	(23)	-	(23)
Transfers	2,002	(1,629)	373
Changes in fair value (**)	28,108	383	28,491
Balance as at 31 December 2019	**1,452,415**	**31,131**	**1,483,546**
Property investments:			
Balances as at 31 December 2018	1,420,597	1,737	1,422,334
Balances as at 31 December 2019	1,452,415	31,131	1,483,546

(*) From the total Changes in Fair Value, EUR 6,723 thousand correspond to change in value resulting from the transfer of property, plant and equipment "for own-use" to property investments which had a net carrying amount of EUR 1,798 thousand (Note 9).

(**) "Result of the change in property investments" in the profit and loss account include EUR 2,281 thousand, corresponding to recognized capital gains in the current year for the sales of property investments, of the year 2017, after having received favorable administrative resolutions and not being obligated to pay the Tax on Value Increase of Urban Property (IIVTNU). This amount has no reflection in the "Changes in fair value" line of the previous table (see Notes 18 and 23.f)

Property investment is recognized at fair value. The amount recognized in the profit and loss account for the fair value valuation of property investments at year-end 2019 amount to revenues of EUR 28,491 thousand (EUR 35,653 thousand in 2018), fully recognized under "Variation in value of property investments" in the attached consolidated financial statement (see note 23.f).

Rental Properties

The most significant additions in 2019 and 2018 were the following:

- The subsidiary Realia Patrimonio, S.L.U. capitalized EUR 393 thousand, EUR for the renovation and reform of several buildings, and concluded the work in the c/ Goya 6-8 building, Shopping Center, and García Paredes, 94, and transferred a total of EUR 1,601 thousand during 2019 to "Buildings for rent". During 2018, it capitalized EUR 558 thousand for the renovation and reform on several of its owned buildings.

- The subsidiary Hermanos Revilla, S.A. capitalized EUR 1,337 thousand during the year (EUR 560 thousand in 2018) in connection with the refurbishment of owned property.

No significant disposals took place in 2019 and 2018.

Property investment under construction and advances

The main additions to and transfers to/from "Property investment under Construction" in 2019 and 2018 related mainly to the following items:

- Subsidiary Valaise, S.L. acquired two land lots in the municipality of Tres Cantos (Madrid), where it is developing projects for the construction of 195 subsidized homes (VPPL-VPPB) for rent, expected to start construction in 2021. Additionally, it acquired a development in progress of 85 public housing homes (VPPB) for rent, which at year-end 2019 were completed and awaiting the first occupation license, and expected to start their rental in the first quarter of 2020. The total investment made during the year amounted to EUR 25,117 thousand.

- Realia Patrimonio S.L.U. capitalized EUR 1,584 thousand, EUR 167 thousand of which correspond to advanced payments (EUR 184 thousand at 31 December 2018), mainly for renovation work at shopping centers CC Ferial Plaza (EUR 425 thousand) and CC Leganés Plaza (EUR 867 thousand).

- Subsidiary Hermanos Revilla S.A. capitalized EUR 3,939 thousand (EUR 550 thousand at 31 December 2018), for the renovation and reform works of several owned buildings which, and after completion of the works, EUR 1,601 thousand were transferred to properties for rent, and an additional EUR 2,222 thousand will be allocated to the renovation of the Albasanz, 12 building.

Pursuant to the revised IAS 23, the Group capitalizes the borrowing costs associated with property investment under construction that takes a period of over twelve months to get ready for its intended use or sale. The Group did not capitalize any interests for this concept in 2019 and 2018.

Measurement of fair value and sensitivity

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

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

The determination of the market value of property investments as at 31 December 2019 and 2018, calculated on the basis of appraisals conducted by independent experts not related to the Group, amounts to EUR 1,483,546 thousand and EUR 1,422,334 thousand, respectively.

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

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

The independent expert applies the cash-flow discount method for valuation on 93.3% of the property assets.

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

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

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

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

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

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

The main hypotheses used in the calculation of the fair value of property investment for 2019 were the following:

	Current average rent	Exit Yield (1)	IRR (1)	ERV
Offices	18.5 €/m2/month	4.8%	6.8%	19.8 €/m2/month
Shopping centers	10.7 €/m2/month	6.9%	8.9%	12.9 €/m2/month
Other assets	16.0 €/m2/month	5.2%	6.8%	19.7 €/m2/month

(1) Weighed by the value of the assets

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

	Current average rent	Exit Yield (1)	IRR (1)	ERV
Offices	18.2 €/m2/month	4.9%	7.0%	19.3 €/m2/month
Shopping centers	11.2 €/m2/month	6.5%	9.6%	13.4 €/m2/month
Other assets	14.9 €/m2/month	5.3%	6.9%	19.9 €/m2/month

(1) Weighed by the value of the assets

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

	Thousands of Euros			
	2019		2018	
	Assets	Consolidated net profit (loss)	Assets	Consolidated net profit (loss)
Increase of the yield rate by one quarter of a point	(43,730)	(32,798)	(41,655)	(31,241)
Decrease of the yield rate by one quarter of a point	49,400	37,050	45,925	34,444

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

	Thousands of Euros			
	2019		2018	
	Assets	Consolidated net profit (loss)	Assets	Consolidated net profit (loss)
10% increase in the ERV	104,510	78,383	109,490	82,118
10% decrease in the ERV	(103,740)	(77,805)	(114,500)	(85,875)

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

	Thousands of Euros			
	2019		2018	
	Assets	Consolidated net profit (loss)	Assets	Consolidated net profit (loss)
Increase of the IIR by one quarter of a point	(23,260)	(17,445)	(23,930)	(17,948)
Decrease of the IIR by one quarter of a point	24,490	18,368	24,310	18,233

The breakdown of “Variation in value of property investments” in the consolidated profit and loss statement is the following:

Type of Asset	Thousands of Euros	
	2019	2018
Offices	35,111	33,361
Shopping centers	(7,038)	(2,465)
Other assets	417	(1,966)
	28,491	**28,930**

The valuation report by an independent expert meets the market value definition and does not include any relevant hypothesis or special condition. The independent expert is the regular assessor of the Group’s property portfolio and follows an active valuation plan with visits every three years, except in the case of new acquisitions or significant investments in existing assets. Before 2017, the expert reviewed property deeds, licenses and rental contracts. Valuations in 2019 and 2018 were made on the basis of contractual rents.

Breakdown of fair value of property investments

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

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

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

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

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

	2019
Recurrent fair value valuations	
Property investments	
Offices	1,117,744
Shopping centers	307,112
Other assets	58,690
Total assets valued at fair price	**1,483,546**

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

No assets were transferred between the different levels in 2019 or 2018.

Location, occupancy rates and use

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

	Square meters for rental		Occupancy rate (%)	
	2019	2018	2019	2018
Madrid	250,713	249,771	93.99	92.40
Barcelona	32,325	32,325	97.70	97.65
Logroño	40,544	40,544	100	100
Seville (1)	8,735	8,735	96	96.83
Guadalajara	32,507	32,507	81.39	79.57
Rest	16,808	16,685	78.16	65.81
	381,632	**380,567**	**93.22**	**91.34**

(1) Does not include the Guillena Golf Course.

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

	Square meters for rental		Use (%)	
	2019	2018	2019	2018
Offices	226,858	226,674	59.44	59.56
Commercial	111,517	110,636	29.22	29.07
Other (1)	43,257	43,257	11.33	11.37
	381,632	**380,567**	**100.00**	**100.00**

(1) Does not include the Guillena Golf Course.

Rental income, including income arising from passed-on expenses, from property investment owned by the consolidated companies amounted to EUR 79,661 thousand and EUR 77,800 thousand in 2019 and 2018, respectively (see Notes 23.a and 23.b), and the related operating expenses directly related to the activity amounted to approximately EUR 24,517 thousand and EUR 23,257 thousand, respectively.

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

	Thousands of Euros			
	Fair value		Mortgage loan drawn down	
	2019	2018	2019	2018
Realia Patrimonio	841,930	825,450	536,029	558,927
Hermanos Revilla	-	57,580	-	18,247

Total investments with mortgage charge	**841,930**	**883,030**	**536,029**	**577,174**

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

At 31 December 2019 and 2018, there were no property access to which the title was restricted.

11. Investments in associates

The detail, by company, of “Investments in Associates” at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
As Cancelas Siglo XXI, S.L.	38,376	37,497
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	11,907	11,915
Ronda Norte Denia, S.L.	-	154
	50,283	**49,566**

On 10 April 2019, the company “Ronda Norte Denia, S.L.” was dissolved and left the consolidation perimeter; this exit had no impact on equity, for it was fully provisioned.

Pursuant to IAS 40, the Group determines from time to time the fair value of the elements of the property investments of the Group’s companies by the equity method so that, at the end of the reporting period, the fair value reflects the market conditions of the property investment elements on that date. Such fair value is determined annually taking as a reference the valuations made by the independent expert (see Note 10). At 31 December 2019 and 2018, the valuation of the property investments of the Group’s companies through the equity method, at 100%, amounted to EUR 54,000 thousand and EUR 54,000 thousand, respectively. This value has been increased in the Group’s ownership interest.

The value of the inventories of the companies accounted for using the equity method in proportion to the ownership interest therein at 31 December 2019 and 2018, calculated on the basis of appraisals conducted by independent experts not related to the Group, as described in Note 4.f, amounted to EUR 18,192 and EUR 18,192 thousand, respectively.

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

	Thousands of Euros			
	As Cancelas Siglo XXI, S.L. (50%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balances as at 31 December 2017	**36,442**	**11,920**	**136**	**48,498**
Dividends	(1,479)	-	-	(1,479)
Profit/loss for the year (Note 23.e)	2,534	(5)	18	2,547
Balances as at 31 December 2018	**37,497**	**11,915**	**154**	**49,566**
Dividends	(1,683)	-	-	(1,683)
Profit/loss for the year (Note 23.e)	2,562	(8)	1	2,555
Other	-	-	(155)	(155)
Balances as at 31 December 2019	**38,376**	**11,907**	**-**	**50,283**

No changes in the ownership percentages have taken place in 2019 and 2018.

In 2019, the company As Cancelas Siglo XXI, S.A. paid out dividends to its parent Realia Patrimonio, S.A.U., for an amount of EUR 1,683 thousand (EUR 1,479 thousand at 31 December 2018).

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

The detail of the assets, liabilities and main figures in the statement of profit and loss of associates at 31 December 2019 and 2018, according to their ownership interest, is as follows:

At 2019 year-end:

	Thousands of Euros			
	As Cancelas Siglo XXI, S.L. (50.00%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balance sheet:				
Non-current assets	36,475	282	-	36,757
Current assets	2,303	18,048	-	20,351
Total assets	**38,778**	**18,330**	**-**	**57,108**
Equity	24,619	11,554	-	36,173
Non-current liabilities	1,085	2,084	-	3,168
Current liabilities	13,075	4,692	-	17,767
Total liabilities	**38,778**	**18,330**	**-**	**57,108**
Statement of profit/loss:				
Revenues	6,364	-	-	6,364
Profit(loss) from operations	2,439	(6)	(2)	2,431
Profit (loss) before tax	2,280	(11)	-	2,269
Profit (loss) for the year (1)	1,710	(8)	-	1,702

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

At 2018 year-end:

	Thousands of Euros

	As Cancelas Siglo XXI, S.L. (50.00%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balance sheet:				
Non-current assets	37,570	280	0	37,850
Current assets	2,417	18,055	319	20,791
Total assets	**39,986**	**18,335**	**319**	**58,640**
Equity	24,592	11,562	154	36,308
Non-current liabilities	1,046	2,084	0	3,130
Current liabilities	13,349	4,689	165	19,203
Total liabilities	**39,986**	**18,335**	**319**	**58,640**
Statement of profit/loss:				
Revenues	6,278	-	5	6,283
Profit(loss) from operations	2,415	(5)	2	2,412
Profit (loss) before tax	2,244	(8)	19	2,255
Profit (loss) for the year (1)	1,683	(6)	19	1,696

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

12. Joint ventures

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

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

The main aggregates at 31 December 2019 and 2018 of the joint property entities (included in Appendix III) included in the consolidated financial statements of Realia Business are as follows:

	Thousands of Euros	
	Joint Property Entities	
	2019	2018
Revenue	3,684	2,193
Profit (loss) from operations	384	357
Financial income	-	40
Non-current assets	1	1
Current assets	6,445	9,404
Liquid assets	332	217
Current liabilities	445	355
Current financial liabilities	5,946	8,862

At 31 December 2019 and 2018, the Group companies did not have any commitments to purchase property, plant and equipment to be contributed to the joint ventures. Similarly, no commitments to purchase property, plant and equipment had been assumed directly by the joint ventures in those years.

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

13. Inventories

The detail of "Inventories" at 31 December 2019 and 2018, which relate mainly to property for residential use, is as follows:

	Thousands of Euros					
	2019			2018		
	Cost	Write-downs	Net	Cost	Write-downs	Net
Land and building lots	660,269	(431,893)	228,376	681,189	(444,432)	236,757
Sundry materials	6	-	6	5	-	5
Short-cycle construction work in progress	34,629	(4,475)	30,154			
Long-cycle construction work in progress	78,837	(24,440)	54,397	74,338	(31,892)	42,446
Completed buildings	36,157	(9,111)	27,046	48,493	(12,492)	36,001
Advances to suppliers	2,981	-	2,981	2,981	-	2,981
	812,879	**(469,919)**	**342,960**	**807,006**	**(488,816)**	**318,190**

The market value of the Group's inventories at 31 December 2019 and 2018, calculated based on the appraisals conducted in 2019 and 2018 by independent experts not related to the Group, amounted to EUR 373,401 thousand and EUR 344,502 thousand, respectively. As a result, due to eliminations due to sales and write-downs and reversals recognized for these inventories in line with their market value, the Group recognized a net reversal of write-downs amounting to EUR 18,670 thousand (2018: impairment loss of EUR 718 thousand in 2018).

On 31 December 2019, TINSA determined the fair value of assets at December 2019, applying the RICS methodology to the portfolio of assets classified as inventories, following the agreement of the Board of Directors to change the ECO valuation methodology to RICS, reported as relevant event on 21 March 2019. In December 2018, the same assets were valued according to Order 805/2003 of 27 of March, amended by EHA 3011/2007, EHA 564/2008 and Royal Decree 1060/2015, for the determination of the fair value.

This change in methodology had no significant impact of the valuation of inventories. The increase in valuation of inventories in 2019 amounted to 28.9 M€, after consolidation adjustments and eliminating the investments made in building lots and developments in progress during the year amounting to 18.6 M€, and after adjusting the value of the completed product delivered during 2019, which amount to approximately 10.5 M€, results in an increase of 20.8 M€ in the fair value adjusted between December 2019 and December 2018, with the following detail:

- Due to changes in 2019 of the situation and/or urban development expectations regarding land: + 11.8 M€
- Due to the update of the valuation of residential assets: + 9.0 M€

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

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

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

The key hypotheses considered in these valuations are:

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

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

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

The result of the sensitivity analysis for the period ended on 31 December 2019 is as follows:

	Fluctuation of revision rate		Fluctuation of price of final products			
	-1%	+1%	-1%	+1%	-5%	+5%
Variation of the value of Portfolio (million €)	12.3	(11.4)	(9.7)	9.8	(48.6)	48.8

The changes in “Inventories” in the years ended 31 December 2019 and 2018, excluding impairment losses, were as follows:

	Thousands of Euros					
	Land and building lots	Short-cycle developments in progress	Long-cycle developments in progress	Completed buildings	Embodiment items	Total
Balance as at 31 December 2017	**674,437**	**-**	**49,266**	**62,846**	**6**	**786,555**
Conversion differences	(28)	-	(2)	(4)	-	(34)
Exchange rate changes	-	-	-	-	-	-
Additions	29,409	-	2,445	-	6	31,860
Disposals	-	-	-	(14,349)	(7)	(14,356)
Transfers	(22,629)	-	22,629	-	-	-
Balance as at 31 December 2018	**681,189**	**-**	**74,338**	**48,493**	**5**	**804,025**
Conversion differences	(284)	-	(19)	-	-	(303)
Exchange rate changes	-	-	-	-	-	-
Additions	1,648	5,704	11,220	-	8	18,580
Disposals	-	-	(61)	(12,336)	(7)	(12,404)
Transfers	(22,284)	28,925	(6,641)	-	-	-
Balance as at 31 December 2019	**660,269**	**34,629**	**78,837**	**36,157**	**6**	**809,898**

Land and building lots and Developments in progress

During 2019, the Group has started three new developments in Valdebebas, Alcalá de Henares and Barcelona of 45, 120 and 48 units respectively (including homes and commercial premises). This led to the transfer of EUR 21,850 thousand from “Land and building lots” to “Short-cycle construction work in progress”.

Additionally, two developments in Palma de Mallorca and Sabadell were transferred from “Long-cycle construction work in progress” to “Short-cycle construction work in progress”, for an amount of EUR 28,925 thousand, since the delivery dates were planned within the next 12 months.

The most important additions during 2019 correspond to the property developments that the Group has started and represented an investment of EUR 16,924 thousand. During 2018, the main addition corresponds to the acquisition, after a public auction, of a land lot in Alcalá de Henares (Madrid), for an amount of EUR 27,524 thousand.

Commitments with clients for the sale of developments and land as at 31 December 2019 and 2018 (formalized in the form of down payments and contracts) amounted to EUR 47,945 thousand and EUR 15,977 thousand respectively. In 2019, EUR 10,010 thousand were recognized as “Customer Down Payments” (in 2018, EUR 4,962 thousand were recognized under that heading) under “Trade and other Payables” in the attached consolidated statement of financial position (see Note 20.b). The amounts that were then collected amounted to EUR 3,960 thousand and EUR 1,342 thousand, respectively; the rest are commitments arising from asset exchange transactions.

Advances to suppliers

The detail of “Advances to Suppliers” at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Realia Business, S.A.:		
Valdebebas	2,963	2,963
El Molar	18	18
Total land purchases	**2,981**	**2,981**

Advances to suppliers during 2019 and 2018 relate mainly to urban development costs paid to the Valdebebas Development and Apportionment Board. No losses are expected to arise in relation to the value of land purchase commitments associated with these advances.

Pursuant to revised IAS 23, the Group capitalizes the borrowing costs associated with property investment under construction, which takes a period of over twelve months to get ready for its intended use. In 2019, no borrowing costs were capitalized in this connection (EUR 17 thousand in 2018).

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

At 31 December 2019, certain assets were recognized under inventories, with an aggregate carrying amount of EUR 4,891 thousand, which serve as a mortgage security for the “syndicated” loan arranged by Realia Patrimonio for EUR 3,287 thousand (see Note 19). At 31 December 2018, certain assets were recognized under inventories, with an aggregate carrying amount of EUR 4,891 thousand, which serve as a mortgage security for the loan arranged between Realia Patrimonio and the “syndicated loan” for EUR 3,466 thousand (see Note 19).

Inventory write-downs

The changes with an impact on inventory write-downs in 2019 and 2018 were as follows:

	Thousands of Euros	
	2019	2018
Initial balance	(488,816)	(492,739)
Net impairment losses – land (Note 23.j)	(6,655)	(9,930)
Net amounts used/reversed – property developments in progress and completed (Note 23.j)	25,325	13,830
Effect of exchange rate changes	227	23
Final balance	**(469,919)**	**(488,816)**

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

14. <u>Other assets</u>

14.1 Trade and other receivables

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

	Thousands of Euros	
	2019	2018
Trade and other receivables	5,849	5,365
Unpaid trade receivables and notes	8,207	8,207
Doubtful trade receivables	350	438
Impairments - customers	(8,554)	(8,631)
Sundry accounts receivable	4,184	3,904
Impairments - receivables	(654)	(671)
Other accounts receivable from public authorities (Note 21)	865	218
Current tax assets (Note 21)	5,331	3,711
Total trade and other receivables	**15,578**	**12,541**

“Trade and other Receivables” at 2019 year-end relates mainly to invoices yet to be issued by the property management companies due to the straight-line recognition of amounts in rent-free periods and rent rebates, of EUR 4,581 thousand (EUR 4,054 thousand in 2018), in accordance with the accounting treatment provided for under International Accounting Standards (IFRS 16/ IAS 17).

During 2019 and 2018, the Parent did not recover trade loans provisioned as bad debts.

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

14.2 Current and non-current financial assets

The detail of "Non-Current Financial Assets" and "Other Current Financial Assets" at 31 December 2019 and 2018 is as follows:

	Thousands of Euros			
	2019		2018	
	Non-current	Current	Non-current	Current
Credit facilities	-	15,964	-	31,553
Other	-	4,312	939	5,094
Total other financial assets		**20,276**	**939**	**36,647**

At 31 December 2019 and 2018, non-current financial assets recognize the following credit facilities:

- No non-current financial assets were recognized in 2019.
- In 2018, they include a long-term deposit in a special account for the advances on sales of an ongoing development for an amount of EUR 939 thousand. This amount was transferred to "Current" in 2019.

Regarding current financial assets, "Loans" in 2019 and 2018 recognize EUR 15,964 thousand and EUR 31,553 thousand, respectively, corresponding to:

- Loan maturing on 31 January 2020 for an amount of EUR 11,500 thousand (EUR 13,000 thousand at 31 December 2018) that Realia Patrimonio granted its subsidiary As Cancelas, S.L. The loan was renovated upon maturity for an additional year, and EUR 1,500 thousand from the loan were repaid.
- Credit facility and interest payable that the Parent has granted to Inversiones Inmob. Rústicas y Urbanas 2000, S.L., amounting to EUR 4,462 thousand (EUR 4,457 at 31 December 2018). This loan matured in March 2019, and has been tacitly renewed for one more year.
- In 2018, EUR 13,970 thousand were recognized for a receivable as a result of the sale of the Edificio Los Cubos in 2017, and were collected in 2019.

Regarding current assets included under "Other", amounting to EUR 5,094 thousand at 31 December 2018, the main change was the collection of EUR 3,863 thousand of interest due from the La Mora estate (Leganés) during 2019. Additionally, it includes the amounts deposited by clients of the development Brisas de Son Dameto, amounting to EUR 3,230 thousand at year-end.

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

14.3 Other current and non-current assets

“Other current and non-current assets” recognizes as current assets anticipated payments amounting to EUR 4,664 thousand and EUR 4,749 thousand in 2019 and 2018, respectively. Non-current assets relates to the long-term guarantees and deposits provided to Public Authority bodies, which amounted to EUR 9,207 thousand and EUR 9,437 thousand in 2019 and 2018, respectively.

15. Cash and cash equivalents

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

	Thousands of Euros	
	2019	2018
Short-term deposits held at banks	431	549
Cash and current accounts	75,464	86,949
Total cash and cash equivalents	**75,895**	**87,498**

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

At 31 December 2019 and 2018 the amounts pledged by investee Realia Patrimonio S.L.U. for this concept amounted to EUR 27,598 thousand and EUR 5,824 thousand, respectively.

16. Equity

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

At year-end 2019 and 2018, the share capital of the Company is represented by 820,265,698 shares, all of them bearer shares, of a nominal value of 0.24 Euros each, fully subscribed and paid.

The majority shareholders at 31 December 2019, according to the statement of ownership interest registered with the Comisión Nacional del Mercado de Valores (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%

Fomento de Construcciones y Contratas, S.A. (indirect)	2.58%
Other	29.23%
	100%

Additionally, according to the disclosures made to the CNMV, Inversora de Carso, S.A. de Capital Variable has an ownership interest, direct and indirect, of 56.41% on Realia Business.

At 31 December 2019 and 2018, the shares of the Company are listed in the Madrid and Barcelona Stock Exchange Markets. The price of the shares of the Company at 31 December 2019 and the average share price in the last quarter amounted to EUR 0.93 and 0.90 per share, respectively (EUR 0.91 and 0.93 per share, respectively, at 31 December 2018).

Share premium

The consolidated text of the Corporations Act expressly allows for the use of the balance of the share premium to increase capital and does not establish any specific restriction on the availability of the balance for other purposes. The share premium amounts to EUR 528,492 thousand at 31 December 2019 (EUR 528,492 thousand in 2018).

Reserves of the Parent

Legal reserve

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

At 2019 year-end, the legal reserve amounts to EUR 22,375 thousand (EUR 21,864 thousand at 31 December 2018), and was not fully established.

Other reserves

At 31 December 2019, this item includes special and voluntary reserves, for EUR 43,876 thousand and EUR 262,686 thousand, respectively (EUR 43,877 thousand and EUR 262,775 thousand at 31 December 2018).

Special reserves are composed by restricted reserves for EUR 43,764 thousand, generated on 15 June 2000 as a result of a transfer from capital to reserves due to a capital decrease in Produsa Este, S.A, currently Realia Business, S.A., and EUR 112 thousand, created on the coming into force of the euro in 2002 (the same amount at 31 December 2018).

Additionally, there are “Negative results from previous years” for a negative amount of EUR 467,208 thousand (EUR 472,208 thousand at 31 December 2018).

Reserves in consolidated companies

The breakdown of reserves in consolidated companies is as follows:

	Thousands of Euros	
	2019	2018

Realia Business, S.A. and consolidation adjustments	17,327	24,865
Subgroup Planigesa	145,812	139,286
Inversiones Inmobiliarias Rústicas y Urbanas 2000, S.L.	(14)	(14)
Realia Polska SP ZOO	(430)	(485)
As Cancelas Siglo XXI, S.L.	13,638	12,786
Realia Contesti, S.R.L.	1,503	1,112
Ronda Norte Denia, S.L.	-	1
Servicios Índice, S.A.	-	1
Realia Patrimonio, S.L.U.	233,598	198,169
Valaise, S.L.U.	(4)	1
Retingle, S.L.	-	666
Guillena Golf, S.L.U.	(1)	-
Total	**411,429**	**376,388**

In 2019 and 2018, EUR 337,028 thousand and EUR 320,007 thousand respectively are included within the reserves of consolidated companies, due the increase in the fair value of investment properties.

Treasury shares

The General Meeting of Shareholders held on 22 June 2015 authorized the buyback of treasury shares, during the maximum period permitted by law, and in keeping with Section 146 of the Corporation Act.

The changes in treasury shares during 2019 and 2018 were as follows:

	Number of shares	Thousands of Euros
Balances at 31 December 2017	**610,000**	**675**
Acquisitions	852,902	891
Balances at 31 December 2018	**1,462,902**	**1,566**
Acquisitions	1,971,339	1,711
Balances as at 31 December 2019	**3,434,241**	**3,277**

The average price of treasury shares at year-end 2019 is 0.95 €/share (1.07 €/share in 2018). The number of treasury shares represents 0.42% of the total shares.

17. <u>Non-controlling interests</u>

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

	Thousands of Euros
Balance as at 31 December 2017	**237,922**
Changes in the scope of consolidation (Note 2.f)	(11,371)
Dividends paid	(5,370)
Profit (loss) for 2018	14,797
Balance as at 31 December 2018	**235,978**
Changes in the scope of consolidation (Note 2.f)	-
Dividends paid	(8,153)
Profit (loss) for 2019	15,303
Balance as at 31 December 2019	**243,128**

The detail, by company, of “Non-controlling Interests” at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Planigesa Subgroup	241,034	233,831
Servicios Índice, S.A.	2,094	2,147
Final balance	**243,128**	**235,978**

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

		Percentage of Ownership	
	Company	2019	2018
Nozar, S.A.	Servicios Índice, S.A.	39.92%	39.92%
Ecohabitalia S.L.U.	Planigesa, S.A.	23.48%	23.48%

18. Provisions

Long-term provisions

The changes in “Long-term provisions” in 2019 and 2018 were as follows:

	Thousand Euros		
	Warranty Provision	Other Provisions	Total
Balance as at 31 December 2017	**5,153**	**1,145**	**6,289**
Charges for the year	-	85	85
Amounts used/reversed	(1,557)	(198)	(1,755)
Transfers	327	-	327
Changes in scope of consolidation	(639)	-	(639)
Balance as at 31 December 2018	**3,284**	**1,032**	**4,316**
Charges for the year	**-**	8,668	8,668
Amounts used/ reversed	(1,124)	(266)	(1,390)
Transfers	42	-	42
Balance as at 31 December 2019	**2,202**	**9,434**	**11,636**

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

In 2019, the Group recognized provisions for guarantees for EUR 1,124 thousand (EUR 1,557 thousand in 2018).

In 2019, the Group recognized and reversed provisions for EUR 8,668 thousand and EUR 266 thousand, respectively (EUR 85 thousand and EUR 198 thousand respectively at 31 December 2018); of these amounts, EUR 8,573 thousand correspond mainly to possible claims arising from changes in the current urban development plans or their arrangement that may reduce the buildable space area in some areas where the company has a presence; regarding reversed amounts, EUR 47 thousand were used for that purpose and EUR 219 thousand from “Excess Provisions” were recognized under “Changes in Trade Provisions” in the accompanying profit and loss account (EUR 63 thousand and EUR 135 thousand respectively at 31 December 2018) (Note 23.j).

Current provisions

At 31 December 2019, “Current Provisions” mainly include provisions for “Guarantees” for an amount of “EUR 909 thousand. At 31 December 2018, current provisions amounted to EUR 3,529 thousand and included short-term provisions and the provision for the increase in the Value Increase Tax of Urban Land (IIVTNU) from the sale of the Los Cubos building in 2017, which had been appealed by the Group and received a favorable ruling, and accordingly, the provision recognized in 2018 for EUR 2,281 thousand was reversed (see Note 23.f).

During 2019, “Provisions for Guarantees for after-sales expenses” proceeded to the transfer of a total of EUR 42 thousand to “Long-term Guarantees”, and a total of EUR 53 thousand were recognized under provisions for this purpose.

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

19. Bank borrowings and other financial liabilities

The detail of the Group’s “Bank Borrowings and Other Financial Liabilities” as at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Non-current:		
Loans and other bank borrowings	567,269	596,748
(Loan arrangement costs)	(7,758)	(10,201)
Derivatives	6,900	3,466
Other	30	-
Total bank borrowings and other non-current financial liabilities	**566,441**	**590,013**
Current:		
Loans and other bank borrowings	27,926	23,897
(Loan arrangement costs)	(2,330)	(2,351)
Interest	1,735	1,781
Derivatives	2,553	2,613
Property, plant and equipment – suppliers	4,021	701
Other	810	1,310
Total bank borrowings and other current financial liabilities	**34,715**	**27,951**
Total	**601,156**	**617,964**

At 31 December 2019 and 2018, bank borrowings and payables to third parties, broken down by types of guarantee, are as follows:

Type of guarantee	Thousands of Euros			
	2019		2018	
	Limit	Drawn Down	Limit	Drawn Down
Personal and other guarantees	68,000	49,104	46,000	40,049
Mortgage guarantee	-	-	18,247	18,247
Syndicated guarantees – Property (1)	546,091	546,091	562,349	562,349
Loan arrangement costs	(10,088)	(10,088)	(12,552)	(12,552)
Interest from current accounts	-	1,735	-	1,781
Gross bank borrowings	604,003	586,842	614,044	609,874
Derivatives	9,453	9,453	6,079	6,079
Total gross bank borrowings	**613,456**	**596,295**	**620,123**	**615,953**

(1) Mortgage guarantee and others, restricted to assets financed.

The detail, by type, of the bank borrowings as at 31 December 2019 and 2018 is as follows:

Current and non-current Loans and Credit Facilities	Thousands of Euros	
	2019	2018
Mortgage loan	-	18,247
Syndicated property loan	546,091	562,349
Bilateral loan	49,104	40,049
Loan arrangement costs	(10.088)	12,552)
Interest	1,735	1,781
Derivatives	9,453	6,079
Total	**596,295**	**615,953**

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

	Thousands of Euros	
	2019	2018
2019	-	25,678
2020	29,661	36,705
2021	37,438	38,785
2022	24,589	34,511
2023 and subsequent years	505,242	486,747
Loan arrangement costs	(10,088)	(12,552)
Derivatives	9,453	6,079
	596,295	**615,953**

At 31 December 2019, loan arrangement costs are recognized as a deduction from the balance of "Loans and other bank borrowings" in the accompanying balance, and amount to EUR 10,088 thousand (EUR 12,552 thousand in 2018).

Syndicated loans – Rental property

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

The applicable interest rate for this new loan is Euribor plus a differential margin varying according to the "Loan to Value" ratio (amount of the loan divided by the gross market value of assets) within a range of 170 to 200 basis points. At 31 December 2019, the syndicated loan amounted to EUR 546,091 thousand (EUR 562,349 thousand in 2018), excluding loan arrangement costs for an amount of EUR 10,062 thousand, and interest earned for EUR 1,648 thousand.

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

During the term of the loan, the Company must meet several ratios related to the debt service hedge (equal or higher than 1.10x) and to net indebtedness levels over the GAV of property assets ("Loan to Value" or LTV lower than 60%). At 31 December 2019, the Company fulfils the covenants established in the loan contract. Similarly, the Company must transfer annually an amount equivalent to 50% of the cash surplus to early debt servicing, according to the loan contract.

Additionally, the Company entered into an interest rate swap (IRS) with a floor of 0%, for 70% of the outstanding balance of the loan to reduce the risk of exchange rate variation and its impact on the cash flows associated to the hedged loan. The life of such hedging instrument is the same as the one established for the syndicated loan; the current notional amount is EUR 383,521 thousand.

Bilateral development loan

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

Mortgage loans and bilateral property loans

The company Hermanos Revilla S.A. fully repaid the mortgage loan that had an outstanding balance of EUR 18,247 thousand at year-end 2018. Additionally, at 31 December 2019, it holds credit and loan policies for a limit of EUR 68,000 thousand (EUR 46,000 thousand in 2018), of which EUR 49,104 thousand have been drawn down (EUR 40,049 thousand at 31 December 2018). Bilateral loans will mature during 2020-2024 and the average interest rate at 31 December 2019 is 1.37%.

Information on hedges

Realia Patrimonio, S.L.U. has risk hedge transactions in place for interest rate variations in order to cover the risks to which its future cash flows are exposed. The detail of derivate instruments entered into during 2019, and the details of the maturity of their notional values is as follows:

			Maturity of notionals				
Thousands of Euros	**Valuation**	**Notional**	**2020**	**2021**	**2022**	**2023**	**2024**
IRS + Floor	9,453	383,521	12,542	14,456	15,575	16,736	324,212

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

The expected charge to the profit and loss account during the next years resulting from the cash flow hedging derivatives amounts to EUR 2,553 thousand for 2020 and the remaining EUR 6,900 thousand, for subsequent years.

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

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

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

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

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

In 2019, the Company recognized as a positive financial result the part whose inefficient hedging amounts to EUR 432 thousand, under "Variation of fair value in financial instruments" (Note 23.g).

The amount recognized under Equity at 31 December 2019 is negative for EUR 5,967 thousand, net of taxes. During 2019, a negative amount of EUR 2,698 was transferred to profit and loss as a result of the interest rate hedge, EUR 2,230 thousand of which were settled in 2019, and EUR 478 thousand in 2018. These amounts have been recognized under financial expenses.

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

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

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

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

Thousands of Euros	Level 1	Level 2	Level 3	Total
Financial Liabilities at fair value Hedging derivatives		9,453	-	-
	-	**9,453**	**-**	**-**

No transfers between the different fair value hierarchies took place during 2019.

19.1 Changes in liabilities originating from financial activities

The following table summarized the variations in the cash-flows of the gross bank borrowings during 2019 and 2018:

	31 December 2018	**Cash flows**	**Others**	**31 December 2019**
Non-current bank borrowings	586,547	6,223	(33,259)	559,511
Current bank borrowings	23,227	(31,702)	35,706	27,331
Non-current derivatives	3,446	-	3,434	6,900
Current derivatives	2,613	-	(60)	2,553

Total liabilities from financial activities	**615,953**	**(25,479)**	**5,821**	**596,295**

In the statement of cash-flows at 31 December 2019, "Collections and payments through financial liability instruments" includes collections and payments through financial liability instruments for an amount of EUR 19 thousand, corresponding to financial liabilities with entities other than banks.

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

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

19.2 Fair values of financial instruments

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

	Thousands of Euros			
	Carrying amount		Fair value	
	2019	2018	2019	2018
Financial assets (Note 14.2)				
Non-current loans	-	939	-	939
Current loans	20,276	36,647	20,276	36,677
	20,276	37,586	20,276	37,616
Financial liabilities				
Bank borrowings (Note 19)	586,842	609,874	586,842	609,874
Debts to third parties (Note 19)	4,861	2,011	4,861	2,011
Derivatives (Note 19)	9,453	6,079	9,453	6,079
	601,156	617,964	601,156	617,964

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

20. Other liabilities

a) Other non-current liabilities

The detail of this heading at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Other non-current liabilities payable	2,404	2,462
Non-current guarantees and deposits received	14,301	13,220
	16,705	**15,682**

b) Trade and other payables

The detail of "Trade and other payables" is as follows at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Suppliers of Group companies and associates	6,925	2,352
Suppliers for the purchase of land: No payment instruments	3,170	3,170
Suppliers - Rest	3,471	2,848
Customer advances – development (Note 4.h)	10,010	4,962
Other customer advances	21	7
Creditors	6,712	6,127
Tax payable (Note 21)	3,846	3,672
Current tax liabilities (Note 21)	623	584
	34,778	**23,722**

This includes mainly amounts payable for construction and associated costs, land purchase and the amounts corresponding to advances paid by customers before the recognition of the sale ("Advanced customer payments for developments"). In 2019, a significant increase took place in the balances of the suppliers of the Group and related to the advanced payments from customers of developments as a consequence of the launch of new developments and the progress of the developments started on the prior year.

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

c) Average period of payment to suppliers

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

	2019	**2018**
	Days	Days
Average payment period to suppliers	55	46
Ratio of transactions paid	61	48
Ratio of transactions pending payment	30	38
	Thousands of Euros	

Total payments made	67,575	66,323
Total outstanding payments	14,215	6,356

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

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

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

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

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

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

d) Other current liabilities

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

21. Public Bodies and fiscal situation

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

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

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

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

	Thousands of Euros							
	Tax Assets				Tax Liabilities			
	Current		Deferred		Current		Deferred	
	2019	2018	2019	2018	2019	2018	2019	2018
Prepaid taxes	-	-	32,289	36,066	-	-	-	-
Credits for loss carryforwards	-	-	64,383	67,093	-	-	-	-
Tax credit carryforwards	-	-	14,372	16,031	-	-	-	-
Tax payable- VAT / IGIC (Canary Island Tax)	761	215	-	-	1,663	1,081	-	-
Tax refund	5,311	3,711	-	-	-	-	-	-
Tax payable – Corporate Tax	-	-	-	-	623	584	-	-
Tax payable – Personal Income Tax	-	-	-	-	1,254	1,092	-	-
Social Security	3	3	-	-	96	92	-	-
Other public bodies	-	-	-	-	833	1,407	-	-
Deferred taxes	-	-	-	-	-	-	173,470	164,856
	6,095	**3,929**	**115,044**	**119,190**	**4,469**	**4,256**	**173,470**	**164,856**

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

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

The movement of deferred tax assets and liabilities in 2019 and 2018 was as follows:

	Thousands of Euros	
	Deferred Tax Assets	Deferred Tax Liabilities
Balance as at 31 December 2017	**122,151**	**155,200**
Derivatives	752	-
Tax credits and deductions for the year	(3,077)	-
Provisions for expenses	308	-
Loan provisions	-	(13)
Consolidation adjustments	(7)	(988)
Accelerated amortization and depreciation	-	(143)
Merger securities	-	-
Non-deductible financial expenses	(700)	-
Non-deductible amortization costs	(237)	-
IAS 40 adjustment at Fair Value (Note 4.c)	-	11,395
Other	-	(595)
Balance as at 31 December 2018	**119,190**	**164,856**
Derivatives	953	
Tax credits and deductions for the year	(4,369)	-
Provisions for expenses	(504)	-
Loan provisions	-	(14)
Consolidation adjustments	20	(982)
Accelerated amortization and depreciation	-	(144)
Merger securities	-	-
Non-deductible financial expenses	(14)	-
Non-deductible amortization costs	(237)	-
IAS 40 adjustment to fair value (Note 4.c) (1)	-	9,795
Other	5	(41)
Balance as at 31 December 2019	**115,044**	**173,470**

The detail of deferred tax assets and liabilities at year-end 2019 and 2018 is as follows:

	Thousands of Euros			
	Deferred Assets		Deferred Liabilities	
	2019	2018	2019	2018
Credits for loss carryforwards	64,383	67,093	-	-
Tax credit carryforwards	14,372	16,031	-	-
Derivatives	1,990	1,037	-	-
Provisions for expenses	3,620	4,124	-	-

Intragroup adjustments	323	303	-	-
Non-deductible financial expenses	29,043	29,057	-	-
Non-deductible amortization costs	1,194	1,431	-	-
Other	119	114	-	-
Securities portfolio	-	-	14	28
Capital gains	-	-	5,604	5,604
Consolidation adjustments	-	-	939	1,921
IAS 40 adjustment at fair Value (Note 4.c)	-	-	160,706	150,911
Accelerated amortization and depreciation	-	-	5,022	5,166
Other	-	-	1,185	1,226
Total	**115,044**	**119,190**	**173,470**	**164,856**

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

The conciliation between the accounting result before taxes and the tax base of the Corporate Tax for 2019 is the following:

	Thousands of Euros		
	Increases	Decreases	Total
Result before taxes			**80,502**
Permanent differences and unrealized temporary differences:			**370**
Permanent differences:			(7,454)
Surcharges and penalties	2		
Consolidation adjustments:			
Result of consolidated companies equity method		(2,554)	
Other consolidation adjustments		(4,452)	
Financial adjustments from haircuts			
Reassignment of values			
Other adjustments and participating interests		(450)	
Unrealized temporary differences:			7,824
Provision for expenses and liabilities	8,569		
Provision for impairment of inventories, plant and equipment	903		
Non-deductible amortizations		(1)	
Securities portfolio	4,452	(6,099)	
Temporary differences arising in the year:			**(41,377)**
Non-deductible financial costs		(56)	
Provisions for expenses		(2,281)	

Provisions for inventories, plant and equipment	265		
IAS 40 implementation (Fair value adjustment/ Elimination of amortization)		(39,179)	
Other		(126)	
Temporary differences arising in prior years:			**(41,337)**
Non-deductible financial expenses		(56)	
Provisions for expenses		(2,281)	
Provision for the impairment of inventories, property, plant and equipment	265		
IAS 40 implementation (Fair value adjustment/ Elimination of amortization)		(39,179)	
Other		(126)	
Temporary differences arising in prior years:			**(10,851)**
Accelerated amortization and depreciation	739		
Non-deductible amortization		(953)	
Equities portfolio	55		
Other consolidation adjustments		(55)	
Offset of capitalized tax losses		(10,637)	
Offset of non-capitalized tax losses from prior years		(61)	(61)
Tax base (taxable profit)			**28,583**

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

	Thousands of Euros		
	Increases	Decreases	Total
Result before taxes			**72,351**
Permanent differences and unrealized temporary differences:			**(2,292)**
Permanent differences:			(7,027)
Surcharges and penalties			
Consolidation adjustments:			
Result of consolidated companies equity method		(2,555)	
Other consolidation adjustments		(4,495)	
Financial adjustments from haircuts			
Other adjustments and participating interests	23		
Unrealized temporary differences:			4,735
Provision for impairment of inventories, property, plant and equipment	241		
Non-deductible amortizations		(1)	
Securities portfolio	4,495		
Temporary differences arising in the year:			**(1,026)**
Non-deductible financial costs		(2,528)	
Provisions for expenses		(9)	
Provisions for inventories, plant and equipment	1,511		
Temporary differences arising in prior years:			**(47,120)**
Accelerated amortization and depreciation	739		
Non-deductible amortization		(953)	
Securities portfolio	55		
Provision for inventories, property, plant and equipment		(252)	
Revenues from deferred haircuts	2,216		
Other		(55)	
IAS 40 implementation (Fair value adjustment/ Elimination of amortization)		(38,959)	
Offset of capitalized tax losses		(9,911)	
Offset of non-capitalized tax losses from prior years		(548)	(548)
Tax base (taxable profit)			**21,545**

The main permanent differences of 2019 and 2018 are the result of:

- "Consolidation adjustments" includes the following adjustments:
    - Negative adjustment of EUR 2,554 thousand due to the elimination of the result of consolidated companies through the equity method (positive adjustment of EUR 2,555 thousand in 2018).
    - Negative adjustment of EUR 4,452 thousand, corresponding to the reversal of the equities portfolio adjustment on the consolidated statement (EUR 4,495 thousand in 2018).

The main temporary differences, recognized and unrecognized of 2019 and 2018, are the result of:

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

  Thus, net financial expenses will be deductible to a maximum of 30% of the operating profit for the year. To this end, the rule considers that "net financial expenses" are the excess financial expenses with respect to the revenues derived from the assignment to third parties of equity accrued during the fiscal year. In any case, net financial expenses of the fiscal year will be deductible, without limitation, up to 1 million Euros. In 2019, a negative adjustment of EUR 56 thousand was made (EUR 2,528 thousand in 2018).

- "Securities portfolio" includes a positive adjustment of EUR 4,452 thousand as permanent difference and EUR 55 thousand as temporary difference in 2019 (EUR 4,287 thousand as permanent difference (EUR 4,495 thousand in 2018) and EUR 55 thousand as temporary difference (EUR 55 thousand in 2018), pursuant to transitory provision sixteen of Royal Decree-Law 3/2016, of 2 December, approved in 2016, that establishes that the impairment losses of the securities representing equity holdings in companies that have been tax deductible on the Corporate Tax base in fiscal years before 1 January 2013, but not thereafter, and that the reversal of that impairment loss must be recognized for a minimum annual amount during five years. At 31 December 2019, the Company is pending consolidation of EUR 4,016 thousand (EUR 8,524 thousand at 31 December 2018).

- Negative adjustment of EUR 6,099 thousand in 2019 for the losses resulting from the liquidation of investee Realia Polska (see note 9.1). This adjustment is pursuant to art 17.8 of Law 27/2014 of 27 November, which establishes that the tax base must incorporate the difference between the market value of the elements received and the fiscal value of the ownership interest cancelled, and art. 21.8, that establishes that negative revenues generated in case of extinction of the investee are tax deductible, unless it is the product of a restructuring, and the dividends received in during the ten years before the date of extinction must be subtracted from the negative revenues, in case the dividends benefited from an exemption.

- Positive adjustment of EUR 2,216 thousand in 2018, pursuant to the application of current Income Tax regulation, article 11.3 of Law 27/2014, of 27 November, that established that the revenue corresponding to the recognition of debt reductions and moratoriums as a consequence of the enforcement of Bankruptcy Law 22/2003, of 9 July, will be allocated to the tax base of the debtor, in as far as it is possible to recognize later financial expenses from the same debt, and up to the limit of the aforementioned revenue.

  This amount was taken into account for the determination of the calculation of the tax loss carryforwards from prior years, from the application of current Income Tax regulation, article 26 of Law 27/2014, of 27 November, that established that the limitation of tax loss carryforwards will not be the result of the application of debt reductions or moratoriums resulting from an agreement with the taxpayer's creditors to the corresponding amount of revenues.

- Negative adjustment of EUR 37,179 thousand, corresponding to the revaluation at fair value and the elimination of depreciation of its investment property (EUR 38,959 thousand in 2018).

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

The income tax expense accrued in 2019 amounts to EUR 20,322 thousand (EUR 17,575 thousand in 2018), as shown in the accompanying consolidated profit and loss statements. The conciliation of the expense to the tax charge payable is as follows:

	Thousands of Euros	
	2019	2018
Income tax expense	80,502	72,531
Result of consolidated companies accounted for using the equity method	(2,554)	(2,555)
Other consolidation adjustments	(4,452)	(4,495)
Rest of permanent differences	(448)	23
Unrecognized tax losses (*)	-	625
Unrecognized temporary differences	8,336	4,187
Adjusted accounting profit	**81,384**	**70,316**
Tax charge	20,436	15,579
Deductions	(13)	(12)
Accrued income tax expense	20,333	17,657
Adjustments to the tax charge	-11	8
Income tax expense (benefit)	**20,322**	**15,575**

Tax loss and tax credit carryforwards	(3,059)	(2,725)
Deferred tax assets and liabilities in the year	(10,367)	(9,555)
Adjustments to prior years' income tax	11	(8)
Tax refunds receivable	3,653	1,353
Tax withholdings and prepayments	(9,929)	(6,048)
Tax payable	(631)	(592)

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

At 31 December 2019, tax credits for loss carryforwards and deductions amounted to EUR 64,383 thousand (EUR 67,093 thousand in 2018). The directors think that these can be recovered in the future from the expected evolution of both the development and property businesses, and by the high potential gains of the property investments of the Group, for which it has recognized a deferred tax liability of EUR 160,706 thousand (EUR 150,911 thousand in 2018).

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

	Thousands of Euros	
Concept	2019	2018
From settlement of income tax in prior years	11	(8)
Total adjustments to tax charge	11	(8)

The breakdown of the income tax charge for 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Current tax	(7,276)	(5,530)
Deferred tax	(13,046)	(12,045)
Total income tax charge	**(20,322)**	**(17,575)**

The detail of the Group companies' tax loss carryforwards as at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
Year Earned	2019	2018
1998	61	61
1999	393	393
2000	177	177
2001	830	830
2002	185	185
2003	547	547
2004	-	-
2005	585	585
2006	500	500
2007	527	527
2008	164	164

2009	1,588	8,806
2010	60,670	64,514
2011	65,126	67,064
2012	248,211	249,164
2013	32,638	32,638
2014	33,522	33,642
2015	1,508	1,527
2016	5,996	6,054
2017	591	596
2018	133	167
	453,951	**468,141**

Tax loss carryforwards of the companies in the Tax Group after the settlement of taxes in July 2018 amount to EUR 430,055 thousand and EUR 445,895 thousand in 2019 and 2018, respectively.

The Group only recognized deferred taxes associated to tax losses that the directors expect to recover (see Note 4.o). The tax losses not recognized by the Group as at 31 December 2019 amount to EUR 196,421 thousand (EUR 199,722 thousand at 31 December 2018).

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

	Thousands of Euros			
	Tax Credit Carryforwards			
Year Earned	2019	2018	Recognized in 2019	Recognized in 2018
2008	460	737	460	737
2009	5,231	6,011	5,222	5,561
2010	69	325	69	325
2011	4,121	5,675	3,974	5,675
2012	1,967	1,987	1,987	1,987
2013	1,278	1,278	1,217	1,217
2014	1,262	1,262	1,262	309
2015	181	220	181	220
	14,589	**17,495**	**14,372**	**16,031**

Under current legislation, taxes cannot be considered to be definitively settled until the tax authorities have reviewed the tax returns filed or the four-year statute of limitation period has elapsed. On 10 December 2018, the parent of the tax group number 135/07 and the subsidiary Realia Patrimonio received respectively, a notice of the commencement of a tax audit for the years 2014 and 2015 for the consolidated Income Tax and for the period between November 2014 and December 2015 for the Value Added Tax. This is a general tax audit and includes the review of all the tax charges and tax loss carryforwards or the tax credit carryforwards according to the provisions of article 66.Bis 2 of the General Tax Law. For the rest of state taxes, at 2019 year-end, the Company is open for review from 2015 to 2019, and from 2016 to 2019 for Corporate Tax and Value Added Tax. The Directors of the Company considered that the aforementioned taxes have been settled correctly, so that, in case discrepancies arise regarding the interpretation of the current tax regulations due to the tax treatment given to the transactions, the eventual liabilities resulting, in case they materialize, would not have a significant impact on the accompanying financial statements.

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

22. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2019 and 2018, the Group has provided the following guarantees to third parties:

	Thousands of Euros	
	2019	2018
Guarantees relating to purchases of land, urban development charges, litigation and other (1)	2,119	2,185
Down payments from development customers	8,721	1,919
	10,840	**4,104**

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

23. Income and expenses

a) Revenue

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

2019

	Thousands of Euros				
	Sale of Property, Developments, Building Lots and Other	Leases	Services	Total	%
Madrid	-119	47,142	2,336	49,389	64.90%
Catalonia	1,855	6,191	-	8,046	10.57%
Andalusia	5,114	868	503	6,485	8.52%
Castilla-La Mancha	-	3,817	-	3,817	5.02%
Rest of Communities	-	3,081	-	3,081	4.05%
Valencia	2,500	-	-	2,500	3.28%
Castilla y León	1,968	69	-	1,767	2.32%
Murcia	-	1,019	-	1,019	1.34%
TOTAL	**11,048**	**62,217**	**2,839**	**76,104**	**100.00%**

2018

	Thousands of Euros				
	Sale of Property, Developments, Building Lots and Other	Leases	Services	Total	%
Madrid	494	46,189	2,040	48,723	63.90%
Catalonia	1,062	5,754	34	6,850	8.98%
Valencia	3,627	-	-	3,627	4.76%
Andalusia	2,834	896	485	4,215	5.53%
Castilla y León	2,746	69	-	2,815	3.69%

Castilla-La Mancha	-	3,789	-	3,789	4.97%
Murcia	-	1,014	-	1,014	1.33%
Rest of Communities	-	3,051	-	3,051	4.00%
Abroad	2,165	-	-	2,165	2.84%
TOTAL	**12,928**	**60,762**	**2,559**	**76,249**	**100.00%**

At 31 December 2019 and 2018, the Group had contracted with tenants for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI for 2015 and subsequent years or future contractual lease payment revisions:

	Thousands of Euros	
	2019	2018
Within one year	63,963	57,905
Between two and five years	129,984	124,922
After five years	78,173	84,679
	272,120	**267,506**

b) Other operating income

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

	Thousands of Euros	
	2019	2018
Expenses passed on in connection with property rentals	17,444	17,038
Other	1,277	597
Work done by the company on its assets	84	-
Total other operating income	**18,805**	**17,635**

c) Procurements and other external expenses

The detail of "Procurements" in the Group's consolidated statement of profit and loss for 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Purchases of land and building lots	(866)	(28,508)
Changes in inventories	(20,695)	6,782
Construction work and services rendered by third parties	(17,255)	(2,427)
Total procurements	**(38,816)**	**(24,153)**

The main addition in 2018 corresponded to the acquisition of a land lot in Alcalá de Henares (Madrid) for EUR 27,524 thousand after public auction; in 2019, the purchases of land and lots mainly recognize urban development costs. Works and services by third parties recognize investments made in new developments.

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

The detail of the Group's other external expenses in 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Rent and royalties	123	92
Repair and upkeep expenses	8,047	7,710
Independent professional services	368	327
Insurance	218	307
Banking and similar services	73	30
Advertising, publicity and public relations	826	647
Utilities	3,109	3,178
After-sales service and other services provided by third parties	8,825	9,535
Taxes other than income tax	7,482	6,524
Other current operating expenses	2	174
Total other external expenses	**29,073**	**28,524**

d) Staff costs and average headcount

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2019	2018
Wages, salaries and similar expenses	5,210	5,411
Employee benefit costs	953	892
Pension contributions and provisions (1)	179	200
Other employee benefit costs	136	138
Total staff costs	**6,478**	**6,641**

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

The average number of employees in the different Group companies in 2019 and 2018 was 90 and 90 respectively. The detail of the headcount at 2019 and 2018 year-end, by professional category, is as follows:

	Average number of employees				
	2019				
	Total	Men	Women	Spain	Abroad
Executives and university graduates	34	22	12	34	-
Other line personnel and further education college graduates	8	8	-	8	-

Clerical and similar staff	15	5	10	15	-
Other salaried employees	33	33	-	33	-
	90	**68**	**22**	**90**	**-**

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

The number of employees at the various Group companies at 31 December 2019 and 2018 was 90 and 91, respectively.

At the end of 2019 and 2018, the Group does not have any employee with a degree of disability of 33% or higher.

e) Result of companies accounted for using the equity method

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

	Thousands of Euros	
	2019	2018
Associates:		
Ronda Norte Denia, S.L.	1	18
As Cancelas Siglo XXI, S.L.	2,562	2,534
Inversiones Inmob. Rústicas y Urbanas 2000, S.L.	(8)	(5)
Total (Note 11)	**2,555**	**2,547**

f) Change in value of property investment

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

	Thousands of Euros	
	2019	2018
Change in value from independent expert valuations (Note 10)	28,491	28,930
Other (Notes 10 and 18)	2,281	-
Result of change in value of property investment	**30,772**	**28,930**

g) Finance income and finance costs

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

	Thousands of Euros	
	2019	2018
Finance income:		
Interest on financial assets	171	228
Other finance income	1,017	7,101
	1,188	7,329
Finance costs:		
Interest on loans	(12,893)	(14,861)
Finance cost of cash flow hedging instruments	(2,698)	(2,764)
Other	(42)	(55)
	(15,633)	**(17,680)**
Change in fair value of financial instruments (Note 19)	432	519
Exchange rate differences	428	2
Impairment and gain or losses on disposals of financial instruments (Note 24.i)	110	26
Capitalized financial expenses	-	17
Financial result	**(13,475)**	**(9,787)**

h) ***Contribution to consolidated result***

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

	Thousands of Euros					
	2019			2018		
	Profit (Loss) attributable to the Parent	Profit (Loss) Attributable to External Partners	Total	Profit (Loss) Attributable to the Parent	Profit (Loss) Attributable to External Partners	Total
Fully consolidated:						
Realia Business, S.A.	5,011	-	5,011	(2,644)	-	(2,644)
Valaise	218	-	218	(2)	-	(2)
Realia Business Portugal-Unipessoal, Lda.	(19)	-	(19)	-	-	-
Servicios Índice, S.A.	(54)	(53)	(107)	(68)	(66)	(134)
Planigesa Subgroup	14,625	15,356	29,981	14,154	14,874	29,028
Retingle, S.L.	-	-	-	(11)	(11)	(22)
Realia Polska Inwestycje, ZOO	396	-	396	(28)	-	(28)
Realia Patrimonio, S.L.U.	22,501	-	22,501	26,118	-	26,118
Realia Contesti	61	-	61	547	-	547
Guillena Golf	(416)	-	(416)	(455)	-	(455)
Accounted for using the equity method:						
As Cancelas Siglo XXI, S.L.	2,562	-	2,562	2,535	-	2,535
Inversiones Inmob. Rústicas y Urbanas 2000, S.L.	(8)	-	(8)	(6)	-	(6)
Ronda Norte Denia, S.L.	-	-	-	19	-	19
	44,877	**15,303**	**60,180**	**40,159**	**14,797**	**54,956**

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

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

	Thousands of Euros	
	2019	2018
Gains or losses on disposals and changes in the scope of consolidation (Note 2.f)	110	26
	110	**26**

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

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

	Thousands of Euros	
	2019	2018
Net write-down of work in progress and finished goods (Note 13)	6,338	3,183
Net impairment losses on land and building lots (Note 13)	12,332	718
Excessive provisions (Note 18)	-	135
Net write-downs, impairment losses and provisions	(7,149)	1,881
	11,521	**5,917**

24. Balances and transactions with related companies

The Group had the following balances with related companies at 2019 year-end:

	Thousands of Euros								
	Assets			Financial Liabilities			Other Liabilities		
	Non-Current (1)	Current	Total	Non-Current	Current	Total	Non-Current	Current	Total
FCC Indust. e Infraest. Energ, S.A.U.	-	-	-	-	3	3	-	414	414
Fedemes, S.L.	-	-	-	-	-	-	38	11	49
Jezzine	-	27	27	-	82	82	-	-	-
FCyC, S.L.	-	738	738	-	343	343	-	-	-
Serv. Especiales de Limpieza, S.A.	-	-	-	-	-	-	-	370	370
Studio Residence	-	-	-	-	23	23	-	-	-
Inmob. Rústica y Urbana	11,907	4,871	16,778	-	-	-	-	-	-
As Cancelas Siglo XXI	39,568	11,553	51,121	-	-	-	-	-	-
Soinmob	-	15	15	-	561	561	-	-	-
FCC, S.A.	-	-	-	-	-	-	25	24	49
FCC Construcción	-	-	-	-	738	738	-	6,031	-
FCC Ambito	-	-	-	-	-	-	-	75	75

	51,475	**17,204**	**68,679**	**-**	**1,750**	**1,750**	**63**	**6,925**	**957**

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

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

(1) Includes the balance of “Investments in associates”

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

	Thousands of Euros	
	Associates	
	2019	2018
Rent income	1,992	1,978
Services provided	2,242	2,040
Other income	123	102
Construction and services	(12,465)	(1,179)
Services received	(2,613)	(2,842)
Financial income	164	178

In 2019 and 2018 no significant transactions were carried out with related companies other than those disclosed herein.

25. Situations of conflict of interest involving the directors

At 2019 year-end, the members of the Board of Directors have reported that they or persons related to them were not involved in any situations of conflict, either directly or indirectly, as defined by the Capital Companies Act, the with the interests of the Company. However, they did report the following:

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

26. Remuneration and other benefits of directors and senior executives

The detail of the remuneration received in 2019 and 2018 by the members of the Board of Directors and senior executives of Realia Business, S.A. is as follows:

2019:

	Thousands of Euros						
	No. of People	Salaries	Variable Remuneration	Bylaw-stipulated Directors' Emoluments	Pension Plans	Insurance Premiums	Other
Directors	6	-	355	343	-	-	-
Senior executives	3	906	-	-	39	4	3
	9	**906**	**355**	**343**	**39**	**4**	**3**

2018:

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

Details of each of the directors' remuneration are provided in the Parent's annual remuneration report for 2019.

The Parent Company has a civil liability insurance policy to cover directors, executives and representatives, for which it paid a premium of EUR 8 thousand in 2019 (EUR 8 thousand in 2018).

27. Fees paid to auditors

In 2019 and 2018, the fees for financial audit and other services provided by the auditor of the Group's and its subsidiaries' consolidated financial statements Ernst & Young, S.L. and the fees for services billed by other auditors and by companies related thereto through control, common ownership or management, were as follows:

2019

	Services provided by the Auditor and by related firms
Audit services	106
Other attest services	5
Total audit and related services	**111**

2018

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

28. Information on the environment

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

In 2019, the Group incurred environmental expenses amounting to EUR 199 thousand (EUR 117 thousand in 2018).

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

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

29. Risk management

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

Capital management

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

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

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

1 - Compliance with all the Group's rules

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

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

The main risks worth noting are:

Financial risks

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

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

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

Credit risk

The Group engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received upon delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 8,188 thousand (EUR 8,188 thousand in 2018), which have been fully written down by the company. 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 or bad debts.

Interest rate risk

At 31 December 2019, Realia Patrimonio S.L.U., a company of the Realia Group, does have hedge contracts in place to manage its exposure to interest rate fluctuations. These contracts have been entered into with 5 of the 6 banks that granted the Syndicated Loan to Realia Patrimonio S.L.U. The total amount hedged is 70% of the outstanding loan balance; at 31 December 2019 it amounted to EUR 383,521 thousand (EUR 393,844 thousand in 2018), and the loan term is 6 years (maturing on 27 April 2024). The type of hedging instrument is an IRS plus an option for Euribor floor rate at 0%.

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

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

During 2019, the market value of this hedge had a positive impact of EUR 432 thousand on profit and loss, and a negative impact of EUR 2,858 thousand on equity.

The following table shows the structure of this financial risk at 2019 and 2018 year-end, detailing the risk hedged at a fixed interest rate:

	Thousands of Euros			
	2019	%	2018	%
Debt at fixed interest rate	393,521	70%	393,844	70%
Debt at variable interest rate	162,570	30%	168,505	30%
Total Financial Debt (*)	**546,091**	**100%**	**562,349**	**100%**

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

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

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

	Million €	
	2019	
Impact on Results (Before Taxes)	+1%	-0.25%
Financial expense at average cost	(1.0)	-
Variation in hedging		
Impact on Profit and Loss	1.5	-
Impact on Equity	9.5	(0.8)

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

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

Liquidity risk

The global financial system is characterized by its high level of liquidity. In the real estate sector, liquidity is also high, but only for projects with low commercial risk and developers with proven financial solvency. As a results, some developers have resorted to alternatives lending sources, albeit at much higher cost.

The Realia group did not need to resort to new hedges in 2019, and when some of its companies needed to renew or refinance some of its existing credit lines, it found no problem to do so within the traditional banking system and at very low and competitive interest rates, thanks to the solvency of the companies and the profitability of their projects.

Additionally, at 2019 year-end, the Group has positive working capital for EUR 393,978 thousand, a 4% decrease over 2018 year-end.

The main aggregates of the cash projections for the next 12 months of the consolidated group, based on a minimum basis of recurring business, dividends and other payments received from services rendered to Group companies, lead to estimated collections of EUR 138 Million, which together with estimated payments of EUR 92 Million, generate a positive net cash flow of EUR 76 Million, which, together with the current cash position, will be used to repay debt and to undertake new investments for EUR 71 Million, including the construction of new developments for sale and rent.

Foreign currency risk

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

Solvency risk

At 31 December 2019, the net borrowings and valuation of derivatives of Realia Business Group's amounted to EUR 520,400 thousand, as shown in the following table:

Thousands of Euros	December 2019	December 2018
Credit institutions		
Mortgage loans	546,091	580,596
Syndicated	546,091	562,349
Other	-	18,247
Bilateral loans	49,104	40,049
Arrangement costs	(10,088)	(12,552)
Interest	1,735	1,781
Derivatives	**9,453**	**6,079**
Gross bank borrowings	**596,295**	**615,953**
Cash and cash equivalents	75,895	87,498
Net bank borrowings	**520,400**	**528,455**

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

	Consolidated
Indebtedness ratio	
Net borrowing costs / Asset GAV (LTV)	26.3%
Coverage ratio	
EBIDTA/Financial loss	3.17

At 2019 year-end, the Group had positive working capital of EUR 397,978 thousand (EUR 403,805 thousand positive working capital in 2018).

Concentration risk

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

- Sources of financing: the Realia Business Group obtains financing from 8 Spanish and foreign banks, which mainly finance one syndicated loan.

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

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

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

Market risks

The positive growth rates (investment volumes, pre-sales levels, sales, prices...) experienced since 2015 have slowed down in 2019, when price increases have not been so generalized, and the level of sales and deliveries has been influenced negatively from the coming into force of the new Mortgage Law. There have been tensions with the Public Administration to obtain work permits and first occupation licenses which, together with the tensions among constructions companies (lack of labor, cost increases...) resulting in the sector failing to meet its delivery targets.

Nonetheless, demand continues to be consistent in some areas of cities such as Madrid, Barcelona, Valencia, Málaga, Palma de Mallorca...where product offering is scarce and demand is consistent, albeit selective in terms of product and prices. In view of this situation, Realia plans to launch new developments in these cities and some others where there is an interesting demand for residential product.

Regarding the rental market, where the Group operates through its subsidiary Realia Patrimonio S.L.U., and Hermanos Revilla, a modest recovery of demand for space is observed, rent price stability and a reduction in the incentives to rent requested by customers. On the other hand, property investment activity continues to evolve positively, especially in Hermanos Revilla and Realia Patrimonio.

The residential rent market is showing great expectations for growth, and Realia has assisted its subsidiary Valaise to acquire 3 subsidized land lots located at the municipality of Tres Cantos (Madrid) for the construction of 280 homes for rent, 85 of which are completed and pending their first occupation license, to be marketed in the first quarter of 2020. The Realia Group is keen on continuing developing and increasing investment in the residential rent market in the coming years.

Realia Business Group believes that it must focus its efforts on its three current business lines. In the property management area, where its exceptional portfolio gives it an outstanding position; it must optimize asset management to increase operational margins and the creation of asset value. In the development area, it must optimize the value of its current assets through the increase in prices of finished products, the management of the land in its portfolio, and the construction of developments in locations with consistent demand. Finally, in the construction of developments for residential rent in areas with consistent demand and attractive yields.

Operational risks

Development and sale of housing activity is vulnerable to certain risks, such as project costs overriding initial estimates, especially in an economic situation in which construction labor costs may increase without the possibility of passing them on to buyers, or delays in projects which may lead to the payment of penalties to homebuyers or to having to pay higher lending costs.

The Group attempts to mitigate these risks contracting construction companies of proven reputation and solvency which have on one hand enough capacity and resources to meet all their commitments and, on the other, the necessary solvency to respond to potential damages resulting from non-compliance.

Legal and fiscal risk

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

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

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

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

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

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

c) Realia's liability arising from litigations that may affect the urban development plan or work permits. REALIA's activity may give rise to judicial claims from third parties, based on public legitimation, litigations seeking the annulation of urban development plans or the licenses granted.

   In order to reduce this risk, Realia contracts professionals and architects of proven reputation and competence, and monitors their work thoroughly. In case these litigations are filed, Realia commissions its legal representation to expert lawyers in the geographic area where it takes place, whose work is also supervised by the company's legal department.

Economic risks

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

Money laundering and financial crimes risk

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

As in previous years, in 2019 the company has been subject to an annual audit by an independent expert, as required by Law. Once again, the conclusion is that there were no significant risks for the company related to money laundering and financial crimes.

Personal data protection risk

These risks are controlled by special and standardized clauses included in agreements in different situations which, in accordance with the legislation governing this area, allow the Group to limit and even eliminate any type of liability for Realia Business, S.A. In

2018, the Group adapted its personal data protection system to the provisions of the General Regulation on Data Protection (Regulation EU 2016/879 on Data Protection).

In 2019, the company was subject to the biennial audit by the independent expert as required by Law; no incidences were reported.

Consumer and user protection risk

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

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

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

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

The Corporate Fiscal Policy, which includes the implementation of good tax practices.

The Anticorruption Policy, approved by the Board of Directors in May 2019, which establishes "zero tolerance" for fraud and corruption activities.

During 2019, Realia started all the work necessary to implement a model of criminal compliance, expected to be completed and operational in 2020.

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

30. Events after the reporting period

Since 2019 year-end and until the date of preparation of these consolidated financial statements, no relevant events have occurred that have an impact on financial statements.

MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

1. THE COMPANY AND ITS ORGANIZATIONAL STRUCTURE AND OPERATION:

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

Business activities are mainly focused on 3 lines of business:

a) PROPERTY MANAGEMENT: this activity is carried on directly by Realia Patrimonio, S.L. (wholly owned by Realia Business, S.A.), or through Hermanos Revilla, S.A. (48.79% of direct and direct ownership interest, and 58.13% of controlling interest) and As Cancelas S.L. (50% of direct ownership interest). All of its activity is carried on in Spain.

These financial investments amount to 18.8% approximately of the asset value in the balance sheet of Realia Business, S.A.

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

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

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

Activities abroad are carried on mainly by wholly owned subsidiaries (direct and indirect control) of Realia Business, S.A. At 2019 year-end, the only asset owned by Realia Business Portugal Unipessoal LDA is reserved, and was delivered in February 2020; accordingly, the company is expected to be liquidated during the year due to lack of activity.

c) HOME RENTAL: This will be carried out through VALAISE S.L.U., fully owned by Realia Business S.A. This company owns a completed development of 85 subsidized homes (VPPB) for rent at the municipality of Tres Cantos (Madrid), pending the reception of first occupation license, and expected to start commercial operation during the first quarter of 2020. Additionally, it acquired 2 land lots on the same municipality for the construction of 195 subsidized homes (VPPL and VPPB) for rent, to start development in 2020.

The parent Realia Business S.A. is a company listed on the continuous market of Madrid; its most significant shareholders include the FCC Group, with an ownership interest of 36.92%, and the Mexican company Inversora Carso, S.A. de C.V., with a stake of 33.85%. The latter is the controlling shareholder of the FCC Group, and therefore controls, directly or indirectly, 56.41% of Realia Business, S.A.

Its organization structure can be summarized as follows:

BOARD OF DIRECTORS: this is composed of 6 directors and is advised by the Audit Committee and the Appointment and Remuneration Committee.

NON-EXECUTIVE CHAIRMAN: Chairs the Board of Directors.

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

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

The control over the investments in the property management companies is managed through representation on, and involvement in, their decision-making bodies (Board of Directors and Management Committees), and through control by the various central departments of Realia Business and Realia Patrimonio.

2. CHANGES IN THE EQUITY INVESTMENT PORTFOLIO

The following changes took place within the scope of consolidation during 2019:

1) In January and June, Valaise made two capital increases of EUR 400 thousand and EUR 500 thousand, with share premiums of EUR 3,600 thousand and EUR 4,500 thousand, respectively. The subscription was fully paid up by Realia Business S.A.

2) In February, the dissolution of the company Realia Polska Inwestcyje ZOO was approved. It was fully liquidated in December, and was excluded accordingly from the scope of consolidation.

3) In April, the General Shareholders Meeting of Ronda Norte Denia, S.L. agreed to dissolve and liquidate the company, and accordingly the company left the scope of consolidation.

4) In April and September, 2 capital injections were made to the company Guillena Golf SAU of EUR 180 thousand and EUR 260 thousand respectively, in order to cover the losses generated and to restore the equity balance.

3. AVERAGE PAYMENT PERIOD TO SUPPLIERS

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

	2019
	Days
Average payment period to suppliers	55

Ratio of transactions paid	61
Ratio of transactions outstanding	30
	Thousands of Euros
Total payments made	67,575
Total outstanding payments	14,215

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

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

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

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

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

The maximum payment deadline applicable to the Company in 2019, according to Law 3/2004, of 29 of December, that establishes measures to fight against default in commercial transactions and according to the transitory provisions of Law 15/2010, is of 60 days, since the conditions required by Law 11/2013, of 26 of July, are fulfilled. Suppliers are paid on the 15th or following working day of each month.

4. MAIN AGGREGATES OF 2019

- Realia generated total revenues in 2019 for EUR 97 Million, 3.4% higher than in 2018, due to higher revenues in the property area (5.6%) (EUR 82.4 M in 2019 versus EUR 78.04 M in 2018) and a drop of 10.9% in the development area (EUR 12.3 Million in 2019 versus EUR 13.8 M in 2018), justified by the gradual reduction in the stock of finished residential product, whose average price is lower than that of finished product in prior years. No deliveries of the new developments in progress took place in 2019.

- EBITDA of the Realia Group (see APMS, item 5) reached EUR 49.5 Million, a 9.4% increase over 2018. This improvement in Ebitda was the result of a reduction of operating and structural costs.

- Earnings before taxes in 2019 reached EUR 80.5 Million, versus EUR 72.5 Million in 2018, an increase of 11%.

  Earnings after taxes reached EUR 60.2 M in 2019, compared to EUR 55 M in 2018 (9.5% increase).

  The net profit attributed to the parent was EUR 44.9 Million, compared to EUR 40.2 Million in 2018, an increase of 11.7%.

  These increases are mainly the result of the improvements of operating provisions, the higher reevaluation of property investments, and the improved financial income. Their quantification is as follows:

  - The result of the valuation of property assets conducted by independent experts was a positive impact of the net profit attributable to the parent of EUR 17.4 Million in 2019 and EUR 15.1 Million in 2018.

  - The variation in provisions, mainly in inventories and trading, had an impact in 2019 on the net profit attributable to the parent of EUR 8.6 Million; in 2018, the impact amounted to EUR 4.3 Million.

  - Other financial results from interest on arrears collected by Realia Patrimonio had a positive impact in 2019 on the net profit attributed to the parent of EUR 2.1 Million; however, “Other financial results” recognized an impairment of EUR 4.9 Million due to the recognition in 2018 of the accrued interest paid as a result of a litigation ruled in favor of Realia Patrimonio S.L.U.

INDEBTEDNESS

After the cancellation in 2018 of the loan of the Parent Realia Business all the borrowings are those associated to the property activity:

- At 2019 year-end, Realia reduced its gross bank indebtedness by EUR 19.6 Million, down to EUR 596.3 Million, 3.2% lower than at 2018 year-end.

- At 2019 year-end, the Realia Group had net bank borrowings (see APMS item 5) for EUR 520.4 Million (including the valuation of derivatives at EUR 9.5 Million), 1.5% lower than at 2018 year-end, EUR 528.5 Million (including the valuation of derivatives at EUR 6.1 Million), with a loan to value (LTV) (see APMS item 6) of 26.3%.

- The group has interest rate hedging contracts with 5 of the 6 entities that participate in the Syndicated Loan of Realia Patrimonio. The total amount hedged accounts for 70% of the outstanding balance of the loan: at year-end, it amounted to EUR 383.5 Million, maturing on 27 April 2024. The type of hedging instrument is an IRS plus a Euribor floor rate of 0%. At 2019 year-end, this hedge, valued at market value, produced a negative impact on profit and loss of EUR 1.5 Million (positive impact of EUR 0.43 Million in 2018), and a negative impact of EUR 6.0 Million on equity (negative impact of EUR 2.9 Million in 2018).

- Net financial result at year-end 2019 stands at EUR -13.5 Million, compared to EUR -9.8 Million at year-end 2018. This increase in costs was the result of an improvement of EUR 2.8 Million in 2019 in ordinary financial costs; however, an impairment of EUR 6.5 Million was recognized under "Other financial results" due to the recognition in 2018 of the accrued interest payment resulting from a litigation in favor of Realia Patrimonio S.L.U.

- The average weighted interest of the gross borrowings at 2019 year-end, excluding the cost of rate hedging, stands at 1.68%, versus 1.70% at 2018 year-end. The average cost in December 2019, including the cost of hedging, amounts to 2.12%.

ASSET VALUATION

- It is worth mentioning that, according to the agreement adopted by the Board of Directors and its subsequent publication of a relevant event on 21 March 2019, the valuation methodology of property development assets (land and developments) was changed from ECO to RICS methodology. This change had no significant impact on the value of the assets valued.

- At year-end 2019, property assets and inventories, including those of the companies consolidated using the equity method, have a market value of EUR 1,934.8 Million, a 4.9% increase over the same period in 2018. This positive evolution is mainly due to the evolution of the property market, since the rental assets are the same in 2019 than in 2018, to the investments made on the construction of new property developments (EUR 17.7 Million) and the 2 new land lots acquired in Tres Cantos (Madrid) and a new development on the same municipality (pending first occupation license); all these projects focus on the development of subsidized homes for rent and are valued at EUR 25.5 Million at December 2019.

- The net net asset value (NNAV) (see APMS point 5) at December 2019 is EUR 1,064 Million, versus EUR 1,022 Million at 2018 year-end. In unit terms, the price is 1.30 € per share, 4% higher than in 2018 (1.25 € per share).

- 79.6% of the value of assets corresponds to the property activity (EUR 1,540.8 Million in 2018), and 20.4% (EUR 394.1 Million) to the residential homebuilding business.

PROPERTY MANAGEMENT BUSINESS

- Rent revenues in 2019, excluding passed-on expenses, amount to EUR 62.2 Million, a 2.4% increase over 2018, mainly due to higher rents paid by tenants, thanks to the high occupancy of the assets.

- Global occupancy of rental buildings is at 93.6% at 2019 year-end, versus 91.8% in 2018. This increase is due to the restart of commercial operations and improved occupancy after the Torre Realia/The Icon building was vacated at the end of 2018. The office segment reached an occupancy of 93.82%, and 91.19% in Shopping Centers.

- No new investments in property assets for rent took place during the year. Gross leasable surface area in the Realia Group amounts to 406,782 sq. m. The valuation of property assets at 2019 year-end, including 127,291 sq. m. of buildable land pending development, reached EUR 1,515.3 Million, a 2.4 increase over 2018.

- Our buildings have undergone improvements, to upgrade their performance (Energy efficiency measures, Hospitality areas, common services, gyms...) and to adapt rental spaces to the new modes of demand (co-working, flexible spaces...), in order to be proactive to the demands of our current and future clients. The amount invested in capex for our buildings was EUR 7.4 Million.

HOMEBUILDING DEVELOPMENT BUSINESS

- In 2019, 82 units were delivered for an amount of EUR 11.2 Million, a 20.2% decrease over the 89 units of 2018, due to the depletion of finished product stock and the lower quality and price of the units, since new developments have not started to deliver their units yet. At December 2019, Realia has a stock of 575 units (homes, commercial premises and offices), 257 of which are finished and 359 are still in construction (125 of them sold or pre-sold). Additionally, it holds 41 single-family lots for housing self-development.

- Realia's land portfolio, at their different stages of urban development at 31 December 2018 amounts to 5,752,433 sq. m., with an estimated gross buildable surface area of 1,619,033 sq. m., 30.22% of which is land ready for construction and 29.31% of it is located in Madrid.

- At December 2019, the fair value resulting by the valuation of an independent expert, applying the RISC valuation methodology pursuant to the agreement of the Board of Directors and the Relevant Event of 21 March 2019, of land, developments in progress and finished product under "Inventories" amounts to EUR 373.4 Million.

- During 2019, the company Valaise acquired two land lots in the municipality of Tres Cantos (Madrid) for the development of the construction of 195 subsidized homes (VPPL-VPPB) for rent, and construction is expected to start in 2020. Additionally, it acquired a development in progress of 85 subsidized homes (VPPB) for rent, completed and awaiting fist occupation license at the end of 2019, and expected to start being leased on the first quarter of 2020. The valuation of these three assets amounted to EUR 25.5 Million.

STOCK MARKET INFORMATION

The main Stock market parameters of the Parent company Realia Business S.A. in 2019 and their evolution are the following:

Share price at year-end 2019 (€/share)	0.934
Share price at year-end 2018 (€/share)	0.910

Variation in share price (%)	2.64%
Market capitalization at 2019 year-end (€)	766.1 M €
Maximum share price during the year (€/share)	0.945
Minimum share price during the year (€/share)	0.840
Average share price during the year (€/share)	0.899
Average daily traded volume (€)	117,000
Average daily traded volume (shares)	131,000

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

The movements during the year were the following:

	No. of shares	Thousands of Euros
Balances at 31 December 2017	**610,000**	**675**
Disposals	-	-
Acquisitions	852,902	891
Balances at 31 December 2018	**1,462,902**	**1,566**
Disposals	**-**	**-**
Acquisitions	1,971,339	1,711
Balances at 31 December 2019	**3,434,241**	**3,277**

The average price of treasury shares at 2019 year-end was 0.95 €/share (1.07€/share in 2018). The number of treasury shares accounts for 0.419% of the total number of shares.

5. <u>ALTERNATIVE PERFORMANCE MEASUREMENTS (APMS)</u>

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

EBITDA

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

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

EBITDA	Thousands of Euros	
Profit and loss account	**2019**	**2018**
+ Operating result	60,650	50,848
+ Provision for amortization	327	313
+ Impairment and result of disposals of fixed assets	75	27
Changes in trade provisions	11,521	5,917
	49,351	**45,271**

NET BANK BORROWINGS:

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

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

Net bank borrowings	**Thousands of Euros**	
	2019	**2018**
Balance sheet data		
+ Non-current debt with credit institutions	559,511	586,547
+ Derivatives	6,900	3,466
+ Current debt with credit institutions	27,331	23,327
+ Derivatives	2,553	2,613
+ Other current financial liabilities	4,831	2,011
- Suppliers of fixed assets and others	4,831	2,011
- Cash and cash equivalents	75,895	87,498
	520,400	**528,455**

NET NET ASSET VALUE (NNAV):

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

Net Net Asset Value (NNAV)	**Thousand Euros**	
	2019	**2018**
Equity attributable to the Parent	1,037.22	997.53
+ Net gains from fixed assets for own use	2.04	1.90
+ Net gains from inventories	25.10	22.00
	1,064.36	**1,021.43**

LOAN TO VALUE (LTV):

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

Loan to Value (LTV)	**Thousands of Euros**	
	2019	**2018**
Ratio between		
Net indebtedness (EFN)	520,400	528,455
GAV Asset replacement value	1,981,794	1,889,744
	26.3%	**28.0%**

GAV (Liquidation Value):

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

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

Valuation by independent experts		
	Million Euros	
GAV. Replacement value	**2019**	**2018**
Appraisal value of property assets Richard Ellis CB	1,587.18	1,524.03
Appraisal value of development assets TINSA	394.61	365.71
	1,981.79	**1,889.74**
• Transaction costs	**Million Euros**	
Appraisal value of property assets Richard Ellis CB	46.43	44.94
Appraisal value of development assets TINSA	0.52	0.52
	46.95	**45.46**
GAV. Liquidation value	**Million Euros**	
	2019	**2018**
Appraisal value of property assets Richard Ellis CB	1,540.75	1,479.09
Appraisal value of development assets TINSA	394.09	365.19
Total	**1,934.84**	**1,844.28**
Conciliation with Consolidated Financial Statements		
	Million Euros	
GAV. Liquidation value	**2019**	**2018**
Appraisal value of property assets Richard Ellis CB (1)	**1,540.75**	**1,479.09**
- Valuation of assets of companies consolidated with the equity method	-54.00	-54.00
- Valuation of property, plant and equipment (self-consumption)	-6.89	-6.27
+ Valuation of Guillena Golf Course, not considered a property asset	2.50	2.50
- Valuation of property investments for sale	-	-

+ Carrying amount of advances to property investments non-valuated	1.19	1.01
Market value of Property Investments Financial Statements of the Group (Note 10)	**1,483.55**	**1,422.33**
Appraisal value of development assets TINSA (2)	**394.09**	**365.19**
- Asset valuation of companies consolidated using the equity method	-18.19	-18.19
- Valuation of the Guillena Golf Course, not included under inventories	-2.50	-2.50
Market value of Inventories Financial Statements of the Group (Note 13)	**373.40**	**344.50**
Total GAV. Liquidation Value (1+2)	**1,934.84**	**1,844.28**

6. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

Macroeconomic forecasts for 2020 predict a 1.6% GDP growth, even though with a tendency towards reaching a plateau in Spain. However, we are still leaders among the countries in the Euro zone, and this GDP growth is expected to have a positive impact on the property sector, and hopefully it will result in:

a) Growth in housing demand, albeit more moderate, which will facilitate starting new developments in certain areas, and with price stability or moderate growth in highly selective areas.

b) Stagnant lending for developers, with stronger demand of economic and commercial feasibility of new developments; basically, higher demands on pre-sales percentages is to be expected.

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

d) Consolidation of other financial agents that may participate in some projects, that will be demanded higher yields and interest rates above those of traditional banks.

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

The sum of all these factors may affect the accounts of the Group, and it is expected that the macroeconomic forecasts about the Spanish economy will have a positive impact, albeit more moderately than in prior years on the real estate sector.

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

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

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

3) Projects for new developments for rent, the first of which will start commercial operation shortly, and 2 others in progress, with the possibility of acquiring new land for the construction of residential property developments for rent.

Financial risk management objectives and policies:

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

- Compliance with the Group's rules.

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

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

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

The most significant financial risks are:

Credit risk

The Group engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received on delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 8.2 Million, which the Company wrote down in full. Lastly, there is no material risk with regard to the lease of property assets, and it is maintained at levels similar to those of 2018. Company management has recognized provisions for all these contingencies based on the late payment period or bad debts.

Interest rate risk

The group has interest rate hedging contracts with 5 of the 6 lender banks of Realia Patrimonio's lender banks. The total amount hedged is 70% of the outstanding balance of the loan; at 31 December 2019, this amounted to EUR 383.5 Million, maturing on 27 April 2024. The rate is IRS plus a Euribor rate floor option at 0%. At 2019 year-end, this hedge, valued at market price, resulted in a positive impact of EUR 0.43 Million on profit and loss and a negative impact of EUR 2.9 Million on equity.

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

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

Liquidity risk

The global financial system is characterized by its high level of liquidity. In the real estate sector, liquidity is also high, but only for projects with low commercial risk and developers with proven financial solvency. As a results, some developers have resorted to alternatives lending sources, albeit at much higher cost.

The Realia group did not need to resort to new hedges in 2019, and when some of its companies needed to renew or refinance some of its existing credit lines, it found no problem to do so within the traditional banking system and at very low and competitive interest rates, thanks to the solvency of the companies and the profitability of their projects.

Additionally, at 2019 year-end, the Group has positive working capital for EUR 388 Million.

The main aggregates of the cash projections for the next 12 months of the consolidated group, based on a minimum basis of recurring business, dividends and other payments received from services rendered to Group companies, lead to estimated collections of EUR 138 Million, which together with estimated payments of EUR 92 Million, generate a positive net cash flow of EUR 46 Million, which, together with the current cash position, EUR 76 Million, will be used to repay debt and to undertake new investments for EUR 71 Million, including the construction of new developments for sale and rent.

Solvency risk

At 31 December 2019, the Realia Business Group's net borrowings, and the valuation of its derivatives amounted to EUR 520,400 thousand, as shown in the following table:

Thousands of Euros	December 2019
Credit Institutions	
Mortgage loans	
Syndicated loan	546,901
Bilateral loans	49,104
Arrangement costs	-10,088
Interest	1,735
Derivatives	**9,453**
Gross bank borrowings	**596,295**
Cash and cash equivalents	75,895
Net financial borrowings	**520,400**

The most relevant ratios for measuring solvency are as follows:

	Consolidated
Indebtedness ratios	
Net bank borrowings / GAV Liquidation Value (LTV)	26.9%
Coverage ratio	
EBITDA/ Financial loss	3.17

At 2019 year-end, the Group had positive working capital for EUR 388 Million.

Foreign currency risk

The Realia Business Group does not have a significant foreign currency risk, since all its investments and activities take place in the Euro zone.

Other risks: Market Risk

Positive growth rate (investment volumes, pre-sales levels, sales, prices...) has been recorded in the real estate market since 2015; this improvement slowed down in 2019, when price increases have not been so generalized and have felt the negative impact of the coming into force of the new Mortgage Law. Tensions have flared with the Public Administrations for the granting of work permits and first occupancy licenses which, together with the tensions among construction companies (lack of labor, cost increases...) led to the sector not meeting its delivery targets.

However, demand is still consistent in areas of cities such as Madrid, Barcelona, Valencia, Málaga, Palma de Mallorca... where there is reduced product offering and demand is consistent. In view of this, Realia plans to start new developments in these cities and in others with an interesting demand of residential product.

However, the stock of product is still high is most of the locations in Spain, and price recovery is accordingly very selective and concentrated on areas with demand, and access to lending by developers and buyers is highly selective.

Regarding rents, market in which the Group operates through its subsidiary Realia Patrimonio S.L.U. and Hermanos Revilla, a continued recovery of the demand for space is observed, as well as the reduction of incentives for settlement requested by customers. On the other hand, investment activity in the property sector has increased, especially in Hermanos Revilla and Realia Patrimonio.

One of the markets with great potential for growth is the residential home market for rent; accordingly, Realia has provided funds to its subsidiary Valaise to acquire Subsidiary Valaise, S.L. acquired two land lots in the municipality of Tres Cantos (Madrid), where it is developing projects for the construction of 195 subsidized homes (VPPL-VPPB) for rent, expected to start construction in 2021. Additionally, it acquired a development in progress of 85 public housing homes (VPPB) for rent, which at year-end 2019 were completed and awaiting the first occupation license, and expected to start their rental in the first quarter of 2020. The Realia Group is very interested in continuing developing and increasing the investment of this segment in the coming years.

For all these reasons, the Realia Group believes it must focus its efforts on its 3 current lines of business. In the property area, in which its extraordinary portfolio puts it in a privileged position; it must optimize its asset management to increase operational margins and generate value for its assets. In the development area, it must optimize the value of its current assets through increasing the prices of the finished product, the management of its land portfolio and the start of developments in locations with consistent demand; finally, on the construction of developments for rent in areas with consistent demand and attractive yields.

7. OUTLOOK FOR 2019

The main lines of action of the Realia Business Group for 2020 will focus on:

1) Continuity of the projects currently in progress and start of new developments in areas with consistent demand and scarce offering, especially in areas of Madrid, Barcelona, Canaries, Valencia and others with this market conditions.

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

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

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

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

6) To reinforce its new activity of housing for rent; to this end, 2 new developments will start on land already owned by investee Valaise, and to acquire new sites in order to expand the portfolio of this type of residential home for rent in the near future.

7) To manage its current portfolio of tenants to optimize occupancy levels in all its assets, and the satisfaction of current tenants.

During 2019, the investment market in offices and shopping center has continued with a high activity, with good volumes of purchase and sale operations. The capitalization yields applied to the transactions made during the year are still very low, but attractive to investors in view of the yields offered by financial markets. It is expected that this trend will continue in 2020, in view of the delay in the upturn of interest rates.

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

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

8. RESEARCH AND DEVELOPMENT POLICY

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

9. EVENTS AFTER THE REPORTING PERIOD

No relevant events have taken place after the reporting date.

ANNEX I:

2019

COMPANY	REGISTERED OFFICE	OWNER	LINE OF BUSINESS	EFFECTIVE PERCENTAGE OF OWNERSHIP	THOUSANDS OF EUROS			
					NET COST OF THE OWNERSHIP INTEREST	Investee Data (100%)		
						EQUITY		PROFIT (LOSS) BEFORE TAX
						SHARE CAPITAL	RESERVES AND PROFIT /LOSS (d)	
FULLY CONSOLIDATED COMPANIES:								
REALIA BUSINESS PORTUGAL UNIPESSOAL LDA.	Avda. Libertade, 249 (Lisbon)	REALIA BUSINESS S.A.	Property development	100.00%	398	250	330	(20)
REALIA POLSKA INWESTYCJE SP, ZOO (S.L. POLAND) (b)	Ul Pulawska, 228 (Warsaw)	REALIA BUSINESS S.A.	Property development	100.00%	-	-	-	(28)
SERVICIOS INDICE, S.A.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS S.A.	Property development	50.50%	2,136	4,160	70	(107)
VALAISE, S.L.U.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS S.A.	Real estate services	100.00%	9,010	910	8.079	(22)
REALIA PATRIMONIO, S.L.U. (*)	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS, S.A.	Lease	100.00%	118,781	90,000	37,469	19,101
REALIA CONTESTI S.R.L. (c)	Candiano Popescu, 63c (Bucharest)	REALIA BUSINESS, S.A.	Property development	100.00%	3,413	3,997	(584)	(16)
GUILLENA GOLF, S.L.U.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS, S.A.	Services	100.00%	126	4	121	(416)
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	10.04%	37,940	54,881	163,732	22,269
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	PLANIGESA, S.A.	Lease	51.00%	57,600	54,881	163,732	22,269
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	BOANE 2003, S.A.U.	Lease	4.76%	8,414	54,881	163,732	22,269
BOANE 2003, S.A.U. (a)	P. Castellana, 41 (Madrid)	HERMANOS REVILLA, S.A.	Lease	100.00%	13,913	7,961	1,803	801

PLANIGESA, S.A. (a)	Avda. Camino de Santiago, 40 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	76.00%	44,564	46,878	32,829	8,059

(a) Companies belonging to the Planigesa Group

(b) The company Realia Polska Inwestcyje S.P., ZOO was liquidated on 31 December 2019. Results before taxes cover the period between 1 January 2019 and 31 October 2019.

(c) Share capital of the company Realia Contesti, S.R.L. is 15,428 thousand Ron. The figure indicated in the result of the translation to euros at the exchange rate in force at the date of the capital injection

(d) Including the result of 2019

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

ANNEX I

2018

COMPANY	REGISTERED OFFICE	OWNER	LINE OF BUSINESS	EFFECTIVE PERCENTAGE OF OWNERSHIP	THOUSANDS OF EUROS			
					NET COST OF THE OWNERSHIP INTEREST	Investee Data (100%)		
						EQUITY		PROFIT (LOSS) BEFORE TAX
						SHARE CAPITAL	RESERVES AND PROFIT /LOSS (d)	
FULLY CONSOLIDATED COMPANIES:								
REALIA BUSINESS PORTUGAL UNIPESSOAL LDA.	Avda. Libertade, 249 (Lisbon)	REALIA BUSINESS S.A.	Property development	100.00%	417	250	167	0
REALIA POLSKA INWESTYCJE SP, ZOO (S.L. POLAND) (b)	Ul Pulawska, 228 (Warsaw)	REALIA BUSINESS S.A.	Property development	100.00%	101	4,491	(4,390)	(28)
SERVICIOS INDICE, S.A.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS S.A.	Property development	50.50%	2,190	4,160	177	(134)
VALAISE, S.L.U.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS S.A.	Real estate services	100.00%	9	10	(1)	(2)
REALIA PATRIMONIO, S.L.U. (*)	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS, S.A.	Lease	100.00%	118,781	90,000	23,613	17,997
REALIA CONTESTI S.R.L. (c)	Candiano Popescu, 63c (Bucharest)	REALIA BUSINESS, S.A.	Property development	100.00%	3,438	3,997	(559)	547
GUILLENA GOLF, S.L.U.	Avda. Camino de Santiago, 40 (Madrid)	REALIA BUSINESS, S.A.	Services	100.00%	102	4	98	(455)
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	10.04%	37,940	54,881	163,486	18,544
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	PLANIGESA, S.A.	Lease	48.57%	57,600	54,881	163,486	18,544
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	BOANE 2003, S.A.U.	Lease	4.76%	8,414	54,881	163,486	18,544
BOANE 2003, S.A.U. (a)	P. Castellana, 41 (Madrid)	HERMANOS REVILLA, S.A.	Lease	100.00%	13,913	7,961	1,627	694
PLANIGESA, S.A. (a)	Avda. Camino de Santiago, 40 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	76.00%	44,564	46,878	33,034	6,951

(a) Companies belonging to the Planigesa Group

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

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

ANNEX II:

2019

COMPANY	REGISTERED OFFICE	OWNER	LINE OF BUSINESS	EFFECTIVE PERCENTAGE OF OWNERSHIP	Thousands of Euros			
					NET COST OF THE OWNERSHIP INTEREST	Investee Data (100%)		
						EQUITY		
						SHARE CAPITAL	RESERVES AND PROFIT/LOSS (d)	PROFIT (LOSS) BEFORE TAX
ASSOCIATES								
RONDA NORTE DENIA, S.L. (e)	Pza. Nicolás María Garelly, 2 – (Valencia)	REALIA BUSINESS, S.A.	Property development	32.63%	-	-	-	1
INVERSIONES INMOBILIARIAS RÚSTICAS Y URBANAS 200, S.L.	c/ Ayala, 3 (Madrid9	REALIA BUSINESS, S.A.	Property development	33.36%	11,922	20	34,614	(32)
AS CANCELAS SIGLO XXI, S.L. (*)	Avda. Camino de Santiago, 40 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	50.00%	22,176	900	48,337	4,559

(d) Including the result of 2019

(e) Company liquidated on 10 April 2019

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

2018

APPENDIX II:

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

(d) Including the result for 2018

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

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

2019

	Thousands of Euros		
	Total Revenue	**% of Ownership**	**Company in Which it is Consolidated**
Joint Ventures:			
Comunidad de Bienes Turó del Mar	3,684	50.00%	Realia Business, S.A.

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

2018

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

The Consolidated Financial Statements and the Management Report of the Company REALIA BUSINESS, S.A. for 2019 have been drawn up by the Board of Directors of the Company on 26 February 2020, and are described in the back of eighty five (85) pages of stamped paper numbered sequentially from ON7338604 to ON7338688, both inclusive.

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

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

The Directors, in witness whereof, have undersigned this page of stamped paper numbered ON5311503 on both sides.

MR. JUAN RODRIGUEZ TORRES

Non-Executive Chairman

Proprietary Director

Chairman of the Executive Committee

Member of the Appointment and

Remuneration Committee

Member of the Audit and Control Committee

MR. GERARDO KURI KAUFMANN

Chairman of the Board

Executive Director

Member of the Executive Committee

EAC INVERSIONES CORPORATIVAS, S.L.

Rep: MRS. ESTHER ALCOCER KOPLOWITZ

Member of the Board

Proprietary Director

Member of the Executive Committee
Committee

Member of the Appointment and
and

Remuneration Committee

MELILOTO, S.L.

Rep: MRS. ALICIA ALCOCER KOPLOWITZ

Member of the Board

Proprietary Director

Member of the Executive

Member of the Appointment
and

Remuneration Committee

MR. ELÍAS FERERES CASTEL

Member of the Board

Independent Director

Member of the Appointment and Remuneration Committee

Chairman of the Audit and Control Committee

MRS. XIMENA CARAZA CAMPOS

Member of the Board

Proprietary Director

Chairwoman of the Appointment and Remuneration Committee

Member of the Audit and Control Committee