Audit Report on the Financial Statements
issued by an Independent Auditor

REALIA BUSINESS, S.A.
Financial Statements and Directors' Report
for the year ended
December 31, 2019

Building a better
working world

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AUDIT REPORT ON FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

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

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

Audit report on the financial statements

Opinion

We have audited the financial statements of REALIA BUSINESS, S.A. (the Company), which consist of the balance sheet at December 31, 2019, the income statement, the statement of changes in equity, the statement of cash flows, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2 to the accompanying financial statements) and, specifically, the accounting principles and policies contained therein.

Basis for opinion

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

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

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

Key audit matters

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

Measurement of inventories	
Description	At December 31, 2019, the Company carried inventories at 326,577 euros, which mainly comprise land, construction in progress and other properties that are being held for sale or are part of real estate developments. The disclosures pertaining to these assets can be found in Note 10 to the accompanying financial statements. As explained in Note 4. g, the Company's inventories are measured at their acquisition cost, grossed up primarily by the cost of any development and construction works and the borrowing costs incurred during execution of the works, or their estimated market value, if lower, recording the corresponding provision for depreciation. At the reporting date, Company management determines fair values or realizable values, using appraisals by an independent expert in accordance with the Valuation Standards published by the Royal Institute of Chartered Surveyors (RCIS) of Great Britain. The determination of these values requires the making of significant judgments and estimates by independent experts. The various methodologies used and the valuations carried out are described in Note 10 to the accompanying financial statements. Due to the significance of the amounts, the high sensitivity of the analyses conducted in connection with changes in the assumptions used in the valuations, as well as the cost hypotheses and development, construction, and marketing periods applied to estimate the cash flows associated with inventories, we determined this to be a key audit matter.
Our response	With regard to this matter, our procedures included: ► 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 discount rate, the principal hypotheses (e.g., costs, development, construction, and marketing periods) and comparable data used to estimate the projected future cash flows, as well as value testing procedures where applicable. ► Reviewing disclosures included in the notes to the financial statements required by prevailing accounting regulations.

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

Description	As explained in Notes 4.f and 9 to the accompanying financial statements, the Company has investments in group companies, jointly controlled entities, and associates at December 31, 2019 amounting to 145,786 euros. At least at each year-end, the Company tests these investments for impairment and, if necessary, estimates their recoverable amounts. To determine recoverable amount, the Company estimates impairment by taking into account the investee's equity, adjusted for any unrealized capital gains existing on the measurement date (including goodwill, if any), net of the related tax effect. To estimate the aforementioned unrealized capital gains, the Company uses valuations carried out by independent experts on land and sites, as well as developments in progress, finished products and investment properties owned by each the group companies, jointly controlled entities, and associates and compares them to the net book value of the related assets. We determined this to be a key audit matter due to the significance of the amounts and the hypotheses used in the valuations used by independent experts when calculating unrealized capital gains.
Our response	In this regard, our audit procedures included: ► Reviewing the analysis carried out by the Company to identify indications of the impairment of investments in group companies, jointly controlled entities, and associates, as well as calculating recoverable amount. ► Reviewing the reasonableness of the valuation models used by independent experts to analyze the unrealized capital gains taken into account by the Company, in collaboration with our valuation specialists, focusing on a sample of valuations carried out by the latter, the reasonableness of the rents and/or comparable data used, the discount rates and initial yields used in calculations, in addition to performing value testing procedures where applicable. ► Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory reporting framework.

Recoverability of deferred tax assets

Description	In accordance with the Company's policies, as explained in Notes 4.j to the accompanying financial statements, deferred tax assets are only recognized when it is considered probable that there will be sufficient future taxable income to enable their application. As explained in Note 16.4 to the accompanying financial statements, at December 31, 2019, the Company recognized deferred tax assets amounting to 75,493 thousand euros. The assessment by management of the recoverability of deferred tax assets is based on estimates of future taxable profit using the financial projections of the tax group, of which the Company is the parent, and taking into account applicable tax legislation. Given the significance of the amount, we determined the assessment of the Company's ability to recover its deferred tax assets to be a key audit matter.

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

Other information: Management report

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

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

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

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

Based on the work performed, as described above, we have verified that the information mentioned in the paragraph a) above is included in the management report, and the other information contained in the management report is consistent with that provided in the 2019 financial statements and their content and presentation are in conformity with applicable regulations.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Additional report to the audit and control committee

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

Term of engagement

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

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

REALIA BUSINESS, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2019

(Thousands of Euros)

ASSETS	Notes	2019	2018	EQUITY AND LIABILITIES	Notes	2019	2018
NON-CURRENT ASSETS		**241,679**	**233,170**	**EQUITY**	**Note 12**	**586,750**	**585,209**
Intangible assets	**Note 5**	**56**	**51**	***SHAREHOLDERS'S EQUITY***			
Computer software		56	19	**Share capital**		**196,864**	**196,864**
Other intangible assets		-	32	**Share premium**		**528,492**	**528,492**
Property, plant and equipment	**Note 6**	**350**	**389**	**Reserves**		**328,937**	**328,517**
Properties for own use		13	13	Legal and bylaw reserves		22,375	21,864
Plant and other items of property, plant and equipment			376	Other reserves		306,562	306,653
Investment property	**Note 7**	**4,682**	**4,683**	**Treasury shares**		**(3,277)**	**(1,566)**
Land		1,698	1,665	**Prior years' losses**		**(467,609)**	**(472,208)**
Buildings		2,592	2,607	**Profit/ (loss) for the year**		**3,343**	**5,110**
Other fixtures		392	411				
Non-current investments in Group companies and associates	**Notes 9.1 and 18.2**	**161,070**	**137,122**				
Equity instruments		145,786	137,122	**NON-CURRENT LIABILITIES**		**14,279**	**6,966**
Loans to companies		15,284	-	**Long-term provisions**	**Note 13.1**	**14,037**	**6,711**
Non-current financial investments	**Note 9.1**	**-**	**939**	**Non-current payables**	**Note 16.5**	**14**	**28**
Deferred tax assets	**Note 16.4**	**75,493**	**79,963**	**Other non-current payables**		**228**	**227**
Other non-current assets		**28**	**23**				
CURRENT ASSETS		**391,995**	**391,240**	**CURRENT LIABILITIES**		**32,645**	**22,235**
Inventories	**Note 10**	**326,577**	**301,808**	**Short-term provisions**	**Note 13.1**	**909**	**978**
Land and building lots		212,173	220,555	**Current payables**	**Note 14**	**312**	**242**
Short-cycle construction work in progress		30,154	-				
Long-cycle construction work in progress		54,398	42,447	**Current payables to Group companies and associates**	**Notes 14 and 8.2**	**6,379**	**6,849**
Completed buildings		26,871	35,825	**Trade and other payables**	**Note 15**	**24,884**	**13,806**
				Suppliers		6,640	6,017
Advances to suppliers		2,981	2,981	Payable to suppliers, Group companies and associates	**Note 18.2**	6,066	1,060
Trade and other receivables	**Note 9.4**	**10,473**	**8,257**				
Trade receivables for sales and services		4	7	Sundry payables		840	1,151
Trade receivables from Group companies and associates	**Note 18.2**	2,121	1,870	Employees		142	5
Sundry accounts receivable		2,400	2,568	Other payables to public entities	**Note 16.1**	1,191	611

Employees		1	-	Customer advances	**Notes 10 and 15**	10,005	4,962
Current tax assets	**Note 16.1**	5,331	3,711	**Current accruals and deferrals**		**161**	**360**
Accounts receivable from public entities	**Note 16.1**	616	101				
Current investments in Group companies and associates	**Notes 9.2 and 18.2**	**7,615**	**20,195**				
Loans to companies		7,615	20,195				
Current financial assets	**Note 9.2**	**3,631**	**548**				
Loans to companies		148	148				
Other financial assets		3,483	400				
Current accruals and deferrals		**496**	**110**				
Cash and cash equivalents	**Note 11**	**43,203**	**60,332**				
TOTAL ASSETS		**633,674**	**614,410**	**TOTAL EQUITY AND LIABILITIES**		**633,674**	**614,410**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2019

REALIA BUSINESS S.A.

INCOME STATEMENT FOR 2019

(Thousands of Euros)

	Notes	2019	2018
CONTINUING OPERATIONS			
Revenue	**Note 17.1**	**15,652**	**14,987**
Sales		11,279	10,988
Services		4,373	3,999
Other operating income		**767**	**480**
Non-core and other current operating income		767	480
Procurements	**Note 17.2**	**(26,517)**	**(23,883)**
Land and building lots used		(21,553)	(21,720)
Work performed by other companies		(17,256)	(2,438)
Write-down of land and building lots	**Note 10**	12,292	275
Changes in inventories of finished goods and work in progress	**Note 10**	**33,212**	**15,845**
Changes in inventories of finished goods and work in progress		26,874	13,349
Write-down of inventories of finished goods and work in progress		6,338	2,496
Personnel costs		**(4,134)**	**(4,234)**
Wages, salaries and similar expenses		(3,277)	(3,404)
Employee benefit costs	**Note 17.4**	(857)	(830)
Other operating expenses		**(11,366)**	**(2,945)**
Outside services	**Note 17.5**	(3,695)	(3,834)
Taxes other than income tax		(514)	(537)
Losses on impairment and changes in allowances for trade receivables	**Notes 11 and 13.1**	(7,157)	1,426
Property depreciation	**Notes 5, 6 and 7**	(397)	(387)
Excess provisions	**Note 13.1**	-	**135**
Impairment and gains or losses on disposals of non-current assets		**316**	**(572)**
Impairment and other losses	**Note 6 and 7**	316	(562)
Other gains or losses from disposals		-	(10)
Other gains or losses		**(1)**	**(2)**
PROFIT OR LOSS FROM OPERATIONS		**7,532**	**(576)**
Finance income	**Note 17.6**	**244**	**7,656**
From investments in equity instruments	**Note 9.1**	-	7,525
- Group companies and associates	**Note 18.1**	-	7,525
From marketable securities and other financial instruments		244	131
- Group companies and associates	**Note 18.1**	105	104
- Third parties		139	27
Finance costs	**Note 17.6**	**1**	**(1,527)**
On debts to Group companies and associates	**Note 18.1**	-	(33)
On debts to third parties		1	(1,494)
Impairment and gains or losses on disposals of financial instruments	**Note 17.6**	**(555)**	**243**
Impairment and other losses	**Note 9.1 and 9.4**	(545)	(299)
Gains or losses on disposals and others	**Note 9.1**	(10)	542
Recognition of financial charge	**Note 17.6**	**-**	**17**
FINANCIAL PROFIT (LOSS)		**(310)**	**6,389**
PROFIT/ (LOSS) BEFORE TAX		**7,222**	**5,813**
Income tax	**Note 16.3**	(3,879)	(703)
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**3,343**	**5,110**
PROFT/LOSS FOR THE YEAR		**3,343**	**5,110**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2019.

REALIA BUSINESS, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2019

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	Notes	2019	2018
LOSS/PROFIT PER PROFIT AND LOSS STATEMENT (I)	**Note 3**	**3,343**	**5,110**
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY (II)		**-**	**-**
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		**-**	**-**
TOTAL RECOGNIZED INCOME AND EXPENSE (I+II+III)		**3,343**	**5,110**

The accompanying Notes 1 to 21 are an integral part of the statement f recognized income and expense as at 31 December 2019.

B) STATEMENT OF CHANGES IN TOTAL EQUITY

(Thousands of Euros)

	Share capital	Share premium (Note 12)	Reserves (Note 12)	Treasury shares (Note 12)	Prior Years' Profit/Loss	Profit/Loss for the year	TOTAL
2017 FINAL BALANCE	**154,754**	**421,463**	**328,208**	**(675)**	**(475,052)**	**3,160**	**431,858**
Total recognized income and expense	-	-	-	-	-	5,110	5,110
Transactions with shareholders:							
Allocation of results 2106	-	-	316	-	2,844	(3,160)	-
Capital increases and decreases	42,110	107,029	(7)	-	-	-	149,132
2018 FINAL BALANCE	**196,864**	**528,492**	**328,517**	**(1,566)**	**(472,208)**	**5,110**	**585,209**
Total recognized income and expense	-	-	-	-	-	3,343	3,343
Transactions with shareholders:							
Allocation of 2018 result	-	-	511	-	4,599	(5,110)	-
Capital increases and decreases	-	-	(91)	-	-	-	(91)
Treasury stock transactions	-	-	-	(1,711)	-	-	(1,711)
2019 FINAL BALANCE	**196,864**	**528,492**	**328,937**	**(3,277)**	**(467,609)**	**3,343**	**586,750**

The accompanying Notes 1 to 21 are an integral part of the statement of changes in equity at 31 December 2019.

REALIA BUSINESS, S.A.

STATEMENT OF CASH FLOWS FOR 2019

(Thousands of Euros)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**(1,799)**	**(11,943)**
Profit/Loss for the year before tax		**7,222**	**5,813**
Adjustments:		**(10,985)**	**(9,681)**
- Depreciation and amortization charge	**Notes 5, 6 and 7**	397	387
- Impairment losses	**Notes 6, 7, 9.1 and 10**	(18,438)	(1,909)
- Changes in provisions		7,291	(1,480)
- Gains/losses on de-recognition and disposal of non-current assets		-	10
- Results of sale of financial instruments		10	(542)
- Finance income	**Note 17.6**	(244)	(7,656)
- Finance costs	**Note 17.6**	(1)	1,510
Changes in working capital:		**3,795**	**(17,986)**
- Inventories	**Note 10**	(6,140)	(21,006)
- Trade and other receivables	**Note 9.4**	(558)	(721)
- Other current assets		(386)	(99)
- Trade and other payables	**Note 15**	11,078	3,656
- Other current liabilities		(199)	184
Other cash flows from operating activities		**(1,831)**	**9,911**
- Interest paid		-	(1,142)
- Dividends received	**Note 9.1**	-	7,500
- Interest received		193	179
- Income tax recovered (paid)	**Note 16**	(1,991)	3,400
- Other amounts received (paid) relating to operating activities		(33)	(26)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(13,108)**	**(2,084)**
Payments due to investment		**(31,305)**	**(2,001)**
- Group companies and associates		(28,965)	(666)
- Intangible assets		(40)	(34)
- Property, plant and equipment		(4)	(19)
- Other financial assets		(2,296)	(1,282)
Proceeds from disposals		**18,197**	**4,085**
- Group companies and associates		18,050	2,282
- Other financial assets		147	1,803
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(2,212)**	**13,296**
Proceeds and payments relating to equity instruments	**Note 12**	**(1,801)**	**148,241**
- Proceeds from issue of equity instruments		(90)	149,132
- Acquisition of equity instruments		(1,711)	(891)
Proceeds and payments relating to financial liability instruments	**Note 14**	**(411)**	**(134,945)**
- Proceeds from issue of borrowings with banks		-	-
- Repayment of borrowings with Group companies and associates		1	776
- Proceeds from issue of other debts		68	3
- Repayment and write-down of bank borrowings (other)		-	(135,324)
- Repayment and write-down of borrowings with Group companies and associates		(480)	(400)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**(17,119)**	**3,437**
Cash and cash equivalents at beginning of year		**60,322**	**56,885**
Cash and cash equivalents at end of year	**Note 11**	**43,203**	**60,322**

The accompanying Notes 1 to 21 are an integral part of the cash flow statement as at 31 December 2019.

Realia Business, S.A.

Annual Report

for the year ended 31 December 2019

1. Activities of the company

The Company was incorporated on 14 August 1997 as a result of the spin-off of Proyectos y Desarrollos Urbanísticos, S.A. (PRODUSA) into Produsa Este, S.L. and Produsa Oeste, S.L. Its registered office is currently located at Avenida Camino de Santiago, 40, Madrid. On 13 April 2000, the Company became a limited liability company and changed its name to Realia Business S.A. on 16 June 2000.

Later on, on 2000, 2001 and 2005, several corporate transactions took place with group companies, recognized in the annual statements of those years, which provided the Realia group with a structure and a size closer to its present situation.

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

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

2. Basis of presentation of the financial statements

2.1 Regulatory financial information framework applicable to the Company

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

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

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

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

d. All other applicable Spanish accounting legislation.

2.2 Fair presentation

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

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

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

The Company is the head of a group of subsidiaries and is obliged under current legislation to draw up consolidated financial statements separately, in accordance with International Reporting Standards as adopted by the European Union. The Realia Group's consolidated financial statements for 2019 were formally prepared by the Company's directors on 26 February 2020. The shareholders at the Annual General Shareholders' Meeting of Realia Business, S.A. approved the separate and consolidated financial statements for 2018, held on 8 May 2019, and were filed at the Madrid Mercantile Registry.

2.3 Accounting principles

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

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

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

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

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

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

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

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

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

Although these estimates were made on the basis of the best information available at 2019 year-end, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

2.5 Grouping of items

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

2.6 Correction of errors

No significant errors were detected in the preparation of the accompanying financial statements that would have made it necessary to restate the amounts included in the financial statements for 2018.

2.7 Changes in accounting policies

In 2019, there were no significant changes in accounting policies with respect to those applied in 2018.

2.8 Inventory valuation methodology

On 21 March 2019, the Company reported a relevant event to the CNMV: the Board of Directors agreed unanimously to replace its development activity asset valuation method recognized under inventory. For this reason, the current method regulated by Order ECO/805/2003 of 27 March, applied as indicated in the financial statements of the Company in prior years was replaced by a valuation in accordance with the Professional Valuation Standards of July 2017 of the Royal Institution of Chartered Surveyors (RICS). This change in methodology has not had a significant impact on the value of Realia's developments assets (see Note 10).

2.9 Comparative information

The comparative information in this statements related to 2019 is presented for the purposes of comparing it to the information of 2018.

2.10 Current assets and liabilities

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

	Thousands of Euros	
	2019	2018
Inventories	266,571	263,002
Total current assets	**266,571**	**263,002**
Trade and other payables	6,049	3,620
Total current liabilities	**6,049**	**3,620**

3. Allocation of profit or loss

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

	Thousands of Euros
Legal reserve	334
To prior year's losses	3,009
Total	**3,343**

4. Accounting and valuation standards

The main accounting and valuation standards used by the Company in the preparation of its financial statements of 2019, in accordance with the Spanish National Chart of Accounts, were as follows:

a) Intangible assets

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

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

Impairment of intangible assets and property, plant and equipment

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

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

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

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

b) Property, plant and equipment

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

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

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

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

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

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

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

c) Investment property

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

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

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

d) Leases

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

Operating leases

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

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

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

Financial leases

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

e) Asset exchange transactions

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

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

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

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

f) Financial instruments

f.1) Financial assets

Financial assets are classified in the following categories:

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

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

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

Initial recognition

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

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

Subsequent measurement

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

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

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

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

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

The Company is the head of a holding of companies, in which it holds direct interests, which are detailed in Note 9.1. The detail of the main aggregates in the financial statements of the Realia Group for 2019, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, is as follows:

	Thousands of Euros	
	2019	2018
Total assets	**2,119,998**	**2,064,193**
Equity:		
Of the Parent	1,037,223	997,528
Attributable to non-controlling interests	243,128	235,978
Revenue	76,104	76,249
Profit/loss for the year:		
Of the Parent	44,877	40,159
Attributable to non-controlling interests	15,303	14,797

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

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

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

f.2) Financial liabilities

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

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

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

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

f.3) Equity instruments

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

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

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

g) Inventories

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

1. Holds for sale in the ordinary course of business;
2. Holds in the process of production, construction or development for such sale; or
3. Expects to consume in the production process or in the provision of services.

Consequently, land and other property held for sale or for inclusion in a property development are treated as inventories.

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

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

In the year ended 31 December 2019, the Company did not capitalize borrowing costs as a higher value of inventories (EUR 17 thousand in 2018) (see Note 10).

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

h) Cash and cash equivalents

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

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

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

i) Foreign currency transactions

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

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

j) Income tax

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

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

The deferred tax expense or income relates to the recognition and de-recognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination, and those related to investments in subsidiaries, associates and joint ventures in which the Company is able to control the timing of the reversal of their reversal, and it is probable that they will not be reversed in the foreseeable future.

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

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

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

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

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

k) Revenue and expense recognition

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

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

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

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

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

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

l) Provisions and contingencies

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

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

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

The financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognized in the financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

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

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

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

m) Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognized as an expense in the year in which the decision to terminate the employment relationship is taken.

n) Pension obligations

For employees with at least two years' service, the Company has externalized a defined contribution pension plan to provide benefits in the form of a lump sum. Since June 2017, the Plan is assigned to Pensions Caixa 97, F.P., the managers and custodians of which are Vida Caixa Pensiones 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 17.4). The aforementioned pension obligations are covered by an insurance policy for contributions exceeding the limits established by Law 35/2006. There are no other pension plans or additional obligations.

o) Joint ventures

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

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

The main aggregates at 31 December 2019 and 2018 of the joint property entities included in the financial statements of Realia Business, S.A. are as follows:

	Thousands of Euros	Thousands of Euros
	Joint Property Entities 2019	Joint Property Entities 2018
Revenue	1,842	1,096
Profit from operations	190	179
Assets	3,389	4,811
Liabilities	216	171

The joint property entity included in the Company's balance sheet and income statement at 31 December 2019 is not subject to statutory audit.

p) Related party transactions

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

q) Cash flow statements

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

- Cash flows: Inflows and outflows of cash and cash equivalents.

- Cash flows of operating activities: payments and collection of the company's routine activities, and any other activity that cannot be classified as investment or financing.

- Cash flow of investment activities: payments and collections from purchases and disposals of non-current assets.

- Cash flow of financing activities: payments and collections from the placing and cancellation of financial liabilities, equity instruments or dividends

5. Intangible assets

The changes in 2019 and 2018 in "Intangible Assets" in the balance sheet and the most significant information affecting this item were as follows:

Thousands of Euros	Computer Software	Advance on intangible assets	Total
Cost			
Balances as at 31 December 2017	**620**	**-**	**620**
Additions	1	32	33
Balances as at 31 December 2018	**621**	**32**	**653**
Additions	10	31	41
Transfers	63	(63)	-
Balances as at 31 December 2019	**694**	**-**	**694**
Accumulated amortization – Balances as at 31 December 2017	**(577)**	**-**	**(577)**
Charges for the year	(25)	-	(25)
Balances as at 31 December 2018	**(602)**	**-**	**(602)**
Charges for the year	(36)	-	(36)
Balances as at 31 December 2019	**(638)**	**-**	**(638)**
Intangible assets – Balances as at 31 December 2018	**19**	**32**	**51**
Balances as at 31 December 2019	**56**	**-**	**56**

At year-end 2019 and 2018, the Company had fully amortized intangible assets still in a condition to be used according to the following breakdown:

	Thousands of Euros	
	2019	2018
Intangible assets	581	539
	581	**539**

6. Property, plant and equipment

The changes in 2019 and 2018 in “Intangible Assets” in the balance sheet and the most significant information affecting this heading were as follows:

	Thousands of Euros		
	Properties for Own Use	Plant and other items of Property, Plant and Equipment	Total
Cost			
Balances as at 31 December 2017	**73**	**1,803**	**1,876**
Additions	-	19	19
Disposals	-	(637)	(637)
Balances as at 31 December 2018	**73**	**1,185**	**1,258**
Additions	-	7	7
Disposals	-	(326)	(326)
Balances as at 31 December 2019	**73**	**866**	**939**
Accumulated amortization Balances as at 31 December 2017	**(7)**	**(1,391)**	**(1,398)**
Charges for the year	(1)	(45)	(46)
Disposals	-	627	627
Balances as at 31 December 2018	**(8)**	**(809)**	**(817)**
Charges for the year	(1)	(46)	(47)
Disposals	-	326	326
Transfers	1	-	1
Balances as at 31 December 2019	**(8)**	**(529)**	**(537)**
Impairment losses – Balances as at 31 December 2017	**(45)**	**-**	**(45)**
Charges for the year	(7)	-	(7)
Balances as at 31 December 2018	**(52)**	**-**	**(52)**
Charges for the year	1		1
Transfers	(1)	-	(1)
Balances as at 31 December 2019	**(52)**	**-**	**(52)**
Property, Plant and Equipment - net Balances as at 31 December 2018	**13**	**376**	**389**
Balances as at 31 December 2019	**13**	**337**	**350**

At 2019 year’s end, the Company had fully depreciated items of property, plant and equipment still in use, the detail being as follows:

	Thousands of Euros	
	2019	2018
Plant and other items of property, plant and equipment	120	438
	120	**438**

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At 2019 year-end, the property, plant and equipment were fully insured against these risks.

7. Property investment

The changes in 2019 and 2018 in “Intangible Assets” in the balance sheet and the most significant information affecting this heading were as follows:

	Thousands of Euros			
	Land and building lots	Rental properties	Other fixtures	Total Investment Property
Cost				
Balances as at 31 December 2017	**5,408**	**10,546**	**3,069**	**19,023**
Balances as at 31 December 2018	**5,408**	**10,546**	**3,069**	**19,023**
Disposals	-	-	(12)	(12)
Balances as at 31 December 2019	**5,408**	**10,546**	**3,057**	**19,011**
Accumulated depreciation				
Balances as at 31 December 2017	**-**	**(1,985)**	**(1,014)**	**(2,999)**
Charges for the year	-	(207)	(109)	(316)
Balances as at 31 December 2018	**-**	**(2,192)**	**(1,123)**	**(3,315)**
Charges for the year	-	(206)	(108)	(314)
Disposals	-	-	12	12
Balances as at 31 December 2019	**-**	**(2,398)**	**(1,219)**	**(3,617)**
Impairment losses				
Balances as at 31 December 2017	**(3,311)**	**(5,702)**	**(1,458)**	**(10,471)**
Charges for the year/ Provisions	(432)	(45)	(77)	(554)
Balances as at 31 December 2018	**(3,743)**	**(5,747)**	**(1,535)**	**(11,025)**
Charges for the year/ allocations	33	191	89	313
Balances as at 31 December 2019	**(3.710)**	**(5,556)**	**(1,446)**	**(10,712)**
Investment property, net				
Balances as at 31 December 2018	**1,665**	**2,607**	**411**	**4,683**
Balances as at 31 December 2019	**1,698**	**2,592**	**392**	**4,682**

At 2019 year-end, the Company had the following property investments fully written-down in use:

	Thousands of Euros	
	2019	2018
Other facilities	-	12
	-	**12**

The fair value of the Company’s investment property at 31 December 2019 and 2018, calculated on the basis of appraisals conducted by independent valuation experts not related to the Group, amounted to EUR 4,698 thousand and EUR 4,698 thousand, respectively.

During 2019, the company commissioned a valuation of its property investments to an independent expert, according to the Valuation and Appraisal Standards published by the Royal Institute of Chartered Surveyors (RICS) of Great Britain. For the calculation of the fair value, discount rates acceptable by a potential investor have been applied, in line with the rates applied by the market for assets of similar characteristics and locations.

In 2019, the Company allocated net property impairment provisions amounting to EUR 313 thousand (EUR 554 thousand in reversed impairment provisions due to depreciation in 2018).

Location and use

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

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

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

Related income and expenses

In 2019 and 2018, the rental income for the investment property owned by the Company amounted to EUR 231 thousand and EUR 224 thousand, respectively (Note 17.1) and the operating expenses of all kinds relating thereto passed on to the tenants amounted to EUR 32 thousand (EUR 32 thousand in 2018) to the lessee of the María Tubau office building in Madrid, and EUR 69 thousand (EUR 96 thousand in 2018) to the company Guillena Golf, S.L., a wholly-owned investee of Realia Business, S.A.

At year-end 2019 and 2018, there were no restrictions on making new property investments, on the collection of rental income thereof or in connection with the proceeds obtained from a potential disposal thereof.

8. Leases

8.1 Operating leases (lessee)

At year-end of 2019 and 2018, the Company had contracted with lessors for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions:

Minimum operating lease payments	Nominal value	
	2019	2018
Within one year	70	95
Between two and five years	30	59
After five years	6	9
	106	**163**

Lease payments in 2019 related mainly to the lease of the building on Avenida Camino de Santiago, 40, which houses the Company's head offices, entered into with the company FEDEMES, S.L. (FCC).

8.2 Operating leases (lessor)

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

Minimum operating lease payments	Thousands of Euros	
	Nominal value	
	2019	2018
Within one year	166	164
Between one and five years	190	263
After five years	-	-
	356	**427**

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

9.1 Non-current financial assets

The detail of "Non-Current Investments in Group Companies and Associates" at the end of 2019 and 2018 is as follows:

2019

	Thousands of euros		
Non-current Financial Instruments	Equity Instruments	Loans to companies (Note 18.2)	Total
Investments in Group companies and associates	145,786	-	145,786
Loans to companies	-	15,284	15,284
Total	**145,786**	**15,284**	**161,070**

2018

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

1) Ownership interest:

Company	Address	Statutory activity	% of Ownership			
			2019		2018	
			Direct	Effective	Direct	Effective
Group						
Servicios Índice, S.A.	Avda. Camino de Santiago, 40 (Madrid)	Real estate development	50.50%	50.50%	50.50%	50.50%
Realia Business Portugal Unipessoal Lda.	Avda. Libertade, 249 (Lisbon)	Real estate development	100.00%	100.00%	100.00%	100.00%
Valaise, S.L.	Avda. Camino de Santiago, 40 (Madrid)	Property lease	100.00%	100.00%	100.00%	100.00%
Realia Polska Inwestycje S.P. ZOO (*)	UI Pulawska, 228 (Warsaw)	Real estate development	-	-	100.00%	100.00%
Realia Patrimonio, S.L.U.	Avda. Camino de Santiago, 40 (Madrid)	Property lease	100.00%	100.00%	100.00%	100.00%
Realia Contesti, S.R.L.	Candiao Popescu, 63 (Bucharest)	Real estate development	100.00%	100.00%	100.00%	100.00%
Guillena Golf, S.L.	Avda. Camino de Santiago, 40 (Madrid)	Real estate services provision	100.00%	100.00%	100.00%	100.00%
Associates						
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	C/ Ayala, 3 (Madrid)	Real estate development	33.36%	33.36%	33.36%	33.36%
Desarrollo Urbanístico Sevilla Este, S.L., in liquidation	Alajarafe Center, Plaza de las Naciones, Edificio de Oficinas (Mairena de Aljarafe - Sevilla)	Real estate development	30.52%	30.52%	30.50%	30.50%
Ronda Norte Denia, S.L. (**)	Pza. Nicolás Mª Garelly, 2 (Valencia)	Real estate development	-	-	32.63%	32.63%

(*) Liquidated on 31 December 2019

(**) Liquidated on 10 April 2019

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

2) Equity position:

At 31 December 2019:

Company	Thousands of Euros					
	Share Capital	Profit or Loss		Other Equity Items	Total Equity	Dividends Received
		From Operations	Net			
Servicios Índice, S.A. (b)	4,160	(107)	(107)	177	4,230	-
Realia Business Portugal Unipessoal Lda. (b)	250	(20)	(20)	350	580	-

Valaise S.L.U. (b)	910	(22)	(16)	8,095	8,989	-
Realia Polska Inwestcyje SP, ZOO (b)	-	(29)	(28)	28	-	-
Realia Patrimonio, S.L.U. (a)	90,000	23,487	16,714	20,755	127,469	-
Realia Contesti, SRL (b)	3,997	53	61	(645)	3,413	-
Guillena Golf, S.L.U. (b)	4	(416)	(416)	537	125	-
Total Group	**99,321**	**22,946**	**16,188**	**29,297**	**144,806**	**-**
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L. (b)	20	(19)	(24)	34,638	34,634	-
Desarrollo Urbanístico Sevilla Este, S.L. (a) in liquidation	1,392	-	-	(220,087)	(218,695)	-
Ronda Norte Denia, S.L. (b)	-	(4)	1	(1)	-	-
Total associates	**1,412**	**(23)**	**(23)**	**(185,450)**	**(184,061)**	**-**
Total	**100,733**	**22,923**	**16,165**	**(156,153)**	**(39,225)**	**-**

(a) Financial statements audited by Ernst & Young, S.L. in 2019
(b) Unaudited financial statements
(c) Data at May 2018

<u>At 31 December 2018</u>

Thousands of Euros						
		Profit or Loss				
Company	Share Capital	From Operations	Net	Other Equity Items	Total Equity	Dividends Received
Servicios Índice, S.A. (b)	4,160	(134)	(134)	311	4,337	-
Realia Business Portugal Unipessoal Lda. (b)	250	-	-	167	417	-
Retingle, S.L. (b)	-	-	-	-	-	25
Valaise S.L.U. (b)	10	(2)	(2)	1	9	-
Realia Polska Inwestcyje SP, ZOO (b)	4,491	(28)	(28)	(4,362)	101	-
Realia Patrimonio, S.L.U. (a)	90,000	22,631	14,211	9,402	113,613	7,500
Realia Contesti, SRL (b)	3,997	541	547	(1,106)	3,438	-
Guillena Golf, S.L.U. (b)	4	(455)	(455)	553	102	-
Total Group	**102,912**	**22,553**	**14,139**	**4,966**	**122,017**	**7,525**
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L. (b)	20	(15)	(18)	34,656	34,658	-
Desarrollo Urbanístico Sevilla Este, S.L.in liquidation (b) (c)	1,392	(133)	(3,653)	(216,434)	(218,695)	-
Ronda Norte Denia, S.L. (b)	475	5	57	(59)	473	-
Total associates	**1,887**	**(143)**	**(3,614)**	**(181,837)**	**(183,564)**	**-**
Total	**104,799**	**22,410**	**10,525**	**(176,871)**	**(61,547)**	**7,525**

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

3) Investments

<u>At 31 December 2019</u>

Company	Thousands of Euros			
	Carrying Amount			
	Cost	Impairment Loss (recognized) reversed in	Accumulated Impairment Losses	Total

		the year (Note 17.6)		
Group:				
Servicios Índice, S.A.	6,498	(54)	(4,362)	2,136
Realia Business Portugal Unipessoal Lda.	7,353	(19)	(6,955)	398
Valaise, S.L.	9,010	1	-	9,010
Realia Polska Inwestycje SP ZOO	-	(25)	-	-
Realia Patrimonio, S.L.U.	118,781	-	-	118,781
Realia Contesti S.R.L.	13,611	(25)	(10,198)	3,413
Guillena Golf S.L.	5,834	(416)	(5,708)	126
Total Group	**161,087**	**(538)**	**(27,223)**	**133,864**
Associates:				
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	20,179	(8)	(8,257)	11,922
Desarrollo Urbanístico Sevilla Este, S.L. in liquidation	61,401	-	(61,401)	-
Ronda Norte Denia, S.L.	-	1	-	-
Total associates	**81,580**	**(7)**	**(69,658)**	**11,922**
Total	**242,667**	**(545)**	**(96,881)**	**145,786**

At 31 December 2018:

Company	Thousands of Euros			
	Carrying Amount			
	Cost	Impairment Loss (recognized) reversed in the year (Note 17.6)	Accumulated Impairment Losses	Total
Group:				
Servicios Índice, S.A.	6,498	(68)	(4,308)	2,190
Realia Business Portugal Unipessoal Lda.	7,353	-	(6,936)	417
Valaise, S.L.	10	(1)	(1)	9
Realia Polska Inwestycje SP ZOO	6,175	(83)	(6,074)	101
Realia Patrimonio, S.L.U.	118,781	-	-	118,781
Realia Contesti S.R.L.	13,611	155	(10,173)	3,438
Guillena Golf S.L.	5,394	(455)	(5,292)	102
Total Group	**157,822**	**(452)**	**(32,784)**	**125,038**
Associates:				
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	20,179	(5)	(8,249)	11,930
Desarrollo Urbanístico Sevilla Este, S.L. in liquidation	61,401	-	(61,401)	-
Ronda Norte Denia, S.L.	155	18	(1)	154
Total associates	**81,735**	**13**	**(69,651)**	**12,084**
Total	**239,557**	**(439)**	**(102,435)**	**137,122**

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

The detail of the most significant transactions carried out in 2019 are as follows:

a) *Capital increase and share premium Valaise, S.L.*

On 8 March 2019, the capital increase agreement for 40 thousand company shares and EUR 10 per share with a share premium of EUR 3,600 thousand (EUR 90 per company share) was notarized. Additionally, on 20 June 2019, the agreement for another capital increase, this time for 50 thousand company shares at EUR 10 per share and a share premium of EUR 4,500 thousand (EUR 90 per company share) was also notarized.

b) Dissolution and liquidation Realia Polska Inwestycje, S.P. ZOO

During the General Shareholders Meeting of Realia Polska Inwestycje, ZOO, held on 27 February, it was decided to dissolve the company. It was liquidated on 31 December 2019, with a result of EUR 10 thousand.

c) Dissolution and liquidation Ronda Norte Denia, S.L.

On 10 April 2019, the dissolution of Ronda Norte Denia, S.L. was approved and notarized, and accordingly, the allocation of EUR 155 thousand, corresponding to the 32.63% stake the Company held on that date.

d) Provision of funds to Guillena Golf, S.A.

In April and September 2019, the company Realia Business, S.A. made two injections of capital for a total of EUR 440 thousand with the purpose of reestablishing the equity balance.

The most significant transactions carried out during 2018 are as follows:

a) Capital reduction at Retingle, S.A.

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

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

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

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

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

4) Non-current loans to Group companies

On 28 January 2019, the Company granted a loan to its investee Valaise, S.L. for EUR 9 Million, maturing on January 2020, and renewable for one-year periods until 28 January 2024. The interest rate of that loan is Euribor rate plus 1.5%. On 2 October 2019, the loan was novated to increase the nominal amount to EUR 10 Million. The amount drawn down at 31 December 2019 was EUR 15,284 thousand. The loan will help finance the acquisition of building lots at Tres Cantos (Madrid) for the development of council housing for rent.

5) Non-current financial investments

At 31 December 2018, amounts paid in advanced by customers of the Brisas de Son Dameto development recognized under "Non-current financial investments" amounted to EUR 939 thousand. These amounts were deposited in a special bank account, available upon the handover the keys and the refund of the corresponding guarantees.

At 31 December 2019 the amounts advanced due to the progress of the Brisas de Son Dameto development were reclassified to current advances. Also, due to the increase in pre-sales, at year-end, the amount under that item was EUR 3,320 thousand.

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

The detail of "Current Investments in Group Companies and Associates" and "Current Financial Assets" at the end of 2019 and 2018 is as follows:

2019

	Thousands of Euros	
Current financial instruments	Loans and other	Loans to Group Companies/ Associates (Note 18.2)
Loans and receivables	148	7,615
Other financial assets	3,483	-
	3,631	**7,615**

2018

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

At December 2018, the Company had recognized a loan granted to Realia Patrimonio, S.L.U. for EUR 13,466 thousand, which was repaid in full during 2019.

At 31 December 2019, the Company had granted short-term loans for an amount of EUR 7,615 thousand, EUR 3,588 thousand of which correspond to loans granted to Inversiones Inmobiliarias Rústicas y Urbanas 2000, S.L. (Associate) and EUR 3,075 thousand are the result of the filing of consolidated tax returns that the Company maintains with Realia Patrimonio, S.L.U.

"Other financial assets" reflects mainly the funds in time deposits in the bank at 31 December 2019 and correspond to the advanced collection from clients of the Brisas de Son Dameto development for an amount of EUR 3,230 thousand.

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

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

Qualitative information

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

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

The main financial risks affecting the Company are as follows

a) Credit risk

The Company engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received on delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 8,188 thousand (EUR 8,188 thousand at 31 December 2018), which the Company wrote down in full for the related risk (see Note 9.4). Lastly, there is no material risk with regard to the lease of property assets. Company management has recognized provisions for all these contingencies based on the late payment period of doubtful debts or insolvencies.

b) Liquidity risk

The global financial system is characterized by its high level of liquidity. Liquidity is also high in the property sector, but only for projects with a low level of commercial risk and for developers with proven financial solvency; for this reason, some developers have resorted to alternative funding sources, albeit at much higher cost.

At 2019 year-end, the company does not have any bank borrowings with credit institutions, after the cancellation of the only loan it had with Caixabank, for EUR 120 Million during 2018. This loan was repaid in full with funds from the capital increase formalized on 28 December 2018 (see note 12). Accordingly, Realia has not needed to resort to the financial system for leverage, and believes that due to the solvency of the company and the commercial and profitability quality of its projects, it would have no difficulty in benefiting from the high level of liquidity and low costs offered by the banks.

Additionally, at 2019 year-end Realia Business has positive working capital for EUR 359 Million (EUR 369 thousand in 2018).

The main aggregates of the cash projections of Realia Business for the next twelve months, based on a minimum basis of recurring business, dividends and other payments received for services rendered to Group companies, led to estimated collections of EUR 41 Million which, together with estimated payments of EUR 19 Million, give rise to a positive net cash flow of EUR 22 Million which, together with the current EUR 43 Million cash flow held by the Company, will be dedicated to new investments for EUR 60 Million, including new developments.

c) Solvency risk

At 31 December 2019, Realia Business, S.A. has no bank borrowings, and has cash and cash equivalents amounting to EUR 43,203 thousand (EUR 43,203 thousand in 2018).

	Thousands of Euros	
	2018	2017
Gross bank borrowings by type of loan:		
Cash and cash equivalents (Note 11)	(43,203)	(60,322)
Net bank or similar borrowings	**(43,203)**	**(60,322)**

At 2019 year-end, the Company has positive working capital for EUR 359 Million.

d) Interest rate risk

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

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

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

e) Foreign currency risk

The Company is not exposed to a significant level of foreign currency risk, and its financial investments in other currencies in the markets are very small, so the risk is not very significant.

f) Market risk

The property market started to record positive growth rates (investment volumes, pre-sales levels, sales, prices...) since 2015, but this slowed down in 2019, due to a restricted price increase and the negative influence of the new Mortgage Act on the level of sales and deliveries. There have been tensions with the public bodies in the acquisition of building permits and first occupation licenses which, together with the stress affecting construction companies (lack of labor, increased costs...) caused the industry not to meet its deliveries forecasts.

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

Regarding the rental market, in which Realia Business operates through its subsidiaries Realia Patrimonio S.L.U. and Hermanos Revilla, a continued recovery of demand for space is visible, rental prices are stabilizing, and the incentives to rent demanded by customers are reduced. On the other hand, capex investment activity in the property management sector continues its positive evolution, especially in Hermanos Revilla and Realia Patrimonio.

The residential rent property market shows great potential for growth; accordingly, Realia has acquired 3 publicly owned plots of land in Tres Cantos (Madrid), through its subsidiary Valaise, for the construction of a total of 280 homes for rent, 85 of which are completed pending first occupation license that will be marketed in the first quarter of 2020. The Realia Group is interested in increasing the investment and its development effort in this residential rent segment in the following years.

For all these reasons, the Realia Group believes that it must focus its efforts on the three business lines it is currently developing. In the property area, thanks to its extraordinary property portfolio; it must optimize its asset management to increase operating margins and to create value for the assets. In the development area, it must optimize the value of its current assets through price increases of its finished product, the management of its land portfolio and developments in locations with consistent demand. Finally, in the developments of residential rent property in areas with consistent demand and attractive yields.

9.4 Trade and other receivables

"Trade and other receivables" includes the following concepts:

	Thousands of Euros	
	2019	2018
Clients and accounts receivable	4	7
Group companies and associates (Note 18.2)	2,121	1,870
Sundry receivables	2,400	2,568
Employees	1	-
Current tax assets (Note 16.1)	5,331	3,711
Other receivables from Public Administrations (Note 16.1)	616	101
Total trade and other receivables	**10,473**	**8,257**

"Clients and accounts receivable" in the current assets of the balance sheet includes mainly commercial loans resulting from the sale of property developments and land; the main item is the gross value of commercial loans from the sale of land, amounting to EUR 8,188 thousand, fully provisioned, with the following detail of movements during 2019:

	Thousands of Euros			
	Balance at 31.12.2018	Additions	Disposals	Balance at 31.12.2019
Clients and accounts receivable	8,206	-	(4)	8,202
Impairment of loans from commercial transactions	(8,199)	-	1	(8,198)
Total	**7**	**-**	**(3)**	**4**

	Thousands of Euros

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

"Sundry receivables" includes mainly the account receivable from the refund of the advanced payments made for the purchase of the Valdemoro (R7) land, after the final court judgement rendering the contract void. On 7 June 2018, the company was awarded in public auction and an amount of EUR 2,300 thousand the plot RC 1.9, located at the West-North UDE unit of Valdemoro. At 31 December 2019, the judicial writ formalizing the award and that will allow the cancellation of the outstanding debt is still pending. The Directors think that the amount recognized in the debt ledger is very close to its fair value.

10. Inventories

The detail of "Inventories" at 31 December 2019 and 2018 is as follows:

	Thousands of Euros					
	2019			2018		
	Cost	Write-downs	Net	Cost	Write-downs	Net
Land and building lots	618,635	(406,462)	212,173	639,309	(418,754)	220,555
Short-cycle construction work in progress	34,629	(4,475)	30,154	-	-	-
Long-cycle construction work in progress	78,107	(23,709)	54,398	73,589	(31,142)	42,447
Completed buildings	36,006	(9,135)	26,871	48,339	(12,514)	35,825
Advances to suppliers	2,981	-	2,981	2,981	-	2,981
Total	**770,358**	**(443,781)**	**326,577**	**764,218**	**(462,410)**	**301,808**

The fair value of inventories at 31 December 2019 and 2018, calculated on the basis of appraisals conducted by independent valuation experts not related to the Group, as described in Note 4.g, amounted to EUR 357,335 thousand and EUR 328,435 thousand, respectively. In 2019, the Company reversed the write-down of inventories in order to adjust their carrying amount to market value, which gave rise to a positive net reversal of EUR 12,292 thousand for the write-down of land and building lots (net loss for write-down of EUR 275 thousand in 2018) and a net positive reversal for the write-down of impairment of finished products and construction in progress for delivery of finished products, and the adaptation of their carrying amount to market value of EUR 6,338 thousand (net reversal of EUR 2,496 thousand in 2018), recognized under "Write-down of land and building plots" and "Write-down of inventories of completed buildings and construction in progress" in the accompanying profit and loss statement .

On 31 December 2019, TINSA determined the fair value of assets at December 2019, applying the RICS methodology to the residential property asset portfolio, according to the agreement of the Board of Directors that changed the valuation methodology from ECO to RICS (relevant event dated 21 March 2019). In December 2019, the same assets were measured according to ECO order 805/2003 of 27 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 on the valuation of inventories. The increase in valuation of residential property assets in 2019 amounted to EUR 28.9 Million, if we adjust for consolidation and exclude the investments made in building lots and developments in progress during the year, EUR 18.6 M, and we adjust the value of the finished product delivered during 2019, which account for approximately EUR 10.5 M, which increases the adjusted fair value between December 2019 and December 2018 to EUR 20.8 M, broken down as follows:

- Arising from changes in the situation and/or urban development expectations on land in 2019: + EUR 11.8 M
- Arising from the update of residential property asset valuation: + EUR 9.0 M

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

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

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

The changes in terms of gross cost in "Inventories" during the years ended 31 December 2019 and 2018 were the following:

			Thousands of Euros			
	Land and Building Lots	Long-Cycle developments in progress	Short-cycle developments in progress	Completed Buildings	Net Write-Downs	Total
Balance as at 31 December 2017	**632,593**	**48,516**	**-**	**60,046**	**(465,181)**	**275,974**
Additions	29,345	2,444	-	-	(9,810)	21,979
Disposals	-	-		(11,707)	12,581	874
Transfers	(22,629)	22,629		-	-	-
Balance as at 31 December 2018	**639,309**	**73,589**		**48,339**	**(462,410)**	**298,827**
Additions	1,610	11,220	5,704	-	(6,617)	11,917
Disposals	-	(61)	-	(12,333)	25,246	12,852
Transfers	(22,284)	(6,641)	28,925	-	-	-

Balance as at 31 December 2019	**618,635**	**78,107**	**34,629**	**36,006**	**(443,781)**	**323,596**

Land and building lots

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

Additionally, two developments in Palma de Mallorca and Sabadell were transferred from "Long-cycle developments in progress" to "Short-cycle developments in progress", for an amount of EUR 28,925 thousand, since delivery is expected to take place within the next 12 months.

Advances to suppliers

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

Land	Province	Thousands of Euros 2019	2018
Valdebebas	Madrid	2,963	2,963
El Molar	Madrid	18	18
Total		**2,981**	**2,981**

Advances to suppliers in 2019 and 2018 related to urban development costs charged by the Valdebebas Development and Apportionment Entity.

Inventories held as collateral for mortgage loans

At 31 December 2019 and 31 December 2018, there were no inventories held as collateral for mortgage loans.

Sale commitments

Property development and land sale commitments entered into with customers at 31 December 2019 and 2018 (arranged as earnest money and other agreements) amounted to EUR 47,695 thousand and EUR 15,977 thousand, respectively. EUR 10,005 thousand and EUR 4,962 thousand are recognized under "Trade Payables – Customer Advances" in the accompanying balance sheet (see Note 15). Of these amounts, EUR 3,955 thousand were collected in 2019 (EUR 1,342 thousand in 2018). The remainder amount, EUR 3,620 thousand, relates to commitments from asset exchange transactions and transfer of rights to the Valdebebas Development and Apportionment Entity.

Capitalized borrowing costs

As described in Note 4-g, the Company capitalizes the borrowing costs incurred in the year which relate to inventories that have a production cycle of more than one year. In 2019, no borrowing costs were capitalized for this concept (EUR 17 thousand were capitalized in this connection during 2018).

The detail of the capitalized borrowing costs is as follows:

	Thousands of Euros			
	31.12.2019		31.12.2018	
	Interest capitalized in the year	Accumulated capitalized interest	Interest capitalized in the year	Accumulated capitalized interest
Land and building lots	-	7,739	-	8,725
Long-cycle construction work in progress	-	2,371	(17)	1,402
Completed buildings	-	1,640	-	2,117
Total	**-**	**11,767**	**(17)**	**12,244**

11. Cash and cash equivalents

The detail of "Cash and cash equivalents" at year-end 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Current accounts	43,198	60,316
Other cash equivalents	5	6
Total	**43,203**	**60,322**

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

At 31 December 2019 and 31 December 2018, there were no amounts pledged for this concept.

12. Equity and Shareholders' equity

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

At 31 December 2019 and 2018, the share capital of the Parent Company is represented by 820,265,698 shares, all of them bearer shares with a nominal value of EUR 0.24 per share, fully subscribed and paid up.

The most significant shareholders at 31 December 2019, according to the shares reported to the Comisión Nacional del Mercado de Valores (hereinafter, CNMV) are the following:

Shareholders	% of ownership
Inversora Carso, S.A. de Capital Variable	33.85%
Fomento de Construcciones y Contratas, S.A.	34.34%
Fomento de Construcciones y Contratas, S.A. (indirect)	2.58%
Rest	29.23%
	100%

Furthermore, according to statements filed with CNMV, Inversora Carso S.A. de Capital Variable has an interest in the FCC Group, and controls, either directly or indirectly, 56.41% of the company.

At 31 December 2018, the share capital of the company was represented by 820,265,698 shares. The most significant shareholders, according to the shares reported to the CNMV, are the following:

Shareholders	% interest
Inversora Carso, S.A. de Capital Variable	33.85%
Fomento de Construcciones y Contratas, S.A.	34.34%
Fomento de Construcciones y Contratas, S.A. (indirect)	2.58%
Rest	29.23%
	100%

At 31 December 2019 and 2018, the shares of the company were traded in the Madrid and Barcelona Stock Markets. The price of the company shares at 31 December 2019 and the average price in the last quarter were 0.93 and 0.90 € per share, respectively (0.91 € and 0.93 € per share respectively at 31 December 2018).

12.1 Legal reserve

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

At 2019 year-end, the balance of this reserve amounted to EUR 22,375 thousand (EUR 21,864 at 31 December 2018), and is still not fully constituted.

12.2 Treasury shares

At the General Shareholders' Meeting held on 22 June 2015, authorization was granted to buy back treasury shares, during the maximum period legally allowed, and pursuant to the requirements of article 146 of the Law on Corporations.

The changes in 2019 were as follows:

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

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

12.3 Restricted reserves

At 31 December 2019 and 2018, there are restricted reserves for an amount of EUR 43,764 thousand, and arose on 15 June 2000 as a result of the transfer of capital to reserves following the capital reduction at Produsa Este, S.A., now Realia Business, S.A., and an additional EUR 112 thousand established due to the coming into force of the Euro in 2002 (the amount was the same at 31 December 2018).

12.4 Share premium

The Consolidated Spanish Law on Corporations expressly permits the use of the share premium balance to increase capital and does not establish any specific restrictions as to its use for other purposes. The share premium amounted to EUR 528,492 thousand at 31 December 2019 (EUR 528,492 thousand in 2018).

13. Provisions and contingencies

13.1 Provisions

The detail of the provisions in the balance sheets as at 31 December 2019 and 2018 and of the main changes therein in the years then ended is as follows:

Long term

	Thousands of Euros		
Long-term Provisions	Warranty Provisions	Other Provisions	Total
Balance as at 31 December 2017	**6,918**	**1,136**	**8,054**
Additions	-	85	85
Amounts used and reversed	(1,557)	(198)	(1,755)
Transfers	327	-	327
Balance as at 31 December 2018	**5,688**	**1,023**	**6,711**
Additions	-	8,668	8,668
Amounts used and reversed	(1,124)	(260)	(1,384)
Transfers	42	-	42
Balance as at 31 December 2019	**4,606**	**9,431**	**14,037**

The amount recognized under “Warranty Provisions” at 2019 year-end relates firstly, to the estimation made by the Company to cover the expenses expected to be incurred from the completion of a property development to the definitive settlement thereof and the end of the period in which it is liable for quality flaws, latent defects, extraordinary repairs, after-sales services and other contingencies relating to properties delivered in the last ten years, arising out of claims from third parties or litigations in progress, and secondly, to the guarantee for the sale of financial stakes.

Additionally, the amount recognized under “Other Provisions” corresponds to the estimates made by the Company to cover possible liability from lawsuits arising from changes in the current urban development plans or their administrative proceedings that may reduce the buildable space area in some areas where the company is positioned.

Short term

	Thousands of Euros
Short-term Provisions	Warranty Provisions
Balance as at 31 December 2017	**1,140**
Amounts used and reversed	165
Transfers	(327)
Balance as at 31 December 2018	**978**
Amounts used and reversed	(27)
Transfers	(42)
Balance as at 31 December 2019	**909**

The amount indicated corresponds to the “Guarantees” previously mentioned that are expected to produce a use of resources in the short-term.

13.2 Contingencies

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

14. Financial liabilities

The detail of “Current Payables”, and “Current Payables to Group Companies and Associates” at 31 December 2019 and 2018 is as follows:

2019

Class	Thousands of Euros		
Categories	Current Financial Instruments		
	Bank Borrowings and Other Financial Liabilities	Other	Total
Payables to Group Companies and Associates (Note 18.2)	-	6,379	6,379
Other financial liabilities	-	312	312
Total	**-**	**6,691**	**6,691**

2018

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

The movements in "Current and non-current debts and items due" during 2019 was as follows:

2019	31.12.2018	Provisions	Write-downs	31.12.2019
Debts and items payable to Group companies and associates				
To other Group companies, current	6,849	-	(470)	6,379
Other financial liabilities	242	70	-	312
Total	**7,091**	**70**	**(470)**	**6,691**

2018	31.12.2017	Provisions	Write-downs	31.12.2018
Debts and items due				
Bilateral loan	133,499	-	(133,499)	-
Mortgage loans	1,199	-	(1,199)	-
Interest	236	-	(236)	-
Debts and items payable to Group companies and associates				
To other Group companies, current	18,036	568	(11,755)	6,849
Other financial liabilities	119	177	(54)	242
Total	**153,089**	**745**	**(146,743)**	**7,091**

Bilateral loan

On 15 November 2018, the Board approved the capital increase formalized on 28 December 2018 (Note 12). The Company used part of these funds for the early repayment of the novated loan for an amount of EUR 120,000 thousand (EUR 133,499 thousand at 31 December 2017).

Mortgage loans

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

Borrowings from Group companies

The balance of borrowings from Group companies includes mainly creditors corresponding to the balance of tax liabilities for an amount of EUR 6,297 thousand (EUR 6,288 thousand at 31 December 2018).

15. Trade and other payables

The detail of "Trade and Other Payables" at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Payable to suppliers		
For purchase of land	3,170	3,170
Payable to other suppliers	3,470	2,847
Payable to suppliers – Group companies and associates	6,066	1,060
Sundry accounts payable	840	1,151
Employee receivables	142	5
Other payables to public entities (Note 16.1)	1,191	611
Customer advances (Notes 4.k and 10)	10,005	4,962
	24,884	**13,806**

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

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

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

	2019	2018
	Days	Days
Average payment period to suppliers	61	26
Paid transactions ratio	74	25
Transactions pending payment ratio	32	36
	Thousands of Euros	Thousands of Euros
Total payments made in the year	16,062	38,703
Total outstanding payments	6,820	1,452

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

Solely for the purposes of providing the information required by this Resolution, suppliers are the trade creditors for the supply of goods and services and therefore, include the figures relating to "Suppliers", "Suppliers Group companies and Associates" and "Sundry

Accounts Payable" under "Current Liabilities" in the current liabilities of the balance sheet.

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

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

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

The maximum payment period applicable to the Company in 2019 under Law 3/2004, of 29 December, on combating later payments in commercial transactions and pursuant to the transitory provisions of Law 15/2010, of 5 July, is of 60 days, since the conditions provided for in Law 11/2013, of 26 July, are fulfilled. The Company makes all its payments on the 15th of every month.

16. Tax matters

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

The tax group number assigned is 135/07.

16.1 Current tax receivables and tax payables

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

Tax receivables

	Thousands of Euros	
	2019	2018
VAT and Canary Islands general indirect tax payable	613	98
Social Security bodies	3	3
Income tax refundable	5,331	3,711
Total (Note 9.4)	**5,947**	**3,812**

The balance of Income Tax payables at 31 December 2019 corresponds to tax withholdings and advanced payments of the Income Tax for the year for an amount of

EUR 3,964 thousand, and EUR 1,367 thousand in 2018 (EUR 1,342 thousand and EUR 2,369 thousand at 31 December 2018):

Tax payables

	Thousands of Euros	
	2019	2018
Income tax refundable	89	118
VAT and canary Islands general indirect tax payable	799	215
Accrued social security payables	58	55
Other	245	223
Total	**1,911**	**611**

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

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

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

2019

	Thousands of Euros		
	Profit and Loss Statement		
	Increase	Decrease	Total
Profit/loss before tax			**7,222**
Income tax:			
Permanent differences			**(22)**
Life insurance contributions	18	(41)	
Penalties and surcharges			
Donations	1		
Dividend exemptions (Note 9.1)			
Temporary differences			**7,760**
Arising in the year -			13,349
Non-deductible financial expenses			
Impairment of securities	545		
Other provisions	9,473		
Capital increase expenses		(121)	
Deductible portfolio provision reversal	4,452		
Arising in prior years -			(6,589)
Other provisions			
Non-deductible depreciation and amortization charge		(30)	
Tax adjustment of securities portfolio	55	(515)	
Result of the liquidation of R. Polska		(6,099)	
Deferred tax benefit due to haircuts (Note 16.5)			
Prior tax loss of Parent of tax group			**14,960**
Taxable income rest of companies in tax group			6,731
Offset of prior year's tax losses of tax			

group			(10,637)
Taxable profit of tax group			**(11,054)**

2018

	Thousands of Euros		
	Profit and Loss Statement		
	Increase	Decrease	Total
Profit/loss before tax			**5,813**
Income tax:			
Permanent differences			**(3,550)**
Life insurance contributions	19		
Penalties and surcharges			
Donations	2		
Dividend exemptions (Note 9.1)		(8,066)	
Reversion of the deductible portfolio provision	4,495		
Temporary differences			**2,257**
Arising in the year -			6,380
Non-deductible financial expenses			
Impairment of securities	614		
Other provisions	5,775		
Capital increase expenses		(9)	
Arising in prior years -			(4,123)
Other provisions		(5,674)	
Non-deductible depreciation and amortization charge		(30)	
Tax adjustment of securities portfolio	55	(690)	
Deferred tax benefit due to haircuts (Note 16.5)	2,216		
Prior tax loss of Parent of tax group			**4,520**
Taxable income rest of companies in tax group			13,088
Offset of prior year's tax losses of tax group			(9,911)
Taxable profit of tax group			**(7,697)**

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

- Negative adjustment in 2018 for the amount of dividends received from Group companies, pursuant to the requirements of article 21 of Law 27/2014 of 27 November, that establishes an exception for reporting periods after 1 January 2015, for dividends or profit sharing of companies in which the ownership interest, direct or indirect, in the equity or share capital of the company, is at least 5 per cent, or the value of acquisition of the interest is higher than EUR 20 Million.

- Pursuant to the amendment of Transitory Provision Sixteen of the Tax Law, introduced by Royal Decree Law 3/2016, of 2 December, that establishes that the reversion of the loss resulting from the value impairment of stakes that were tax deductible for years before 2013 and not after that date, should be made for a minimum annual amount on a straight-line basis during five years, a positive adjustment to the carrying amount has been made for EUR 4,452 thousand as a permanent difference (EUR 4,495 thousand at 31 December 2018), and EUR 55 thousand as reversal of a temporary difference in liabilities recognized in prior years (EUR 55 thousand in 2018) and EUR 4,016 thousand are pending consolidation over the next three reporting periods (EUR 8,524 thousand at 31 December 2018).

- Negative adjustment of EUR 6,099 thousand for the losses generated by the liquidation of investee Realia Polska (see note 9.1). This adjustment was made pursuant to art. 17.8 of Law 27/2014 of 27 November, which provides that the difference between the market value of the elements received and the tax value of the cancelled interest must be incorporated into the tax base, and art. 21.8, that establishes that the negative income generated in case of the extinction of the investee will be tax deductible, unless they result from a restructuring operation, in which case the negative income amounts will be subtracted from the amount of dividends received over the ten years prior to the extinction, provided that these dividends benefited from an exception regime.

- Positive adjustment of EUR 545 thousand (EUR 614 thousand in 2018), pursuant to the current Corporate Tax regulation, article 13.2 of Law 27/2014, of 27 November, that established that losses due to the impairment of the equity securities of treasury shares of the company cannot be deducted (see Note 9.1).

- Positive adjustment of EUR 9,473 thousand for asset provisions (EUR 5,775 thousand during 2018).

- Positive adjustment in 2018 of EUR 2,216 thousand, pursuant to the current Corporate Tax regulation, article 11.13 by Law 27/2014, of 27 November, that established that the revenue corresponding to the carrying amount of haircuts and deferrals as a consequence of Law 22/2003, of 9 July, Bankruptcies, will be charged to the tax base of the debtor, in as far as it is possible to recognize subsequently the financial cost derived from that debt, up to the limit of said revenue.

This amount was taken into account for the determination of the calculation of the offset of negative tax bases from prior years, pursuant to the current Corporate Tax regulation, article 26 of Law 27/2014, of 27 November, that establishes that the limitation for carrying forward negative tax bases will not be applicable to amounts corresponding to haircuts or deferrals resulting from an agreement with the taxpayers' creditors.

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

2019

	Thousands of Euros						
Year Incurred	Tax Losses	Total Tax Loss	Consolidation Adjustments (Dividends/ Investment Securities)	Tax Loss Offset	Total Tax Loss of Tax Group	Total Tax Loss Recognized	Tax Asset Recognized

	Parent Companies	Tax Group Subsidiaries						
2008	21,186	(15,807)	5,379	59,636		-	-	-
2009	43,221	(27,005)	16,216	11,475	-	-	-	-
2010	52,849	10,229	63,078	550	-	59,784	59,784	14,946
2011	45,804	1,347	47,151	17,724	-	64,876	64,876	16,219
2012	259,438	(24,581)	234,857	11,968	-	246,824	56,369	14,092
2013	48,582	(31,337)	17,245	13,879	-	31,125	-	-
2014	(3,798)	15,177	11,379	21,066	-	32,446	-	-
2015	14,947	(19,646)	(4,699)	-	(1,314)	-	-	-
2016	(39,081)	(25,294)	(64,375)	-	(63,213)	-	-	-
2017	(6,993)	(12,550)	(19,543)	-	(11,730)	-	-	-
2018	(4,464)	(12,632)	(17,096)	-	(9,656)	-	-	-
2019	(14,960)	(6,344)	(21,304)	-	(10,637)	-	-	-
Total	**416,731**	**(148,443)**	**268,288**	**136,299**	**(96,550)**	**435,055**	**181,029**	**45,257**

2018

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

In 2019, the variation in tax credits for loss carryforwards amounted to EUR 2,710 thousand (EUR 2,502 thousand in 2018), as a consequence of the carryforward of tax based applied by the Company.

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

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

At 2019 year-end, the Company had unrecognized tax loss carryforwards amounting to EUR 63,899 thousand (EUR 64,971 thousand at 2018 year-end): EUR 63,507 thousand from negative tax base and EUR 392 thousand from deductions (see Note 16.4); (EUR 63,507 thousand and EUR 1,464 thousand respectively, at 31 December 2018). The detail of unrecognized tax loss carryforwards is as follows:

Year	Total unrecognized tax loss	Credit from unrecognized BIN	Credit from unrecognized loss carryforward
2009	-	-	9
2010	10,480	2,710	-
2011	-	-	147
2012	179,615	44,904	-
2013	31,125	7,781	61
2014	32,446	8,112	-
2015	-	-	175
Total	**254,026**	**63,057**	**392**

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

The reconciliation of the accounting profit/loss to the income tax expense in 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Accounting profit/loss before tax	7,222	5,813
Permanent differences	(22)	(3,550)
Unrecognized temporary differences	8,371	540
Total tax base	**15,571**	**2,803**
Tax charge at 25%	(3,893)	(701)
Other	14	(2)
Total income tax benefit (expense) recognized in the income statement	**(3,879)**	**(703)**

The breakdown of “Others” is as follows:

	Thousands of Euros	
	2019	2018
Adjustment from the settlement of income tax of prior year	(14)	2
Total	**(14)**	**2**

The breakdown of the Income Tax for 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Current tax	(4,046)	(272)
Net deferred asset (Notes 16.4 and 16.5)	153	(429)
Tax adjustment from prior years	14	(2)
Total tax income/(expense)	**(3,879)**	**(703)**

16.4 Deferred tax assets recognized

The detail of “Deferred Tax Assets” at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
Deferred Tax Assets	2019	2018
Temporary differences:		
Non-deductible finance costs	15,154	15,154
Non-deductible depreciation and amortization charge	37	45
Provision for charges	604	604
Elimination of provisions in tax consolidation	129	258
Other	114	114
Tax asset recognized	59,455	63,788
Total deferred tax assets	**75,493**	**79,963**

At 31 December 2019, tax assets and credits are recognized for EUR 59,455 thousand (EUR 63,788 thousand at 31 December 2018) that, even though the recovery period for part of them might be higher than 10 years, are recognized in the balance sheet since the Directors of the Company believe that based on the best estimate about future results of the Company and latent capital gains of the Group's assets, it is likely that these assets will be recovered.

The total "recognized tax asset" at 31 December 2019 amounts to EUR 59,455 thousand (EUR 63,788 thousand at 31 December 2018) and corresponds to the tax charge from negative tax bases from 2008 to 2015 for EUR 45,257 thousand (EUR 47,967 thousand at 31 December 2018), as detailed in Note 16.2, and EUR 14,198 thousand from tax credit carryforwards (EUR 15,821 thousand at 31 December 2018), the detail being as follows:

	Thousands of Euros						
	Tax Credit Carryforwards		Total Tax Credits	Consolidation Adjustments (Dividends)	Unrecognized Tax Credits	Recognized Tax Credits	Total Tax Credits
	Companies	In the Tax Group					
	Parent	Subsidiaries					
2008	15,140	439	15,579	(15,120)	-	460	460
2009	3,020	5,210	8,231	(3,000)	9	5,222	5,321
2010	504	15	519	(450)	-	69	69
2011	3,291	6,231	9,522	(5,401)	147	3,974	4,121
2012	3,189	1,983	5,172	(3,185)	-	1,987	1,987
2013	1,664	2,046	3,710	(2,432)	61	1,217	1,278
2014	4,558	1,969	6,527	(5,265)	-	1,262	1,262
2015	7	175	183	-	175	7	182
	31,373	**18,068**	**49,443**	**(34,853)**	**392**	**14,198**	**14,590**

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

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

Thousands of Euros		
Deadline for offset	Tax benefits outstanding 2019	Tax benefits outstanding 2018
2024	5,210	5,775
2025	15	15
Total	**5,225**	**5,790**

16.5 Deferred tax liabilities

The detail of "Deferred Tax Liabilities" at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Investment securities - 2012	13	13
Investment securities – 2010	11	11
Investment securities – 2008	-	4
Total deferred tax liabilities	**14**	**28**

16.6 Years open for review and tax audits

Under current legislation, taxes cannot be deemed to have been definitely settled until the tax authorities have reviewed the tax returns filed or until the four-year statute-of-limitations has expired. On 10 December 2018, the Company, as the Parent of Tax Group 135/07, received a notification that it had years 2014 to 2015 open for review by the tax authorities for the consolidated Income Tax, and the periods between November 2014 and December 2015 for the Value Added Tax. These audits are of a general nature, and include the review of all of the tax bases pending application, or tax benefits pending application, according to the provisions of article 66. bis 2 of the General Tax Law. For the rest of state taxes, at 2019 year-end, the Company had years 2015 to 2019 open for review, and years 2016 to 2019 for the Value Added Tax. The Company's directors consider that the tax returns for the aforementioned taxes have been filed correctly and therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions such liabilities as might arise would not have a material effect on the accompanying financial statements.

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

17. Revenues and expenses

17.1 Revenues

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

The detail of sales, by type of revenue, for 2019 and 2018, is as follows:

Line of Business	Thousands of Euros	
	2019	2018
Revenue from the sale of property developments and land	11,048	10,764
Rent revenue (Note 7)	231	224
Revenue from services	4,373	3,999
	15,652	**14,987**

The breakdown by geographical market of the revenue for 2019 and 2018 is as follows:

	Thousands of Euros	
Geographical Markets	2019	2018
Spain:		
Andalusia	5,269	2,987
Madrid	4,330	4,530
Catalonia	1,855	1,096
Valencia	2,500	3,628
Castilla y León	1,698	2,746
	15,652	**14,987**

17.2 Procurements

The detail of “Procurements” at 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Purchases and procurements	(38,809)	(24,158)
Write-down of land and building lots	12,292	275
	(26,517)	**(23,883)**

17.3 Detail of purchases by origin

The Company made all of its purchases in 2019 and 2018 in Spain.

17.4 Employee benefit costs

The detail of “Employee Benefit Costs” in 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Employee benefit costs:		
Contributions to pension plans (Note 4.n)	(163)	(176)
Other employee benefit costs	(694)	(654)
	(857)	**(830)**

17.5 External services

The breakdown of “External Services” in the profit and loss statement corresponding to reporting periods ended on 31 December 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Leases and taxes	121	273
Repair and upkeep	26	24
Independent professional services	164	200
Insurance premiums	22	28
Bank and related expenses	82	15
Publicity, advertising and PR	289	224
Supplies	10	34
Other services	2,981	3,036
Total external services	**3,695**	**3,834**

17.6 Finance income and finance costs

The detail of the finance income and finance costs in 2019 and 2018 is as follows:

	Thousands of Euros	
	2019	2018
Income from investment securities (Note 9.1):		
Retingle	-	25
Realia Patrimonio	-	7,500
Income from investment securities in Group companies and associates (Note 18.1)	104	104
Income from investment securities in third parties	140	27
Total finance income	**244**	**7,656**
Borrowing costs	1	(890)
Other finance costs	-	(637)
Total finance costs	**1**	**(1,527)**
Impairment losses on investment securities in Group companies and associates (Note 19.1)	(545)	(299)
Profit (loss) from disposals and others (Note 19.1)	(10)	542
Recognition of financial charge	-	17
Financial profit/loss	**(310)**	**6,389**

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

18. Related party transactions and balances

18.1 Related party transactions

The detail of the transactions with related parties in 2019 and 2018 is as follows:

2019

	Thousands of Euros	
	Group Companies	Associates
Sales	155	-
Services provided and received	2,455	1,913
Non-core and other current operating income	75	24
Procurements	-	(12,466)
External services	(6)	(215)
Finance income	100	4
Impairment and loss of financial instruments (Note 9.1)	(538)	(7)
	2,241	**(10,747)**

2018

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

18.2 Related party balances

The detail of the on-balance sheet balances with related parties at 31 December 2019 and 2018 is as follows:

At 2019 year-end

	Thousands of Euros	
	Group Companies	Associates
Non-current financial assets:		
Equity instruments (Note 9.1)	133,864	11,922
Loans to companies (Note 9.1)	15,284	-
Trade receivables (Note 9.4)	920	1,201
Current financial assets:		
Loans to companies (Note 9.2)	3,153	4,462
Non-current payables	25	-
Current payables (Note 14)	6,379	-
Trade payables	1	6,065
	148,816	**11,520**

At 2018 year-end

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

18.3 Remuneration of Directors and senior executives

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

2019

		Thousands of Euros				
	Average No. of Persons	Salaries	Other Remuneration	Bylaw-Stipulated Emoluments	Pension Plans	Insurance Premiums
Directors	6	-	355	343	-	-
Senior executives	3	906	3	-	39	4
TOTAL		**906**	**358**	**343**	**39**	**4**

2018

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

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

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

18.4 Situations of conflict of interest involving the directors

At 2019 year-end, the members of the Board of Directors of Realia Business, S.A. have not reported to the rest of members of the Board any situation of conflict of interest, either direct or indirect, that they or any party related to them may have with the interests of the Company, according to the provisions of the Limited Liability Company Law. However, they did report the following:

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

19. Environmental information

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

20. Additional information

20.1 Headcount

The average number of employees, by professional category, in 2019 and 2018, is as follows:

Professional Category	Average Number of Employees	
	2019	2018
Directors	-	-
Senior executives	3	3
Management and university graduates	21	20
Other line personnel and further education college graduates	7	8
Clerical staff	9	9
	40	**40**

At 2019 and 2018 year-end, the number of employees at the Company was 42 and 40 respectively.

In addition, the headcount at the end of 2019 and 2018, by gender and category, was as follows:

Professional Category	2019		2018	
	Men	Women	Men	Women
Senior executives	3	1	2	1
Management and university graduates	11	9	12	10
Other line personnel and further education college graduates	7	-	8	-
Clerical staff	4	5	4	5
	25	**15**	**26**	**16**

At 2019 and 2018 year-end, the Company does not have any employee with a degree of disability equal of higher than 33%.

20.2 Fees paid to auditors

In 2019, the fees for financial audit and other services provided by the Company's auditors, Ernst & Young, S.L. or by a firm in the same group or related to the auditors, were as follows:

2019

Description	Services provided by the Financial Auditor and by Related Companies
Audit services	61
Total audit and related services	**61**

2018

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

21. Events after the reporting period

No events or circumstances that have a significant impact on the financial statements at 31 December 2019 have occurred after the reporting date.

Realia Business, S.A.

Management Report

For the year ended

31 December 2019

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

Business activities are focused mainly on three lines of business:

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

These equity investments represent around 18.8 % of the value on the asset side of the Realia Business, S.A.'s balance sheet.

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

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

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

Activities abroad are carried on by (directly or indirectly) wholly owned subsidiaries of Realia Business, S.A. At year-end 2019, the only asset held by Realia Business Portugal Unipessoal LDA is reserved, and was delivered in February 2020; therefore, it is expected that this company will be liquidated during this year due to lack of activity.

c) HOUSING RENT: This will be carried out by VALAISE S.L.U., fully owned by Realia Business S.A. This company owns a completed development of 85 subsidized homes (VPPB) for rent in the municipality of Tres Cantos (Madrid), pending the granting of the first occupation license and expected to start operations in the first quarter of 2020. It has also acquired 2 lots in the same municipality for 195 subsidized homes (VPL and VPPB) for rent; development will start in 2020.

The parent Company, Realia Business, S.A. is listed on the Spanish Stock Market Interconnection System in Madrid and its most significant shareholders include the FCC Group, with an ownership interest of 36.92% and the Mexican open-ended company Inversora Carso, S.A. de Capital Variable, with 33.85%. The latter owns a stake in the FCC Group, direct and indirect, amounting to an interest of 56.41%.

1. THE COMPANY AND ITS ORGANIZATIONAL AND OPERATIONAL STRUCTURE

Its organizational structure may be summarized as follows:

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

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

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

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

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

2. CHANGES IN THE EQUITY INVESTMENT PORTFOLIO:

During 2019, the following changes took place in the Company's financial investments:

1) In January and June, Valaise S.L. made two capital increases for EUR 400 thousand and EUR 500 thousand, with share premiums of EUR 3,600 thousand and EUR 4,500 thousand, respectively. The shares were fully subscribed by Realia Business S.A.

2) In February, the dissolution of Realia Polska Inwestycje ZOO was approved. It was fully liquidated in December and accordingly, it was removed from the consolidation perimeter.

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

4) In April and September, two capital injections were made to Guillena Golf S.A: for EUR 180 thousand and EUR 260 thousand, respectively, to cover the losses generated and restore the equity balance.

3. AVERAGE PAYMENT PERIOD

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

	2019
	Days
Average payment period to suppliers	61
Ratio of paid transactions	74
Ratio of payable transactions	32

	Thousands of Euros
Total payments made	16,062
Total outstanding payments	6,820

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

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

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

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

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

The maximum payment period applicable to the Company in 2019 under Law 3/2004, of 29 December, on combating later payments in commercial transactions and pursuant to the transitory provisions of Law 15/2010, of 5 July, was 60 days, since the conditions provided for in Law 11/2013, of 26 July, are fulfilled, and payment date to suppliers is made on the 15th or next working day of every month.

4. RELEVANT EVENTS DURING THE REPORTING PERIOD

CHANGE OF METHODOLOGY IN THE VALUATION OF INVENTORIES: On 21 March 2019, the Board of Directors of the Company approved, and reported to the CNMV as a relevant event, the change in the methodology to be applied in the valuation of assets related to the development activity (inventories), which thereafter were valued by the independent expert TINSA using the RICS methodology. In December 2018, the valuation was made according to order ECO 805/2003 of 27 March, amended by EHA 3011/2007, EHA 564/2008 and Royal Decree 1060/2015, in both cases, for the determination of the fair value.

5. MAIN AGGREGATES OF 2019:

The main aggregates of the Company during 2019 were the following:

- Realia Business recorded total revenues of EUR 16.4 Million in 2019, versus EUR 15.5 Million in 2018, a 5.8% increase. No new units from developments in progress were delivered in 2019, since they cannot be handed over to the buyers as they are not completed.

- Ebitda in 20198 (see APMS, item 7) was EUR -3.9 Million, identical to that of 2018.

- During 2019, the company reversed the impairment of its land and building lot inventories for EUR 12.3 Million, and of developments in progress and completed for EUR 6.3 Million, Additionally, it reversed/applied provisions for litigation or insolvency for EUR 7.2 Million, versus EUR 1.4 Million in 2018.

- The change in the methodology used for the valuation of development assets in 2019 has not been significant. The increase in the 2019 valuation of the residential property assets amounted to EUR 28.9 M, after consolidation adjustments and the removal of the investments made in building lots and developments in progress during the year, EUR 18.6 M, and after adjusting the value of the finished product delivered during 2019, approximately EUR 10.5 M, increase the adjusted fair value between December 2019 and December 2018 by EUR 20.8 M, with the following detail:

    - Arising from changes of the situation and/or urban development expectations in 2019: + 11.8 M €
    - Arising from the update of the value of assets classified as inventories: + 9.0 M €

- Financial revenues during 2019 amounted to 0.2 M €, compared to 7.7 M € in 2018. This drop is due mainly to the fact that no dividends were received in 2019 from financial investments in Group companies and associates.

- The financial result of Realia at 31 December 2019 was -0.3 M €, versus 6.4 M € in 2018, mainly due to the reasons mentioned above. In 2019, the Company did not have financial expenses, whereas these were 1.5 M € in 2018. This improvement is due to the total reduction of the Company's indebtedness, after writing off in full the existing debt in 2018.

- Earnings before taxes at 31 December 2019 amounted to EUR 7.2 Million, and net earnings after taxes reached EUR 3.3 Million, versus EUR 5.8 Million and EUR 5.1 Million respectively, in 2018. This improvement in earnings before taxes is explained by the improved operating result and despite the lower financial result mentioned above. Earnings after taxes have dropped due to the lower impact of the tax expense compared to 2018, when dividends received from financial investments were deductible due to double taxation.

BANK BORROWINGS

After the completion of the capital increase in 2018, the loan the company had with Caixa was fully written-off for EUR 120 Million; accordingly, the parent Realia Business did not have any outstanding financial debt at 2018 year-end, and the same can be said of 2019.

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

ASSET VALUATION

- At 2019 year-end, the property assets of the Realia Group, including assets of companies consolidated through the equity method, have a market value of EUR 1,934.8 Million, a 4.9% increase over 2018. This positive evolution is due to:

  1) The purchase of a development in progress (85 units) for rent, located in Tres Cantos (Madrid), which at year-end has been completed and pending first occupation license, is expected to start commercial operation in the first quarter of 2020, and to the purchase of 2 land lots for the development of housing for rent (195 units), in Tres Cantos (Madrid), to start development in 2020. The housing rent activity is conducted through investee Valaise S.L. (100% owned by Realia). Investment in these 3 lots amounted to EUR 25.2 M, and they were valued at EUR 25.5 M on 31 December 2019.

  2) The investments made in developments in progress, which reached EUR 16.9 M in 2019.

  3) The improvement in valuation of the property assets for rent which, excluding the investment made by Valaise mentioned before, has increased by 2.4%, from EUR 1,479.1 M in 2018 to EUR 1,513.3 M in 2019.

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

  - 80% of the asset value corresponds to the property activity (EUR 1,540.8 Million), and 20% (EUR 394.1 Million), to the residential homebuilding business.

PROPERTY MANAGEMENT BUSINESS

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

- Rent revenues in 2019, including As Cancelas Siglo XXI and excluding expenses passed-on to tenants, amount to EUR 66.9 Million, an increase of 2.3% over 2018, mainly due to the update of rent prices.

- Global occupancy of rent properties reached 93.6% at 2019 year-end, versus 91.8% in 2018. This is due to the increase in occupancy at Torre Realia/The Icon and the new commercialization of the spaces which were empty due to one-off circumstances in the last quarter of 2018, as mentioned in the management report of that year. No investments in property assets took place in 2019; however, investments are being made in the upgrade of some of the services in some of these buildings, (such as energy efficiency, hospitality areas, communal services, gyms...) as well as the adaptation of rental spaces for the new market demands (co-working, flexible space...), with the goal of responding proactively to the latest demands from our current and future clients. The amount allocated to capex in our buildings in 2019 reached EUR 7.4 Million.

HOMEBUILDING DEVELOPMENT BUSINESS

This business in carried out mainly by the parent Realia Business S.A., with smaller participations from subsidiaries like Realia Polska and Realia Portugal. In the case of Realia Polska, all of the finished product has already been handed over to their buyers, and they have no more assets to develop. As a result, this company was liquidated in 2019.

The main aggregates of this activity are:

- In 2019, 82 units were delivered, for an amount of EUR 11.2 Million, whereas 89 units were handed over in 2018; an decrease of 20.2% At December 2019, Realia holds a stock of 575 units (homes, commercial premises and offices) finished and pending delivery (125 of them sold or pre-sold). Additionally, it holds 41 single-family housing lots for sale for self-development. Realia’s land portfolio at 31 December 2019 covers 5,752,433 sq. m. of land in different stages of urban development, with an estimated buildable area of 1,619,033 sq. m. Regarding the land data of 2018, it is significant that the buildable area has been reduced as a result of the new urban development parameters in the Partial Development Plan of the “Guadalquiton” property currently being processed, instead of the parameters of the Land Use Plan of San Roque. This lot has been classified as land under planning in view of the uncertainties about its consolidation, since it is within the extension of the Los Alcornocales Natural Park.

  Additionally, the buildable area of land ready for construction has been reduced by 29,324 sq. m. due to the transfer of three lots to products in progress.

- At December 2019, the fair value of land, ongoing developments and finished products included under “Inventories”, has been valued by independent expert TINSA using the RICS methodology for the determination of its fair value. This change in the valuation methodology has been made following the agreement of the Board of Directors of 21 March 2019.

STOCK MARKET INFORMATION

The main stock exchange market aggregates in 2019 and their evolution are as follows:

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 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 Meeting of Shareholders held on 22 June 2015, authorization was approved to buy back treasury shares, for the maximum period legally permitted, and pursuant to the requirements established in art.146 of the Law on Corporations.

The movements during the year were as follows:

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

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

6. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

Macroeconomic forecasts for 2020 predict a GDP growth of 1.6%, albeit with a trend towards reaching a plateau in Spain. However, we are still leaders in terms of growth among the countries of the Euro zone, and it is expected that this GDP growth will probably have a positive impact on the real estate sector, and hopefully this will translate into:

a) Growth, albeit more moderate in housing demand, which will allow to star new developments in some areas, and with prices at a standstill or slight increase in very selected areas.

b) Slowdown of funding for developers, with stronger economic and commercial viability requirements for new developments, mainly in terms of higher pre-sale objective requirements.

c) Lack of funding for the purchase of land, since currently banks think this should be financed through equity.

d) Consolidation of other financial actors which may enter into some projects, to whom high yields and interest rates way above those of traditional banks are demanded.

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

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

Together, all these factors may affect the result of the Group, and it is expected that the macroeconomic forecasts for Spain will have a positive impact, albeit more moderately that in prior years, on the real estate sector.

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

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

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

3) Progress of the new developments for rent, the first of which will come into operation shortly and 2 more are planned, with the possibility of acquiring new land for residential developments for rent.

Financial risk management objectives and policies

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

- Full compliance with the Company's regulatory system.

- Business areas and corporate areas will define their risk appetite in a consistent manner with the strategy defined for each area of the market where they operate.

- Business areas and corporate areas will establish the necessary risk management to ensure that market transactions agree with the policies, rules and procedures of the Group.

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

The main financial risks affecting the company are:

Credit risk

The Company engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received upon delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 8.2 Million, which the Company fully wrote down. Lastly, there is no material risk with regard to the lease of property assets, and the risk is at the same level as last year. Company management has recognized provisions for all these contingencies in case of late payment period or doubtful debts.

Interest rate risk

At 31 December 2019, the parent company Realia Business does not have net bank borrowings, and therefore there is no interest rate risk for the company, although this risk is present in some of the company in which it owns an interest. The group of companies holds interest rate hedge contracts with 5 of the 6 lender banks in the Syndicated Loan of Realia Patrimonio. The total amount hedged is 70% of the outstanding balance of the loan; at 31 December 2019, this amounted to EUR 383.5 Million, due on 27 April 2024. The type of hedging instrument is an IRS plus a floor option of Euribor at 0%. At 2019 year-end, this hedge, valued at market value, had a positive impact of EUR 0.43 Million on profit and loss, and a negative impact of EUR -2.9 Million on equity.

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

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

Liquidity risk

The global financial system is characterized by its high level of liquidity. Liquidity is also high in the property sector, but only for projects with a low level of commercial risk and for developers with proven financial solvency; for this reason, some developers have resorted to alternative funding sources, albeit at much higher cost.

Realia Business and the companies of its Group did not need to resort to new hedges in 2019, even though some of its companies had to renew or refinance some of their existing lines of credit, they did not have any problem to borrow from traditional banks at very low and competitive interest rates, thanks to the solvency of the company and the commercial quality and profitability of their projects.

Furthermore, at 2019 year-end Realia Business has a positive working capital of EUR 359 Million.

The main aggregates of the cash projections of Realia Business for the next 12 months, based on a minimum basis of recurring business, dividends and other payments received for services rendered to Group companies, led to estimated collections of EUR 41 Million which, together with estimated payments of EUR 19 Million, gives rise to a positive net cash flow of EUR 22 Million, which together with the current cash flow of the Company, EUR 43 Million, will be allocated to new investments for EUR 60 Million, including investments in new developments.

The increase in payment forecasts is the result of the investments made in new developments which will generate positive cash flow in the following years.

Solvency risk

At 31 December 2019, Realia Business S.A. has no net bank borrowings, and holds cash and cash equivalents for EUR 43,203 thousand.

	Thousands of Euros	
	2019	2018
Bank borrowings by type:	-	-
Cash and cash equivalents	(43,203)	(60,322)
Net bank or similar borrowings	**(43,203)**	**(60,322)**

At 2019 year-end, the Company has a positive working capital of EUR 359 thousand.

Foreign currency risk

The Company is not exposed to a significant level of foreign currency risk, for most of its investments and activities take place in the Euro zone.

Other risks: Market risk

Positive growth rates (investment volumes, pre-sales levels, sales, prices...) have been recorded in the real estate sector since 2015, even though they have slowed down in 2019, when price increases and sales and deliveries volumes have not been so generalized since the coming into force of the new Mortgage Law. There have been tensions with the Public Bodies in the acquisition of new construction permit and first occupation licenses, which together with the tension among construction companies (lack of labor, cost increase...) resulted in the sector not meeting its expectations on deliveries.

Despite this, demand is still consistent in some areas of cities like Madrid or Barcelona, Valencia, Málaga, Palma de Mallorca... where product supply is very scarce and demand is consistent, albeit selective in terms of product and price. In view of this situation, Realia plans to launch new developments in these cities and in some others where there is an attractive demand for residential homebuilding.

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

Regarding the rental market, in which Realia Business operates through its subsidiary Realia Patrimonio S.L.U. and Hermanos Revilla, continued recovery of demand for space is visible, rent prices are stabilizing, and the incentives to rent demanded by customers are reduced. On the other hand, the capex investment activity in the property sector was quite high, especially in Hermanos Revilla and Realia Patrimonio.

The residential rent property market shows great potential for growth; accordingly, Realia has acquired 3 publicly owned plots of land in Tres Cantos (Madrid), through its subsidiary Valaise, for the construction of a total of 280 homes for rent, 85 of which are completed pending first occupation license that will be marketed in the first quarter of 2020. The Realia Group is interested in increasing the investment and its development effort in this residential rent segment in the following years.

For all these reasons, the Realia Group believes that it must focus its efforts on the three business lines it is currently developing. In the property area, thanks to its extraordinary property portfolio; it must optimize its asset management to increase operating margins and to create value for the assets. In the development area, it must optimize the value of its current assets through price increases of its finished product, the management of its land portfolio and developments in locations with consistent demand. Finally, in the developments of residential rent property in areas with consistent demand and attractive yields.

7. ALTERNATIVE PERFORMANCE MEASURES (APMS)

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

EBITDA = Gross operating result

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

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

NET BANK BORROWINGS:

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

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

NET NET ASSET VALUE (NNAV):

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

8. FORECAST FOR 2020

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

1) Continuing the projects in progress and start of new developments in areas with consistent demand and low supply, especially in areas of Madrid, Barcelona, Canaries, Valencia and others with the same market conditions.

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

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

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

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

6) Strengthening its new rent housing activity. To this end, 2 new developments will start on land owned by its investee Valaise, and acquiring new lots to increase the portfolio of this type of asset for rent in the near future.

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

In 2019, the investment market on offices and shopping centers has remained active, with a good volume of purchase and sale transactions. In the transactions conducted during the year, very low capitalization yields were applied, even though they are still attractive to investors, given the alternative yields offered by financial markets. This situation is expected to continue in 2020, in view of the delay in the upturn of interest rates.

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

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

9. RESEARCH AND DEVELOPMENT POLICY

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

10. EVENTS AFTER THE REPORTING PERIOD

No relevant events have taken place after the closing of the 2019 accounts.

11. CORPORATE GOVERNANCE REPORT

The accompanying Corporate Governance Report 2019 prepared by the Company is an integral part of this management report.