

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



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