

**Audit Report on Consolidated Financial Statements
issued by an Independent Auditor**

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



INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Report on the consolidated financial statements

Opinion

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

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

Basis for opinion

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

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

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

Key audit matters

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

Measurement of investment properties and inventories

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

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

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

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

Our response In this regard, our audit procedures included:

- ▶ Reviewing the reasonableness of the valuation models used by independent experts, in collaboration with our valuation specialists, focusing, based on a sample of valuations carried out by the latter, on the reasonableness of the rents and/or comparable data used, the discount rates and initial yields considered in calculations, the cost hypotheses and the development, construction, and marketing periods applied to estimate the cash flows associated with the calculation bases for inventory, as well as sensitivity analyses carried out by independent experts, in addition to performing value testing procedures applicable.

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

Recoverability of deferred tax assets

Description In accordance with the Group's policies, as explained in Note 4 to the accompanying consolidated financial statements, deferred tax assets are only recognized when it is considered probable that there will be sufficient future taxable income to enable their application. As explained in Note 21 to the accompanying consolidated financial statements, at December 31, 2019, the Group recognized deferred tax assets amounting to 115.044 thousand euros. The assessment by management of the recoverability of deferred tax assets is based on estimates of future taxable profit using the Group's financial projections and taking into account applicable tax legislation. Given the significance of the amount, we determined the assessment of Group's ability to recover its deferred tax assets to be a key audit matter.

Our response Our audit procedures primarily included assessing management's assumptions and estimates regarding the probability of the Group obtaining sufficient future taxable profit based on budgets, business performance, historical experience, and meetings with management. We also evaluated whether the information disclosed in Note 21 of the statement accompanying consolidated financial statements meets the requirements established in the applicable regulatory financial reporting framework.

Other information: Consolidated management report

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

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

- a. A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report, and if not, disclose this fact.
- b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Group obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

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

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

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

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

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

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

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

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

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by parent company's directors.

- ▶ Conclude on the appropriateness of the parent company directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ We obtain sufficient appropriate audit evidence about the financial information of the components of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We are solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

Additional report to the parent's audit and control committee

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

Term of engagement

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

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

(signed in the original version)

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

February 26, 2020