

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

**REALIA BUSINESS, S.A.  
Financial Statements and Management Report  
for the year ended  
December 31, 2020**

## **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 (See Note 22)

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

### **Report on the financial statements**

---

#### **Opinion**

We have audited the financial statements of REALIA BUSINESS, S.A. (the Company), which comprise the balance sheet as at December 31, 2020, the income statement, the statement of changes in equity, the statement of cash flow, 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, 2020 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 criteria 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, 2020, the Company has “Inventories” amounting to 324,132 thousand euros, which, correspond primarily to developments under construction, and other properties are held either for sale or are part of real estate developments. The disclosures corresponding to the aforementioned assets are included in Note 10 to the accompanying financial statements.

As explained in Note 4.g to the accompanying financial statements the Company measures inventories at acquisition cost plus, principally, any planning and construction costs, and other costs in connection with the purchase and financing costs incurred during execution of the planning and construction work, and writes them down to the lower of cost or realizable value, recording the corresponding provision.

At year-end, management determines the fair or realizable value using valuations carried out by independent experts in accordance with the valuation standards published by the Royal Institute of Chartered Surveyors (RICS) for inventories. The determination of these values require that independent experts make complex estimates and judgments when establishing their assumptions. The various methodologies and principal assumptions used in carrying out valuations are described in Note 10 to the financial statements.

Due to the significance of the amounts and the high sensitivity of the analyses conducted with respect to changes in the assumptions applied to valuations, e.g., the costs and the development, construction, and marketing periods applied when estimating cash flows associated with the calculation bases for inventory, 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 these experts, on the reasonableness of the discount rate, the principal assumptions (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 the disclosures included in the notes to the financial statements in accordance with the applicable regulatory reporting framework.

### *Valuation of investments in equity instruments*

---

**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 (Equity instruments) at December 31, 2020 amounting to 145,174 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 of the group companies, jointly controlled entities, and associates (Equity instruments) and compares them to the net book value of the related assets.

Due to the significance of the amounts and the high sensitivity of the analyses of assumptions used in the valuations carried out by independent experts when calculating unrealized capital gains, we determined this to be a key audit matter.

---

**Our response** In this regard, our audit procedures included:

- ▶ Understanding management's processes for measuring equity investments, including evaluation of the design and implementation of relevant controls.
- ▶ Reviewing the analysis carried out by management to identify indications of impairment of investments in group companies, jointly controlled entities, and associates (Equity instruments), as well as for calculating recoverable amount where applicable.
- ▶ Reviewing the reasonableness of the valuation models used by independent experts to analyze the unrealized capital gains taken into account by management, in collaboration with our valuation specialists, focusing on a sample of valuations carried out by these experts, 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** As explained in Note 16.4 to the accompanying financial statements, at December 31, 2020, the Company recognized deferred tax assets amounting to 75,328 thousand euros.

In accordance with the Company's accounting 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. 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 and the inherent complexity of the process of estimating future taxable income, we determined the assessment of the Company's tax group's ability to recover its deferred tax assets to be a key audit matter.

---

**Our response** In this regard, our audit procedures included:

- ▶ Understanding of the processes established management for assessing the recoverability of deferred tax assets, including evaluation of the design and implementation of relevant controls.
- ▶ Reviewing, in collaboration with our tax specialists, the assumptions used by the management when estimating the probability of generating sufficient future taxable income for the tax group based on budgets, business performance, and historical experience, for which we met with Group management.
- ▶ Reviewing the disclosures included in the notes to the financial statements in accordance with the applicable regulatory reporting framework.

---

#### **Matter-of-emphasis paragraph**

We draw attention to the matter described in Note 2.5 to the accompanying financial statements, which states that the independent expert has taken into consideration the exceptional circumstances derived from the global COVID-19 pandemic, stating that there is a significant uncertainty regarding future trends in the fair value of the valued properties classified under "Inventories". This matter does not modify our opinion.

---

#### **Other information: Management Report**

Other information refers exclusively to the 2020 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the management report, in conformity with prevailing audit regulations in Spain, entails:

- a) Checking only that certain information included in the Corporate Governance Report, to which the Audit Law refers, was provided as stipulated by applicable regulations and, if not, disclose this fact.
- b) Assessing and reporting on the consistency of the remaining information included in the management report with the financial statements, based on the knowledge of the entity obtained during the audit, in addition to evaluating and reporting on whether the content and presentation of this part of the management report are in conformity with applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to disclose this fact.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided as stipulated by applicable regulations and that the remaining information contained in the management report is consistent with that provided in the 2020 financial statements and its 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 Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- ▶ 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 we 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**

---

### **European single electronic format**

We have examined the digital file of the European single electronic format (ESEF) of REALIA BUSINESS, S.A. for the 2020 financial year, consisting of an XHTML file containing the financial statements for the year, which will form part of the annual financial report.

The directors of REALIA BUSINESS, S.A. are responsible for submitting the annual financial report for the 2020 financial year, in accordance with the formatting requirements set out in Delegated Regulation EU 2019/815 of 17 December 2018 of the European Commission (hereinafter referred to as the ESEF Regulation).

Our responsibility consists of examining the digital file prepared by the directors of the Company, in accordance with prevailing audit regulations in Spain. These standards require that we plan and perform our audit procedures to obtain reasonable assurance about whether the contents of the financial statements included in the aforementioned digital file correspond in their entirety to those of the financial statements that we have audited, and whether the financial statements and the aforementioned file have been formatted, in all material respects, in accordance with the ESEF Regulation.

In our opinion, the digital file examined corresponds in its entirety to the audited financial statements, which are presented, in all material respects, in accordance with the ESEF Regulation.

---

**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 24, 2021.

---

**Term of engagement**

The ordinary general shareholders' meeting held on May 8, 2019 appointed us as auditors for an additional year, commencing on December 31, 2019.

Previously, we were appointed as auditors by the shareholders for 3 years and we have been carrying out the audit of the financial statements continuously since December 31, 2017.

**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 24, 2021