2016

Consolidated Group REALIA Accounts

REALIA

Realia Business, S.A. and Subsidiaries

Consolidated Financial Statements and Consolidated Directors' Report for the year ended 31 December 2016, together with Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España

Tel: +34 915 14 50 00
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Realia Business, S.A.,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Realia Business, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Realia Business, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Realia Business, S.A. and Subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Emphasis of Matter

We draw attention to Notes 20 and 30 to the accompanying consolidated financial statements, which indicate that the Group has a working capital deficiency of EUR 214 thousand, as a result of the maturity at short term of the property-related syndicated financing, which totals EUR 678 million. The Group is currently financing these borrowings, and the Parent's directors intend to complete this process successfully. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 contains the explanations which the Parent's directors consider appropriate about the situation of Realia Business, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Realia Business, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Javier Parada Pardo
9 March 2017

Realia Business, S.A. and subsidiaries

Consolidated Financial Statements for the year ended 31 December 2016 and Management Report

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

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

(Thousands of Euros)

ASSETS	**31/12/2016**	**31/12/2015**		**31/12/2016**	**31/12/2015**
NON-CURRENT ASSETS			**EQUITY (Note 17):**		
Intangible assets (Note 8)	48	31	Share capital	154,754	110,580
Property plant and equipment (Note 9)	5,028	5,346	Share premium	421,463	318,391
Investment property (Note 10)	1,355,740	1,354,436	Reserves	86,648	69,559
Investments in associates (Note 11)	45,220	47,323	Less: Treasury shares	(675)	(675)
Non-current financial assets (Note 15.2)	14,500	1,250	Valuation adjustments	(969)	(822)
Deferred tax assets (Note 22)	124,115	120,817	Total equity attributable to the Parent	115,696	17,205
Other non-current assets (Note 15.3)	9,168	8,880	**Total equity attributable to the Parent**	**776,917**	**514,238**
			Non-controlling interests (Note 18)	**231,819**	**227,948**
Total non-current assets	**1,553,819**	**1,538,083**	**Total Equity**	**1,008,736**	**742,186**
			NON-CURRENT LIABILITIES		
			Long-term provisions (Note 19)	7,030	6,867
			Non-current financial liabilities:		
			Bank borrowings (Note 20):	157,585	665,448
			Other financial liabilities (Note 20)	-	96,215
			Deferred tax liabilities (Note 20)	150,715	135,562
			Other non-current liabilities (Note 21.a)	15,830	16,008
			Total non-current liabilities	**331,160**	**920,100**
CURRENT ASSETS			**CURRENT LIABILITIES**		
Non-current assets classified as held for sale	53,000	-			
Inventories (Note 14)	315,479	376,345	Short-term provisions (Note 19)	1,140	1,462
Trade and other receivables (Note 15.1)			Current financial liabilities:		
Trade receivables for sales and services (Note 15.1)	6,768	11,945	Bank borrowings (Note 20)	601,132	104,359
Other receivables	3,705	93,060	Other financial liabilities (Note 20)	94,693	454,206
Current tax assets (Note 22)	2,013	3,381	Trade and other payables (Note 21.b)		
Other current financial assets (Note 15.2)	19,440	34,407	Payable to suppliers	7,627	6,810
Other current assets (Note 15.3)	3,720	3,618	Other payables	13,226	13,850
Cash and cash equivalents (Note 16)	101,130	183,870	Current tax liabilities (Note 22)	584	1,267
			Other current liabilities (Note 21.d)	776	469
Total current assets	**505,255**	**706,626**	**Total current liabilities**	**791,178**	**582,423**
TOTAL ASSETS	**2,059,074**	**2,244,709**	**TOTAL EQUITY AND LIABILITIES**	**2,059,074**	**2,244,709**

Notes 1 to 31 described in the Annual Report and Appendices are an integral part of the consolidated balance sheet as at December 31 2016.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR 2016

(Thousands of Euros)

	2016	2015
Revenues (Note 24.a)	79,834	75,983
Other operating income (Note 24.b)	16,900	18,831
Changes in inventories of finished goods and work in progress (Note 14)	(16,562)	(14,177)
Procurements (Note 24.c)	(1,633)	(792)
Staff costs (Note 24.d)	(6,645)	(8,971)
Other operating expenses (Note 24.c)	(30,522)	(30,522)
Variation in operating provisions (Note 24.i)	(49,738)	(11,596)
Gains or losses on sale of investment property (Notes 4.v and 10)	437	115
Provision for amortization (Notes 8 and 9)	(376)	(444)
Gains or losses on disposals of fixed assets (Notes 8 and 9)	(7)	(9)
Other losses	(5)	(7)
PROFIT (LOSS) FROM OPERATIONS	**(8,347)**	**28,411**
PROFT (LOSS) FROM VARIATION OF PROPERTY INVESTMENT (Notes 2.h, 2.i and 10)	**49,186**	**26,757**
Finance income (Note 24.f)	114,105	5,306
Finance costs (Note 24.f)	(8,185)	(24,778)
Exchange rate differences	109	-
Impairment and gains or losses on disposals of financial instruments (Notes 24.f and 24.h)	(25)	36
FINANCIAL PROFIT/LOSS	**106,004**	**(19,436)**
Result of companies accounted for using the equity method (Notes 11 and 24.e)	(1,047)	3,289
Net impairment of non-current assets (Notes 9 and 10)	-	(2)
EARNING BEFORE TAXES	**145,796**	**39,019**
Income tax (Note 22)	(15,681)	(12,972)
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**130,115**	**26,047**
CONSOLIDATED EARNINGS FOR THE YEAR	**130,115**	**26,047**
Attributable to:		
Shareholders of the Parent	115,696	17,205
Non-controlling interests (Note 18)	14,419	8,842
Earnings per share:		
From continuing operations (€/share)		
Basic	0.252	0.056
Diluted	0.252	0.056

The accompanying Notes 1 to 31 described in the Annual Report and Appendices are an integral part of the consolidated statement of profit or loss for 2016.

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

CONSOLIDATED STATEMENT OF REVENUES AND EXPENSE FOR 2016

A) STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(Thousands of Euros)

	(Debit)/ Credit	
	2016	2015
CONSOLIDATED RESULT FOR THE YEAR (from profit and loss account)	**130,115**	**26,047**
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		
Arising from cash flow hedges	-	-
Translation differences	(147)	18
Tax effect	-	-
	(147)	**18**
TRANSFERS TO PROFIT OR LOSS		
Arising from cash flow hedges (Notes 23.f)	-	-
Tax effect	-	-
TOTAL RECOGNISED INCOME AND EXPENSES	**129,968**	**26,065**
A) Attributable to the Parent	115,549	17,223
B) Attributable to non-controlling interests	14,419	8,842

The accompanying Notes 1 to 31 described in the Annual Report and Appendices are an integral part of the consolidated statement of profit or loss for 2016.

B) CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(Thousands of Euros)

	Share capital	Share Premium	Reserves of the Parent	Treasury Shares	Consolidation Reserves	Translation Differences	Result for the year	Equity attributable to shareholders of the Parent	Non-controlling Interests	Total Equity
Balances at 31 December 2014	**73,769**	**266,242**	**(136,360)**	**(675)**	**282,776**	**(2,160)**	**(77,492)**	**406,100**	**224,601**	**630,701**
Income and expenses recognized in the year	**-**	**-**	**-**	**-**	**-**	**18**	**17,205**	**17,223**	**8,842**	**26,065**
Allocation of 2013 result:										
To reserves	-	-	(41,327)	-	(36,165)	-	77,492	-	-	-
Dividends	-	-	-	-	-	-	-	-	(3,111)	(3,111)
Interim dividends	-	-	-	-	-	-	-	-	(2,131)	(2,131)
Capital increases and reductions (Note 17)	36,811	52,149	(90)	-	-	-	-	88,870	-	88,870
Changes in the scope of consolidation(Note 2.f)	-	-	-	-	(1,391)	1,320	-	(71)	(252)	(323)
Other movements	-	-	-	-	2,116	-	-	2,116	(1)	2,115
Balances at 31 December 2015	**110,580**	**318,391**	**(177,777)**	**(675)**	**247,336**	**(822)**	**17,205**	**514,238**	**227,948**	**742,186**
Income and expense recognized in the year	**-**	**-**	**-**	**-**	**-**	**(147)**	**115,696**	**115,549**	**14,419**	**129,968**
Allocation of 2014 result:										
To reserves	-	-	(31,456)	-	48,661	-	(17,205)	-	-	-
Dividends	-	-	-	-	-	-	-	-	(4,768)	(4,768)
Interim dividends	-	-	-	-	-	-	-	-	(5,781)	(5,781)
Capital increases and reductions (Note 17)	44,174	103,072	(61)	-	-	-	-	147,185	-	147,185
Changes in scope of consolidation (Note 2.f)	-	-	-	-	(55)	-	-	(55)	1	(54)
Balances as at 31 December 2016	**154,754**	**421,463**	**(209,294)**	**(675)**	**295,942**	**(969)**	**115,696**	**776,917**	**231,819**	**1,008,736**

The accompanying Notes 1 to 31 described in the Annual Report and Appendices are an integral part of the consolidated statement of profit or loss for 2016.

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

CONSOLIDATED STATEMENT OF CASH-FLOWS FOR 2016

(Thousands of Euros)

	2016	2015
1. Profit/loss before tax	**145,796**	**39,019**
2. Adjustments for:	**(104,529)**	**1,536**
a) Depreciation and amortization charge (Notes 8 and 9)	376	444
b) Other adjustments to profit or loss	(104,905)	1,092
3. Changes in working capital:	**16,933**	**9,875**
a) Inventories, trade and other receivables and other current assets (Notes 14 and 15.1)	16,442	13,823
b) Trade and other payables and other current liabilities (Note 21)	491	(3,948)
4. Other cash flows from operating activities:	**(2,171)**	**(4,690)**
a) Dividends received	972	467
b) Income tax recovered/paid	(3,143)	(4,886)
c) Other amounts received/paid relating to operating activities	-	(271)
A CASH FLOWS FROM OPERATING ACTIVITIES	**56,029**	**45,740**
1. Payments due to investment:	**(7,510)**	**(5,664)**
a) Property, plant and equipment, intangible assets and investment property (Notes 8, 9 and 10)	(6,705)	(5,455)
b) Other financial assets	(805)	(209)
2. Proceeds from disposals:	**1,131**	**783**
b) Property, plant and equipment, intangible assets and investment property (Notes 8, 9 and 10)	443	378
c) Other financial assets	438	405
d) Other assets (Note 2.f)	250	-
3. Other cash flows from investing activities:	**2,001**	**7,354**
a) Interests received	400	5,290
b) Other proceeds/payments relating to investing activities	1,601	2,064
B CASH FLOWS FROM INVESTING ACTIVITIES	**(4,378)**	**2,473**
1. Proceeds and payments relating to equity instruments:	**236,145**	**2,027**
a) Issue	236,145	(91)
b) Amortization	-	(2)
c) Purchase	-	2,120
2. Proceeds and payments relating to financial liability instruments:	**(354,688)**	**(466,530)**
a) Issue	192,597	13,302
b) Repayment and redemption	(547,285)	(478,832)
3. Dividends and returns on other equity instruments paid	**(10,479)**	**(4,076)**
4. Other cash flows from financing activities	**(5,359)**	**(13,304)**
a) Interest paid	(5,183)	(12,562)
b) Other proceeds/payments relating to financial activities	(176)	(742)
C CASH FLOWS FROM FINANCING ACTIVITIES	**(134,381)**	**(481,883)**
D EFFECT OF FOREIGN EXCHANGE RATE CHANGES AND OTHERS	**(10)**	**(5)**
E NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**(82,740)**	**(433,675)**
F CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**183,870**	**617,545**
G CASH AND CASH EQUIVALENTS AT END OF YEAR	**101,130**	**183,870**

The accompanying Notes 1 to 31 described in the Annual Report and Appendices are an integral part of the consolidated statement of profit or loss for 2016.

Consolidated financial statements for the year ended 31 December 2016

1. Activities of the Realia Group

The Group companies listed in Appendices I and II engage mainly in the development and operation of real estate business. At 2016 year-end, these activities are carried out in Spain, Portugal, Poland and Romania

The Parent was incorporated on August 14 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 Paseo de la Castellana 216, Puerta de Europa, Madrid. On April 13 2000, the Parent became a public limited liability company. On May 5 2000, the shareholders at the Annual General Meeting of Produsa Este, S.A. approved the contribution of equity resulting from the spin-off of FCC Inmobiliaria, S.A. and of the equity investments corresponding to Activos Inmobiliarios Caja Madrid, S.L., Centro Inmobiliario Caja Madrid, S.A., Técnicas de Administración y Mantenimiento Inmobiliario, S.L.U. and Planigesa, S.A. (some non-controlling interests). On March 14 2001, the plan was approved for the merger by absorption of Realia Business, S.A. (the acquiring company) and the companies wholly owned directly or indirectly by it, Centro Inmobiliario Caja Madrid, S.L. (Sole Shareholder company), Diagonal Sarriá, S.A. Unipersonal and Activos Inmobiliarios Caja Madrid, S.L. (Sole Shareholder company) (the acquired companies). This merger plan was filed at the Madrid Mercantile Registry on March 28 2001, and was approved by the shareholders of these companies at their respective General Meetings held on April 5 2001. On June 8 2005, the plan was approved for the merger by absorption of Realia Business, S.A. and Sempreda, S.L. a company wholly owned directly by it. This merger plan was filed at the Mercantile Registry on September 26 2005. The legally required disclosures relating to these mergers were included in the separate financial statements of Realia Business S.A. for the related years. On February 5 2007, the shareholders at the Annual General Meeting of Realia Business, S.A. resolved to restructure the Group through the incorporation of a new company known as Realia Patrimonio, S.L.U. (wholly owned by Realia Business, S.A.), to which the property management business of the Realia Group was contributed.

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The consolidated financial statements for 2016 of the Realia Business Group (hereinafter, “the Realia Group”), which were prepared from the accounting records kept by the Parent and by the other Realia Group companies (listed in Appendices I and II), were authorized for issue by the directors of the Parent at the Board Meeting held on March 9, 2017.

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs), taking into account all the mandatory accounting principles and rules and measurement bases, so that they present fairly the Realia Business Group’s consolidated equity and financial position as of 31 December 2016 and the results of its operations, the changes in the consolidated equity and the consolidated cash flows in the year then ended.

However, since the accounting policies and measurements bases used in preparing the Group's consolidated financial statements for 2016 may differ from those used by certain companies of the Group, the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards as adopted by the European Union.

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

The Group's consolidated financial statements for 2015, prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, were approved by the shareholders at the Annual General Meeting of the Parent held on 21 June 2016. Their shareholders at their respective Annual General Meetings have not yet approved the consolidated financial statements of the Group and the financial statements of the Group entities for 2016. However, the Parent's Board of Directors considers that the aforementioned financial statements will be approved without any changes.

b) Measurement currency

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

c) Responsibility for the information and use of estimates

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

In the Group's consolidated financial statements for 2016 the senior executives of the Group and the consolidated companies, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported therein, occasionally made estimates. The estimates refer to the following:

- The fair value of certain unquoted assets, especially property investments and inventory (Notes 4.d and 4.f)
- The recoverability of deferred tax assets (Note 4.ñ)
- The amount of certain provisions (Notes 4.l and 4.m)
- The fair value of some financial instruments (Notes 4.i and 4.j)
- The useful life of intangible assets, property, plant and equipment and investment property (Notes 4.a and 4.b).

The market value on the Group's property assets was calculated based on appraisals conducted by independent valuation experts at 31 December 2016 (Notes 4.c, 4.f and 10).

Although these estimates were made on the basis of the best information available at 31 December 2016 on the events analyzed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS8, recognizing the effects of the change on the related consolidated statements of profit or loss.

d) Basis of consolidation

Subsidiaries

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

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

Joint ventures

In 2016, the Group carried on jointly managed business activities through interests in joint property entities. These entities were included in the accompanying consolidated financial statements on the basis of the percentage share of the assets, liabilities, income and expenses arising from their operations, and any reciprocal receivables and payables and any income, expenses, gains and losses not realized vis-á-vis third parties were eliminated (see Appendix III).

Associates

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

Transactions between Group companies

Gains or losses on intra-Group transactions between consolidated companies are eliminated and are deferred until they are realized vis-à-vis third parties. The capitalized expenses of the Group work on non-current assets are recognized at production cost, and any intra-Group results are eliminated. Receivables and payables between consolidated Group companies and any intra-Group income and expenses were eliminated

e) First-time consolidation difference

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

f) Changes in the scope of consolidation

The changes in the scope of consolidation of the Realia Group (comprising Realia Business, S.A. and its subsidiaries) in 2016 and 2015 were as follows:

Inclusions in the scope of consolidation
There were no additions to the scope of consolidation of the Realia Group in 2016 and 2015.

Exclusions from the scope of consolidation

- 2016:

  On 12 February 2016, the company "Studio Residence Iberia Investimentos Imobiliarios, S.A." was excluded from the consolidation perimeter, after it announced its insolvency and an insolvency administrator was appointed; its stake was consolidated in the Group through the equity method (see Note 11).

  This operation generated a decrease of 59,000 Euros in consolidated reserves. Additionally, the company Portfolio Grandes Áreas Comerciales, S.A.U. was also excluded from the consolidation perimeter as a consequence of the merger between that company and Realia Patrimonio, S.L.U. (acquiring company, member of the Realia Group) on 9 May 2016. As a result of the merger, the company was dissolved without going into liquidation, and the equity of Portfolio was transferred in full to the acquiring company, through universal succession. This transaction had no impact on the consolidated equity of the Realia Group.

- 2015:

  In April 2015, the company Wilanow Realia SP, ZOO, 100% owned by the Group, was liquidated. This operation generated a profit of EURO 36 thousand, registered under the heading "Impairment and result of disposals of financial instruments" in the attached consolidated profit and loss account. Additionally, it generated a decrease of EUR 71 thousand in equity.

  In July 2015, the company Sociedad Fomento Inmobiliario Levantino, 51% of whose share capital was owned by the Realia Group, S.L., was liquidated. This transaction produced no profit or loss. Additionally, this variation represented a reduction of EUR 252 thousand in the amount controlled by external partners.

Other changes in the scope of consolidation:

- 2016:

  In April and July 2016, Realia Business S.A. made two capital injections to Guillena Golf S.L.U. for a total amount of EUR 438 thousand, in order to restore its equity position.

- 2015:
- On 26 May 2015, Guillena Golf, S.A. increased its share capital by EUR 30 thousand, with a share premium of EUR 270 thousand, with the purpose of restoring its equity position. On the same date, a reduction in the share capital was agreed for an amount of EUR 398 thousand, resulting in a final share capital of EUR 4 Million, and creating a restrictive voluntary reserve.

- In December 2015, Desarrollo Urbanístico Sevilla Este, S.L. (DUSE) made a capital decrease against share premium and results from previous years with the goal of restoring its equity position.

g) Comparative information

The information contained relating to 2015 contained in the consolidated financial statements is presented solely for comparison purposes with similar information relating to the year ended 31 December 2016.

h) Changes in accounting policies

No significant changes have taken place in 2016 over the criteria applied in 2015.

i) Correction of errors

No errors have been detected in the preparation of the attached consolidated statements that required the restatement of the amounts indicated in the consolidated financial statements of 2015.

3. Allocation of profit or loss of the Parent

The proposed allocation of the loss in 2016 formulated by the Directors of the Parent Company and pending approval by the General Meeting of Shareholders is the following:

	Thousands of Euros
Legal reserve	6,257
Negative results from previous years	56,313
Total	**62,570**

During 2016, the Parent has not paid out any interim dividends.

4. Valuation rules

The following accounting policies, standards, and valuation criteria were applied in the preparation of the consolidated financial statements of 2016:

a) Intangible assets

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

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

b) Property, plant and equipment

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

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

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

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

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

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

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

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

c) Property investments

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

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

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

According to IAS 40, the Group determines periodically the fair value of the property investments so that, at year-end, the reasonable value reflects the market conditions of the elements of the property investments on that date. Such fair value is determined annually, taking as reference values the valuations from independent experts.

The market value of the property investments of the Group as of 31 December 2016, calculated based on valuations from independent experts not related to the Group, amounts to 1,355,740 thousand Euros (excluding the “Los Cubos” building, which has been reclassified during the year to “Non-current Assets Held for Sale” (see Note 10).

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

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

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

e) Leases

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

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, which usually has the option to purchase the asset at the end of the lease term, on the conditions agreed upon in the lease.

When the consolidated companies act as the lessor of an asset, the aggregate present values of the lease payments receivable from the lessee plus the price of exercising the purchase option are classified as financing provided to third parties for the Group’s net investment in the leases.

When the consolidated companies act as the lessor of an asset, the aggregate present values of the lease payments receivable from the lessee plus the price of exercising the purchase option are classified as financing provided to third parties for the Group’s net investment in the leases.

When the consolidated companies act as the lessee, they present the cost of the leased asset in the consolidated balance sheet and, simultaneously, recognize a liability for the same amount (which will be the lower of the fair value of the leased asset and the aggregate present value of the amounts payable to the lessor plus, where applicable, the price of exercising the purchase option). The depreciation policy for depreciable-leased assets is consistent with that for depreciable assets that are owned.

In both cases, the finance income and charges arising under finance lease agreements are credited and charged, respectively, to the consolidated statement of profit or loss to reflect a constant periodic rate of return over the term of the agreements.

Operating leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards related to the leased asset remain with the lessor.

When the consolidated companies act as the lessor, they present the acquisition cost of the leased asset under “Investment Property”. These assets are depreciated using a policy consistent with the lessor’s normal depreciation policy for similar items and leased income is recognized in the consolidated statement of profit or loss on a straight-line basis.

When the consolidated companies act as the lessee, lease costs, including any incentives granted by the lessor, are recognized as an expense on a straight-line basis.

Asset exchange transactions

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

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

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

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

f) Inventories

“Inventories” in the consolidated balance sheet includes assets that the consolidated companies:

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

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

Land and building lots are recognized at acquisition cost, plus any urban development costs, if any and the costs incurred in connection with the purchase (property transfer tax, registration expenses, etc.) and the financial expenses derived from their financing during the execution of works, or their realizable value, is this is lower. At the start of the development works, the accumulated cost of the land is transferred to “Developments in Progress”, and development starts.

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

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

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

The carrying amount of the Group’s inventories was adjusted by recognizing the corresponding impairment loss, in order to bring it in line with the market value determined by an independent valuation expert in an appraisal conducted on 31 December 2016, when the fair value was lower than the carrying amount.

Thus, the valuations by independent experts have been conducted pursuant to Order ECO 805/2003 of March 27, amended by order EHA 3011/2007 of October 4, and by Order EHA 564/2008 of February 28, that establishes the valuation rules of fixed assets and certain rights for certain financial purposes (which allows for appraisals through different methods, according to the urban development and they type of asset) (see Note 14).

g) Trade receivables

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

h) Customer advances

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

i) Financial assets

Financial assets and liabilities are recognized in the Group’s consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognized at acquisition cost, including transaction costs.

The financial assets held by the Group companies are classified as:

- Held-for-trading financial assets: assets acquired by the companies with the intention of generating a profit from short-term fluctuations in their prices or from differences between their purchase and sale prices.

- Held-to-maturity investments: financial assets with fixed or determinable payments and fixed maturity. The Group has the positive intention and ability to hold them from the date of purchase to the date of maturity. They do not include loans and receivables originated by the company.

- Originated loans and receivables: financial assets originated by the company in exchange for supplying cash, goods or services directly to a debtor.

Held-to-maturity investments and loans and receivables are valued at amortized cost. Held-for-trading financial assets and available-for-sale financial assets are measured at fair value at subsequent valuation dates. In the case of marketable securities, gains and losses from changes at fair value are recognized in the net profit or loss for the year. In the case of available-for-sale investments, the gains and losses from changes in fair value are recognized directly in equity until the asset is disposed of or it is determined that it has become impaired, at which time the cumulative gains or losses previously recognized in equity are recognized in the net profit or loss for the year.

j) Financial liabilities and equity

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

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

Conversion differences

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

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

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

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

The conversion differences of the foreign companies included in the scope of consolidation, which applied the closing rate method, are recognized net of tax, under “Equity – Valuation adjustments” in the attached consolidated balance sheet. These conversion differences are not material.

Equity instruments

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

Bank loans

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

Trade payables

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

k) Shares of the Parent

All the shares of the Parent are deducted from equity. At 31 December 2016, the Parent held 610,000 treasury shares, the acquisition cost of which amounted to EUR 675 thousand (EUR 1.11/share). No treasury shares were traded during 2016 and 2015 (see Note 17).

l) Provisions

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

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

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

m) Termination benefits

Under current legislation, companies are required to pay termination benefits to employees terminated without just cause, under certain conditions, Therefore, termination benefits that can be reasonably quantified are recognized as an expense in the year in which the decision to terminate the employment relationship is taken. The attached consolidated financial statements include a provision for EUR 70 thousand in this connection at 31 December 2016.

n) Pension plans and similar obligations

For employees with at least two years' service, the Parent has externalized a defined contribution pension plan to provide benefits in the form of a lump sum. The annual contribution consists of 7% of the employees' annual fixed remuneration plus 3% of their annual variable remuneration, excluding incentives and commissions. The total accumulated contribution at 31 December 2016 amounted to EUR 6,737,000 (EUR 6,522,000 in 2014). The annual contribution is recognized under "Staff costs" in the consolidated statement of profit or loss (see Note 24.d). The Parent also has an insurance policy to cover the amounts that, in application of the established percentages, exceed the maximum legal contribution to employee pension funds.

ñ) Income Tax

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

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

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

Deferred tax assets and liabilities are taxes expected to be recovered or payable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the calculation of taxable profit. Deferred tax assets and liabilities are accounted for using the balance sheet liability method and are measures by applying to the related temporary difference or tax asset the tax rate that is expected to apply in the period when the asset is realized or the liability is settled.

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

Notwithstanding the above:

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

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

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

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

Tax system in Spain

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

o) Revenue and expense recognition

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

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

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

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

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

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

p) Borrowing costs

Borrowing costs directly attributable to the construction of the Group's investment property and inventories, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale. In 2016 and 2015, no borrowing costs were capitalized in this connection.

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

q) Profit (loss) from operations

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

r) Consolidated cash-flow statement

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

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

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

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

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

s) Non-current assets held for sale

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

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

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

t) Foreign currency transactions and balances

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

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

The equivalent euro value of the total foreign currency assets and liabilities held by the Group at 31 December 2016, which were not material, related in full to the Group companies Realia Polska Inwesctycje, Z.O.O. and Realia Contesti, S.R.L.

u) Current assets and liabilities

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

	Thousands of Euros	
	2016	2015
Inventories (Note 14)	251,449	294,407
Total current assets	**251,449**	**294,407**
Bank borrowings	2,181	3,611
Other financial liabilities	350	1,991
Trade and other payables	2,576	3,544
Total current liabilities	**5,107**	**9,146**

At 31 December 2016, the balance of "Bank Borrowings" in the table above related to mortgage loans.

v) Costs passed on to tenants

The Group treats as income the costs passed on to the lessees of its investment property. The amounts billed in this connection, which in 2016 and 2015 totaled EUR 15,573 thousand and EUR 15,789 thousand respectively, are recognized under "Other operating income" in the attached consolidated statement of profit or loss (see Note 24.b).

w) Sales of investment property

The Group recognizes the net income obtained from the sale of investment property under "Gains or Losses on Sales of Investment Property" in the attached consolidated statement of profit or loss. In 2016 and 2015, this income relates to price adjustments, arising on sales transactions in previous years, amounting to EUR 437 thousand and 115 thousand, respectively.

5. Accounting standards and interpretations

In 2016, the following new standards, amendments and interpretations came into force and, where applicable, were used by the Group in the preparation of the consolidated financial statements:

a) New mandatory standards, modifications and interpretations in force as of January 1 2016:

Approved for use in the European Union		**Mandatory application in annual reporting periods beginning on:**
Amendment to IAS 19 – Employee contributions to defined benefit plans (published in November 2013)	Amendment to facilitate the possibility of deducting these contributions to the cost of service in the same period in which they are paid, if some requirements are met	1 February 2015
Improvements to IFRS 2010-2012 Cycle (published in December 2013)	Minor amendments to a series of standards	1 February 2015
Amendment of IAS 16 and IAS 38 – Acceptable methods of depreciation and amortization (published in May 2014)	Clarifies the acceptable methods of depreciation and amortization of tangible and intangible fixed assets	1 January 2016
Amendment to IFRS 11 – Recognition of acquisitions of stakes in joint ventures (published in May 2014)	Specifies the method of recognition of a stake in a joint venture whose activity represents a business	1 January 2016
Amendment to IAS 16 and IAS 41: Production plants (published in June 2014)	Production plants will be recognized at cost, and not at fair value	1 January 2016
Improvements to IFRS 2012-2014 Cycle (published in December 2014)	Minor amendments to a series of standards	1 January 2016
Amendment to IAS 27 Equity Method in Separate Financial Statements (published in August 2014)	Allows for use of the equity method in the individual financial statements of an investor	1 January 2016
Amendment to IAS 1 – Breakdown initiative (December 2014)	Several clarifications related to breakdowns (materiality, aggregation, order of the notes, etc.)	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28: investment companies (December 2014)	Classifications on the exception to consolidation of investment companies	1 January 2016

The application of these amendments had no relevant impact on the consolidated Financial Statements as at 31 December 2016, either because they represent no relevant changes or because they refer to facts not affecting the Grupo Realia Business, S.A.

b) Standards, amendments and interpretations issued pending enforcement

On the date of these consolidated Financial Statements, the following standards and interpretations had been issued by the IASB but had not come into force yet, either because their effective date is later than the date of the consolidated financial statements, or because they have not been adopted yet by the European Union:

		Mandatory application in annual reporting period beginning on:
Not yet approved for use by the European Union		
New standards		
IFRS 9 Financial instruments (last phase published in July 2014)	Supersedes the requirements for classification, financial asset and liability valuation, write-offs and accounting of hedges under IAS 39	1 January 2018
IFRS 15 Revenues from contract with clients (published in May 2014)	New standard for the recognition of revenues (Supersedes IAS 11, IAS 18, IFRIC 13, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)	1 January 2018
IFRS 16: Leases (published in January 2016)	Supersedes IAS 17 and related interpretations. The main change is that the new standard proposes a single accounting model for lessees, which must include in the balance sheet all leases (with some restricted exceptions) with a similar impact to that of current financial leases (assets will be amortized by their right of use and a financial expense for the amortized cost of liabilities).	1 January 2019
Amendments and/or interpretations		
Amendment to IAS 7: Breakdown initiative (published in January 2016)	Introduces additional breakdown requirements in order to improve the information given to users	1 January 2017
Amendment to IAS 12: Recognition of assets by deferred taxes for unrecognized losses (published in January 2016)	Classification of the principles established for the recognition of assets by deferred tax for unrecognized losses	1 January 2017
Amendment to IFRS 2: Classification and valuation of share-based payment transactions (published in January 2016)	Limited amendments that clarify some specific issues such as the effects of the conditions for accrual in share-based payments in cash, the classification of share-based payments when there are settlements clauses for net amounts and some aspects of the changes in share-based payment transactions	1 January 2018
Amendment o IFRS 10 and IAS 28: Sale or provision of assets between an investor and its associate/joint venture (published in September 2014)	Clarification of the result of these transactions in businesses or assets	No set date
Amendment to IFRS 3: Insurance contracts	Allows entities within the scope of IFRS 4 the option to apply IFRS 9 (“overlay approach”) or its temporary exception.	1 January 2018

Amendments and/or interpretations		
Amendment to IAS 40: re-classification of property investments	Amendment that clarifies that a reclassification of an investment from or to a property investment is only allowed when there is evidence of a change in its use	1 January 2018
Improvements to IFRS 2014-2016 Cycle	Minor amendments to a series of standards (different effective dates)	1 January 2017 1 January 2018
IFRIC 22 Transactions and advances in foreign currency	Establishes the "transaction date" for the purposes of determining the exchange rate applicable to transactions with advanced payments in foreign currency	1 January 2018

The Group is currently evaluating the impact of the future application of these standards on the financial statements, once they come into force. In principle, the Group considers that the application of these standards will not have a material impact.

6. Basic and diluted earnings per share

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

Accordingly:

	2016	2015
Net loss for the year attributable to the Parent (thousands of euros)	115,696	17,205
Weighted average number of shares outstanding	459,637,133	307,181,152
Basic earnings per share (euros)	0.252	0.056

As of 31 December 2016 and 2015, the diluted earnings per share were the same as the basic earnings per share, since there were no debentures or shares that could potentially be converted into ordinary shares.

7. Segment reporting

a) Basis of segmentation

Segment report is structured on a primary basis by a business segment and on a secondary basis, by geographical segment.

Primary business segments

The business lines described below were established based on the Realia Business Group's organizational structure at the end of 2016 and 2015, taking into account, on the one hand, the nature of the goods and services offered and, on the other, the customer segments at which they are targeted.

In 2016, the Realia Group engaged mainly in the following major lines of business, which provides the bases on which the Group present the information on its primary segments:

1. Sale of property developments and land
2. Property rentals

Secondary segments – geographical segments

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

b) Basis and methodology for segment reporting

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

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

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

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

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

Primary segment information

	Thousands of euros							
	Sale of property developments and land		Property rentals		Consolidation adjustments		Total Group	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenue:								
External sales (1)	22,008	14,945	75,163	79,984	-	-	91,171	94,929
Inter-segment sales	1,895	1,896	410	409	(2,305)	(2,305)	-	-
Total revenue	**23,903**	**16,841**	**75,573**	**80,393**	**(2,305)**	**(2,305)**	**97,171**	**94,929**
Result:								
Profit (loss) from operations	(53,943)	(12,658)	45,596	41,069	-	-	(8,347)	28,411
Variation in property investments	(1,398)	17	50,584	26,740			49,186	26,757
Financial profit (loss)	107,825	(16,999)	(1,821)	(2,437)	-	-	106,004	(19,436)
Share of result of associates	(4,721)	(36)	3,674	3,325	-	-	(1,047)	3,289
Net impairment	-	(2)	-	-	-	-	-	(2)
Profit (loss) before tax	47,763	(29,678)	98,033	68,697	-	-	145,796	39,019
Income tax	27,611	3,824	(43,292)	(16,796)	-	-	(15,681)	(12,972)
Non-controlling interests	(2,927)	6	17,346	8,836	-	-	14,419	8,842
Segment result	78,301	(25,860)	37,395	43,065	-	-	115,696	17,205

(1) The revenue of the "Property rentals" segment includes the sales of investment property (see Note 4.w) and the billings of costs passed on to tenants (see Note 4.v) and others, since the Group uses this presentation for internal management purposes. Note 24.a contains a breakdown of revenue by geographical area. Inter-segment transactions are performed on an arm's length basis.

	Thousands of Euros							
	Sale of Property Development and Land		Property Rentals		Consolidation Adjustments		Total Group	
	2016	2015	2016	2015	2016	2015	2016	2015
Other information: Additions to fixed assets	61	45	5,144	6,564	-	-	5,205	6,609
Depreciation and amortization charge:	(98)	(154)	(278)	(290)	-	-	(376)	(444)
Net impairment recognized In profit or loss								
Inventories and other assets	(43,517)	(2,074)	(707)	(10,866)	-	-	(44,224)	(12,940)
Balance sheet: Assets Segment assets	512,644	629,859	1,971,409	2,012,780	(470,199)	(445,253)	2,013,854	2,197,386
Equity investments in associate companies	12,050	16,855	33,170	30,468	-	-	45,220	47,323
Total consolidated assets	**524,694**	**646,714**	**2,004,579**	**2,043,248**	**(470,199)**	**(445,253)**	**2,059,074**	**2,244,709**
Liabilities Segment liabilities	524,694	646,714	2,004,579	2,043,248	(470,199)	(445,253)	2,059,074	2,244,709
Total consolidated liabilities	**524,694**	**646,714**	**2,004,579**	**2,043,248**	**(470,199)**	**(445,253)**	**2,059,074**	**2,244,709**

Secondary segment information

The detail of certain of the Group's consolidated balances based on the geographical location of the companies that gave rise to them is as follows:

	Thousands of Euros							
	Income		Non-current assets		Total Assets		Additions to Property Investments, Property Plant and Equipment and Intangible Assets	
	2016	2015	2016	2015	2016	2015	2016	2015
Spain	96,578	94,705	1,533,819	1,537,998	2,052,497	2,237,703	5,205	6,609
Portugal	310	-	-	85	2,594	3,429	-	-
Other	283	224	-	-	3,983	3,577	-	-
	97,717	**94,929**	**1,553,819**	**1,538,083**	**2,059,074**	**2,444,709**	**5,205**	**6,609**

8. Intangible assets

The changes in the various intangible asset items in 2016 and 2015 were as follows:

	Thousands of Euros
	Other Intangible Assets
Cost:	
Balances as at 31 December 2014	2,336
Additions	24
Disposals	(1,577)
Balances as at 31 December 2015	**783**
Additions	38
Disposals	(3)
Balances as at 31 December 2016	**818**
Accumulated amortization:	
Balances as at 31 December 2014	(2,289)
Provisions	(39)
Disposals	1,576
Balances as at 31 December 2015	**(752)**
Provisions	(18)
Disposals	-
Balances as at 31 December 2016	**(770)**
Net intangible assets:	
Balances as at 31 December 2015	31
Balances as at 31 December 2016	48

The balances as at 31 December 2016 and 2015 relate mainly to computer software.

During 2016 and 2015, the Group recognized an amortization charge for intangible assets of EUR 18 thousand and EUR 39 thousand respectively, under “Depreciation and amortization charge” in the attached state of profit or loss.

Fully amortized intangible assets still in use as of 31 December 2016 and 2015 amounted to EUR 742 thousand and 727 thousand, respectively.

9 Property, plant and equipment

The changes in “Property, Plant and Equipment” in the consolidated balance sheet in 2015 and 2014 were as follows:

	Thousand Euros		
	Buildings, Plant and Equipment	Other items of Property, Plant and Equipment	Total
Cost:			
Balances as at 31 December 2014	**5,380**	**5,696**	**11,076**
Additions	6	145	151
Disposals	-	(504)	(504)
Transfers and other (Note 10)	(544)	-	(544)
Balances as at 31 December 2015	**4,842**	**5,337**	**10,179**
Additions	-	46	46
Disposals	(5)	(36)	(41)
Transfers and others (Note 10)	-	(3)	(3)
Balances as at 31 December 2016	**4,837**	**5,344**	**10,181**
Accumulated depreciation: **Balances as at 31 December 2014**	**(1,219)**	**(3,705)**	**(4,924)**
Provisions	(115)	(290)	(405)
Disposals	-	503	503
Transfers and others	39	(1)	(38)
Balances as at 31 December 2015	**(1,295)**	**(3,493)**	**(4,788)**
Provisions	(105)	(250)	(355)
Disposals	1	29	30
Transfers and others	4	1	5
Balances as at 31 December 2016	**(1,395)**	**(3,713)**	**(5,108)**
Impairment losses: **Balances as at 31 December 2014**	**(130)**	**-**	**(130)**
Balances as at 31 December 2015	**(45)**	**-**	**(45)**
Provisions	-	-	-
Transfers and others	-	-	-
Balances as at 31 December 2016	**(45)**	**-**	**(45)**
Property, plant and equipment, net:			
Balances as at 31 December 2015	**3,502**	**1,844**	**5,346**
Balances as at 31 December 2016	**3,397**	**1,631**	**5,028**

“Buildings, Plant and Equipment” includes mainly the offices used by the Group in Spain, owned by Realia Business, Realia Patrimonio and Hermanos Revilla, with a carrying amount of EUR 3,112 thousand and EUR 3,167 thousand, as at 31 December 2016 and 2015, respectively.

At 31 December 2016, the cost of the building lots included under “Buildings, Plant and Equipment” amounted to EUR 865 thousand.

The fair value of the Group’s assets or “Net Asset Value”, included under “Buildings, Plant and Equipment” at 31 December 2016, calculated on the basis of appraisals conducted by independent experts not related to the Group, as described in Note 4.c, amounted to EUR 14,763 thousand (EUE 12,849 thousand at 31 December 2015).

In 2016 and 2015, the Group recognized a depreciation charge for property, plant and equipment of EUR 355 thousand and EUR 405 thousand, respectively, recognized under “Depreciation and Amortization charge” in the attached consolidated statement of profit or loss.

Fully depreciated items of property, plant and equipment amounted to EUR 2,668 thousand at 31 December 2016, and EUR 2,519 thousand at 31 December 2015.

The Group takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At the end of 2016, the property, plant and equipment were fully insured against this risk.

10. Investment property

The changes in “Investment Property” in the consolidated balance sheet in 2016 and 2015 were as follows:

	Thousands of Euros		
	Rental buildings	**Under construction and advances**	**Total**
Balance as at 31 December 2014	**1,319,876**	**963**	**1,320,839**
Additions	1,524	4,912	6,436
Disposals	(13)	-	(13)
Transfers	3,729	(3,312)	417
Changes in fair value	26,757	-	25,757
Balances as at 31 December 2015	**1,351,873**	**2,563**	**1,354,436**
Additions	1,350	3,771	5,121
Disposals	(3)	-	(3)
Transfers to ANCMV (Note 13)	(52,738)	(262)	(53,000)
Transfers	3,686	(3,686)	-
Changes in fair value	49,186	-	49,186
Balance as at 31 December 2016	**1,353,354**	**2,386**	**1,355,740**
Property investments:			
Balances as at 31 December 2015	1,351,873	2,563	1,354,436
Balances as at 31 December 2016	1,353,354	2,386	1,355,740

Property investment is recognized at fair value. The amount recognized in the profit and loss account for the fair value valuation of property investments at year end amount to a revenue of EUR 49,186 thousand (EUR 26,757 in 2015), recognized under “Variation in value of property investments” in the attached consolidated financial statement.

Buildings for rental

The most significant additions in 2016 were the following:

- The subsidiary Hermanos Revilla, S.A. capitalized EUR 918 thousand in connection with the refurbishment of owned property.
- The subsidiary Realia Patrimonio, S.L.U. capitalized EUR 429 thousand in connection with the refurbishment of owned property.

The most significant additions in 2015 were the following:

- The subsidiary Hermanos Revilla, S.A. capitalized EUR 1,299 thousand in connection with the refurbishment of owned properties.

- The subsidiary Realia Patrimonio S.L.U. capitalized EUR 224 thousand in connection with the refurbishment of owned properties.

No significant disposals took place in 2016 and 2015.

Investment property under construction and advances

The main additions to and transfers to/from "Investment Property under Construction" in 2016 related mainly to the following items:

- Realia Patrimonio S.L. capitalized EUR 1,534 thousand in connection with the refurbishment of owned properties. Once refurbishment is complete, part of these costs was transferred to the heading "Buildings for rental".

- The subsidiary Hermanos Revilla S.A. has capitalized EUR 2,236 thousand for the improvement work to several owned buildings; once these works are completed, part of these costs was transferred to "Buildings for Rental"

The main additions to and transfers to/from "Investment Property under Construction" in 2015 related mainly to the following items:

- Realia Patrimonio S.L. has allocated EUR 739 thousand for renovation works in its buildings.

- The subsidiary Hermanos Revilla S.A. has capitalized EUR 4,005 thousand for the improvement work to the several buildings; once these works are completed, part of these costs were transferred to "Buildings for Rental"

At the end of 2016, Realia Patrimonio transferred the building "Edificio Los Cubos" to "Non-Current Assets Held for Sale". The fair value of this building amounted to EUR 53,000 thousand, as a result of the action plan for the short-term sale of that asset by the directors (see Note 13).

Pursuant to the revised IAS 23, the Group capitalizes the borrowing costs associated with investment property under construction that takes a period of over twelve months to get ready for its intended use or sale. The Group did not capitalize any interests for this concept in 2016 and 2015.

<u>Measurement of fair value and sensitivity</u>

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

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

The determination of the market value of property investments as at 31 December 2016 and 2015, calculated on the basis of appraisals conducted by independent experts not related to the Group, amounts to EUR 1,355,740 thousand and EUR 1,354,436 thousand, respectively. The market value of property investments as at 31 December 2016 does not include the value of the Los Cubos Building, EUR 53,000 thousand, which was transferred to "Assets held for sale".

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

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

For property investments owned by companies of the development segment of the Group (just two assets), their value was appraised by independent experts according to their fair value determined on the basis of appraisals conducted by independent experts, according to the standards and methodology of Order ECO/805/2003 of 27 March, amended by Order EHA/3011/2007 of 4 October, and by Order EHA/564/2008 of 28 February, which establishes the valuation rules for real estate property and some rights for some financial purposes (according to which appraisals can be made using different methods, according to the urban development and the type of asset).

The main hypotheses used in the calculation of the fair value of property investments were the following:

	Net Initial Yield	Average discount rate
Offices	4.6%	7.9%
Shopping centers	5.3%	10.1%
Other assets	5.1%	8.5%

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

	Thousands of Euros	
	Assets	Consolidated net profit (loss)
Increase of the yield rate by one quarter of a point	(36,207)	(27,155)
Decrease of the yield rate by one quarter of a point	40,750	30,563

The breakdown of "Variation in value of property investments" before the transfer of the "Los Cubos" building to "Assets held for Sale" in the consolidated financial statements is the following:

Type of Asset	Thousands of Euros	
	2016	2015
Offices	52,598	18,211
Shopping centers	(3,572)	7,240
Other assets	160	1,306
	49,186	**26,757**

Breakdown of fair value of property investments

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

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

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

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

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

	2016
Recurrent fair value valuations	Level 3
Property investments	
Offices (1)	1,003,840
Shopping centers	260,390
Other assets (2)	91,510
Total assets valued at fair price	**1,355,740**

	2015
Recurrent fair value valuations	Level 3
Property investments	
Offices	1,000,932
Shopping centers	238,622
Other assets	114,882
Total assets valued at fair value	**1,354,436**

(1) Figure for 2015 do not include the "Edificio Los Cubos" building, valued at EUR 56,500 thousand, classified as at 31.12.2016 as "Non-current asset held for sale" for an amount of EUR 53,000 thousand (see Note 13).
(2) The "Manuel Becerra" building has been reclassified in the changes, transferred from other assets to commercial property for an amount of EUR 24,300 thousand.

No assets have been transferred between the different levels during 2016.

Location, occupancy rates and use

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

	Square meters for rental		Occupancy rate (%)	
	2016	2015	2016	2015
Madrid (1)	249,818	249,292	95,95	93,09
Barcelona	32,325	32,321	94,98	84,23
Logroño	40,544	36,332	100	100.00
Seville (2)	8,735	8,735	84.82	88.14
Guadalajara	31,996	31,997	86.32	88.10
Rest	16,707	16,707	61.12	62.51
	380,125	**375,384**	**93.70**	**91.10**

(1) Does not include the Los Cubos Building, with 18,324 sq. m.
(2) Does not include the Guillena Golf Course.

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

	Square meters for rental		Use (%)	
	2016	2015	2016	2015
Offices (1)	226,721	226,191	59.64	60.26
Commercial	110,147	110,419	28.98	29.34
Other (2)	43,257	39,044	11.38	10.40
	380,125	**375,384**	**100.00**	**100.00**

(1) Does not include the Los Cubos Building, with 18,324 sq. m.
(2) Does not include the Guillena Golf Course.

Rental income, including income arising from passed-on expenses, from investment property owned by the consolidated companies amounted to EUR 74,726 thousand and EUR 79,876 thousand in 2016 and 2015, respectively (see Notes 24.a and 24.b), and the related operating expenses, excluding impairment, amounted to approximately EUR 24,080 thousand and EUR 24,140 thousand, respectively. Revenues from rents and passed-on expenses in 2015 include the revenues generated by the Los Cubos Building, EUR 6,756 thousand.

The only items of investment property with mortgage charges are:

	Thousands of Euros			
	Fair value		Mortgage loan drawn down	
	2016	2015	2016	2015
Building at c/ Salvador de Madariaga	86,100	85,000	10,675	14,233
Building at Albasanz, 16	56,000	56,000	21,619	23,119
Total investments with mortgage charge	**142,100**	**141,000**	**32,294**	**37,352**

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

At 31 December 2016 and 2015, there were no investment properties to which the title was restricted.

11. Investments in associates

The detail, by company, of “Investments in Associates” at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
As Cancelas Siglo XXI, S.L.	33,171	30,468
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	11,929	16,641
Studio Residence Iberia Investment Inmobilir, S.A.	-	85
Desarrollo urbanístico Sevilla Este, S.L.	-	-
Ronda Norte Denia, S.L.	120	129
	45,220	**47,323**

The market value of the Group’s investment in the associate Desarrollo Urbanístico Sevilla Este, S.L. is considered as zero on the basis of the directors’ estimates based on the company’s viability in view of the current situation of the property and credit markets.

On 12 February 2016, the company “Studio Residence Iberia Investimentos Imobiliarios S.A.” was removed from the consolidation perimeter after being declared insolvent and a judicial administrator was appointed; the stake in that company was consolidated in the Group through the equity method.

Pursuant to IAS 40, the Group determines periodically the fair value of the elements of the property investments of the Group’s companies by the equity method so that, at the end of the reporting period, the fair value reflects the market conditions of the property investment elements on that date. Such fair value is determined annually taking as a reference the valuations made by the independent expert (see Note 10). As at 31 December 2016 and 2015, the valuation of the property investments of the Group’s companies through the equity method amounted to EUR 50,800 thousand and EUR 49,000 thousand, respectively. This value has been increased in the Group’s ownership interest.

The value of the inventories of the companies accounted for using the equity method in proportion to the ownership interest therein at 31 December 2016 and 2015, calculated on the basis of appraisals conducted by independent experts not related to the Group, as described in Note 4.f, amounted to EUR 18,000 and EUR 22,734 thousand, respectively, excluding the inventories of Desarrollo Urbanístico Sevilla Este, S.L. as value of the ownership interest was considered to be zero. Furthermore, according to appraisals from independent experts, the Parent has recognized an impairment of EUR 4,554 thousand as a result of its stake in the company “Inversiones Inmob. Rústicas y Urbanas 2000, S.L.”.

The changes to this item of the attached consolidated balance sheet are the following:

	Thousands of Euros					
	As Cancelas Siglo XXI, S.L. (50%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Studio Residence Iberia Investiment. Inmobilir. S.A. (50.00%)	Desarrollo Urbanístico Sevilla Este, S.L. (30.52%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balances as at 1 January 2015	**30,469**	**16,641**	**84**	**-**	**129**	**47,323**
Dividends	(973)	-	-	-	-	(972)
Profit (loss) for the year (Note 24.e)	3,675	(4,712)	(1)	-	(9)	(1,047)
Other changes	-	-	(83)	-	-	(84)
Balances as at 31 December 2016	**33,171**	**11,929**	**-**	**-**	**120**	**45,220**

No changes in the ownership percentages have taken place in 2016.

In 2016, the company Sociedad As Cancelas Siglo XXI, S.A. paid out dividends to its Parent Realia Patrimonio, S.A.U, for an amount of EUR 973 thousand.

The impact of the change in valuation standard of the property investments to IAS 40 Fair Value is included in the profit (loss) figures for the reporting period (see Note 24.e).

The detail of the assets, liabilities and the main figures in the statement of profit or loss of associates at 31 December 2016 and 2015, according to its ownership interest, is as follows:

31 December 2016:

	Thousands of Euros				
	As Cancelas Siglo XXI, S.L. (50%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Desarrollo Urbanístico Sevilla Este, S.L. (30.52%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balance sheet:					
Non-current assets	39,821	275	7,417	-	47,513
Current assets	1,277	18,068	72,745	598	92,688
Total assets	**41,098**	**18,343**	**80,162**	**598**	**140,201**
Equity	24,383	11,577	(13,631)	121	22,450
Non-current liabilities	15,483	2,084	-	-	17,567
Current liabilities	1,232	4,682	93,793	477	100,184
Total equity and liabilities	**41,098**	**18,343**	**80,162**	**598**	**140,201**
Statement of profit or loss:					
Revenues	6,132	2	-	2	6,135
Profit (loss) from operations	2,206	(5)	(3)	(1)	(2,197)
Profit (loss) before tax	1,965	(11)	(3,088)	(8)	(1,142)
Profit (loss) for the year (1)	1,474	(8)	(2,316)	(8)	(858)

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

31 December 2015:

	Thousands of Euros					
	As Cancelas Siglo XXI, S.L. (50%)	Inversiones Inmob. Rústicas y Urbanas 2000, S.L. (33.36%)	Studio Residence Iberia Investiment. Inmobilir.S.A. (50.00%)	Desarrollo Urbanístico Sevilla Este, S.L. (30.52%)	Ronda Norte Denia, S.L. (32.63%)	Total
Balance sheet:						
Non-current assets	40,932	272	-	7,687	-	48,891
Current assets	1,873	17,033	118	68,590	637	88,251
Total assets	**42,805**	**17,305**	**118**	**76,277**	**637**	**137,142**
Equity	23,881	10,549	85	(14,425)	129	20,219
Non-current liabilities	994	2,084	-	-	-	3,078
Current liabilities	17,930	4,672	33	90,702	508	113,845
Total equity and liabilities	**42,805**	**17,305**	**118**	**76,277**	**637**	**137,142**
Statement of profit or loss:						
Revenues	4,282	-	-	-	431	4,713
Profit (loss) from operations	1,916	(14)	(7)	(150)	(6)	1,739
Profit (loss) before tax	1,343	(34)	(7)	(3,380)	(14)	(2.092)
Profit (loss) for the year (1)	977	(25)	(7)	(2,535)	(14)	(1,604)

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

12. Joint ventures

Part of the Group's business operations are performed through joint ventures over which the Realia Group exercises joint control together with other non-Group partners. These joint ventures were proportionately consolidated as indicated in Note 2.d. Joint control over these ventures is established through interests in entities with various legal forms: unincorporated temporary joint ventures ("UTEs") and joint-property entities ("CBs").

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

The main aggregates at 31 December 2016 and 2015 of the joint property entities (included in Appendix III) included in the consolidated financial statements of Realia Business are as follows:

	Thousands of Euros	
	Joint Property Entities	
	2016	**2015**
Revenue	609	618
Profit (loss) from operations	1	72
Non-current assets	1	1
Current assets	6,415	6,906
Non-current liabilities	24	24
Current liabilities	147	148

At 31 December 2016 and 2015, the Group companies did not have any commitments to purchase property, plant and equipment to be contributed to the joint ventures. Similarly, no commitments, to purchase property, plant and equipment had been assumed directly by the joint ventures in those years.

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

13. Non-current assets held for sale

Realia Patrimonio is firmly determined to sell the building called "Edificio Los Cubos" in the short term. Since the criteria established by the general accounting plan to classify that asset as non-current asset held for sale are met, the Company decided to make the corresponding reclassification at the end of 2016.

The detailed description of the asset classified as such is as follows:

Non-current assets held for sale	**2016**
Buildings for rental	52,738
Work in progress and advances	262
Total transfer (see Note 10)	**53,000**

13.1 Inventories

The detail of “Inventories” at 31 December 2016 and 2015, which relate mainly to property for residential use, is as follows:

	Thousands of Euros					
	2016			2015		
	Cost	Write-downs	Net	Cost	Write-downs	Net
Land and building lots	673,651	(449,302)	224,349	672,873	(411,339)	261,534
Sundry materials	5	-	5	6	-	6
Long-cycle construction work in progress	49,047	(21,947)	27,100	49,045	(16,172)	32,873
Completed buildings	80,219	(18,233)	61,986	96,799	(17,772)	79,027
Advances to suppliers	2,039	-	2,039	2,905	-	2,905
	804,961	**(489,482)**	**315,479**	**821,628**	**(445,283)**	**376,345**

The market value of the Group’s inventories at 31 December 2016 and 2015, calculated based on the appraisals conducted in 2016 and 2015 by independent experts not related to the Group, amounted to EUR 341,209 thousand and EUR 420,599 thousand, respectively. As a result, due to the eliminations due to sales and to write-downs and reversals recognized for these inventories in line with their market value, the Group recognized a net reversal of write-downs amounting to EUR 44,224 thousand (2015: impairment loss of EUR 12,940 thousand) (Note 24.i).

The inventories owned by companies in the property development line of business were appraised by independent experts in accordance with the principles and methodology provided in Ministry of Finance Order ECO/805/2003, of 27 March, amended by Ministry of Economy and Finance Order EHA/3011/2007, of 4 October, and by Ministry of Economy and Finance Order EHA/564/2008, of 28 February, which establishes the measurement bases for property and certain rights for certain financial purposes (whereby appraisals may be conducted using various methods, according to the urban development and the type of assets involved). Market value was calculated using the comparative and dynamic residual methods. Using the comparative method, the value of the land being appraised is obtained by analyzing comparables in the property market based on specific information on recent actual transactions and firm offers involving land that is comparable and uniform with the land that is the subject of analysis and measurement. In the indicated selection, any prices deemed unusual were compared in advance in order to identify and eliminate prices arising from transactions and offers that fail to meet the terms and conditions required in the definition of the market value of the related assets, and those that could include speculative items. Using the dynamic residual method, the current value of land is calculated by taking into account the future cash flows associated with it, including both collections and payments, based on assumptions relating to prices and development, construction and marketing periods.

In the case of the inventories owned by companies in the Group’s property management line of business, in 2016 and 2015 the methodology used in the valuations to determine the fair value of the Group’s inventories is determined in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) and the International Valuation Standards (IVS), issued by the International Valuation Standards Committee (IVSC), organizations which group together, respectively, the international and European valuation institutions.

To calculate the fair value, the comparison valuation method (for completed developments) and static and dynamic residual methods (for land and building lots and property developments in progress) were used. By means of the dynamic residual method, the residual value of the property under valuation is obtained by discounting the established cash flows based on an estimate of future expenses and income, taking into consideration the period that must elapse until the aforementioned cash flows are realized, at the established discount rate. The total cash income already considered to have been realized prior to the date of valuation is added to the result of the calculation to give the total value. The discount rate used is that which represents the project annual average yield, without taking into account external financing, which an average developer would obtain from a development with the same characteristics as that analyzed.

In any case, the current situation of the residential market may give rise to differences between the fair value of the Group's inventories and the effective realizable value thereof.

The changes in "Inventories" in the years ended 31 December 2016 and 2015, disregarding the impairment losses, were as follows:

	Thousands of Euros					
	Land and building lots	Short-cycle developments in progress	Long-cycle developments in progress	Completed buildings	Embodiment items	Total
Balance as at 31 December 2014	**672,265**	**-**	**49,047**	**110,968**	**6**	**832,286**
Exchange rate changes	(112)	-	(7)	-	-	(119)
Additions	843	-	47	(95)	1	796
Disposals	(165)	-	-	(14,074)	(1)	(14,240)
Transfers	42	-	(42)	-	-	-
Balance as at 31 December 2015	**672,873**	**-**	**49,045**	**96,799**	**6**	**818,723**
Exchange rate changes	(37)	-	(3)	(19)	-	(59)
Additions	1,702	-	5	482	1	2,190
Disposals	(887)	-	-	(17,043)	(2)	(17,932)
Balance as at 31 December 2016	**673,651**	**-**	**49,047**	**80,219**	**5**	**802,922**

Land and building lots

During 2016, two lands have concentrated most of the action under "Land and building lots": on one hand, Plaza Glorias, with additions for EUR 611 thousand; on the other, Valdebebas, with EUR 634 thousand in additions; these additions are mainly related to urban development costs. No significant changes in this item took place in 2015.

Commitments with clients for the sale of developments and land as at 31 December 2016 and 2015 (formalized in the form of advances and contracts) amounted to EUR 6,764 thousand and EUR 6,706 thousand, respectively. In 2016, EUR 2,789 thousand were recognized as "Customer Down Payments" (in 2015, EUR 3,764 thousand were recognized under that heading) under "Trade and other payables" in the attached consolidated balance sheet (see Note 21.b). The amounts that were then collected amounted to EUR 213 thousand and EUR 219 thousand, respectively; the rest are commitments resulting from asset swap transactions.

Advances to suppliers

The detail of "Advances to Suppliers" at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Realia Business, S.A.:		
Valdebebas	2,021	2,887
El Molar	18	18
Total land purchases	**2,039**	**2,905**

These advances relate mainly to amounts paid on account in respect of land to be acquired, title to which had not been transferred to Realia Business Group at 31 December 2016 and 2015.

No losses are expected to arise in relation to the value of the land purchase commitments associated with these advances.

In accordance with the revised IAS 23, the Group capitalizes the borrowing costs associated with investment property under construction, which takes a period of over twelve months to get ready for its intended use. In 2016 and 2015, no borrowing costs were capitalized in this connection.

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

At 31 December 2015, certain assets were recognized under inventories, with an aggregate carrying amount of EUR 261,117 thousand, which serve as mortgage security for the syndicated loan arranged in 2009, as well as the bilateral loans with Kutxa Bank, Banco Santander, Santander Totta and Sareb arranged by Realia Business S.A. (see Note 20). On 29 January 2016, according to the refinancing agreement signed with financial creditors on 10 December 2015, the cancellation of the mortgage on the lands related to the syndicated loan was executed in a public deed. Additionally, during 2016, Realia cancelled the mortgage security of the bilateral loans with Kutxa Bank and Sareb.

At 31 December 2016, certain assets were recognized under inventories, with an aggregate carrying amount of EUR 7,807 thousand, which serve as mortgage security for the loans arranged between Realia and Banco Santander for an amount of EUR 3,597 thousand, between Retingle and Sareb for EUR 365 thousand and between Realia Business Portugal and Santander Totta for EUR 1,132 thousand (see Note 20).

Inventory write-downs

The changes with an impact on inventory write-downs in 2016 and 2015 were as follows:

	Thousands of Euros	
	2016	2015
Initial balance	(445,283)	(432,448)
Net impairment losses – land (Note 24.i)	(38,133)	(18,445)
Net amounts used/reversed – property developments in progress and completed (Note 24.1)	(6,901)	5,504
Effect of exchange rate changes	25	106
Final balance	**(489,482)**	**(445,283)**

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

15. Other assets

15.1 Trade and other receivables

The breakdown of "Trade and other receivables" is as follows:

	Thousands of Euros	
	2016	2015
Trade and other receivables	6,759	6,734
Unpaid trade receivables and notes	13,722	13,715
Doubtful trade receivables	1,279	1,085
Impairments - customers	(14,992)	(9,589)
Sundry accounts receivable	4,425	4,574
Impairments - receivables	(899)	(711)
Other accounts receivable from public authorities (Note 21)	179	237
Current tax assets (Note 21)	2,013	3,381
Shareholders (partners) for requested payments (Note 16)	-	88,960
Total trade and other receivables	**12,486**	**108,386**

"Trade and other Receivables" at 2016 year-end relates mainly to invoices yet to be issued by the property management companies due to the straight-line recognition of amounts in rent-free periods ad rent rebates, of EUR 5,745 thousand (EUR 5,823 thousand in 2015), in accordance with the accounting treatment provided for under International Accounting Standards (IAS 17).

During 2016, the company recognized as impairment the commercial loans for the sale of land, considering them as doubtful trade receivables, for an amount of EUR 5,380 thousand, recognized under "Variations in trade forecasts" in the attached financial statement.

In 2015, the balance recognized under "Shareholders (partners) for called-for payments" recognized the share underwritten and not disbursed by the partners of the nominal amount of the increased share capital, for an amount of EUR 36,8111 thousand, plus the share premium, for a total of EUR 52,149 thousand (see Note 16). This payment took place in January 2016. At year-end, there were no outstanding payments from the partners.

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

15.2 Current and non-current financial assets

The detail of "Non-Current Financial Assets" and "Other Current Financial Assets" at 31 December 2016 and 2015 is as follows:

	Thousands of Euros			
	2016		2015	
	Non-current	Current	Non-current	Current
Credit facilities	14,500	16,630	-	32,975
Other	-	2,810	1,250	1,432
Total other financial assets	**14,500**	**19,440**	**1,250**	**34,407**

At 31 December 2016, non-current financial assets recognize the following credit facilities:

- Credit facility maturing in 2018 and interest payable, amounting to EUR 14,500 thousand, that Realia Patrimonio, S.L.U. granted to its subsidiary As Cancelas, S.L. This loan was originally granted by Portfolio Grandes Áreas Comerciales, S.L., and after its acquisition by Realia Patrimonio, S.L.U., the latter replaced the former as creditor.

At 31 December 2016, current financial assets recognize the following credit facilities:

- Credit facility and interest payable granted by Retingle, S.L. to Inmosineris, S.L. (its other partner) for an amount of EUR 11,788 thousand, maturing on 17 April 2017.

- Credit facility and interest payable that the Parent has granted to Inversiones Inmob. Rústicas y Urbanas 2000, S.L. and Ronda Norte Denia, S.L., amounting to EUR 4,448 thousand and EUR 393 thousand, respectively.

At 31 December 2015, current financial assets recognize the following credit facilities:

- Credit facility granted by Retingle, S.L. to Inmosineris, S.L. (its other partner) for an amount of EUR 11,649 thousand, maturing in January 2016. At the date of preparation of these financial statements, this credit has been extended until 17 April 2017.

- Credit facility maturing in 2016 and interests payable amounting to EUR 16,501 thousand, which Portfolio Grandes Áreas Comerciales, S.L. has granted to As Cancelas, S.L.

- Credit facility and interest payable that the Parent has granted to Inversiones Inmob. Rústicas y Urbanas 2000, S.L. and Ronda Norte Denia, S.L., amounting to EUR 4,438 thousand and EUR 387 thousand, respectively.

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

15.3 Other current and non-current assets

"Other current and non-current assets" recognizes as current assets anticipated payments amounting to EUR 3,720 thousand and EUR 3,618 thousand in 2016 and 2015, respectively. Non-current assets relates to the long-term guarantees and deposits provided to the Public Authority bodies, which amounted to EUR 9,168 thousand and EUR 8,880 thousand in 2016 and 2015, respectively.

16. Cash and cash equivalents

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

	Thousands of Euros	
	2016	2015
Short-term deposits held at banks	8,769	180,154
Cash and current accounts	92,361	3,716
Total cash and cash equivalents	**101,130**	**183,870**

At 2015 year-end, certain Group companies held short-term highly liquid deposits at associated and non-Group banks for an aggregate amount of EUR 180,154 thousand. At 31

December 2016, that figure has reduced considerably, mainly due to the fact that a great part of the liquidity was allocated to the amortization of the syndicated loan of the development activity (see Notes 14 and 20).

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

At 31 December 2016, there are no amounts pledged for this concept.

17. Equity

On 24 October 2016, the Board of Directors of the Company approved a capital increase that was successfully completed on 28 December 2016, though the issue and distribution of 184,056,558 ordinary shares, with a nominal value per share of EUR 0.24 and a share premium of EUR 0.56 per share. After this increase, the share capital of the Company is increased by EUR 44,174 thousand, and a global premium of EUR 103,071 thousand, and was registered at the Mercantile Register on 10 January 2017. The shares of the capital increase have been fully subscribed and paid.

After this capital increase, 644,807,956 shares represent the share capital of the Company at the end of 2016. The majority shareholders are the following:

	Thousands of Euros		
	No. of shares	% of ownership	Share capital subscribed
Inversora Carso, S.A. de Capital Variable	218,231,829	33.85%	52,376
Fomento de Construcciones y Contratas, S.A.	221,450,368	34.34%	53,148
Asesoría Financiera y de Gestión (Fomento de Construcciones y Contratas)	14,310,568	2.22%	3,434
Per Gestora Inmobiliaria S.L. (Fomento de Construcciones y Contratas)	2,333,202	0.36%	560
Other (free float)	188,481,989	29.23%	45,236
	644,807,956	**100.00%**	**154,754**

Inversora Carso, S.A. de C.V. is also one of the majority shareholders of Fomento de Construcciones y Contratas, S.A.; its direct and indirect ownership of Realia Business S.A. amounts to 70.77%.

At 31 December 2016 and 2015, the shares of the Parent are listed in the Madrid and Barcelona Stock Exchange Markets. The price of the share of the Parent at 31 December 2016 and the average share price in the last quarter amounted to EUR 0.86 and EUR 0.86 per share, respectively.

Evolution of the capital structure of the Parent

On 17 December 2014, Hispania Real Socimi, S.A.U. submitted for approval by the Stock Market Authority (CNMV) a prospectus for a takeover bid over Realia Business, which was authorized by the regulator on 11 March 2015.

On 20 March 2015, Inversora Carso S.A. de C.V. submitted for approval by the CNMV a competitive takeover bid, which was admitted, thus interrupting the period for acceptance of the takeover bid submitted earlier. This operation was authorized by the CNMV on 23 June 2015.

On 23 July 2015, Hispania Real Socimi, S.A.U. communicated its cancellation of the takeover bid launched on Realia Business S.A. On that same date, through a communication to the CNMV, Inversora Carso, S.A. de C.V. ratified in all its terms the takeover bid launched on Realia Business, S.A.

The period for acceptance of the takeover bid launched by Inversora Carso, S.A. de C.V. ended on 24 July 2015, and was accepted for a total of 451,940 shares, representing 0.15% of the shares of the share capital of Realia Business subject to the bid, according to the CNMV's relevant event dated 28 July 2015.

On 3 June 2015, the stake that Corporación Industrial Bankia S.A.U. held in Realia Business, S.A. (24.95%) was transferred in full to Inversora Carso, S.A. de C.V.

Inversora Carso, S.A. de C.V. announced on 27 January 2016 its intention to launch a takeover bid over 100% of the share capital of the Parent. This takeover bid was announced at a price of EUR 0.80 per share, determined according to the provisions of section 9 of Royal Decree 1066/2007.

On 4 May 2016, the CNMV authorized the takeover bid launched by Inversora Carso, S.A. de C.V. over Realia Business, S.A. on 26 February 2016 and accepted on 3 March 2016, since it considered that the terms of the bid complied with the applicable rules and the content of the prospectus contained enough information.

The period of acceptance of the takeover bid launched by Inversora Carso, S.A. de C.V. concluded on 19 May 2016, and was accepted for a total of 121,651 shares, representing 0.04% of the shares the bid was made for, and 0.03% of Realia Business, S.A.'s share capital, according to the CNMV's relevant event of 26 May 2016.

Reserves of the Parent

Legal reserve

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

At the end of 2016, after the capital increase, the legal reserve was not fully established.

Other reserves

At the end of 2016, this item includes special and voluntary reserves, for EUR 43,877 thousand and EUR 262,903 thousand, respectively.

Special reserves are composed by restricted reserves for EUR 43,764 thousand, generated on 15 June 2000 as a result of a transfer from capital to reserves due to a capital decrease in Produsa Este, S.A, currently Realia Business, S.A., and EUR 113 thousand, created on the coming into force of the euro in 2002.

Additionally, there are "Negative results from previous years" for a negative amount of EUR 531,365 thousand.

Treasure shares

The General Meeting of Shareholders held on 21 June 2016 authorized the buyback of treasure shares, during the maximum period permitted by law, and in keeping with Section 146 of the Corporation Act.

The changes in treasury shares during 2016 were as follows:

	Number of shares	Thousands of Euros
Balances at 31 December 2015	**610,000**	**675**
Acquisitions	-	-
Disposals	-	-
Balances at 31 December 2015	**610,000**	**675**

The average price of treasury shares at year-end 2016 and 2015 was 1.11€/share.

Share premium

The consolidated text of the Corporation Act expressly allows the use of the balance of the share premium to increase capital and does not establish any specific restriction about the use of that balance for other purposes.

Reserves of consolidated companies

The detail of the reserves of consolidated companies is as follows:

	Thousands of Euros	
	2016	2015
Realia Business, S.A. and consolidation adjustments	14,552	(18,195)
Planigesa subgroup	122,529	122,175
Portfolio Grandes Áreas Comerciales, S.A.U.	-	6,204
Realia Business Portugal – Unipessoal, Lda.	(1)	(4)
Inversiones Inmobiliarias Rústicas y Urbanas 2000, S.L.	1,278	1,880
Realia Polska SP ZOO	(845)	(1,080)
Studio Residence Iberia	1	56
As Cancelas Siglo XXI, S.L.	7,320	4,967
Realia Contesti, S:R.L.	201	1,243
Guillena Golf, S.L.U.	(8)	(2)
Servicios Índice, S.A.	(1,120)	(1,079)
Realia Patrimonio, S.L.U.	151,406	130,541
Valaise, S.L.U.	4	8
Retingle, S.L.	625	622
Total	**295,942**	**247,336**

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

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

	Thousands of Euros
Balance as at 31 December 2014	**224,601**
Changes in the scope of consolidation (Note 2.f)	(253)
Dividends paid	(5,242)
Profit (loss) for 2015	8,842
Balance as at 31 December 2015	**227,948**
Changes in the scope of consolidation (Note 2.f)	1
Dividends paid	(10,549)
Profit (loss) for 2016	14,419
Balance as at 31 December 2016	**231,819**

The detail, by company, of "Non-controlling Interests" at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Planigesa subgroup	218,132	211,311
Servicios Índice, S.A.	2,256	5,271
Retingle, S.A.	11,431	11,366
Balance as at 31 December 2015	**231,819**	**227,948**

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

		Percentage of Ownership	
	Company	2016	2015
Nozar, S.A.	Servicios Índice, S.A.	39.92%	39.92%
Ecohabitalia S.L.U.	Planigesa, S.A.	23.48%	23.48%
Inmosirenis, S.L.U.	Retingle, S.L.	49.90%	49.90%

15. Provisions

Long-term provisions

The changes in "Long-term provisions" in 2016 and 2015 were as follows:

	Thousand Euros		
	Warranty Provision	Other Provisions	Total
Balance as at 31 December 2014	**5,447**	**2,151**	**7,598**
Charge for the year	189	134	323
Transfers from short-term	(483)	-	(483)
Amounts used/reversed	-	(571)	(571)
Balance as at 31 December 2015	**5,153**	**1,714**	**6,867**
Charge for the year	-	3	3
Transfers from short term	-	322	322
Amounts used/reversed	-	(162)	(162)
Balance as at 31 December 2016	**5,153**	**1,877**	**7,030**

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

No provisions were made in 2016 for warranties.

The amount recognized under "Other Provisions" relates in part to the estimates made by the Parent to cover possible liability from lawsuits arising from claims filed by third parties. In 2016, the Group recognized and reversed provisions for EUR 3 thousand and EUR 162 thousand, respectively; of these reversed amounts, EUR 78 thousand were used for that purpose and EUR 84 thousand from "Excess Provisions", recognizing it under "Changes in Trade Provisions" in the attached consolidated profit or loss account (Note 24.i).

In 2015, EUR 189 thousand were provisioned to face the liability in the housing stock covered by provisions. This charge is recognized under "Changes in Trade Provisions" in the attached consolidated profit or loss account (Note 24.i).

Current provisions

During 2016, a current provision for litigation for EUR 322 thousand was transferred to non-current provisions, and no charges or reversions were made on the current provisions.

During 2015, the Group reversed a provision of EUR 559 thousand due to an excess provision (Note 24.i), registered under "Changes in Write-Downs, Impairment Losses and Provisions" in the accompanying consolidated profit and loss account.

20. Bank borrowings and other financial liabilities

The detail of the Group's "Bank Borrowings and Other Financial Liabilities" as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Non-current:		
Loans and other bank borrowings	158,120	666,993
Loans and other payables to third parties	-	96,406
(Loan arrangement costs)	(535)	(1,736)
Total bank borrowings and other non-current financial liabilities	**157,585**	**761,663**
Current:		
Loans and other bank borrowings	601,377	104,653
Loans and other payables to third parties	92,047	388,360
Participating loan associate company	-	61,291
Property, plant and equipment suppliers	709	2,211
(Loan arrangement costs)	(576)	(482)
Interest	265	532
Other	2,003	2,000
Total bank borrowings and other current financial liabilities	**695,825**	**558,565**
Total	**853,410**	**1,320,228**

At 31 December 2016 and 2015, bank borrowings and payables to third parties, broken down by types of security, are as follows:

	Thousands of Euros			
Type of security	2016		2015	
	Limit	Drawn Down	Limit	Drawn Down
Personal and other guarantees	138,649	135,998	31,000	18,055
Mortgage guarantee	37,388	37,388	51,446	50,354
Syndicated guarantees – Property (1)	678,158	678,158	750,544	750,544
Syndicated guarantees – Development (2)	-	-	437,459	437,459
Loan arrangement costs		(1,111)		(2,218)
Gross bank borrowings		850,698		1,254,722
Participating loan		-		61,291
Interest of participating loans		-		4
Total gross bank borrowings	**854,195**	**850,698**	**1,270,449**	**1,316,017**

(1) Restricted to financed assets
(2) Mortgage guarantee and others

The detail, by type, of the bank borrowings as at 31 December 2016 and 2015 is as follows:

Current and non-current Loans and Credit Facilities	Thousands of Euros	
	2016	2015
Mortgage loan	37,388	13,002
Syndicated property loan	678,158	805,951
Syndicated development loan	-	437,459
Bilateral loan	135,998	-
Participating loan	-	61,291
Loan arrangement costs	(1,111)	(2,218)
Interest	265	532
Total	**850,698**	**1,316,017**

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

	Thousands of Euros	
	2016	2015
2016	-	549,233
2017	691,158	720,757
2018	129,151	24,599
2019	14,806	5,510
2020 and subsequent years	16,694	18,136
Loan arrangement costs	(1,111)	(2,218)
	850,698	**1,316,017**

At 31 December 2016, loan arrangement costs are recognized as a deduction from the balance of "Loans and other bank borrowings and financial liabilities" in the accompanying balance, and amount to EUR 1,111 thousand (EUR 2,218 thousand in 2015).

Syndicated loans – Rental property

In 2007, Realia Patrimonio restructured the bank borrowings by arranging a limited recourse syndicated credit facility with 16 banks, for an initial limit of EUR 1,087 Million. The applicable interest rate was Euribor plus a spread that, as of 2018, will vary depending on the loan to value (LTV) ratio (amount of the facility with respect to the gross market value of the assets).

Since its formalization and until 31 December 2015, loan reductions and advanced write-downs, both voluntary and mandatory, were made for a total of EUR 336,456 thousand, which resulted in a drawn up amount of the syndicated loan of EUR 750,544 thousand (EUR 748,844 thousand after deducting loan arrangement costs).

In February 2015, Westdeutsche InmobilienBank AG assigned its share of the credit facility, EUR 51,513 thousand, to Erste Abwicklungsanstalt. Consequently, the Group reclassified that debt to "Other Current Financial Liabilities".

On 29 January 2016, the Company prepaid EUR 70,000 thousand, which were allocated to the loan payments. Thus, the Company is exempt from ordinary depreciation until the maturity of the contract on 27 Aril 2017. Additionally, on 30 June EUR 2,385 thousand were depreciated exceptionally, an amount corresponding to 50% of the free cash flow as at 31 December 2015, and that according to the loan agreement, must repay. After both depreciations, the balance of the syndicated loan as of 31 December 2016 amounts to EUR 678,158 thousand, and is recognized under "Bank borrowings" for EUR 586,476 thousand, and "Other current financial liabilities", for EUR 91,682 thousand.

During the life of the syndicated loan, certain ratios related to financial hedging and net borrowing levels must be fulfilled in relation to the GAV of the property. By the end of 2016, the Company fulfils all the covenants in the loan contract.

As collaterals of the syndicated loan, the Company has pledged the credit claims derived from Realia Patrimonio S.L.U.’s lease contracts, and pledges on the shares of Hermanos Revilla S.A: and Planigesa S.A. apart from intra-group loans, and the pledge guarantee on the mortgages of property assets and active assets of the Company.

At 31 December 2016, the total syndicated loan payable is classified as short-term, for an amount of EUR 678,158 thousand. The Directors of the Parent expect that, due to the quality of the property assets of Realia Patrimonio and its subsidiaries, the financing process will be completed successfully before the maturity date, 27 April 2017. That debt is not guaranteed by Realia Business S.A.

Syndicated loan and bilateral development loan

On 10 December 2015, the Parent entered into an agreement with the creditors of the development Bank Syndicate, by which the total debt of the loan, EUR 802,759 thousand, would be reduced by 9% if the conditions for debt repayment were met. Payment milestones were distributed as follows: 50% in December 2015; 12.15% on 29 January 2016; 12.85% on 29 February 2016, and 25% on 30 May 2016.

On 11 December 2015, the Company made the first payment established in the payment schedule for EUR 365,218 thousand; additionally, on 29 January 2016, it made the second and third payments for EUR 183,104 thousand. The last payment, for EUR 183,905 thousand, was made in 7 April 2016, after the Company entered into a bilateral loan agreement with a bank on 6 April 2016, for an amount of EUR 183,649 thousand, maturing on 30 June 2018, thus cancelling in full its syndicated loan debt and recovering the collateral provided. Inversora Carso, S.A. de C.V., guaranteed that loan.

On 29 December 2016, using some of the funds from the capital increase (see Note 17), the Parent proceeded to make an early repayment of EUR 80,000 thousand of the bilateral loan mentioned above, so that the principal as of 31 December 2016 has been reduced to EUR 103,649 thousand, with the same maturity, 30 June 2018, and guaranteed by Inversora Carso, S.A. de C.V.

Thus, the 9% reduction agreed upon on the agreement of 10 December 2015 has had a positive effect for a total of EUR 72,367, recognized under “Financial income” in the accompanying consolidated income statement.

Loan with Inversora Carso, S.A. de C.V.

On 22 December 2015, Inversora Carso, S.A. de C.V. announced the acquisition of the stake that Sareb (Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria) had on the participating loan signed with Realia Business, S.A., amounting to EUR 61,291 thousand.

On 15 February 2016, Realia Business, S.A. and Inversora Carso, S.A. de C.V. set 3 May 2016 as the new date for the opening of the capitalization window of that loan, which Inversora Carso, S.A. de C.V. finally decided not to exercise its right to capitalize it; the loan amounted to EUR 61,291 thousand. Additionally, Inversora Carso, S.A. de C.V. applied a reduction of EUR 41,253 thousand, recognized under “Financial Income” in the accompanying consolidated profit and loss account, generating a credit right in its favor for EUR 20,396 thousand, which was repaid on 28 December 2016.

Mortgage loans and bilateral property loans

As a consequence of the refinancing agreement of the syndicated loan on September 2013, the Parent negotiated with one of the banks the bilaterization of its debt through a mortgage loan with Kutxabank for EUR 16,238 thousand, maturing on 27 September 2016, which was fully repaid on 31 December 2016.

Ojn31 December 2016, and after the cancellation of another of its mortgage loans, the Parent holds only one mortgage loan for a total drawn up amount of EUR 3,597 thousand. Additionally, on 31 December 2016, Realia Business Portugal and Retingle hold two mortgage loans for a total drawn down amount of EUR 1,497 thousand (EUR 3,574 thousand at the end of 2015).

Hermanos Revilla, S.A. holds at 31 December 2016 loans with mortgage guarantees for EUR 32,294 thousand (EUR 37,352 at the end of 2015). Additionally, at 31 December 2016 it has granted credit policies and loans with a limit of EUR 35,000 thousand, EUR 32,348 of which have been drawn up (EUR 18,055 thousand at the end of 2015).

21. Other liabilities

a) Other non-current liabilities

The detail of this heading at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Other non-current liabilities payable	2,404	2,404
Non-current guarantees and deposits received	13,426	13,604
	15,830	**16,008**

b) Trade and other payables

The detail of "Trade and other payables" is as follows at 31 December 2016 and 31 December 2015 is as follows:

	Thousands of Euros	
	2016	2015
Suppliers of Group companies and associates	1,294	918
Suppliers for the purchase of land: No payment instruments	3,127	3,120
Suppliers	3,206	2,772
Customer advances (Notes 14 and 4.h)	2,795	3,764
Creditors	5,710	6,360
Tax payable (Note 22)	4,721	3,726
Current tax liabilities (Note 22)	584	1,267
	21,437	**21,927**

This includes mainly amounts payable for construction and associated costs, land purchase and the amounts corresponding to advances paid by customers before the recognition of the sale, and amounts payable to the Administration.

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

c) Average period of payment to suppliers

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

	2016	**2015**
	Days	Days
Average payment period to suppliers	52.46	55.1
Ratio of transactions paid	53.7	55.2
Ratio of transactions pending payment	40.47	54.6
	Thousands of Euros	
Total payments made	37,259	30,649
Total payments pending	5,493	6,257

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

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

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

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

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

The maximum deadline for payment applicable to the Company in 2016, according to Law 3/2004, of 29 December, that establishes measures to fight against default in commercial transactions, and according to transitory provisions established by Law 15/2010, of 5 July, is of 60 days, as the conditions established by Law 11/2013, of 26 July, are met.

d) Other current liabilities

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

22. Public Bodies and fiscal situation

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

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

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

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

	Thousands of Euros							
	Fiscal Assets				Fiscal Liabilities			
	Current		Deferred		Current		Deferred	
	2016	2015	2016	2015	2016	2015	2016	2015
Prepaid taxes	-	-	4,892	31,168	-	-	-	-
Credits for loss carryforwards	-	-	100,708	70,274	-	-	-	-
Tax credit carryforwards	-	-	18,515	19,375	-	-	-	-
Tax payable- VAT / IGIC (Canary Island Tax)	179	237	-	-	957	591	-	-
Tax refund	2,013	3,381	-	-	-	-	-	-
Tax payable – Corporate Tax	-	-	-	-	584	1,267	-	-
Tax payable – Personal Income Tax	-	-	-	-	1,026	399	-	-
Social Security	-	-	-	-	94	99	-	-
Other public bodies	-	-	-	-	2,644	2,637	-	-
Deferred taxes	-	-	-	-	-	-	150,175	135,562
	2,192	**3,618**	**124,115**	**120,817**	**5,305**	**4,993**	**150,715**	**135,562**

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

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

The movement of deferred tax assets and liabilities in 2016 and 2015 was as follows:

	Thousands of Euros	
	Deferred Tax Assets	Deferred Tax Liabilities
Balance as at 31 December 2014	**120,569**	**126,385**
Tax credits and deductions for the year	534	-
Provisions for expenses	1,981	-
Consolidation adjustments	(336)	(30)
Accelerated amortization and depreciation	-	786
Non-deductible financial expenses	(1,661)	-
Non-deductible amortization costs	(269)	-
IAS 40 adjustment at fair Value (Note 4.c)	-	8,466
Other	(1)	(45)
Balance as at 31 December 2015	**120,817**	**135,562**
Tax credits and deductions for the year	29,574	-
Provisions for expenses	(90)	-
Consolidation adjustments	(97)	(1)
Accelerated amortization and depreciation	-	522
Merger securities	-	38
Non-deductible financial expenses	(25,851)	-
Non-deductible amortization costs	(238)	-
IAS 40 adjustment at Fair Value (Note 4.c)	-	13,011
Other	-	1,583
Balance as at 31 December 2016	**124,115**	**150,715**

The detail of deferred tax assets and liabilities at the end of 2016 and 2015 is as follows:

	Thousands of Euros			
	Deferred Assets		Deferred Liabilities	
	2016	2015	2016	2015
Credits for loss carryforwards	100,708	70,274	-	-
Tax credit carryforwards	15,815	19,375	-	-
Provisions for expenses	2,740	2,830	-	-
Intragroup adjustments	132	229	-	-
Non-deductible financial expenses	-	25,851	-	-
Non-deductible amortization costs	1,906	2,144	-	-
Other	114	114	-	-
Securities portfolio	-	-	69	69
Capital gains	-	-	5,604	5,604
Consolidation adjustments	-	-	4,797	4,798
IAS 40 adjustment at fair Value (Note 4.c)	-	-	131,744	118,733
Accelerated amortization and depreciation	-	-	5,530	5,008
Other	-	-	2,971	1,350
Total	**124,115**	**120,817**	**150,715**	**135,562**

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

Royal Decree-Law 3/2016 was approved in 2016, adopting tax measures addressed at the consolidation of public finances and other urgent social matters, whose most significant amendments regarding Corporate Tax are the following:

- Negative tax bases can still be compensated with no time limit; however, a limit is established on their amount, equivalent to the prior tax base according to revenues.

- The application of deductions for double taxation is limited to 50% of the total tax payable for companies whose revenues are higher than 20 million Euros.

- The reversion of losses from the impairment in the value of shares that were tax deductible in fiscal years prior to 2013 and not deductible after that date, must be made for a minimum annual amount on a straight-line basis during 5 years.

Out of the total deferred tax assets EUR 124,115 thousand, EUR 100,708 correspond to the negative tax bases of years 2008 to 2016, as detailed below, EUR 18,515 correspond to tax credit carryforwards, and the remaining EUR 4,892 thousand correspond to other temporary differences.

The conciliation between the accounting result before taxes and the tax base of the Corporate Tax for 2016 is the following:

	Thousands of Euros		
	Increases	Decreases	Total
Result before taxes			**145,796**
Permanent differences:			**(59,656)**
Permanent differences:			(69,581)
Surcharges and penalties	1		
Consolidation adjustments:			
Result of consolidated companies equity method	1,048		
Application of IAS 40 (Fair value adjustment/ no amortization)		(52,083)	
Other consolidation adjustments	421		
Financial adjustments from haircuts		(19,035)	
Reassignment of values	292		
Non-deductible provisions		(55)	
Other adjustments and participating interests		(170)	
Unrealized temporary differences:			9,925
Non-deductible financial costs	5,583		
Securities portfolio	4,342		
Temporary differences arising in the year:			**(9,322)**
Accelerated amortization and depreciation		(2,634)	
Provisions	40		
Deferred revenues from haircuts		(6,647)	
Other		(81)	
Temporary differences arising in previous years:			**(67,601)**
Accelerated depreciation and amortization	716		
Non-deductible amortizations		(954)	
Provisions		(404)	
Offset of capitalized tax losses		(66,959)	
Offset of non-capitalized tax losses from past years			-
Tax base (taxable profit)			**9,217**

The main permanent differences are the result of:

- "Consolidation adjustments" includes the following adjustments:
    - Positive adjustment of EUR 1,048 thousand, due to the elimination of the result of consolidated companies through the equity method.
    - Negative adjustment of EUR 52,083 thousand corresponding to the revaluation of its property investments at fair value.
    - Positive adjustment of EUR 421 thousand corresponding to the integration of results for intragroup sales.

- Negative adjustment from the application of the current Corporate Tax regulation, articles 17.1 and 17.6 of Law 27/2014, of 27 November, that provides that the tax base will include the difference between the amount of the capital increase or equity, in their corresponding proportion, and the tax value of the capitalized loan. Therefore, as a result of the haircut applied to its debt with Inmobiliaria Carso, S.A. de C.V. described in Notes 17 and 20, the Company proceeded to reduce its tax base by the proportion belonging to the shareholder by EUR 17,224 thousand. Additionally, the company made a negative adjustment of EUR 1,811 thousand for the part of the haircut corresponding to financial costs that were not deductible due to the restrictions of art. 16 of Law 27/2014.

The main temporary differences, realized and unrealized, are the result of:

- Positive adjustment from the application of the current Corporate Tax regulation, article 16 of Law 27/2014, of 27 November that establishes a restriction on the deduction of “net financial expenses” and which in practice becomes a rule of specific temporary allocation, allowing for deductions in subsequent years, similarly to the compensation of negative tax bases.

  Thus, net financial expenses will be deductible to a maximum of 30% of the operating profit for the year. To this end, the rule considers that “net financial expenses” are the excess financial expense with respect to the revenues derived from the assignment to third parties of equity accrued during the fiscal year. In any case, net financial expenses of the fiscal year will be deductible, without limitation, up to 1 million Euros. In 2016, non-deductible net financial expenses amounted to EUR 5,583 thousand.

- In accordance with transitory provision sixteen of Royal Decree-Law 3/2016, of 2 December, approved in 2016, that establishes that the impairment losses of the securities representing equity holdings in companies that have been tax deductible on the Corporate Tax base in fiscal years before 1 January 2013, this will be equally divided into the tax base corresponding to each of the first fiscal years starting after 1 January 2016. During 2016, the Company has incorporated to the tax base EUR 4,342 thousand, and is pending consolidation of EUR 17,369 thousand over the next four years.

- Negative adjustment for EUR 6,647 thousand from the application of current Corporate Tax regulation, article 11.13 of Law 27/2014, of 27 November, that established that the revenue corresponding to the recognition of debt reductions and moratoriums as a consequence of the enforcement of Bankruptcy Law 22/2003, of 9 July, will be allocated to the tax base of the debtor, in as far as it is possible to recognize later financial expenses from the same debt, and up to the limit of the aforementioned revenue.

The Company has offset the whole tax base resulting from the fiscal consolidation, for an amount of EUR 69,959 thousand, pursuant to the provisions of the current Corporate Tax, article 26 of Law 27/2014, of 27 November, that establishes that the limitation on the compensation of tax losses will not result in the application of the amounts of the revenues resulting from debt haircuts or moratoriums resulting from an agreement with the taxpayer’s creditors. Tax losses that are subject to offset with those revenues will not be taken into account in relation with the figure of EUR 1 million mentioned in the previous paragraph.

The conciliation between accounting loss before tax to the tax base of the Corporate Tax for 2015 was as follows:

	Thousands of Euros		
	Increases	Decreases	Total
Result before tax			39,019
Permanent differences:			**(21,916)**
Surcharges and penalties	270	-	
Other consolidation adjustments	-	(36,124)	
Reallocation of securities	174	-	
Unrecognized temporary differences	18,471	(4,949)	
Other adjustments	242		
Temporary differences arising in the year:			**5,149**
Accelerated depreciation and amortization	-	(3,623)	
Provisions for impairment of inventories and property, plant and equipment	8,898	-	
Other		(126)	
Temporary differences arising in prior years:			**(12,078)**
Accelerated depreciation and amortization	612		
Non-deductible finance costs	-	(9,297)	
Non-deductible depreciation and amortization expenses	-	(953)	
Offset of recognized tax losses	-	(897)	
Provisions for charges	-	(378)	
Securities portfolio	-	(1,083)	
Other		(81)	
Offset of prior years' unrecognized tax losses	-	(40)	(40)
Tax charge (taxable profit)			**10,314**

The income tax expense included in the accompanying consolidated income statement is calculated based on consolidated profit or loss before tax, increased or decreased, as appropriate, by the permanent differences between taxable profit (tax loss) and accounting profit (loss). Based on the legislation applicable to each company, the corresponding tax rate is applied to this adjusted accounting profit (loss). Any tax relief and tax credits earned in the year are then deducted and any positive or negative differences between the tax charge estimated for the previous year's accounting close and the amount of tax subsequently paid are added to or deducted from, respectively, the resulting tax charge.

The income tax expense for 2016 amounted to EUR 15,681 thousand (2015: EUR 12,972 thousand), as shown in the accompanying consolidated income statement. The reconciliation of the expense to the tax charge payable is as follows:

	Thousands of Euros	
	2016	2015
Taxable profit	145,796	39,019
Result of consolidated companies accounted for using the equity method	1,048	(3,280)
Application of IAS 40 (Adjustment to fair value/ no amortization)	(52,083)	(33,483)
Other consolidation adjustments	421	1,000
Rest of permanent differences	67	686
Financial adjustments from haircuts	(19,035)	-
Offset of unrecognized tax losses	-	(40)
Unrecognized tax losses (*)	6,318	2,017
Unrecognized temporary differences	9,925	11,504
Adjusted accounting profit	**92,457**	**17,063**
Tax charge	23,114	4,778
Deductions	-	(15)
Accrued income tax expense	-	4,763
Adjustments to the tax charge	(7,433)	8,209
Income tax expense (benefit)	**15,681**	**12,972**
Tax loss and tax credit carryforwards	(62)	1,218
Deferred tax assets and liabilities in the year	(19,265)	(1,882)
Adjustments to prior years' income tax	7,433	(8,209)
Tax refunds receivable	537	1,465
Tax withholdings and prepayments	(3,734)	(4,270)
Tax payable	(590)	(1,294)

(*) In 2016 and 2015, the Group recognized tax credits up to the limit of the recoverable amount based on the best estimate by the Parent's directors (Note 4.ñ).

The analysis made by the Group to assess the recoverability of deferred tax assets, temporary differences for unrecognized financial expenses for an amount of EUR 25,851 thousand was removed from the non-current assets in the balance sheet, and recognized under "Income taxes" of the accompanying profit and loss statement, since it considers that they cannot be recovered due to the new financing structure of the Group. Additionally, the Group capitalized in 2016 tax credits for loss carryforwards and deductions (net from the offset of tax losses of the year) for an amount of EUR 29,574 thousand, and the recognized amount as at 31 December 2016 was EUR 119,223 thousand. The directors think that these can be recovered in the future from the expected evolution of both the development and property businesses, and by the high potential gains of the property investments of the Group, for which it has recognized a deferred tax liability of EUR 131,744 thousand.

The breakdown of the income tax expense is as follows:

	Thousands of Euros	
Concept	2016	2015
From adjustments to IAS 40	13,011	8,477
From the elimination of financial expense tax credit	25,851	-
From the recognition of tax credits by BINs	(47,896)	594
From settlement of income tax in prior years	1,583	(576)
Other: adjustment to new tax rates	-	(286)
Other consolidation adjustments	18	-
Total adjustments to tax charge	(7,433)	8,209

The breakdown of the income tax expense for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Current tax	(3,883)	(2,823)
Deferred tax	(11,798)	(10,149)
Total income tax expense	**(15,681)**	**(12,972)**

The detail of the Group companies' tax loss carryforwards as at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
Year Earned	2016	2015
1998	61	61
1999	393	393
2000	177	177
2001	830	830
2002	185	185
2003	547	547
2004	-	-
2005	585	586
2006	500	500
2007	527	527
2008	279	65,294
2009	27,089	29,933
2010	64,514	64,514
2011	67,064	67,064
2012	249,164	249,164
2013	32,638	32,638
2014	33,642	33,642
2015	1,527	6,574
2016	5,640	-
	485,362	**552,629**

Tax loss carryforwards of the companies in the Tax Group after the settlement of taxes in July 2016 amount to EUR 463,331 thousand and EUR 530,290 thousand in 2016 and 2015, respectively.

The Group only recognized deferred taxes associated to tax losses that the directors expect to be recovered (see Note 4.ñ). The tax losses not recognized by the Group as at 31 December 2016 amounted to EUR 82,944 thousand.

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

	Thousands of Euros			
	Tax Credit Carryforwards			
Year Earned	2016	2015	Recognized in 2016	Recognized in 2015
2008	2,288	2,288	2,288	2,288
2009	6,217	6,217	6,217	6,217
2010	325	325	325	325
2011	4,816	5,675	4,816	5,675
2012	3,000	3,000	3,000	3,000
2013	1,283	1,283	1,217	1,218
2014	1,825	1,825	309	309
2015	308	342	308	343
2016	35	-	35	-
	20,097	**20,955**	**18,515**	**19,375**

Under current legislation, taxes cannot be considered to be definitively settled until the tax authorities have reviewed the tax returns filed or the four-year statute of limitation period has elapsed. At 31 December 2016. All the Group's companies are under tax review for the years 2012 to 2016 for all State taxes.

Additionally, Law 3472015, of 21 September, partially amended by Law 58/2003, of 17 December, the tax authorities establish that the right of the Administration to start the procedure of review of tax charges or charges offset or pending offset or deductions applied or carried forward will have a statute of limitation of ten years from the day after the end of the regulatory period established for the filing of taxes or reverse charges corresponding to the tax period in which the right to offset such charges or rates to apply such deductions was generated.

No material tax contingencies are expected to arise as a result of the approach that the tax authorities might adopt in relation to the years open for review.

23. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2016 and 2015, the Group has provided the following guarantees to third parties:

	Thousands of Euros	
	2016	2015
Guarantees relating to purchases of land, urban development charges, litigation and other	2,864	2,941
Guarantee from Inversora Carso to loan from Caixa	103,649	-
	106,513	**2,941**

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

24. Income and expenses

a) Revenue

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

2016

	Thousands of Euros			
	Sale of Property, Developments, Building Lots and Other	Leases	Total	%
Madrid	12,133	45,360	57,493	72.02%
Catalonia	1,775	4,721	6,496	8.14%
Valencia	1,323	-	1,323	1.66%
Andalusia	1,423	809	2,232	2.80%
Balearic Islands	1,975	-	1,975	2.47%
Castilla y León	1,687	89	1,776	2.22%
Castilla-La Mancha	-	3,973	3,973	4.98%
Murcia	-	1,074	1,074	1.34%
Rest of Communities	-	2,899	2,899	3.63%
Abroad	593	-	593	0.74%
TOTAL	**20,909**	**58,925**	**79,834**	**100%**

2015

	Thousands of Euros			
	Sale of Property, Developments, Building Lots and Other	Leases	Total	%
Madrid	5,554	51,108	56,662	74.57%
Catalonia	1,504	4,212	5,716	7.52%
Valencia	1,075	-	1,075	1.41%
Andalusia	3,485	816	4,301	5.66%
Balearic Islands	1,164	-	1,164	1.54%
Castilla y León	964	87	1,051	1.38%
Castilla-La Mancha	2	3,729	3,731	4.91%
Murcia	-	930	930	1.22%
Rest of Communities	-	1,163	1,163	1.54%
Abroad	190	-	190	0.25%
TOTAL	**13,938**	**62,045**	**75,983**	**100%**

At year-end 2016, the Group’s property development, building lot and other sales recognized in the consolidated statement of profit or loss totaled EUR 20,909 thousand (2015: EUR 13,938 thousand).

In 2016 and 2015, net income from property rental and other services amounted to EUR 58,925 thousand, and EUR 62,045 thousand, respectively. This drop in come is mainly due to the removal from operations of the “Los Cubos” Building during 2016.

At 31 December 2016 and 2015, the Group had contracted with tenants for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI for 2015 and subsequent years or future contractual lease payment revisions:

	Thousands of Euros	
	2016	2015
Within one year	62,586	61,384
Between two and five years	156,335	122,054
After five years	112,520	79,594
	331,711	**263,032**

b) Other operating income

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

	Thousands of Euros	
	2016	2015
Expenses passed on in connection with property rentals and other (Note 4.u)	15,573	15,789
Income from sundry services		
From leases	228	2,042
From developments	1,099	1,000
Total other operating income	**16,900**	**18,831**

c) Procurements and other external expenses

The detail of "Procurements" in the Group's consolidated statement of profit or loss for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Purchases of land and building lots	(2,456)	(1,050)
Changes in inventories	815	730
Construction work and services rendered by third parties	8	(472)
Total procurements	**(1,633)**	**(792)**

The purchases of land and building lots relate mainly to urban development costs incurred by the Group's companies.

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

The detail of the Group's other external expenses in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Rent and royalties	34	57
Repair and upkeep expenses	7,480	7,961
Independent professional services	358	391
Insurance	468	489
Banking and similar services	48	43
Advertising, publicity and public relations	762	705
Utilities	3,213	3,458
After-sales service and other services provided by third parties	9,700	10,244
Taxes other than income tax	8,489	7,116
Other current operating expenses	-	58
Total other external expenses	**30,552**	**30,522**

d) Staff costs and average headcount

The detail of "Staff Costs" is as follows:

	Thousands of Euros	
	2016	2015
Wages, salaries and similar expenses	5,347	7,497
Employee benefit costs	928	993
Pension contributions and provisions (1)	215	244
Other employee benefit costs	155	237
Total staff costs	**6,645**	**8,971**

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

The average number of employees in the different Group companies in 2016 and 2015 was 94 and 99 respectively. The detail of the headcount at 2016 and 2015 year-end, by professional category, is as follows:

	Average number of employees				
	2016				
	Total	Men	Women	Spain	Abroad
Executives and university graduates	33	21	12	33	-
Other line personnel and further education college graduates	9	9	-	9	-
Clerical and similar staff	17	4	13	16	1
Other salaried employees	35	35	-	35	-
	94	**69**	**25**	**93**	**1**

	Average number of employees				
	2015				
	Total	Men	Women	Spain	Abroad
Executives and university graduates	37	24	13	37	-
Other line personnel and further education college graduates	9	9	-	9	-
Clerical and similar staff	20	5	15	19	1
Other salaried employees	33	33	-	33	-
	99	**71**	**28**	**99**	**1**

The number of employees at the various Group companies at 31 December 2016 and 2015 was 95 and 99, respectively.

At the end of 2016, the Group does not have any employee with a degree of disability of 33% or higher.

e) Result of companies accounted for using the equity method

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

	Thousands of Euros	
	2016	2015
Associates:		
Ronda Norte Denia, S.L.	(9)	(14)
As Cancelas Siglo XXI, S.L.	3,675	3,325
Studio Residence Iberia Investiment Inmobilir. S.A.	(1)	3
Inversiones Inmob. Rústicas y Urbanas 2000, S.L.	(4,712)	(25)
Total	**(1,047)**	**3,289**

f) Finance income and finance costs

The detail of “Finance Income” in the consolidated statement of profit or loss is as follows:

	Thousands of Euros	
	2016	2015
Finance income:		
Interest on financial assets	431	3,763
Other finance income (1)	113,674	1,543
	114,105	5,306
Finance costs:		
Interest on loans	(8,133)	(24,692)
Other	(52)	(86)
	(8,185)	(24,778)
Exchange rate differences	109	-
Impairment and gain or losses on disposals of financial instruments (Note 24.h)	(25)	36
Financial result	**106,004**	**(19,436)**

(1) It includes mainly the haircuts agreed for EUR 72,367 thousand and EUR 41,253 thousand from the syndicated development loan and the participating loan from Inversora Carso, S.A., respectively (see Note 20)

The Group did not capitalize any finance costs in 2016, in accordance with IAS 23.

g) Contribution to consolidated result

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

	Thousands of Euros					
	2016			2015		
	Profit (Loss) attributable to the Parent	Profit (Loss) Attributable to Non-Controlling Interests	Total	Profit (Loss) Attributable to the Parent	Profit (Loss) Attributable to Non-Controlling Interests	Total
Fully consolidated:						
Realia Business, S.A.	86,096	-	86,096	(30,679)		(30,679)
Valaise	(2)	-	(2)	(4)	-	(4)
Realia Business Portugal-Unipessoal, Lda.	(436)	-	(436)	(157)	-	(157)
Servicios Índice, S.A.	(3,077)	(3,016)	(6,093)	(41)	(40)	(81)
Planigesa Subgroup	16,526	17,346	33,872	4,263	8,835	13,098
Fomento Inmobiliario Levantino, S.L.	-	-	-	20	20	40
Portfolio Grandes Áreas Comerciales S.A.U.	-	-	-	12,146	-	12,146
Retingle, S.L.	89	89	178	27	27	54
Realia Polska Inwestycje, ZOO	74	-	74	(19)	-	(19)
Wilanow Realia SP ZOO	-	-	-	(5)	-	(5)
Realia Patrimonio, S.L.U.	17,350	-	17,350	30,109	-	30,109
Realia Contesti	534	-	533	(1,306)	-	(1,306)
Guillena Golf	(411)	-	(411)	(438)	-	(438)
Accounted for using the equity method:						
As Cancelas Siglo XXI, S.L.	3,675	-	3,675	3,325	-	3,325
Studio Residence Iberia Investment. Inmobilir. S.A.	(1)	-	(1)	3	-	3
Ronda Norte Denia, S.L.	(9)	-	(8)	(14)	-	(14)
	115,696	**14,419**	**130,115**	**17,205**	**8,842**	**26,047**

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

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

	Thousands of Euros	
	2016	2015
Gains or losses on disposals and changes in the scope of consolidation (Note 2.f)	(25)	36
	(25)	**36**

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

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

	Thousands of Euros	
	2016	2015
Net write-down of work in progress and finished goods (Note 14)	(6,091)	5,505
Net impairment losses on land and building lots (Note 14)	(38,133)	(18,445)
Excessive provisions (Note 19)	84	308
Net write-downs, impairment losses and provisions	(5,598)	1,036
	(49,738)	**(11,596)**

25. Balances and transactions with related companies

The Group had the following balances with related companies at 2016 year-end:

	Thousands of Euros								
	Assets			Financial Liabilities			Other Liabilities		
	Non-Current	Current	Total	Non-Current	Current	Total	Non-Current	Current	Total
FCC Construcción	-	-	-	-	49	49	-	-	-
FCC Indust. E Infraest. Energ, S.A.U.	-	-	-	-	95	95	-	465	465
Fedemes, S.L.	-	-	-	-	-	-	86	-	86
Fomento Construcciones y Contratas	-	-	-	-	-	-	27	48	75
CB Turó del Mar	-	-	-	-	-	-	-	-	-
Internacional Tecair	-	-	-	-	-	-	-	-	-
Inversora Carso	-	-	-	-	-	-	-	-	-
Serv. Especiales de Limpieza, S.A.	-	-	-	-	-	-	-	781	781
Acciona (UTE La Minilla)	-	-	-	-	-	-	-	-	-
Studio Residence	-	-	-	-	23	23	-	-	-
Ronda Norte Denia, S.L.	121	394	515	-	-	-	-	-	-
Inmob. Rústica y Urbana	11,929	4,857	16,786	-	-	-	-	-	-
As Cancelas Siglo XXI	48,361	52	48,413	-	-	-	-	-	-
	60,411	**5,303**	**65,714**	**-**	**167**	**167**	**113**	**1,294**	**1,407**

The Group had the following balances with related companies at 2015 year-end:

	Thousands of Euros								
	Assets			Financial Liabilities			Other Liabilities		
	Non-Current	Current	Total	Non-Current	Current	Total	Non-Current	Current	Total
FCC Construcción	-	-	-	-	49	49	-	-	-
FCC Indust. E Infraest. Energ, S.A.U.	-	37	37	-	-	-	-	460	460
Fedemes, S.L.	-	-	-	-	-	-	192	-	192
Fomento Construcciones y Contratas	-	-	-	-	-	-	27	-	27
CB Turó del Mar	-	1	1	-	-	-	-	-	-
Internacional Tecair	-	-	-	-	128	128	-	-	-
Inversora Carso	-	-	-	-	61,295	61,295	-	-	-
Serv. Especiales de Limpieza, S.A.	-	-	-	-	-	-	-	403	403
Acciona (UTE La Minilla)	-	-	-	-	53	53	-	-	-
Studio Residence	25	-	25	-	23	23	-	-	-
Ronda Norte Denia, S.L.	143	388	531	-	-	-	-	-	-
Inmob. Rústica y Urbana	14,786	4,847	19,633	-	-	-	-	-	-
As Cancelas Siglo XXI	22,699	16,552	39,251	-	-	-	-	-	-
	37,653	**21,825**	**59,478**	**-**	**61,558**	**61,548**	**219**	**863**	**1,082**

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

	Thousands of Euros	
	Associates	
	2016	2015
Purchases associated with land	-	29
Rental income	3,178	3,487
Services rendered	270	281
Other income	924	454
Services received	(2,412)	(1,526)
Financial expenses	(567)	(2,410)
Financial income (1)	41,514	727
Write-down of financial instruments	(25)	-

(1) It includes mainly the haircut agreed for EUR 41,253 thousand for the participating loan with Inversora Carso, S.A. (see Note 20)

In 2016 and 2015 no significant transactions were carried out with related companies other than those disclosed herein.

26. Situations of conflict of interest involving the directors

The members of the Board of Directors have reported that in 2016 they or persons related to them were not involved in any situations of conflict, either directly or indirectly, as defined by the Capital Companies Act, the with the interests of the Realia Business, S.A. Group. However, they did report the following:

- Mr. Juan Rodríguez Torres, Mr. Gerardo Kuri Kaufmann and Mr. Carlos Manuel Jarque Ubrique, abstained from attending and voting on several agreements related to the takeover bid submitted by Inversora Carso, S.A. de C.V.

- Mr. Juan Rodríguez Torres and Mr. Gerardo Kuri Kaufmann also abstained from attending and voting on several agreements related to the participating loan acquired by Inversora Carso, S.A. de C.V. from Sareb.

- Meliloto, S.L., E.A.C. Inversiones Corporativas, S.L. and Mr. Carlos Manuel Jarque Ubrique abstained from participating in the deliberation and vote on an agreement related to the awarding of service provision contracts to companies of the FCC Group.

- Mr. Juan Rodríguez Torres and Mr. Gerardo Kuri Kaufmann abstained from participating in the deliberation and vote on an agreement related to the awarding of service provision contracts to companies of the Carso Group.

27. Remuneration and other benefits of directors and senior executives

The detail of the remuneration received in 2016 and 2015 by the members of the Board of Directors and senior executives of Realia Business, S.A. is as follows:

2016

Thousands of Euros							
	No. of People	Salaries	Variable Remuneration	Bylaw-stipulated Directors' Emoluments	Pension Plans	Insurance Premiums	Other
Directors	7.0	-	400	358	-	-	-
Senior executives	5.5	1,139	-	-	80	6	5
	12.5	**1,139**	**400**	**358**	**80**	**6**	**5**

2015

Thousands of Euros							
	No. of People	Salaries	Variable Remuneration	Bylaw-stipulated Directors' Emoluments	Pension Plans	Insurance Premiums	Other
Directors	8.3	1,978	-	467	16	34	2
Senior executives	5.3	1,077	-	-	41	5	4
	13.6	**3,055**	**-**	**467**	**57**	**39**	**6**

Details of each of the directors' remuneration are provided in the Parent's annual remuneration report for 2016. The decrease in remuneration of the members of the Board of Directors in 2016 is due to the payment of severance and settlement of the contracts of two executive directors in 2015.

The Parent has a civil liability insurance policy to cover directors, executives and representatives, for which it paid a premium of EUR 25 thousand in 2016; the increase in 2016 is due to the incorporation of an additional "Run-off" clause, for a cost of EUR 11 thousand.

28. Fees paid to auditors

In 2016 and 2015, the fees for financial audit and other services provided by the auditor of the Group's consolidated financial statements, Deloitte, S.L., and by companies belonging to the Deloitte network, and the fees for services billed by other auditors and by companies related thereto through control, common ownership or management, were as follows:

2016

	Services provided by the Auditor Deloitte and by related firms	Other Auditors
Audit services	160	-
Other attest services	8	-
Total audit and related services	**168**	**-**
Tax advice services	-	85
Other services	401	14
Total professional services	**569**	**99**

2015

	Services provided by the Auditor Deloitte and by related firms	Other Auditors
Audit services	167	-
Other attest services	21	-
Total audit and related services	**188**	**-**
Tax advice services	-	96
Other services	172	-
Total professional services	**360**	**96**

29. Information on the environment

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

In 2016, the Group incurred environmental expenses amounting to EUR 116 thousand.

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

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

30. Risk management

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

Capital management

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

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

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

1 - Compliance with all the Group's rules

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

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

The main risks worth noting are:

Financial risks

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

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

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

Credit risk

The Group engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received 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 13.7 Million, which the company wrote down in full. Lastly, there is no material risk with regard to the lease of property assets, and it is maintained at levels similar to those of 2015. Company management has recognized provisions for all these contingencies based on the late payment period or doubtful debts.

Interest rate risk

At 31 December 2016, the Realia Group does not have hedges to manage its exposure to interest rate fluctuations.

The purpose of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimize borrowing costs over a multi-year time horizon with reduced volatility in the statement of profit or loss. Based on a comparative analysis of the finance costs included in the business plan and yield curve trends, the Company opted not to hedge the interest risk to minimize borrowing costs over the aforementioned period.

Company management closely monitors the trends in interest rate curves for the coming years and does not rule out using interest rate hedges in the future.

Liquidity risk

The residential property market has deteriorated steadily since mid-2007. The decline in demand for housing together with excess supply and, above all, the international financial crisis, led to restrictions on borrowing and stricter conditions of access to it. This in turn has given rise to financial difficulties for the majority of companies in the sector.

In the last two years, there were signs of improvement in the industry, although largely concentrated on increased demand for very well located products and the prime segment, as well as more fluid financing, above all to individual buyers or self-build development projects, with a continuation of restricted direct financing to property development companies. This trend was ratified in 2016, and the strong liquidity of the financial system, and low interest rates have created new financial possibilities, including the property sector, but under very restrictive and selective criteria for the debtors.

In 2015, and as part of the negotiation with the financial creditors of the Parent Realia Business, S.A., on 10 December 2015, an agreement was reached by which the total of the debt of the syndicated loan for EUR 802,759 thousand, was reduced by 9% provided that the conditions set for debt repayment were met. Four payment milestones were established: 50% of the debt to be repaid in December 2015, 12.15% on 29 January 2016, 12.85% on 29 February 2016 and the remaining 25% on 30 May 2016.

On 11 December 2015, the Company made the first payment established in the payment schedule, for EUR 365,218 thousand; additionally, on 29 January 2016, made the second and third payments, for EUR 183,104 thousand. The last payment, for EUR 183,905 thousand, maturing on 30 May 2016, was made on 7 April 2016, after the Company had entered into a bilateral loan agreement on 6 April 2016 with a bank for EUR 183,649 thousand, maturing on 30 June 2018, thus cancelling in full its development syndicated debt and recover the security deposited. Inversora Carso, S.A. de C.V., secured that loan.

On 31 December 2016, the Group reported a negative working capital of EUR 213,923 thousand, after the reclassification of the amount payable of the property syndicated loan, for EUR 678,158 thousand, maturing on 27 April 2017, to current liabilities. Thus, if by that date, no agreement has been reached for a new financial structure with financial creditors (current or new) or no new sources of financing have been found, the Group would have a liquidity problem. However, given the high quality of the property assets of the subsidiary, it is likely that the financing process will be successful. In any case, that debt has no recourse or guarantee from Realia Business S.A.

If the aforementioned risk does not materialize, due to either a new financing or an injection of equity to the company or any other measure that cancels the maturity, in can be inferred from the Treasury budget of the Group for the next 12 months that it will be in new position to face its commitments with the different creditors (financial and/or commercial).

The main aggregates of the cash projections for 2017 of the consolidated group, based on a minimum basis of recurring business, dividends and other payments received from services rendered to Group companies, excluding any extraordinary land or asset sale transactions, led to estimated collections of EUR 205.4 million, together with estimated payment of EUR 162.4 million, gave rise to a positive net cash flow of EUR 43.0 Million, which will be used to repay debt, together with the current cash position.

Foreign currency risk

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

Solvency risk

As at 31 December 2016, the Realia Business Group's net borrowings amounted to EUR 749.6 million, as shown in the following table:

Millions of Euros	2016
Mortgage loans	37.4
Bilateral loans	136.0
Syndicated loan Property	678.1
Loan arrangement costs	(1.1)
Interest	0.3
Gross bank borrowings	**850.7**
Cash and cash equivalents	(101.1)
Net bank borrowings	**749.6**

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

	Consolidated
Debt ratio	
Net borrowing costs(1) / Asset market value (LTV)	40.9%
Coverage ratio	
EBIDTA/Financial loss	5.1

At 2016 year-end, the Group had negative working capital of EUR 213,923 thousand, due to the recognition of the syndicated property loan debt as current liabilities, due to its maturity in April 2017.

Concentration risk

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

- Sources of financing: the Realia Business Group obtains financing from 16 Spanish and foreign banks and 5 similar institutions, which mainly finance two syndicated loans.

- Markets/geographical area (Spanish, foreign): the Realia Business Group operates in Spanish and international markets and all of its debt is concentrated in euros.

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

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

Market risks

The residential property market started to deteriorate in 2007 and this continued until the end 2014, when demand started to recover slightly in some areas and cities. This recovery was consolidated in 2016 and 2015, and in some areas of cities like Madrid or Barcelona, there is a very limited supply of product, and new developments have started. In view of this situation, Realia is analyzing the launch of new developments in those cities and in some others that also offer an interesting demand of residential housing.

However, despite the improvement mentioned, the product stock is still high in most of the national territories, and therefore the recovery of prices, compared to the beginning of the crisis, is still scant, and access to financing by developers and buyers is very restrictive.

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

In these circumstances, Realia Business Group, S.A. estimates that it must make every possible effort to generate value in the property management area, where its exceptional portfolio gives it an outstanding position; all without neglecting the potential to generate value that the residential property area can provide.

Legal and fiscal risk

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

Economic risks

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

Money laundering and financial crimes risk

These risks are controlled through a prevention and control system implemented by the Group in accordance with the applicable legislation, together with the related manual that includes the internal rules related to these matters and a Control, Information and Communication body that maintains relations with the Group's employees and the prevention services.

Personal data protection risk

These risks are controlled by special and standardized clauses included in agreements in different situations which, in accordance with the legislation governing this area. Allow the Group to limit and even eliminate any type of liability for Realia Business, S.A. Additionally, the Realia Group has databases registered with the Spanish Data Protection Agency, which have the necessary security mechanisms, and has a person in charge of this area.

Consumer and user protection risk

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

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

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

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

Despite the current market climate, it is strategic for Realia to continue pursuing the urban management of land in various areas that will create value for the land and for Realia itself, which will have an impact on the consolidated statement of profit or loss once normal market conditions are restored.

31. Events after the reporting period

At the date of these consolidated financial statements, the subsidiary Realia Patrimonio, S.L.U. had not concluded the process of refinance of its current syndicated loan with its creditors.

The directors of the Parent expect these negotiations to conclude successfully before the current debt maturity date, set for 27 April 2017 (see Notes 20 and 30).

MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

1. THE COMPANY AND ITS ORGANIZATIONAL STRUCTURE AND OPERATION:

Realia Business S.A: is the head of a corporate group that carries on its activities directly or through shareholdings in various companies.

Business activities related mainly to two lines of business:

a) PROPERTY MANAGEMENT: this activity is carried on through ownership interests in companies, normally subsidiaries of Realia Patrimonio, S.L. (wholly owned by Realia Business, S.A.). This activity is carried on in Spain.
These financial investments amount to 53% approximately of the asset value in the balance sheet of Realia Business, S.A.

b) PROPERTY DEVELOPMENT AND LAND MANAGEMENT: this line of business is carried on either directly by Realia Business S.A. or through companies with ownership interests though which control is exercised or with significant ownership interests.
The property development business is carried on in Spain, Portugal, Poland and Rumania. In Spain, activities are focused in the following geographical areas:

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

Activities abroad are carried on mainly by wholly owned subsidiaries (direct and indirect control) of Realia Business, S.A.

The parent Realia Business S.A. is a company listed on the continuous market of Madrid, the most significant shareholders of which include the FCC Group, with an ownership interest of 36.92%, and the Mexican company Inversora Carso, S.A. de C.V., with a stake of 33.84%. The latter is the controlling shareholder of the FCC Group, and therefore controls, directly or indirectly, 70.77% of Realia Business, S.A.

Its organization structure can be summarized as follows:

BOARD OF DIRECTORS: this is composed of 7 directors and is advised by the Audit Committee and the Appointment and Remuneration Committee.

NON-EXECUTIVE CHAIRMAN: Chairs the Board of Director.

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

GENERAL MANAGEMENT: this reports directly to the Chairman and is a member of the Board of Directors.

MANAGEMENT COMMITTEE: this reports to the general manager and is composed of Business, Planning, Investor Relations and Financial Management.

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

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

2. CHANGES IN THE EQUITY INVESTMENT PORTFOLIO

The changes in “Non-Current Financial Assets” in 2016 were as follows:

Additions:

None

Disposals:

In February 2016, the Portuguese company Studio Residence Iberia Investimentos was no longer consolidated as an “equity method” company, after it was declared insolvent and a judicial administrator was appointed.

In May 2016, Portfolio de Grandes Comerciales SAU was merged through acquisition by its Parent Realia Patrimonio, with no impact at the consolidated level.

Changes:

None

3. AVERAGE PAYMENT PERIOD TO SUPPLIERS

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

	2016
	Days
Average payment period to suppliers	52.46
Ratio of transactions paid	53.70
Ratio of transactions outstanding	40.47
	Thousands of Euros
Total payments made	37,529
Total payments outstanding	5,493

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

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

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

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

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

The maximum payment deadline applicable to the Company in 2016, according to Law 3/2004, of 29 of December, that establishes measures to fight against default in commercial transactions and according to the transitory provisions of Law 15/2010, is of 60 days, since the conditions required by Law 11/2013, of 26 of July, are fulfilled.

4. MAIN AGGREGATES OF 2016

RESULTS

- Realia generated total revenues in 2016 for EUR 97.2 Million, 2.4% higher than in 2015, due to the increase in developments and land (+7.1 Million), and despite the decrease in property development revenues (-4.8 Million) after emptying the Los Cubos Building in Madrid for its sale.

- EBITDA (see APMS, point 5) is at 41.8 million in 2016, 3.3% higher than in 2015 (40.5 million).

- Earnings before taxes at 31 December 2016 reached 145.8 Million, and attributed net profit stands at 115.7 Million. This result reflects the following extraordinary impacts:

    - Due to the assessment by independent experts of residential assets at 31 December, which reflected a reduction in value of 65 Million in like for like terms, provisions have been made for 3.4 Million against the value of the portfolio of finished products, and 43.9 Million against the value of land. The positive variation in the value of property investments is of EUR 49.2 Million.
    - A positive impact of 113 Million, thanks to the haircuts in the refinancing of the homebuilding debt and the loan acquired by Inversora Carso from Sareb, 72 Million and 41 Million respectively.

    - The collection of a debt related to the sale of land has been recognized as impossible to collect (the debtor is in receivership), and the corresponding provision has been made for 5.5 Million.

- The net Recurrent Result (see APMS, point 5) attributable to the Parent in 2016, excluding the aforementioned effects, is around EUR 41.48 Million, against the EUR 7.59 Million of 2015.

CAPITAL INCREASE

- In October, the Board of Directors approved a capital increase of EUR 147 Million, which has circulated more than 184 Million new shares, at a price of 0.8 € per share.

- Once the capital increase concluded, the majority shareholders of the company have the following ownership interests: FCC 36.925% and Inversora Carso 38.844% (controls over 70.769% of Inversora Carso, directly and indirectly).

INDEBTEDNESS

- After the last capital increase, Realia has repaid in full (20.4 Million) the participating loan acquired by Inversora Carso from Sareb, and has repaid 80 million of the bilateral homebuilding loan.

- At the end of 2016, Realia reduced its bank borrowings and net borrowings by EUR 403 Million, down to EUR 851 Million, 32% less than in 2015.

- At 31 December 2016, Realia has net bank and related borrowings (see APMS point 5) of EUR 750 Million, 30% lower than on December 2015, with a loan to value (LTV) (see APMS point 5) of 40.9%.
- After the reduction in borrowings, the drop in interest rates and the haircuts for the restructuring of the development loan during the year, the financial result in 2016 is EUR 106 Million (113.6 Million from haircuts, 0.5 Million from financial income and -8.2 Million in expenses), versus -19.4 Million of 2015.

- The syndicated property loan will mature in 27 April 2017. Given the quality of the property assets of Realia Patrimonio and its subsidiaries, the Directors expect to complete the process of obtaining new financing successfully.

- The weighted average rate of the net borrowings as at 31 December 2016 is 0.54%, versus 0.98% at 2015 year-end.

ASSET VALUATION

- At 31 December 2016, Realia's property assets have a market value of EUR 1,833 million, 1.4% lower than December 2015 in absolute terms, due to the adjustments in the value of land and the reduction of finished product stock, and 0.3% lower in like for like terms (except the effect of the sale of completed products). The portfolio of rental assets has gained 4.4% in value.

- Net Asset Value (NNAV) (see APMS point 5) at 31 December 2016, after adjustments for the capital increase of EUR 147 Million (concluded in January 2017), is EUR 805 Million, versus 552 Million at 31 December 2015. In unit terms, the share price is 1.25 euros per share, 4% higher than its value in 2015, 1.20 euros per share.

- 80% of assets correspond to the property management activity (1,469 Million) and the remaining 20% to the residential homebuilding business.

PROPERTY MANAGEMENT BUSINESS

- Rental income, excluding passed-on expenses, amount to 58.9 Million, a drop of 5%, mainly due to the emptying of the Los Cubos building (for its sale). In like for like terms (excluding Los Cubos), there is a slight recovery in occupations and rents (2% increase on rents).
- Global occupancy of rental buildings is at 94% at 2016 year-end, versus 91.5% in 2015. Office occupancy is at 94.5%, and 92% in Shopping Centers.

- No property assets investments or divestments have taken place in the year, with the exception of a 5,000 sq. m. extension in an industrial building in Agoncillo (Logroño), with a total investment of EUR 1.1 Million.

- Gross leasable surface area of the Realia Group amounts to 380,125 sq. m. (not including the Los Cubos building, destined for sale), with an occupancy at 31 December 2016 of 93.7%, an increase of 2.60 points compared to 2015 year-end.

- The valuation of rental assets as at 31/12/2016 amounted to 1,355.7 Million Euros (excluding the "Los Cubos" building), an increase of 4.5% over the valuation in 2015, excluding that asset.

HOMEBUILDING DEVELOPMENT BUSINESS

- In 2016, 96 units were delivered for an amount of EUR 19 Million, 45% more than in 2015 (13.1 Million – 71 units).

- At 31 December 2016, Realia holds a stock of 490 units (homes, commercial premises and offices) finished and pending delivery (20 of them sold). Additionally, it holds 41 single-family building lots for housing self-development.

- Realia's land portfolio at 31 December 2016 amounts to 1,852,040 sq. m. of buildable land, most of them located in Madrid and the central region.

- ECO valuation of land, ongoing developments and completed developments included under "Inventories" amounts to EUR 348.7 Million at the end of 2016, which led to net provisions of EUR 44.2 Million respect to the value of the same assets in the balance sheet at year-end 2015.

5. ALTERNATIVE PERFORMANCE MEASUREMENTS (APMS)

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

EBITDA = Gross operating profit

The Group defines EBITDA as the operating profit, minus the impact of allocations to amortizations and write-offs.

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

ATTRIBUTABLE RECURRENT NET PROFIT:

The Group defines the ATTRIBUTABLE RECURRENT NET PROFIT AS the profit obtained, after taxes, attributed to the shareholders of the Parent company, excluding the impact of extraordinary figures in the profit and loss account that cannot be considered as the result of the usual activity of the company. The most significant adjustments in 2016 are:

- The impact of write-offs and appreciation of property investments are eliminated.
- Adjustments were made for the impact of haircuts from the renegotiation of debt.

The Group uses this figure to provide a more homogenous measurement of the underlying performance of businesses.

NET FINANCIAL BORROWINGS:

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

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

NET NET ASSET VALUE (NNAV):

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

LOAN TO VALUE (LTV):

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

GAV (Liquidation Value):

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

6. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

After 2016, a good year for the sector, macroeconomic forecasts for 2017 are positive, GDP is expected to grow around 2.2-2.4%, and despite the political uncertainties in Europe, America and Spain, it is expected that this GDP increase will have positive effects for the property sector, and it is expected to result in:

a) Greater demand for housing, which will allow starting new developments in some areas. At the same time, prices will recover.

b) There will be a gradual consolidation of financing for developers, with a relaxation of the strict requirements currently in place, mainly the demand of a high percentage of pre-sales; also, it is expected that financing will be available for the purchase of ready-for-construction land, with good locations and guaranteed demand.

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

d) Greater demand for space thanks to the establishment of new companies from the UK.

The sum of all these factors may affect the Group's account, and it is expected that all macro forecasts about the Spanish economy will have a positive impact.

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

1) Negotiation for the renegotiation and restructuring of Realia Patrimonio's debt, maturing in April 2017, so that it makes possible a new financial structure of the company and contributes to the development of the Realia Group. The management of the company believes that this process will be completed before the maturity of the current financing.

2) Increase in the development activity, with the start of new homebuilding developments, in areas where there is demand, such as Madrid, Barcelona, Palma de Mallorca, etc., which will provide cash flow and profits to the group.

Financial risk management objectives and policies:

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

- Compliance with the Group's rules.

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

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

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

The most significant financial risks are:

Credit risk

The Group engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received on delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 13.7 Million, which the Company wrote down fully. Lastly, there is no material risk with regard to the lease of property assets, and it is maintained at levels similar to those of 2015. Company management has recognized provisions for all these contingencies based on the pate payment period or doubtful debts.

Interest rate risk

At 31 December 2016, the Realia Group does not have any hedges to manage its exposure to interest rate fluctuations.

The purpose of interest rate risk management is to achieve a balanced debt structure that makes it possible to minimize borrowing costs over a multi-year time horizon with reduced volatility in the statement of profit or loss. Based on a comparative analysis of the finance cost and yield curve trends, the Company opted not to hedge the interest rate risk in order to minimize the borrowing costs over the aforementioned period.

Company management closely monitors the yield curve trends for the coming years and does not rule out arranging interest rate hedges in the future.

Liquidity risk

The residential property market has deteriorated steadily since mid-2007. The decline in demand for housing together with excess supply and, above all, the international financial crisis, led to restrictions on borrowing and stricter conditions of access to it. This in turn has given rise to financial difficulties for the majority of companies in the sector.

Over the last two years, there have been signs of improvement, although largely concentrated on increased demand for very well located products and the medium-prime segment, financing is increasingly available, mostly for individual buyers or self-build development projects, with a continuation of restricted direct financing to property development companies. This trend was ratified in 2016 and the strong liquidity of the financial system, together with low interest rates, have created new financing possibilities, including the property sector, but under very selective and restrictive criteria for debtors.

In 2015 and as part of the negotiation with the financial creditors of the Parent Realia Business, S.A., on 10 December 2015, an agreement was reached by which the total syndicated loan debt, EUR 802,759 thousand, would be reduced by 9% provided that certain conditions for debt repayment were met. Four payment milestones were established: 50% of the debt to be repaid in December 2015; 12.15% on 29 January 2016; 12.85% on 29 February 2016, and the remaining 25% on 30 May 2016.

On 11 December 2015, the Company made the first payment in this schedule for EUR 365,218 thousand; additionally, on 29 January 2016, it made the second and third payments for EUR 183,104 thousand. The last payment milestone, for EUR 183,905 thousand, payable on 30 May 2016, was made on 7 April 2016, after the Company entered into a bilateral loan agreement with a bank on 6 April 2016, for EUR 183,649 thousand, maturing on 30 June 2018, and thus cancelling in full its syndicated development loan and recovering the collateral deposited. Inversora Carso, S.A. de C.V., guaranteed that loan.

Additionally, on 31 December 2016, the Group reported a negative working capital of EUR 213,923 thousand, after the reclassification of the whole amount outstanding from the property syndicated loan, for EUR 678,158 thousand, maturing on 27 April 2017, to current liabilities. Therefore, if by that date, no agreement has been reached on a new financial structure with the financial creditors (current or new), or it has not been possible to find new sources of financing, the Group would have a liquidity problem. However, given the quality of the property assets of the subsidiary, it is very likely that the financing process will conclude successfully.

If the risk described above does not materialize, either because of new financing or a new injection of capital to the company or by any other measure that renders that maturity ineffective, the cash position of the Group indicates that the liquidity of the company for the next 12 months allows it to face its commitments with the different creditors (financial and/or commercial).

The main aggregates of the cash forecasts for 20017 of the consolidated group, prepared on the basis of recurrent business, dividends and other collections from services rendered to companies of the group, excluding extraordinary transactions of land or asset sales, record a figure of EUR 205.4 million in collections forecast, which together with a payment forecast of EUR 162.4 million, generate a positive net cash flow of EUR 43.0 million, which will be allocated, together with the current cash position, to the partial repayment of debt.

Solvency risk

At 31 December 2016, the Realia Business Group’s net borrowings amounted to EUR 749.6 million, as shown in the following table:

Millions of Euros	**2016**
Mortgage loans	37.4
Bilateral loans	136.0
Syndicated property loan	678.1
Loan arrangement costs	(1.1)
Interest	0.3
Gross bank borrowings	**850.7**
Cash and cash equivalents	(101.1)
Net financial borrowings	**749.6**

The most relevant ratios for measuring solvency are as follows:

	Consolidated
Debt ratio	
Net bank borrowings (1) / Asset market value (LTV)	40.9%
Coverage ratio	
EBITDA/ Financial loss	5.1

At 2016 year-end, the Group had negative working capital for EUR 213,923 thousand, due to the effect of the classification of the syndicated property loan debt as current liabilities, due to its maturity in April 2017.

Foreign currency risk

The Realia Business Group does not have a significant foreign currency risk.

Other risks: Market Risk

The residential property market started deteriorating in mid-2007, a trend that continued until the end of 2014, when demand started to recover slightly in some areas and cities. This recovery was consolidated in 2015 and 2016, and even in some areas of cities such as Madrid and Barcelona, there is scarce supply for product, and new developments are starting. In view of these circumstances, Realia is analyzing the launch of new developments in these cities, and in some others it also offers an interesting offering of residential housing.

However, despite the improvement mentioned above, the product stock is still high is most of the national territories, therefore price recovery is very slow, and access to financing by developers and buyers is very selective.

Regarding the rental market, where the Group operates through its subsidiary Realia Patrimonio S.L.U., demand for space is recovering modestly, rental prices are stabilizing and the incentives to settlement demanded by customers are being reduced. On the other hand, the investment activity in the property segment continues to be positive and rising.

For all these reasons, the Realia Business Group, S.A. considers that it must focus its efforts toward the creation of value in the property area, where its extraordinary property portfolio gives it an outstanding position; without neglecting the value creation potential yet to emerge in the homebuilding area.

7. OUTLOOK FOR 2017

The main lines of action of the Realia Business Group for 2017 will focus on:

1) Increase and strengthen its revenues. To this end, it plans to start new developments in areas of consistent demand and very low or nonexistent supply, especially in areas of Madrid, Barcelona and similar ones.

2) Improvement of margins, due to both rationalization and optimization of expenses, and through production costs and price recovery.

3) Financial consolidation of its subsidiary Realia Patrimonio, providing it with a new long-term financial structure that replaces the current structure.

4) Possibility of asset rotation and/or acquisition of new assets, according to market offers and opportunities, with the goals of improving the profit or loss account and the generation of value for the Group.

APPENDIX I:

					Thousands of Euros			
						Investee Data (100%)		
						EQUITY		
COMPANY	**REGISTERED OFFICE**	**OWNER**	**LINE OF BUSINESS**	**EFFECTIVE PERCENTAGE OF OWNERSHIP**	**NET COST OF THE OWNERSHIP INTEREST**	**SHARE CAPITAL**	**RESERVES AND PROFIT (d)**	**PROFIT (LOSS) BEFORE TAX**
Fully consolidated companies:								
REALIA BUSINESS PROTUGAL UNIPESSOAL LDA.	Avda. Libertade, 249 (Lisbon)	REALIA BUSINESS S.A.	Property development	100.00%	1,434	250	1,184	-417
REALIA POLSKA INWESTYCJE SP, ZOO (S.L. POLAND) (b)	Ul Pulawska, 228 (Warsaw)	REALIA BUSINESS S.A.	Property development	100.00%	126	4,463	-4,462	-58
RETINGLE, S.A.	P. Castellana, 216 (Madrid)	REALIA BUSINESS S.A.	Property development	50.10%	10,762	21,481	1,426	334
SERVICIOS INDICE, S.A.	P. Castellana, 216 (Madrid)	REALIA BUSINESS S.A.	Property development	50.50%	2,301	8,000	-3,443	-6,093
VALAISE, S.L.U.	P. Castellana, 216 (Madrid)	REALIA BUSINESS S.A.	Services	100.00%	10	10	2	-2
REALIA PATRIMONIO, S.L.U. (*)	P. Castellana, 216 (Madrid)	REALIA BUSINESS, S.A.	Lease	100.00%	552,960	100,000	424,856	31,600
REALIA CONTESTI S.R.L. (*)	Candiano Popescu, 63c (Bucharest)	REALIA BUSINESS, S.A.	Property development	100.00%	3,312	3,997	-685	533
GUILLENA GOLF, S.L.U.	P. Castellana, 216 (Madrid)	REALIA BUSINESS, S.A.	Services	100.00%	19	4	15	-411
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	10.04%	37,940	54,881	163,750	17,101
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	PLANIGESA, S.A.	Lease	51.00%	57,600	54,881	163,750	17,101
HERMANOS REVILLA, S.A. (a) (*)	P. Castellana, 41 (Madrid)	BOANE 2003, S.A.U.	Lease	4.76%	8,414	54,881	163,750	17,101
BOANE 2003, S.A.U. (a)	P. Castellana, 41 (Madrid)	HERMANOS REVILLA, S.A.	Lease	100.00%	13,913	7,961	1,520	1,202
PLANIGESA, S.A. (a)	P. Castellana, 216 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	76.00%	44,564	46,878	27,108	12,181

(a) Companies belonging to the Planigesa Subgroup

(b) The share capital of Realia Polska Inwestcyje, S.P., ZOO amounts to PLN 19,281 thousand. The figure shown in the table is the result of the translation to euros at the exchange rate prevailing on the date of the contribution.

(c) The share capital of Realia Contesti. S.R.L. amounts to RON 15,428 thousand. The figure shown in the table is the result of the translation to euros at the exchange rate prevailing on the date of the contribution.

(d) Including profit (loss) for 2016.

(*) Company audited by Deloitte, S.L.

APPENDIX II

					Thousands of Euros			
						Investee Data (100%)		
						EQUITY		
COMPANY	**REGISTERED OFFICE**	**OWNER**	**LINE OF BUSINESS**	**EFFECTIVE PERCENTAGE OF OWNERSHIP**	**NET COST OF THE OWNERSHIP INTEREST**	**SHARE CAPITAL**	**RESERVES AND PROFIT (d)**	**PROFIT (LOSS) BEFORE TAX**
Associates								
DESARROLLO URBANÍSTICO SEVILLA ESTE, S.L.	Aljarafe Center, Pza. De las Nacionaes, Edificio oficinas (Mairena del Aljarafe – Seville9	REALIA BUSINESS S.A.	Property development	30.52%	0	1,392	-56,254	-10,116
RONDA NORTE DENIA, S.L.	Pza. Nicolás María Garelly (Jurista), 2 – 2ºE (Valencia)	REALIA BUSINESS, S.A.	Property development	32.63%	121	475	-105	-26
INVERSIONES INMOBILIARIAS RÚSTICAS Y URBANAS 200, S.L.	c/ Ayala, 3 (Madrid9	REALIA BUSINESS, S.A.	Property development	33.36%	11,951	20	34,235	-33
AS CANCELAS SIGLO XXI, S.L. (*)	P. Castellana, 216 (Madrid)	REALIA PATRIMONIO, S.L.U.	Lease	50%	22,176	900	47,865	3,929

(*) Company audited by Deloitte, S.L.

APPENDIX III: Detail of Joint Ventures and Joint Property Interests: 2016

	Thousands of Euros		
	Total Revenue	**Percentage of Ownership**	**Company in Which it is Consolidated**
Joint property interests:			
Turó del Mar	1,218	50.00%	Realia Business, S.A.

The Consolidated Financial Statements and the Management Report of the company REALIA BUSINESS, S.A. for 2016 have been drawn up by the Board of Directors of the company on 9 March 2017, and are described in the back of eighty (80) pages of stamped paper numbered sequentially from OM9152001 to OM9152080, both inclusive.

For the purposes of Royal Decree 1362/2007, of 19 October (art.8.1.b), the undersigned Directors of REALIA BUSINESS, S.A. make the following statement of liability:

That, to the best of their knowledge, the Financial Statements prepared in accordance with the applicable accounting principles, offer an accurate picture of the equity, the financial situation and the results of the company, and of all the companies included in the consolidation, and the Management Report includes the accurate picture of the evolution and the corporate results and the position of the company and all the companies included in the consolidation, together with the description of the main risks and uncertainties that they face.

The Directors, in witness whereof, have undersigned this page of stamped paper numbered OM9152081 on both sides.

MR. JUAN RODRIGUEZ TORRES

Non-Executive Chairman

Proprietary Director

Chairman of the Executive Committee

Member of the Appointment and

Remuneration Committee

Member of the Audit and Control Committee

____

MR. GERARDO KURI KAUFMANN

Chairman of the Board

Executive Director

Member of the Executive Committee

____

EAC INVERSIONES CORPORATIVAS, S.L.

Rep: MRS. ESTHER ALCOCER KOPOLOWITZ

Member of the Board

Proprietary Director

Member of the Executive Committee

Member of the Appointment and

Remuneration Committee

____

MELILOTO, S.L.

Rep: MRS. ALICIA ALCOCER KOPLOWITZ

Member of the Board

Proprietary Director

Member of the Executive Committee

Member of the Appointment and

Remuneration Committee

____

MRS. CARMEN IGLESIAS CANO

Member of the Board

Independent Director

Member of the Appointment and

Remuneration Committee

Member of the Audit and Control Committee

____

MR. CARLOS MANUEL JARQUE URIBE

Member of the Board

Proprietary Director

____

MRS. MARÍA ANTONIA LINARES LIÉBANA

Member of the Board

Independent Director

Chair of the Appointment and Remuneration Committee

Chair of the Audit and Control Committee