2016

REALIA Business, S.A. Accounts

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Realia Business, S.A.

Financial Statements for the year ended 31 December 2016 and Directors' Report, together with Independent 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.

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on the Financial Statements

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

Directors' Responsibility for the Financial Statements

The Company's directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Realia Business, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2.1 to the accompanying financial statements) and for such internal control as the directors determine is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 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 financial statements present fairly, in all material respects, the equity and financial position of Realia Business, S.A. as at 31 December 2016, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
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Report on Other Legal and Regulatory Requirements

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

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

Javier Parada Pardo
9 March 2017

Realia Business, S.A.

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

REALIA BUSINESS, S.A.

BALANCE SHEET AS AT 31 DECEMBER 2016

(Thousands of Euros)

ASSETS	**Notes**	**2016**	**2015**	**EQUITY AND LIABILITIES**	**Notes**	**2016**	**2015**
NON-CURRENT ASSETS		**677,005**	**712,330**	**EQUITY**	**Note 12**	**428,819**	**219,064**
Intangible assets	Note 5	46	23	SHAREHOLDERS'S EQUITY			
Computer software		30	6	Share capital		154,754	110,580
Other intangible assets		16	17	Share premium		421,463	318,392
Property, plant and equipment	Note 6	482	538	Reserves		322,072	322,132
Properties for own use		22	23	Legal and bylaw reserves		15,291	15,291
Plant and other items of property, plant and equipment		460	515	Other reserves		306,781	306,841
Investment property	Note 7	5,732	5,915	Treasury shares		(675)	(675)
Land		2,048	2,379	Prior years' losses		(531,365)	(499,909)
Buildings		2,981	3,172	Profit/ (loss) for the year		62,570	(31,456)
Other fixtures		703	364				
Non-current investments in Group companies and associates	Notes 9.1 and 18.2	**582,996**	**591,912**				
Equity instruments		582,996	591,912	**NON-CURRENT LIABILITIES**		**578,898**	**446,477**
Deferred tax assets	Note 16.4	87,678	113,882	Long-term provisions	Note 13.1	8,464	8,626
Other non-current assets		71	60	Non-current payables	Note 14	103,465	-
				Bank borrowings		103,465	-
CURRENT ASSETS		**362,442**	**491,815**	**Non-current payables to Group companies and associates**	**Notes 14 and 18.2**	**465,036**	**437,000**
Inventories	**Note 10**	296,640	348,833	Other payables to Group companies and associates		465,036	437,000
Land and building lots		208,267	239,438	Deferred tax liabilities	Note 16.5	1,731	69
Long-cycle construction work in progress		27,101	32,873	Other non-current liabilities		202	782
Completed buildings		59,233	73,617				
Advances to suppliers		2,039	2,905				
Trade and other receivables	**Note 11**	**5,833**	**101,786**				
Trade receivables for sales and services		36	5,473	**CURRENT LIABILITIES**		**31,730**	**583,604**
Trade receivables from Group companies and associates	Note 18.2	1,351	1,361	Short-term provisions	Note 13.1	1,140	1,140
Sundry accounts receivable		2,435	2,616	Current payables	Note 14	3,931	447,466
Employee receivables		1	1	Bank borrowings		3,781	65,754
Accounts receivable from public authorities	Note 16.1	2,007	3,368	Other financial liabilities		150	381,712
Other receivables from public authorities	Note 16.1	3	6	**Current payables to Group companies and associates**	Notes 14 and 18.2	16,128	78,453
Shareholders (partners) for called for disbursements		-	88,961	Other payables to Group companies and associates		16,128	78,453
Current investments in Group companies and associates	Notes 9.2 and 18.2	5,411	7,457	**Trade and other payables**	Note 15	10,531	11,545
Loans to companies		5,411	7,457	**Payable to suppliers**		**6,320**	**5,878**
Current financial assets	Note 9.2	1,547	1,172	Payable to suppliers – Group companies and associates	Note 18.2	13	56
Loans to companies		7	7	Sundry accounts payable		856	1,207
Other financial assets		1,540	1,165	Employee receivables		91	86
Current accruals and deferrals		23	9	Other accounts payable to public authorities	Note 16.1	462	561
Cash and cash equivalents	Note 9.4	52,988	32,558	Customer advances	Notes 10 and 15	2,789	3,757
TOTAL ASSETS		**1,039,447**	**1,204,145**	**TOTAL EQUITY AND LIABILITIES**		**1,039,447**	**1,204,145**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2016.

REALIA BUSINESS S.A.

INCOME STATEMENT FOR 2016

(Thousands of Euros)

	Notes	2016	2015
CONTINUING OPERATIONS			
Revenue	**Note 17.1**	**20,012**	**14,294**
Sales		17,713	11,986
Services		2,299	2,308
Other operating income		**1,206**	**1,053**
Non-core and other current operating income		1,206	1,053
Procurements	**Note 17.2**	**(33,595)**	**(7,642)**
Land and building lots used		(1,639)	(307)
Work performed by other companies		8	(260)
Write-down of land and building lots	Note 10	(31,964)	(7,075)
Changes in inventories of finished goods and work in progress	**Note 10**	**(20,159)**	**(6,972)**
Changes in inventories of finished goods and work in progress		(14,571)	(14,205)
Write-down of inventories of finished goods and work in progress		(5,588)	7,053
Staff costs		**(4,175)**	**(6,485)**
Wages, salaries and similar expenses		(3,308)	(5,446)
Employee benefit costs	Note 17.4	(867)	(1,039)
Other operating expenses		**(10,946)**	**(5,107)**
Outside services	Note 17.5	(4,533)	(5,266)
Taxes other than income tax		(1,033)	(414)
Losses on impairment and changes in allowances for trade receivables	Notes 11 and 13.1	(5,380)	573
Property depreciation	Notes 5, 6 and 7	(396)	(453)
Excessive provisions	Note 13.1	84	304
Impairment and gains or losses on disposals of non-current assets		120	(732)
Impairment and other losses	Note 7	127	(732)
Other gains or losses from disposals		(7)	-
LOSS FROM OPERATIONS		**(47,849)**	**(11,740)**
Finance income	**Note 17.6**	**146,211**	**699**
From investments in equity instruments	Note 9.1	32,502	59
- Group companies and associates	Note 18.1	32,502	59
From marketable securities and other financial instruments		113,709	640
- Group companies and associates	Note 18.1	41,284	58
- Third parties		72,425	582
Finance costs	**Note 17.6**	**(6,121)**	**(17,895)**
On debts to Group companies and associates	Note 18.1	(3,482)	(2,455)
On debts to third parties		(2,639)	(15,440)
Impairment and gains or losses on disposals of financial instruments	**Notes 9.1 and 17.6**	(9,354)	(530)
Impairment and other losses		(9,354)	(527)
Gains or losses on disposals and others		-	(3)
FINANCIAL PROFIT (LOSS)		**130,736**	**(17,726)**
PROFIT/ (LOSS) BEFORE TAX		**82,887**	**(29,466)**
Income tax	Note 16.3	(20,317)	(1,990)
PROFIT/LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**62,570**	**(31,456)**
PROFT/LOSS FOR THE YEAR		**62,570**	**(31,456)**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2016.

REALIA BUSINESS, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2016

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	Notes	2016	2015
LOSS/PROFIT PER INCOME STATEMENT (I)	Note 3	62,570	(31,456)
TOTAL INCOME AND EXPENSE RECOGNIZED DIRECTLY IN EQUITY (II)		-	-
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		-	-
TOTAL RECOGNIZED INCOME AND EXPENSE (I+II+III)		62,570	(31,456)

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2016.

REALIA BUSINESS, S.A.

B) STATEMENT OF CHANGES IN TOTAL EQUITY IN 2016

(Thousands of Euros)

	Share capital	Share premium	Reserves	Treasury shares	Prior Years' Profit/Loss	Profit/Loss for the year	TOTAL
2014 FINAL BALANCE	**73,769**	**266,242**	**322,223**	**(675)**	**(458,582)**	**(41,327)**	**161,650**
Total recognized income and expense	-	-	-	-	-	(31,456)	(31,456)
Transactions with shareholders:							
Allocation of results 2104	-	-	-	-	(41,327)	41,327	-
Capital increases and decreases (Note 12)	36,811	52,150	(91)	-	-	-	88,870
2015 FINAL BALANCE	**110,580**	**318,392**	**322,132**	**(675)**	**(499,909)**	**(31,456)**	**219,064**
Total recognized income and expense	-	-	-	-	-	62,570	62,570
Transactions with shareholders:							
Allocation of 2015 result	-	-	-	-	(31,456)	31,456	-
Capital increases and decreases (Note 12)	44,174	103,071	(60)	-	-	-	147,185
2016 FINAL BALANCE	**154,754**	**421,463**	**322,072**	**(675)**	**(531,365)**	**62,570**	**428,819**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2016.

REALIA BUSINESS, S.A.
STATEMENT OF CASH FLOWS FOR 2016
(Thousands of Euros)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES (I)		**40,316**	**(6,991)**
Profit/Loss for the year before tax		**82,887**	**(29,466)**
Adjustments:		**(87,690)**	**18,456**
Depreciation and amortization charge	Notes 5, 6 and 7	396	453
Impairment losses	Notes 6, 7, 9.1 and 10	52,159	1,177
Changes in provisions	Note 13.1	(155)	(648)
Gains/losses on de-recognition and disposal of non-current assets		-	2
Finance income	Note 17.6	(146,211)	(423)
Finance costs	Note 17.6	6,121	17,895
Changes in working capital:		**13,852**	**10,799**
Inventories	Note 10	14,641	13,513
Trade and other receivables	Note 11	240	(118)
Other current assets		(15)	(8)
Trade and other payables	Note 15	(1,014)	(2,564)
Other current liabilities		-	(24)
Other cash flows from operating activities		**31,267**	**(6,780)**
Interest paid		(4,516)	(6,943)
Dividends received	Note 9.1	32,502	-
Interest received		82	625
Income tax recovered (paid)		3,199	(196)
Other amounts received (paid) relating to operating activities		-	(266)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(735)**	**86**
Payments due to investment		**(862)**	**(376)**
Group companies and associates		(441)	(332)
Intangible assets		(39)	(23)
Property, plant and equipment		11	(21)
Investment property		(4)	-
Other financial assets		(389)	-
Proceeds from disposals		**127**	**462**
Group companies and associates		124	57
Property, plant and equipment		3	2
Other financial assets		-	403
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**(19,151)**	**(6,284)**
Proceeds and payments relating to equity instruments	**Notes 11 and 12**	**236,145**	**(91)**
Proceeds from issue of equity instruments		236,145	372
Depreciation of equity instruments		-	(463)
Proceeds and payments relating to financial liability instruments	**Note 14**	**(255,296)**	**(6,193)**
Proceeds from issue of borrowings with banks		183,382	-
Repayment of borrowings with Group companies and associates		67,301	365,000
Proceeds from issue of other debts		-	283
Repayment and write-down of loans (syndicated)		(366,402)	(366,147)
Repayment and write-down of bank borrowings (other)		(86,465)	(5,263)
Repayment and write-down of borrowings with Group companies and associates		(53,112)	(66)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**20,430**	**(13,189)**
Cash and cash equivalents at beginning of year		**32,558**	**45,747**
Cash and cash equivalents at end of year		**52,988**	**32,558**

The accompanying Notes 1 to 21 are an integral part of the balance sheet as at 31 December 2016.

Realia Business, S.A.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Company activities

The Company was incorporated on 14 August 1997 as a result of the spin-off of Proyectos y Desarrollos Urbanísticos, S.A. (PRODUSA) into Produsa Este, S.L. and Produsa Oeste, S.L. Its registered office is currently located at Paseo de la Castellana, 216, Puerta de Europa, Madrid. On 13 April 2000, the Company became a public limited liability company. On May 5 2000, the shareholders at the Annual General Meeting of Produsa Este, S.A. approved the contributions 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 Mantenimiento Integral, S.L. and Planigesa, S.A. On 14 March 2001, the plan was approved for the merger by absorption of Realia Business S.A. (the absorbing company) and the companies wholly owned directly or indirectly by it, Centro Inmobiliario Caja Madrid, S.L. (Sole-Shareholder Company), Diagonal Sarriá, S.A. (Sole-Shareholder Company) and Activos Inmobiliarios Caja Madrid, S.L. (Sole-Shareholder Company) (the absorbed companies). This merger plan was filed at the Madrid Mercantile Registry on 28 March 2001, and was approved by the shareholders of these companies at their respective Universal General Meetings held on 5 April 2001. The legally required disclosures relating to this merger were included in the 2001 financial statements. On 8 June 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 26 September 2005. The legally required disclosures relating to this merger were included in the 2005 financial statements.

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

On 19 February 2009, the shareholders at the Extraordinary General Meeting resolved to wind up RB Business Holding, S.L. without liquidation, through a merger with Realia Business, S.A. On 9 June 2009, the shareholders at the Annual General Meetings of the absorbing and absorbed companies approved the downstream merger plan, which was executed in a public deed on 10 September 2009 and filed at the mercantile registry on 25 September 2009. The legally required disclosures relating to this transaction were included in the 2009 financial statements.

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

2. <u>Basis of presentation of the financial statements</u>

2.1 Regulatory financial information framework applicable to the Company

The regulatory financial reporting framework applicable to the Company consists of:

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

b. The Spanish National Chart of Accounts approved via Royal Decree 1514/2007 and its industry adaptations.

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

d. All other applicable Spanish accounting legislation.

2.2 Fair presentation

The accompanying financial statements, which were obtained from the Company's accounting records, are presented in accordance with the regulatory framework for financial information applicable to the Company. Accordingly, they present fairly the Company's equity, financial position, results of operations and cash flows for 2016.

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

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

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately, in accordance with International Reporting Standards as adopted by the European Union. The Realia Group's consolidated financial statements for 2015 were formally prepared by the Company's directors on 9 March 2017. The separate and consolidated financial statements for 2015 were approved by the shareholders at the Annual General Meeting of Realia Business, S.A. on 21 June 2016, and were filed at the Madrid Mercantile Registry.

2.3 Accounting principles

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

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

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

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

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

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

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

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

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

Although these estimates were made on the basis of the best information available at 2016 year-end, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

2.5 Grouping of items

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

2.6 Correction of errors

No significant errors were detected in the preparation of the accompanying financial statements that would have made it necessary to restate the amounts included in the financial statements for 2015.

2.7 Changes in accounting policies

In 2016, there were no significant changes in accounting policies with respect to those applied in 2015.

2.8 Comparative information

The financial statements present in this 2016 annual report is presented for the purposes of comparison with the information related to 2015.

2.9 Current assets and liabilities

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

	Thousands of Euros	
	2016	2015
Inventories	235,368	272,311
Total current assets	**235,368**	**272,311**
Bank borrowings	1,199	3,612
Trade and other payables	2,576	3,544
Total current liabilities	**3,775**	**7,156**

3. Allocation of profit or loss

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

	Thousands of Euros
Legal reserve	6,257
To prior year's losses	56,313
Total	**62,570**

4. Accounting policies

The principal accounting policies used by the Company in preparing its financial statements for 2016, in accordance with the Spanish National Chart of Accounts, were as follows:

a) *Intangible assets*

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

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

Impairment of intangible assets and property, plant and equipment

At the end of each reporting period (for goodwill and intangible assets with indefinite useful lives) or whenever there are indications of impairment (for other assets), the Company tests the tangible and intangible assets for impairment to determine whether the recoverable amount of the assets has been reduced to below their carrying amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

Company management performs impairment tests as follows:

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

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

b) *Property, plant and equipment*

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

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

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

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

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

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

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

c) Investment property

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

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

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

d) Leases

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

Operating leases

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

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

Financial leases

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

e) *Asset exchange transactions*

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

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

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

f) *Financial instruments*

f.1) Financial assets

Financial assets are classified in the following categories:

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

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

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

Initial recognition

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

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

Subsequent measurement

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

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

Investments in Group companies and associates and interests in jointly controlled entities are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of the unrealized gains existing at the date of measurement (including any goodwill), net of the related tax effect.

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

Group companies are considered those in which the Company holds an ownership interest of more than 50% in their share capital or when the bylaws or other agreements afford Realia Business, S.A. control over the company. Associates are companies in which the Company holds an ownership interest of more than 20% and has significant influence over their management.

The Company is the head of a group of companies, in which it holds direct interests, which are detailed in Note 9.1. The detail of the main aggregates in the financial statements of the Realia Group for 2015, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, is as follows:

	Thousands of Euros	
	2016	2015
Total assets	**2,059,074**	**2,244,709**
Equity:		
Of the Parent	776,917	514,238
Attributable to non-controlling interests	231,819	227,948
Revenue	79,834	75,983
Profit/loss for the year:		
Of the Parent	115,696	17,205
Attributable to non-controlling interests	14,419	8,842

At least at each reporting date, the Company tests financial assets for impairment in order to adjust them to their fair value. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower that its carrying amount. When this occurs, the impairment loss is recognized in the income statement.

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

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

f.2) Financial liabilities

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

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

Liability derivative financial instruments are measured at fair value using the same methods as those described in the previous section.

The Company derecognizes financial liabilities when the obligations giving rise to them cease to exist.

f.3) Equity instruments

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

Equity instruments issued by the Company are recognized in equity at the proceeds received, net of issue costs.

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

g) Inventories

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

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

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

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

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

In the year ended 31 December 2016, the Company did not capitalize any borrowing costs to inventories (see Note 10).

The carrying amount of the Company's inventories is adjusted by recognizing the corresponding impairment loss, in order to bring it into line with the market value determined by an independent valuation expert in an appraisal conducted at 31 December 2016, when the market value was less than the carrying amount.

h) Foreign currency transactions

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

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

i) Income tax

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

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss), and except for those associated with investments in subsidiaries, associates and joint ventures in which the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

j) Revenue and expense recognition

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

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

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

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

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

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

k) Provisions and contingencies

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

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

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

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

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

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

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

l) Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognized as an expense in the year in which the decision to terminate the employment relationship is taken. The accompanying financial statements include a provision of EUR 70 thousand for this concept on 31 December 2016.

m) Pension obligations

For employees with at least two years' service, the Company has externalized a defined contribution pension plan to provide benefits in the form of a lump sum. The Plan is included in the Bankia Pensiones IX pension fund, the manager and custodian of which are Bankia Pensiones S.A.U., E.G.F.P. and Bankia, S.A., respectively. 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 amounts to EUR 6,395 thousand (EUR 6,204 thousand in 2015), and the expense for 2016 to EUR 190 thousand (EUR 220 thousand in 2015) (see Note 17.4). The aforementioned pension obligations are covered by an insurance policy for contributions exceeding the limits established by Law 35/2006. There are no other pension plans or additional obligations.

n) Joint ventures

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

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

The main aggregates at 31 December 2016 of the joint property entities included in the financial statements of Realia Business, S.A. are as follows:

	Thousands of Euros
	Joint Property Entities
Revenue	609
Profit from operations	1
Assets	6,415
Liabilities	171

None of the joint property entities included in the Company's balance sheet and income statement at 31 December 2016 are subject to statutory audit.

o) Related party transactions

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

p) Cash flow statements

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

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

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

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

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

5. <u>Intangible assets</u>

The changes in 2016 and 2015 in "Intangible Assets" in the balance sheet and the most significant information affecting this item were as follows:

Thousands of Euros	Computer Software	Other intangible assets	Total
Cost			
Balances as at 31 December 2014	**2,110**	**-**	**2,110**
Additions	5	17	22
Disposals	(1,571)	-	(1,571)
Balances as at 31 December 2015	**544**	**17**	**561**
Additions	23	16	39
Transfers	14	(14)	-
Disposals		(3)	(3)
Balances as at 31 December 2016	**581**	**16**	**597**
Accumulated amortization			
Balances as at 31 December 2014	**(2,078)**	**-**	**(2,078)**
Charges for the year	(31)	-	(31)
Disposals	1,571	-	1,571
Balances as at 31 December 2015	**(538)**	**-**	**(538)**
Charges for the year	(13)	-	(13)
Balances as at 31 December 2016	**(551)**	**-**	**(551)**
Intangible assets, net			
Balances as at 31 December 2015	**6**	**17**	**23**
Balances as at 31 December 2016	**30**	**16**	**46**

At the end of 2016 and 2015, the Company had fully amortized intangible assets still in a condition to be used according to the following breakdown:

	Thousands of Euros	
	2016	2015
Intangible assets	534	532
	534	**532**

6. Property, plant and equipment

The changes in 2016 and 2015 in "Intangible Assets" in the balance sheet and the most significant information affecting this heading were as follows:

	Thousands of Euros		
	Properties for Own Use	Plant and other items of Property, Plant and Equipment	Total
Cost			
Balances as at 31 December 2014	**73**	**2,104**	**2,177**
Additions	-	17	17
Disposals	-	(253)	(253)
Balances as at 31 December 2015	**73**	**1,868**	**1,941**
Additions	-	19	19
Disposals	-	(35)	(35)
Balances as at 31 December 2016	**73**	**1,852**	**1,925**
Accumulated amortization			
Balances as at 31 December 2014	**(4)**	**(1,498)**	**(1,502)**
Charges for the year	(1)	(106)	(107)
Disposals	-	251	251
Balances as at 31 December 2015	**(5)**	**(1,353)**	**(1,358)**
Charges for the year	(1)	(68)	(69)
Disposals	-	29	29
Balances as at 31 December 2016	**(6)**	**(1,392)**	**(1,398)**
Impairment losses			
Balances as at 31 December 2014	**(43)**	**-**	**(43)**
Charges for the year	(2)	-	(2)
Balances as at 31 December 2015	**(45)**	**-**	**(45)**
Charges for the year	(2)	-	(2)
Balances as at 31 December 2016	**(45)**	**-**	**(45)**
Property, Plant and Equipment – net			
Balances as at 31 December 2015	**23**	**515**	**538**
Balances as at 31 December 2016	**22**	**460**	**482**

At the end of 2016, the Company had fully depreciated items of property, plant and equipment still in use, the detail being as follows:

	Thousands of Euros	
	2016	2015
Plant and other items of property, plant and equipment	1,003	828
	1,003	**828**

The Company takes out insurance policies to cover the possible risks to which its property, plant and equipment are subject. At 2016 year-end, the property, plant and equipment were fully insured against these risks.

7. Investment property

The changes in 2016 and 2015 in “Intangible Assets” in the balance sheet and the most significant information affecting this heading were as follows:

	Thousands of Euros			
	Land and building lots	Rental properties	Other fixtures	Total Investment Property
Cost				
Balances as at 31 December 2014	**5,408**	**10,546**	**3,065**	**19,019**
Additions	-	-	-	-
Balances as at 31 December 2015	**5,408**	**10,546**	**3,065**	**19,019**
Additions	-	-	4	4
Balances as at 31 December 2016	**5,408**	**10,546**	**3,069**	**19,023**
Accumulated depreciation				
Balances as at 31 December 2014	**-**	**(1,367)**	**(688)**	**(2,055)**
Charges for the year	-	(206)	(109)	(315)
Balances as at 31 December 2014	**-**	**(1,367)**	**(688)**	**(2,055)**
Charges for the year	-	(206)	(109)	(315)
Balances as at 31 December 2015	**-**	**(1,573)**	**(797)**	**(2,370)**
Charges for the year	-	(207)	(108)	(315)
Balances as at 31 December 2016	**-**	**(1,780)**	**(905)**	**(2,685)**
Impairment losses				
Balances as at 31 December 2014	**(2,818)**	**(5,385)**	**(1,802)**	**(10,005)**
Charge for the year	(211)	(416)	(102)	(729)
Balances as at 31 December 2015	**(3,029)**	**(5,801)**	**(1,904)**	**(10,734)**
Reversions/ allocations	41	85	2	128
Transfers	(372)	(69)	441	-
Balances as at 31 December 2016	**(3.360)**	**(5,785)**	**(1,461)**	**(10,606)**
Investment property, net				
Balances as at 31 December 2015	**2,379**	**3,172**	**364**	**5,915**
Balances as at 31 December 2016	**2,048**	**2,981**	**703**	**5,732**

At 31 December 2016 and 2015, no items have been fully written-down.

The fair value of the Company’s investment property at 31 December 2016 and 2015, calculated on the basis of appraisals conducted by independent valuation experts not related to the Group, amounted to EUR 6,763 thousand and EUR 8,163 thousand, respectively.

Since 2012, the aforementioned market value has been calculated on appraisals conducted by independent valuation experts, performed in accordance with the principles and methodology of Ministry of Economy 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 assets and certain rights for financial purposes (whereby appraisals may be conducted using various methods, according to the urban development and the type of assets involved). According to the valuation by independent experts, there are no assets whose recoverable value is lower that their net carrying amount.

In 2016, the Company recognized impairment losses amounting to EUR 128 thousand (EUR 729 thousand in 2015).

Location and use

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

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

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

Related income and expenses

In 2016 and 2015, the rental income for the investment property owned by the Company amounted to EUR 215 thousand and EUR 182 thousand, respectively (Note 17.1) and the operating expenses of all kinds relating thereto were passed on to the tenants of the María Tubau office building in Madrid (EUR 32 thousand), and to Guillena Golf, S.L. (EUR 76 thousand), a wholly-owned investee of Realia Business, S.A. (EUR 72 thousand).

At the end of 2016 and 2015, there were no restrictions, other than as set out in the syndicated financing agreement, on making new investment property investments, on the collection of rental income thereof or in connection with the proceeds obtained from a potential disposal thereof.

8. <u>Leases</u>

8.1 Operating leases (lessee)

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

Minimum operating lease payments	Nominal value	
	2016	2015
Within one year	339	214
Between two and five years	560	-
After five years	-	-
	899	**214**

The lease payments related mainly to the lease of the Puerta Europa Este (Madrid) building, which houses the Company’s head office and to the lease of the Catalonia office in Torre Porta Fira (Barcelona), both of which are owned by its subsidiary Realia Patrimonio, S.L.U.

8.2 Operating leases (lessor)

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

Minimum operating lease payments	Thousands of Euros	
	Nominal value	
	2016	2015
Within one year	161	161
Between one and five years	296	37
After five years	111	-
	568	**198**

The detail of the operating lease payments recognized as income in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Minimum lease payments	215	182
Total, net	**215**	**182**

9 <u>Financial assets (non-current and current) and other non-current assets</u>

9.1 Non-current financial assets

The detail of "Non-Current Investments in Group Companies and Associates" at the end of 2016 and 2015 is as follows:

2016

	Thousands of Euros
	Non-current Financial Instruments
	Equity Instruments
Investments in Group companies and associates	582,996
Total	**582,996**

2015

	Thousands of Euros
	Non-current Financial Instruments
	Equity Instruments
Investments in Group companies and associates	591,912
Total	**591,912**

1) Ownership interest:

	% of Ownership			
	2016		2015	
Company	Direct	Effective	Direct	Effective
Group				
Servicios Índice, S.A.	50.50%	50.50%	50.50%	50.50%
Realia Business Portugal Unipessoal Lda.	100.00%	100.00%	100.00%	100.00%
Retingle, S.L.	50.10%	50.10%	50.10%	50.10%
Valaise, S.L.	100.00%	100.00%	100.00%	100.00%
Realia Polska Inwestycje S.P. ZOO	100.00%	100.00%	100.00%	100.00%
Realia Patrimonio, S.L.U.	100.00%	100.00%	100.00%	100.00%
Realia Contesti, S.R.L.	100.00%	100.00%	100.00%	100.00%
Guillena Golf, S.L.	100.00%	100.00%	100.00%	100.00%
Associates				
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	33.36%	33.36%	33.36%	33.36%
Desarrollo Urbanístico Sevilla Este, S.L. (DUSE)	30.52%	30.52%	30.52%	30.52%
Ronda Norte Denia, S.L.	32.63%	32.63%	32.63%	32.63%

2) Equity position:

As at 31 December 2016:

Thousands of Euros						
Company	Share Capital	Profit or Loss		Other Equity Items	Total Equity	Dividends Received
		From Operations	Net			
Servicios Índice, S.A. (b)	8,000	(6,100)	(6,093)	2,650	4,557	-
Realia Business Portugal Unipessoal Lda. (b)	250	(363)	(436)	1,620	1,434	-
Retingle, S.L. (b)	21,481	151	178	1,248	22,907	24
Valaise S.L.U. (b)	10	(2)	(2)	4	12	-
Realia Polska Inwestcyje SP, ZOO (b)	4,463	(25)	(58)	(4,404)	1	-
Realia Patrimonio, S.L.U. (a)	100,000	29,943	5,788	419,068	524,856	32,478
Realia Contesti, SRL (b)	3,997	(531)	533	(1,218)	3,312	-
Guillena Golf, S.L.U. (b)	4	(411)	(411)	426	19	-
Total Group	**138,205**	**22,662**	**(501)**	**419,394**	**557,098**	**32,502**
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L. (b)	20	(16)	(472)	34,707	34,255	-
Desarrollo Urbanístico Sevilla Este, S.L. (a)	1,392	(9)	(7,587)	(48,667)	(54,862)	-
Ronda Norte Denia, S.L. (b)	475	(4)	(26)	(79)	370	-
Total associates	**1,887**	**(29)**	**(8,085)**	**(14,039)**	**(20,237)**	**-**
Total	**140,092**	**22,633**	**(8,586)**	**405,355**	**536,861**	**32,502**

(a) Financial statements audited by Deloitte, S.L.
(b) Unaudited financial statements

As at 31 December 2015:

Thousands of Euros						
Company	Share Capital	Profit or Loss		Other Equity Items	Total Equity	Dividends Received
		From Operations	Net			
Servicios Índice, S.A. (b)	8,000	(93)	(81)	2,730	10,649	-
Realia Business Portugal Unipessoal Lda. (b)	250	(100)	(121)	3,166	3,295	-
Retingle, S.L. (b)	21,481	(93)	54	1,242	22,777	59
Valaise S.L.U. (b)	10	(4)	(4)	8	14	-
Realia Polska Inwestcyje SP, ZOO (b)	4,463	(35)	(12)	(4,410)	41	-
Realia Patrimonio, S.L.U. (a)	100,000	19,673	33,643	425,438	559,081	-
Realia Contesti, SRL (b)	3,997	(25)	(20)	1,374	5,351	-
Guillena Golf, S.L.U. (b)	4	(438)	(438)	426	(8)	-
Total Group	**138,205**	**18,885**	**33,021**	**429,974**	**601,200**	**59**
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L. (b)	20	(43)	(76)	34,738	34,727	-
Desarrollo Urbanístico Sevilla Este, S.L. (a)	1,392	(493)	(8,306)	(30,149)	(37,063)	-
Ronda Norte Denia, S.L. (b)	475	(19)	(43)	(36)	396	-
Total associates	**1,887**	**(555)**	**(8,425)**	**4,553**	**(1,940)**	**-**
Total	**140,092**	**18,330**	**24,596**	**434,572**	**599,260**	**59**

(a) Financial statements audited by Deloitte, S.L.
(b) Unaudited financial statements

3) Investments

As at 31 December 2016:

Company	Thousands of Euros			
	Carrying Amount			
	Cost	Impairment Loss (recognized) reversed in the year (Note 17.6)	Accumulated Impairment Losses	Total
Group:				
Servicios Índice, S.A.	6,498	(4,197)	(4,197)	2,301
Realia Business Portugal Unipessoal Lda.	8,199	(436)	(6,764)	1,435
Retingle, S.L.	10,762	-	-	10,762
Valaise, S.L.	10	-	-	10
Realia Polska Inwestycje SP ZOO	6,037	(195)	(5,911)	126
Realia Patrimonio, S.L.U.	552,960	-	-	552,960
Realia Contesti S.R.L.	13,610	(686)	(10,299)	3,311
Guillena Golf S.L.	4,456	(419)	(4,437)	19
Total Group	**602,532**	**(5,933)**	**(31,608)**	**570,924**
Associates:				
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	20,179	(3,413)	(8,228)	11,951
Desarrollo Urbanístico Sevilla Este, S.L.	61,401	-	(61,401)	-
Ronda Norte Denia, S.L.	155	(8)	(34)	121
Total associates	**81,735**	**(3,421)**	**(69,663)**	**12,072**
Total	**684,267**	**(9,354)**	**(101,271)**	**582,996**

As at 31 December 2015

Company	Thousands of Euros			
	Carrying Amount			
	Cost	Impairment Loss (recognized) reversed in the year (Note 17.5)	Accumulated Impairment Losses	Total
Group:				
Servicios Índice, S.A.	6,498	-	-	6,498
Fomento Inmobiliario Levantino, S.L.	-	20	-	-
Realia Business Portugal Unipessoal Lda.	8,199	(160)	(6,328)	1,871
Retingle, S.L.	10,762	-	-	10,762
Valaise, S.L.	10	-	-	10
Realia Polska Inwestycje SP ZOO	6,037	(254)	(5,716)	321
Realia Patrimonio, S.L.U.	552,960	-	-	552,960
Realia Contesti S.R.L.	13,610	(264)	(9,613)	3,997
Guillena Golf S.L.	4,018	(432)	(4,018)	-
Total Group	**602,094**	**(1,090)**	**(25,675)**	**576,419**
Associates:				
Inversiones Inmobiliarias, Rústicas y Urbanas 2000, S.L.	20,179	577	(4,815)	15,364
Desarrollo Urbanístico Sevilla Este, S.L.	61,401	-	(61,401)	-
Ronda Norte Denia, S.L.	155	(14)	(26)	129
Total associates	**81,735**	**563**	**(66,242)**	**15,493**
Total	**683,829**	**(527)**	**(91,917)**	**591,912**

The impairment losses recognized in 2016 are based on estimates of the fair value of the investments made using the principles described in Note 4.f.

The detail of the most significant transactions carried out in 2016 is as follows:

a) *Capital increase at Guillena Golf. S.L.*

In April and July 2016, Realia Business, S.A. made two injections of capital for EUR 438 thousand in order to restore the equity balance.

The detail of the most significant transactions carried out in 2015 is as follows:

a) *Liquidation of Wilanow Realia SP, ZOO*

In April 2015, the company Wilanow Realia SP ZOO, a subsidiary in which the Company owned an interest of 51.65%, was liquidated. The liquidation gave rise to a loss of EUR 2,000, recognized under “Impairment and Gains and Losses on Disposals of Financial Instruments – Impairment and Other Losses” in the accompanying income statement.

b) *Liquidation of Fomento Inmobiliario Levantino, S.L.*

Fomento Inmobiliario Levantino, S.L., a subsidiary in which the Company owned an interest of 51%, was liquidated in July 2015. The liquidation gave rise to a profit of EUR 20,000, recognized under “Impairment and Gains and Losses on Disposals of Financial Instruments – Impairment and Other Losses” as a consequence of the reversion in the provision recognized by the Company.

c) Capital increase at Guillena Golf, S.L

On 26 May 2015, the company Guillena Golf S.L. increased share capital by EUR 30 thousand, with a share premium of EUR 270 thousand, in order to restore its equity position. On the same date, a reduction of share capital was agreed for an amount of EUR 398 thousand, which reduced it to EUR 4 thousand, and a restricted voluntary reserve was recognized.

d) Desarrollo Urbanístico Sevilla Este, S.L. (DUSE)

In December 2015, DUSE reduced its capital against share premium and results from prior years, in order to restore its equity position.

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

The detail of "Current Investments in Group Companies and Associates" and "Current Financial Assets" at the end of 2016 and 2015 is as follows:

2016

	Thousands of Euros	
Current financial instruments	Loans and other	Loans to Group Companies/ Associates (Note 18.2)
Loans and receivables	7	5,411
Other financial assets	1,540	-
	1,547	**5,411**

2015

	Thousands of Euros	
Current financial instruments	Loans and other	Loans to Group Companies/ Associates (Note 18.2)
Loans and receivables	7	7,457
Other financial assets	1.165	-
	1,172	**7,457**

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

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

Qualitative information

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

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

The main financial risks affecting the Company are as follows *a) Credit risk*

The Company engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received on delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 13,704 thousand, which the Company wrote down in full for the related risk (see Note 11). Lastly, there is no material risk with regard to the lease of property assets, although the current crisis has caused an upturn in non-payment and doubtful deeds. Company management has recognized provisions for all these contingencies based on the late payment period of doubtful debts.

b) Liquidity risk

The residential property market has deteriorated steadily since mid-2007. The decline in demand for housing, particularly second homes, 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 many companies in the sector.

Over the last two years, some signs of improvement appeared in the market, albeit concentrated on demand for products in prime locations in the medium-high segment, and borrowing conditions improved, especially to individuals or self-build development projects. However, there continued to be no direct financing available for developers. This trend was ratified in 2016, and the strong liquidity of the financial system, and low interest rates, allowed for new financing opportunities to appear, including the property sector, but under very restrictive and selective criteria for the borrowers.

In 2015, as part of the negotiations with the financial creditors of the parent Realia, an agreement on 10 December was reached to reduce by 9% the total syndicated loan debt, amounting to EUR 802,759 Million, provided that the conditions for debt repayment are fulfilled. Payment milestones have been broken down into four: 50% of the debt payable on December 2015, 12.15% payable on 29 January 2016, 12.85% payable 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 it made the second and third payments, for EUR 183,104 thousand. The last payment, amounting to EUR 183,905 thousand, due on 30 May 2016, was made on 7 April 2016, after the Company entered into an agreement with a bank on 6 April 2016, for EUR 183,649 thousand, due on 30 June 2018, thus cancelling in full the syndicated loan and recovering the security delivered. Inversora Carso, S.A. de C.V., has guaranteed this loan.

At year-end 2016, Realia Business, S.A: holds a long-term loan with its subsidiary Realia Patrimonio, S.L.U. for an amount of EUR 465,036 thousand, maturing in 2018. Currently, the subsidiary in in the process of financing its syndicated loan, due on 27 April 2017. The Sole Director of Realia Patrimonio, S.L.U. expects to conclude the process successfully in the first quarter of 2017.

The parent Realia has prepared a financial feasibility plan that confirms the existence of sufficient liquidity to meet its payment obligations within the next 12 months.

The main aggregates of the cash projections for 2017, based on a minimum basis of recurring business, dividends and other payments received for services rendered to Group companies, excluding any extraordinary land-sale transactions, led to estimated collections of EUR 26.7 Million which, together with estimated payments of EUR 21.9 Million, give rise to a positive net cash flow of EUR 4.8 Million which, together with the available cash balance, will be used to reduce in part the current debt.

c) Solvency risk

At 31 December 2016, the net bank or similar borrowings (bank borrowings transferred) of Realia Business, S.A. amounted to EUR 54,258 thousand, as shown in the following table:

	Thousands of Euros
Gross bank borrowings:	
Bilateral loan	103,465
Mortgage loans	3,597
Accrued interest	184
Cash and cash equivalents (Note 9.4)	(52,988)
Net bank or similar borrowings	**54,258**

The loan to value ratio of the Company is 46.7%, taking into account the net bank borrowings allocated by percentage to subsidiaries, and the attributed GAV of the assets, according to the following breakdown:

Net bank borrowings	**720,330**
Realia Business, S.A.	54,258
Subsidiaries (attributable)	666,072
Asset GAV	**1,541,689**
Realia Business S.A.	329,329
Subsidiaries (attributable)	1,212,360
Loan to value	**46.7%**

At year-end 2016, the Company has a positive working capital of EUR 330,712 thousand, mainly due to the long-term maturity of its bilateral loan and the inter-company loan with Realia Patrimonio (both are due in 2018) (see Note 14).

In addition, at 31 December 2016, net bank borrowings of the Company accounts for 5.2% of its total liabilities and equity.

d) Interest rate risk

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

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

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

a) Foreign currency risk

The Company is not exposed to a significant level of foreign currency risk.

b) Market risk

The property market started deteriorating in 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 or cities like Barcelona or Madrid, the supply of product is very low, and new developments are starting. In view of this situation, Realia is analyzing the launch of new developments in these cities and some other that offer an interesting homebuilding demand.

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

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

For all these reasons, Realia 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 of residential property area can provide.

9.4 Cash and cash equivalents

The detail of “Cash and Cash Equivalents” at the end of 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Current accounts	52,896	1,855
Cash equivalents	2	30,703
Total	**52,988**	**32,558**

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

“Cash equivalents” refers to liquid bank deposits available in the short-term.

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

10 <u>Inventories</u>

The detail of “Inventories” at 31 December 2016 and 2015 is as follows:

	Thousands of Euros					
	2016			2015		
	Cost	Write-downs	Net	Cost	Write-downs	Net
Land and building lots	631,554	(423,287)	208,267	630,760	(391,322)	239,438
Long-cycle construction work in progress	48,278	(21,177)	27,101	48,273	(15,400)	32,873
Completed buildings	77,401	(18,168)	59,233	91,975	(18,358)	73,617
Advances to suppliers	2,039	-	2,039	2,905	-	2,905
Total	**759,272**	**(462,632)**	**296,640**	**773,913**	**(425,080)**	**348,833**

The fair value of inventories at 31 December 2016 and 2015, calculated on the basis of appraisals conducted by independent valuation experts not related to the Group, as described in Note 4.g, amounted to EUR 322,566 thousand and EUR 382,125 thousand, respectively. In 2016, the Company wrote down inventories in order to adjust their carrying amount to market value, which gave rise to a loss of EUR 31,964 thousand and EUR 5,588 thousand for write-down of land and building plots and construction in progress, respectively (EUR 7,075 thousand and reversal of write-downs for EUR 7,053 thousand in 2015), recognized under "Write-down of land and building plots" and "Write-down of inventories of completed buildings and construction in progress" in the accompanying profit or loss account.

The aforementioned market value was calculated based on appraisals conducted by independent valuation experts, performed in accordance with the principles and methodology of Ministry of Economy Order ECO/805/2003 of 27 March, amended by Ministry of Economy Order EHA/564/2008 of 28 February, which establishes the measurement bases for property assets 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 requirements of the definition of the market value of the related assets, and those that 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 any case, the current situation of the residential market may give rise to differences between the fair value of the Company's inventories and the effective realizable value thereof.

The changes in gross cost terms in "Inventories" in the years ended 31 December 2016 and 2015 were as follows:

	Thousands of Euros				
	Land and Building Lots	Long-Cycle developments in progress	Completed Buildings	Net Write-Downs	Total
Balance as at 31 December 2014	**630,125**	**48,267**	**105,994**	**(425,058)**	**359,328**
Additions	759	47	-	(10,514)	(9,708)
Disposals	(165)	-	(14,019)	10,492	(3,692)
Transfers	41	(41)	-	-	-
Balance as at 31 December 2015	**630,760**	**48,273**	**91,975**	**(425,080)**	**345,928**
Additions	1,681	5	481	(40,498)	(38,331)
Disposals	(887)	-	(15,055)	2,946	(12,996)
Balance as at 31 December 2016	**631,554**	**48,278**	**77,401**	**(462,632)**	**294,601**

Land and building lots

In 2016, the main additions took place in Valdebebas (Madrid), for EUR 634 thousand, and Plaza Glorias (Barcelona), for EUR 611 thousand. These additions correspond mainly to subdivision and urban development costs. No significant additions to land and building lots were made during 2015.

Advances to suppliers

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

Land	Province	Thousands of Euros	
		2016	2015
Valdebebas	Madrid	2,021	2,887
El Molar	Madrid	18	18
Total		**2,039**	**2,905**

Advances in 2016 and 2015 relate to urban development costs charged by the Valdebebas Development and Apportionment Entity.

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

Inventories held as collateral for mortgage loans

At 31 December 2015, certain assets were recognized under inventories, with an aggregate carrying amount of EUR 256,336 thousand which serve as mortgage security for the syndicated loan arranged in 2009, as well as the bilateral loans with Kutxa Bank, Banco Santander and the Bank Restructuring Asset Management Company (SAREB), arranged by Realia Business, S.A. (see Note 14). On 29 January 2016, according to the refinancing agreement signed with the lenders, the cancellation of the mortgage on the properties allocated to the syndicated loan were notarized. Additionally, the mortgage guarantee of bilateral loans with Kutxa Bank and Sareb was cancelled.

Therefore, at 31 December 2016, after the cancellation of the syndicated loan and the bilateral loans with Kutxa Bank and Sareb, the only asset included under "Inventories", whose net carrying amount is EUR 5,286 thousand, and serves as mortgage guarantee for the bilateral loan with Banco Santander, amounts to EUR 3,597 thousand.

Sale commitments

Property development and land sale commitments entered into with customers at 31 December 2016 and 2015 (arranged as earnest money and other agreements) amounted to EUR 6,765 thousand and EUR 6,350 thousand, respectively, of which EUR 2,789 thousand and EUR 3,757 thousand are recognized under "Trade Payables – Customer Advances" in the accompanying balance sheet (see Note 15). Of these amounts, EUR 213 thousand were collected in 2016 and 2015. The remainder relates to commitments from asset exchange transactions.

Capitalized borrowing costs

As described in Note 4-g, the Company capitalizes the borrowing costs incurred in the year which relate to inventories that have a production cycle of more than one year. In 2016 and 2015, no borrowing costs were capitalized in this connection.

The detail of the capitalized borrowing costs is as follows:

	Thousands of Euros			
	31.12.2016		31.12.2015	
	Interest capitalized in the year	Accumulated capitalized interest	Interest capitalized in the year	Accumulated capitalized interest
Land and building lots	-	8,633	-	8,716
Long-cycle construction work in progress	-	1,385	-	1,385
Completed buildings	-	3,024	-	3,517
Total	**-**	**13,042**	**-**	**13,618**

11 Trade and other receivables

The detail of “Trade and Other Receivables” is as follows:

	Thousands of Euros	
	2016	2015
Trade and other receivables	36	5,473
Trade receivables from Group companies and associates (Note 18.2)	1,351	1,361
Sundry accounts receivable	2,435	2,616
Employee receivables	1	1
Current tax assets (Note 16.1)	2,007	3,368
Other accounts receivable from public authorities (Note 16.1)	3	6
Due from shareholders (partners) for called-up share capital	-	88,961
Total trade and other receivables	**5,833**	**101,786**

The balance of “Trade and Other Receivables” under current assets in the balance sheet reflects mainly the trade receivables arising from property development and land sales, including most notably the gross value of the trade receivables relating to sales of land amounting to EUR 13,704 thousand, with the following changes during 2016:

	Thousands of Euros			
	Balance as at 31.12.2015	Additions	Disposals	Balance as at 31.12.2016
Clients and debtors	13,767	-	(57)	13,710
Impairment of the value of trade receivables	(8,294)	(5,380)	-	(13,674)
Total	**5,473**	**(5,380)**	**(57)**	**36**

During 2016, the Company wrote-down trade receivables for the sale of land, since it considered their collection doubtful, for an amount of EUR 5,380 thousand, recognized under “Losses, value impairment and variation of provisions for commercial operations” in the accompanying income statement.

“Sundry receivables” includes mainly the account receivable pending the refund of the advanced payments made for the purchase-sale of the Valdemoro land (R7), after the final ruling from the court that declared the contract void. The directors estimate that the debtors’ carrying amount is close to its fair value.

At year-end 2015, “Due from shareholders for called-up share capital” recognized the part subscribed and unpaid by shareholders of the nominal amount of the increased share capital, EUR 36,811 thousand, plus the share premium, amounting to a total of EUR 52,149 thousand. These amounts were paid in full in January 2016.

12. Equity and Shareholders' equity

On 24 October 2016, the Board of Directors of the Company agreed a capital increase that was completed successfully on 28 December 2016, through the issue and distribution of 184,056,558 new shares, of a nominal value of 0.24 € per share, and a share premium of 0.56 € per share. With this increase, the share capital of the Company is increased by a nominal amount of EUR 44,174 thousand, and a global premium of EUR 103,071 thousand, filed at the Mercantile Registry on 10 January 2017. All the shares of this capital increase have been fully paid up.

After this capital increase, at the end of 2016, the share capital of the Company is represented by 644,807,956 shares. The most significant 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	29.23%	45,236
Rest (Stock Market)	188,481,989	29.23%	45,236
	644,807,956	**100.00%**	**154,754**

Inversora Carso, S.A. de C.V., is Fomento de Construcciones y Contratas, S.A.'s controlling shareholder, and therefore its percentage of ownership in Realia Business, S.A., directly and indirectly, amounts to 70.77%.

At 31 December 2016 and 2015, the shares of the company were traded in the Madrid and Barcelona Stock Markets. The price of the company shares at 31 December 2016 and the average price in the last quarter were 0.86 and 0.86 € per share, respectively.

Evolution of the capital structure

On 17 December 2014, a prospectus of a takeover bid by Hispania Real Socimi, S.A.U. on Realia Business was submitted for approval by the CNMV, and approved by the regulator on 11 March 2015.

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

On 23 June 2015, Hispania Real Socimi, S.A.U. communicated its decision not to go ahead with the takeover bid launched on Realia Business, S.A. On the same date, through a communication to CNMV, Inversora Carso, S.A. de C.V. ratified in all its terms the takeover bid launched on Realia Business, S.A.

The deadline for the acceptance of the takeover bid launched by Inversora Carso, S.A. de C.V. was reached on 24 July 2015, after having being accepted for 451,940 shares, representing 0.15% of the shares that the bid was offered for and of the equity of Realia Business, S.A., according to a CNMV relevant fact dated 28 July 2015.

Additionally, on 3 June 2015, the whole ownership interest that Corporación Industrial Bankia, S.A.U. held in Realia Business, S.A. (24.95%) was transferred 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 on 100% of the share capital of the Parent. The bid was announced at a price of 0.80 Euros per share, calculated in accordance with the provisions of article 9 of Royal Decree 1066/2007.

On 4 May 2016, the CNMV authorized Realia Business, S.A.'s takeover bid, submitted by Inversora Carso, S.A. de C.V. on 26 February 2016, and accepted on 3 March 2016, since it considered its terms complied with the current legislation, and the content of the prospectus as sufficiently explanatory.

The deadline for the acceptance of the takeover bid launched by Inversora Carso, S.A. de C.V. was reached on 19 May 2016, and accepted for 126,651 shares, which represent 0.04% of the share capital the bid was made for, and 0.03% of Realia Business, S.A.'s share capital, according to CNMV's relevant event dated 26 May 2016.

12.1 Legal reserve

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

At the end of 2016, after the capital increase, the balance of this reserve had not reached the legally required minimum.

12.2 Treasury shares

At the General Shareholders' Meeting held on 21 June 2016, authorization was granted to buy back treasury shares, during the maximum period legally allowed, and in accordance with the requirements of article 146 of the Limited Liability Companies Law.

The changes in 2016 were as follows:

	Number of Shares	Thousands of Euros
Balances at 31 December 2015	**610,000**	**675**
Disposals	-	-
Acquisitions	-	-
Balances as at 31 December 2016	**610,000**	**675**

The average price of the treasury shares at 31 December 2016 and 2015 was 1.11€/share.

12.3 Restricted reserves

Current restricted reserves amount to EUR 43,764 thousand, and arose on 15 June 2000 as a result of the transfer of capital to reserves following the capital reduction at Produsa Este, S.A., now Realia Business, S.A.

12.4 Share premium

The Consolidated Spanish Limited Liability Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use for other purposes.

13. Provisions and contingencies

13.1 Provisions

The detail of the provisions in the balance sheets as at 31 December 2016 and 2015 and of the main changes therein in the years then ended is as follows:

Long term

	Thousands of Euros		
Long-term Provisions	Warranty Provisions	Other Provisions	Total
Balance as at 31 December 2014	**7,392**	**2,151**	**9,543**
Additions	-	128	128
Amounts used and reversed	-	(571)	(571)
Transfers	(474)	-	(474)
Balance as at 31 December 2015	**6,918**	**1,708**	**8,626**
Additions	-	-	-
Amounts used and reversed	-	(162)	(162)
Transfers	-	-	-
Balance as at 31 December 2016	**6,918**	**1,546**	**8,464**

The amount recognized under “Warranty Provisions” at 2016 year-end relates to the estimate made by the Company to cover the expenses expected to be incurred from the completion of a property development to the definitive settlement thereof and the end of the period in which it is liable for quality flaws, latent defects, extraordinary repairs, after-sales services and other contingencies relating to properties delivered in the last ten years, arising out of claims from third parties or litigations in progress. Additionally, the amount recognized under “Other Provisions” corresponds to the estimates made by the Company to cover possible liability from lawsuits of other types arising from claims filed by third parties. During 2016, EUR 162 thousand were reversed, EUR 78 thousand of which were used for that purpose, and EUR 84 thousand were recognized under “Excess Provisions” in the accompanying income statement.

Short term

	Thousands of Euros
Short-term Provisions	Warranty Provisions
Balance as at 31 December 2014	**1,138**
Amounts used and reversed	(472)
Transfers	474
Balance as at 31 December 2015	**1,140**
Amounts used and reversed	-
Transfers	-
Balance as at 31 December 2016	**1,140**

There were no changes in provisions during 2016.

13.2 Contingencies

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

14. Financial liabilities (non-current and current)

The detail of "Non-Current Payables", "Current Payables", "Non-Current Payables to Group Companies and Associates" and "Current Payables to Group Companies and Associates" at 31 December 2016 and 2015 is as follows:

2016

Class	Thousands of Euros				
Categories	Non-Current Financial Instruments		Current Financial Instruments		
	Bank Borrowings and Other Financial Liabilities	Other	Bank Borrowings and Other Financial Liabilities (1)	Other	Total
Payables	103,465	-	3,781	-	107,246
Payables to Group Companies and Associates (Note 18.2)	-	465,036	-	16,128	481,164
Other financial liabilities	-	-	150	-	150
Total	**103,465**	**465,036**	**3,931**	**16,128**	**588,560**

(1) There are borrowings for the financing of inventories for EUR 1,198 thousand, with maturity higher than 12 months.

2015

Class	Thousands of Euros				
Categories	Non-Current Financial Instruments		Current Financial Instruments		
	Bank Borrowings and Other Financial Liabilities	Other	Bank Borrowings and Other Financial Liabilities	Other	Total
Payables	-	-	65,754	-	65,754
Payables to Group Companies and Associates (Note 18.2)	-	437,000	-	78,453	515,453
Other financial liabilities	782	-	381,712	-	382,494
Total	**782**	**437,000**	**447,466**	**78,453**	**963,701**

The detail, by maturity date, of "Non-Current Payables", "Current Payables", "Non-Current Payables to Group Companies and Associates" and "Current Payables to Group Companies and Associates" at 31 December 2016, is as follows:

	Thousands of Euros				
	2017	2018	2019	2020 and subsequent years	Total
Bilateral loans	-	103,465	-	-	103,465
Mortgage loans	2,399	1,198	-	-	3,597
Group companies and associates and interest	16,128	465,036	-	-	481,164
Interest on borrowings	334	-	-	-	334
	18,861	**569,699**	**-**	**-**	**588,560**

The movements in “Current and non-current debts and items due” during 2016 was as follows:

	31.12.2015	Provisions	Haircuts (Note 17.6)	Write-downs	31.12.2016
Debts and items due					
Syndicated development loan	437,458	-	-72,367	-365,091	-
New bilateral loan debt	-	183,465	-	-80,000	103,465
Mortgage loans	9,428	795	-	-6,626	3,597
Interest	457	184	-	-457	184
Debts and items payable to Group companies and associates					
To Realia Patrimonio, S.L.U., non-current	437,000	67,000	-	-38,964	465,036
To Inversora Carso, S.A. de C.V., current	61,295	-	-41,253	-20,042	-
To other Group companies, current	17,158	-	-	-1,030	16,128
Other financial liabilities					
Other financial liabilities	123	27	-	-	150
Total	**962,919**	**251,471**	**-113,620**	**-512,210**	**588,560**

Syndicated credit facility and bilateral loan

On 10 December 2015, the Company entered into an agreement with the creditors of the syndicated development loan, according to which the debt of that loan, for EUR 802,759 thousand, would be reduced by 9%, provided that the conditions for debt repayment were fulfilled. Payment milestones were distributed along four payments: 50% of the debt 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, amounting to EUR 183,905 thousand, due on 30 May 2016, was made on 7 April 2016, after the Company entered into an agreement with a bank on 6

April 2016, for EUR 183,649 thousand, due on 30 June 2018, thus cancelling in full the syndicated loan and recovering the security delivered. Inversora Carso, S.A. de C.V., has guaranteed this loan.

On 29 December 2016, using part of the funds from the capital increase (see Note 12), the Company repaid early EUR 80,000 thousand of the bilateral loan mentioned above, thus reducing the principal amount on 31 December 2016 to EUR 103,649 thousand, due on the same date, 30 June 2018, and guaranteed by Inversora Carso, S.A. de C.V.

Accordingly, the 9% haircut agreed on 10 December 2015 had a positive effect for a total of EUR 72,367 thousand, recognized under "Financial income" in the accompanying financial statement.

Loan from 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 had in the participating loan with Realia Business, S.A., which amounted to EUR 61,291 thousand.

On 15 February 2016, Realia Business, S.A. and Inversora Carso, S.A. de C.V. established 3 May 2016 as the new date for the opening of the capitalization window of that loan that Inversora Carso, S.A. de C.V. finally decided not to capitalize; the loan amounted to EUR 61,291 thousand. Additionally, Inversora Carso, S.A. applied a haircut of EUR 41,253 thousand, recognized under "Financial income" in the accompanying statement of profit or loss, generating a receivable of EUR 20,396, which was written down on 28 December 2016 (see Note 17.6).

Mortgage loans

As a result of the agreement for the refinancing of the syndicated credit facility, the Company negotiated with one of the banks the conversion of its borrowings amounting to EUR 16,238 thousand at that date into a bilateral agreement, with maturity on 27 September 2016 and accrual of interest tied to Euribor plus 200 basis points. As with the Company's syndicated loan, the Company must pay a spread of 50 basis points over the life of the loan and the remaining 150 basis points will be capitalized annually and payable on maturity of the loan in 2016. At the end of 2016, the Company has one single mortgage loan, for a total drawn down amount of EUR 3,597 thousand.

Payable to Group companies

Realia Patrimonio, S.L.U.

As at 31 December 2016, the Company has a loan with its subsidiary Realia Patrimonio, S.L.U., maturing in 2018. Initially, the loan originated as a requirement attached to the granting of the syndicated loan; thus, the loan was renewed in 2013, and its maturity was postponed until 1 July 2016, when it was automatically renewed until April 2018. At 31 December 2016, the loan has been drawn down in full, EUR 72,000 thousand, accruing interest at Euribor rate plus 75 basis points.

In December 2015, Realia Patrimonio, S.L.U. granted a loan to Realia Business, S.A., with a limit of EUR 365,000 thousand, maturing on 30 June 2017. The loan was used for the early write off of the syndicated loan of the Company, and accrues at 6-month Euribor rate plus 75 basis points. Later, on 15 June 2016, both companies signed an addendum that modifies the limit of the loan, increasing it to EUR 435,000 thousand, and final maturity on 30 June 2018. At 31 December 2016, the amount drawn down from the loan was EUR 393,036 thousand.

Retingle, S.L.

At 31 December 2016, the Company holds a loan with a Group company, Retingle, S.L. for EUR 11,828 thousand, maturing in April and at an applicable rate of Euribor plus 75 basis points, payable on March, September and November.

Additionally, the amount of the debt maturing in 2017 includes the accounts receivable with Group companies corresponding to the balance of the tax liability resulting from the fiscal consolidation and interest, for EUR 4,277 thousand and EUR 23 thousand, respectively.

12 Trade and other payables

The detail of "Trade and Other Payables" at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Payable to suppliers		
For purchase of land		
Without payment instruments	3,127	3,120
Payable to other suppliers	3,193	2,758
Payable to suppliers – Group companies and associates	13	56
Sundry accounts payable	856	1,207
Employee receivables	91	86
Other accounts payable to public authorities (Note 16.1)	462	561
Customer advances (Notes 10 and 4.j)	2,789	3,757
	10,531	**11,545**

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

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

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

	2016	2015
	Days	Days
Average payment period to suppliers	34	33
Paid transactions ratio	34	35
Transactions pending payment ratio	28	17
	Thousands of Euros	Thousands of Euros
Total payments made in the year	6,871	5,746
Total outstanding payments	630	758

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

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

“Suppliers”, “Suppliers Group companies and Associates” and “Sundry Accounts Payable” under “Current Liabilities” in the balance sheet.

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

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

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

The maximum payment period applicable to the Company in 2016 under Law 3/2004, of 29 December, on combating later payments in commercial transactions and pursuant to the transitory provisions of Law 15/2010, of 5 July, is of 60 days, since the conditions provided for in Law 11/2013, of 26 July, are fulfilled.

16. Tax matters

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

The tax group number assigned is 135/07.

16.1 Current tax receivables and tax payables

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

Tax receivables

	Thousands of Euros	
	2016	2015
VAT and Canary Islands general indirect tax payable	3	6
Income tax refundable	2,007	3,368
Total	**2,010**	**3,374**

Tax payables

	Thousands of Euros	
	2016	2015
Income tax refundable	120	339
VAT and canary Islands general indirect tax payable	210	45
Accrued social security taxes payable	54	54
Other	78	123
Total	**462**	**561**

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

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

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

2016

	Thousands of Euros		
	Income Statement		
	Increase	Decrease	Total
Result before tax			82,887
Income tax:			
Permanent differences			**(47,377)**
Life insurance contributions	27		
Penalties and surcharges	1		
Dividend exemptions (Note 9.1)		(32,502)	
Non-deductible financial income – Haircut (Note 14)		(19,035)	
Other non-deductible expenses		(210)	
Deductible reversion of loan loss provision	4,342		
Temporary differences			**9,192**
Arising in the year			
Non-deductible financial income	5,583		
Impairment of securities	9,354		
Deferral of income from haircuts (Note 16.5)		(6,647)	
Other provisions	983		
Capital increase expenses - Reserves		(81)	
Arising in prior years			**(1,078)**
Other provisions		(1,048)	
Non-deductible depreciation and amortization charge		(30)	
Prior tax loss of Parent			43,624
Offset of prior years' tax losses			(66,545)
Taxable profit			**(22,921)**

The Company has offset the full tax liability resulting from the fiscal consolidation, being the Parent of the Tax group, for EUR 66,545 thousand, in keeping with the provisions of the current Corporate Tax regulation, article 26, by Law 27/2014,of 27 November, that establishes that the limitation to the offset of negative tax bases will not be the result of the inclusion in the amount of the income corresponding to haircuts or deferrals as a consequence of an agreement with the taxpayer's creditors. Negative tax bases subject to offset against such income will not be taken into consideration with respect to the amount of EUR 1 million mentioned above.

2015

	Thousands of Euros		
	Profit and Loss Statement		
	Increase	Decrease	Total
Loss before tax			(29,466)
Income tax:			
Permanent differences			376
Life insurance contributions	21	-	
Penalties and surcharges	204	-	
Dividend exemptions (Note 9.1)	-	(59)	
Other non-deductible expenses	210	-	
Temporary differences			
Arising in the year		-	23,536
Investment securities	547	-	
Inventory write-down	4,229	-	
Impairment of investment property	2,451	-	
Non-deductible financial costs	16,435		
Capital increase expenses in reserves		(126)	
Arising in prior years			(11,916)
Investment securities		(4,947)	
Inventory write-down		(6,661)	
Reversion of non-deductible depreciation and amortization charge 2013-2014		(30)	
Other provisions		(278)	
Offset of prior years' tax losses			-
Taxable profit			**(17,470)**

The main permanent differences are the result of:

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

- Negative adjustment from the application of the current Corporate Tax regulation, articles 17.1 and 17.6 by Law 27/2014, of 27 November, that establishes that the tax base will incorporate the difference between the increase in capital or share capital, in the corresponding proportion, and the value of the capitalized tax credit. Therefore, as a consequence of the reduction in the debt with Inversora Carso, S.A. de C.V. described on Note 14, the Company deducted from its tax base the proportion owned by the shareholder, by EUR 17,224 thousand. In addition, the company made a negative adjustment of EUR 1,181 thousand for the part of the debt reduction corresponding to non-deductible financial expenses, due to the restrictions established by article 16 of Law 27/2014.

- Pursuant to the amendment of Transitory Provision Sixteen of the Tax Law, introduced by Royal Decree Law 3/2016, of 2 December, that establishes that the reversion of the loss resulting from the value impairment of stakes that were tax deductible for years before 2013 and not after that date, should be made for a minimum annual amount on a straight-line basis during five years, a positive adjustment to the carrying amount has been made for EUR 4,342 thousand, and EUR 17,369 thousand are pending consolidation over the next four reporting periods.

The main temporary differences are related to:

- Positive adjustment of EUR 5,583 thousand, pursuant to the current Corporate Tax regulation, article 16, by Law 27/2014, of 27 November, that establishes a general restriction on the deduction of "net financial expenses" and that becomes in practice a specific temporary allocation rule, permitting the deduction in future reporting periods, similarly to the offset of negative tax bases.

  Accordingly, net financial expenses will be deductible up to a maximum of 30% of the operational profit of the year. For these purposes, the rule considers "net financial expenses" the excess financial costs related to the revenue resulting from the transfer of own capital accrued during the fiscal year to third parties. In any case, net financial costs of the year will be fully deductible, without limitation, up to an amount of EUR 1 Million. In 2016, non-deductible financial expenses amounted to EUR 5,583 thousand.

- Positive adjustment of EUR 9,354 thousand, pursuant to the current Corporate Tax regulation, article 13.2 by Law 27/2014, of 27 November, that established that losses due to the impairment of the equity securities of treasury shares of the company cannot be deducted (see Note 9.1).

- Negative adjustment of EUR 6,647 thousand, pursuant to the current Corporate Tax regulation, article 11.13 by Law 27/2014, of 27 November, that established that the revenue corresponding to the carrying amount of haircuts and deferrals as a consequence of Law 22/2003, of 9 July, Bankruptcies, will be charged to the tax base of the debtor, in as far as it is possible to recognized subsequently financial cost derived from that debt, up to the limit of said revenue.

The detail of tax loss carryforwards at 31 December 2016 is as follows:

2016

		Thousands of Euros						
Year Incurred	Tax Losses		Total Tax Loss	Consolidation Adjustments (Dividends/ Investment Securities)	Tax Loss Offset	Total Tax Loss of Tax Group	Total Tax Loss Recognized	Tax Asset Recognized
	Parent Companies	Tax Group Subsidiaries						
2008	21,185	(15,807)	5,378	59,636		-	-	-
2009	43,221	(27,005)	16,216	11,475	-	24,846	-	-
2010	52,849	10,230	63,079	550	-	63,629	41,480	10,370
2011	45,804	1,347	47,151	17,725	-	64,876	64,876	16,219
2012	259,437	(24,581)	234,856	11,968	-	246,824	87,164	21,790
2013	48,583	(31,337)	17,246	13,879	-	31,125	-	-
2014	(3,798)	15,177	11,379	21,066	-	32,445	17,732	4,433
2015	14,947	(19,646)	(4,699)	-	(1,314)	-	-	-
2016	(43,625)	(22,920)	(66,545)	-	(66,545)	-	-	-
Total	**438,603**	**(114,542)**	**324,061**	**136,299**	**(67,859)**	**463,745**	**211,252**	**52,812**

2015

			Thousands of Euros				
Year Incurred	Tax Losses		Total Tax Loss	Consolidation Adjustments (Dividends/ Investment Securities)	Total Tax Loss of Tax Group	Total Tax Loss Recognized	Tax Asset Recognized
	Parent Companies	Tax Group Subsidiaries					
2008	21.185	(15,807)	5,378	59,636	65,014	15,400	3,850
2009	43,221	(27,005)	16,216	11,475	27,691	27,692	6.923
2010	52,849	10,230	63,079	550	63,629	63,628	15,907
2011	45,804	1,347	47,151	17,725	64,876	64,876	16,219
2012	259,437	(24,581)	234,856	11,968	246,824	87,164	21,791
2013	48,583	(31,337)	17,246	13,879	31,125	-	-
2014	(3,798)	15,177	11,379	21,066	32,445	17,732	4,433
2015	17,471	(12,424)	5,047	-	5,047	4,600	1,150
Total	**484,752**	**(84,400)**	**400,352**	**136,299**	**536,651**	**281,092**	**70,273**

In 2016, the variation in tax credits for loss carryforwards amounted to EUR 17,461 thousand, as a consequence of the carryforward of tax bases applied by the Company.

The consolidated adjustments arose due to the elimination of dividends paid among the various companies composing the tax group. The elimination thereof led to a reduction in tax credit carryforwards, which were used to increase the tax group's tax loss carryforwards. They also include eliminations of investment valuation allowances, thus giving rise to a transfer of tax loss carryforwards to deferred tax assets due to adjustments in the portfolio.

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

At 31 December 2016, the Company had unrecognized tax loss carryforwards amounting to EUR 64,705 thousand: EUR 63,124 thousand from negative tax base and EUR 1,581 thousand from deductions (see Note 16.4). The detail of unrecognized tax loss carryforwards is as follows:

Year	Total unrecognized tax loss	Credit from unrecognized BIN	Credit from unrecognized loss carryforward
2008	-	-	-
2009	24,846	6,212	-
2010	22,149	5,537	-
2011	-	-	-
2012	159,660	39,915	-
2013	31,125	7,782	65
2014	14,713	3,678	1,516
Total	**252,493**	**63,124**	**1,581**

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

The reconciliation of the accounting profit/loss to the income tax expense in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Accounting profit/loss before tax	82,887	(29,466)
Permanent differences	(47,337)	376
Unrecognized temporary differences	14,883	13,137
Total tax base	**50,393**	**(15,953)**
Tax charge at 25% (2016) – 28% (2015)	(12,598)	4,467
Tax credits:		
Double taxation	-	1
Other	(7,719)	(6,457)
Total income tax benefit (expense) recognized in the income statement	**(20,317)**	**(1,990)**

The breakdown of “Others” is as follows:

	Thousand of Euros	
	2016	2015
Adjustment from the settlement of income tax 2015	(189)	-
De-recognition of recognized non-deductible financial cost	7,908	-
Adjustment to new interest rates	-	(50)
Recognition of deduction from amortization of deductibles	-	(13)
De-recognition of tax assets for negative tax bases	-	3,477
De-recognition of tax assets for deductions	-	3,043
Total	**7,719**	**6,457**

Following the analysis made by the Company to assess the recoverability of deferred tax assets, temporary differences from recognized financial cost for EUR 7,908 thousand were removed from the non-current assets of the balance, and allocated to “Tax on profits” in the accompanying profit and loss statement.

The breakdown of the Income Tax for 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Current tax	14,290	(4,041)
Net deferred asset (Notes 16.4 and 16.5)	(1,692)	(425)
Tax adjustment from prior years	7,719	6,456
Total tax income/(expense)	**(20,317)**	**(1,990)**

16.4 Deferred tax assets recognized

The detail of "Deferred Tax Assets" at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
Deferred Tax Assets	2016	2015
Temporary differences:		
Impairment losses recognized on investment securities - 2012	13,198	13,469
Impairment losses recognized on investment securities – 2011	1,167	1,167
Impairment losses recognized on investment securities – 2010	24	24
Impairment losses recognized on investment securities – 2009	100	100
Impairment losses recognized on investment securities - 2008	664	393
Non-deductible finance costs	-	7,908
Non-deductible depreciation and amortization charge	60	67
Provision for charges	604	606
Elimination of provisions in tax consolidation	700	700
Other	114	114
Tax asset recognized	71,047	89,334
Total deferred tax assets	**87,678**	**113,882**

Royal Decree Law 3/2016, of 2 of December, was approved in 2016, establishing a number of tax measures for the consolidation of public finances and other urgent social matters. The most significant changes introduced regarding Income Tax for the Company are the following:

- Negative tax bases can be offset over an unlimited period of time; however, they can only be offset on the basis of the total amount of revenue.

- The tax rate for deductions from double taxation is limited to 50% for companies with revenues higher than EUR 20 million.

- The reversion of losses from the impairment of the value of tax deductible holdings in reporting periods before 2013, but not after that date, must be made for a minimum annual amount in a straight-line basis for 5 years.

At 31 December 2016, EUR 71,048 thousand are recognized in tax assets and deductions which, even though they can be recovered in par for a period higher than 10 years, are recognized in the balance sheet, since the Company's directors believe that it is quite likely that they can be recovered, according to the best estimate of the future results of the Company and the latent capital gains of the Group's assets.

"Tax asset recognized" at 31 December 2016 amounts to EUR 71,047 thousand, corresponding to the tax charge from negative tax bases from 2008 to 2016 for EUR 52,812 thousand, as detailed in Note 16.2, and EUR 18,235 from tax credit carryforwards, the detail being as follows:

	Thousands of Euros						
	Tax Credit Carryforwards		Total Tax Credits	Consolidation Adjustments (Dividends)	Unrecognized Tax Credits	Recognized Tax Credits	Total Tax Credits
	Companies	In the Tax Group					
	Parent	Subsidiaries					
2008	16,865	544	17,409	(15,120)	-	2,,289	2,289
2009	3,126	6,091	9,217	(3,000)	-	6,217	6,217
2010	605	170	775	(450)	-	325	325
2011	3,359	6,857	10,216	(5,401)	-	4,815	4,815
2012	3,187	2,998	6,185	(3,185)	-	3,000	3,000
2013	1,664	2,050	3,714	(2,432)	65	1,217	1,217
2014	4,558	2,532	7,090	(5,265)	1,516	309	1,825
2015	14	14	28	-	-	28	28
2016	-	35	35	-	-	35	35
	33,378	**21,291**	**54,669**	**(34,853)**	**1,581**	**18,235**	**19,816**

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

Thousands of Euros	
Deadline for offset	Total deduction
2018	13
2019	8
2020	2
2023	18
2024	5,981
2025	19
Total	**6,041**

Most of the outstanding deduction, recognized in the “Total Deductions” column, correspond to the deduction for double taxation of the dividends of the Tax Group Parent and Group companies, which, after consolidation eliminations, become negative tax bases in the consolidated tax results.

16.5 Deferred tax liabilities

The detail of “Deferred Tax Liabilities” at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Investment securities - 2012	13	13
Investment securities – 2010	11	11
Investment securities – 2008	45	45
Deferred tax from haircut on refinanced debt (Note 16.2)	1,662	-
Total deferred tax liabilities	**1,731**	**69**

16.6 Years open for review and tax audits

Under current legislation, taxes cannot be deemed to have been definitely settled until the tax authorities have reviewed the tax returns filed or until the four-year statute-of-limitations has expired. At 2016 year-end, the Company had 2012 to 2016 open for review by the tax authorities for all the state taxes applicable to it. The Company’s directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying financial statements.

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

17. Income and expenses

17.1 Revenue

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

The detail of sales, by type of revenue, for 2016 and 2015, is as follows:

	Thousands of Euros	
Line of Business	2016	2015
Revenue from the sale of property developments and land	17,498	11,804
Rent revenue (Note 7)	215	182
Revenue from services	2,299	2,308
	20,012	**14,294**

The breakdown by geographical market of the revenue for 2016 and 2015 is as follows:

	Thousands of Euros	
Geographical Markets	2016	2015
Spain:		
Andalusia	1,079	3,210
Madrid	14,148	7,539
Castilla-La Mancha	-	2
Catalonia	1,775	1,504
Valencia	1,323	1,075
Castilla y León	1,687	964
	20,012	**14,294**

17.2 Procurements

The detail of “Procurements” at 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Purchases and procurements	(1,631)	(567)
Write-down of land and building lots	(31,964)	(7,075)
	(33,595)	**(7,642)**

The Company wrote down the value of its land and building lots by an amount of EUR 31,965 thousand, to adapt it to their fair value, according to appraisals made by independent experts (see Note 10).

17.3 Detail of purchases by origin

The Company made all of its purchases in 2016 and 2015 in Spain.

17.4 Employee benefit costs

The detail of “Employee Benefit Costs” in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Employee benefit costs:		
Contributions to pension plans (Note 4.m)	(190)	(220)
Other employee benefit costs	(677)	(819)
	(867)	**(1,039)**

17.5 External services

The breakdown of “External Services” in the income statement corresponding to reporting periods ended on 31 December 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Leases and taxes	427	449
Repair and upkeep	28	39
Independent professional services	220	221
Insurance premiums	66	62
Bank and related expenses	7	6
Publicity, advertising and PR	130	99
Supplies	44	46
Other services	3,611	4,344
Total external services	**4,533**	**5,266**

17.5 Finance income and finance costs

The detail of the finance income and finance costs in 2016 and 2015 is as follows:

	Thousands of Euros	
	2016	2015
Income from investment securities (Note 9.1):		
Retingle	24	59
Realia Patrimonio	32,478	-
Income from investment securities in Group companies (Note 14)	41,284	58
Income from investment securities in third parties (Note 14)	74,425	582
Total finance income	**146,211**	**699**
Borrowing costs	(6,116)	(17,835)
Other finance costs	(5)	(60)
Total finance costs	**(6,121)**	**(17,895)**
Impairment losses on investment securities in Group companies and associates (Note 9.1)	(9,354)	(527)
Profit (loss) from disposals and others	-	(3)
Financial profit/loss	**130,736**	**(17,726)**

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

18. Related party transactions and balances

18.1 Related party transactions

The detail of the transactions with related parties in 2016 and 2015 is as follows:

2016

	Thousands of Euros	
	Group Companies	Associates
Sales	149	-
Services rendered and received	1,948	270
Non-core and other current operating income	79	500
Outside services	(410)	(8)
Dividends (Notes 9.1 and 17.6)	32,502	-
Finance income (1)	41,265	18
Finance costs	(3,482)	-
Impairment and loss of financial instruments (Notes 9.1 and 17.6)	(5,932)	(3,422)
	66,119	**(2,542)**

(1) Haircut applied by Inversora Carso, S.A. de C.V. (see Note 14)

2015

	Thousands of Euros	
	Group Companies	Associates
Sales	149	-
Services rendered and received	1,951	281
Land and building lots used	-	(6)
Construction work and services performed by other companies	-	35
Non-core and other current operating income	76	13
Outside services	(408)	(83)
Dividends (Notes 9.1 and 17.6)	59	-
Finance income (1)	16	42
Finance costs	(930)	(1,525)
Impairment and loss of financial instruments (Notes 9.1 and 17.6)	(1,090)	563
	(177)	**(680)**

18.2 Related party balances

The detail of the on-balance sheet balances with related parties at 31 December 2016 and 2015 is as follows:

At 2016 year-end

	Thousands of Euros	
	Group Companies	Associates
Non-current financial assets:		
Equity instruments (Note 9.1)	570,924	12,072
Other non-current assets	52	-
Trade receivables (Note 11)	890	461
Current financial assets:		
Loans to companies (Note 9.2)	570	4,841
Non-current payables (Note 14)	465,036	-
Current payables (Note 14)	16,128	-
Trade payables	-	13
	1,053,600	**17,387**

At year-end 2015

	Thousands of Euros	
	Group Companies	Associates
Non-current financial assets:		
Equity instruments (Note 9.1)	576,419	15,493
Other non-current assets	54	-
Trade receivables (Note 11)	901	460
Current financial assets:		
Loans to companies (Note 9.2)	2,633	4,824
Cash and cash equivalents:		
Non-current payables (Note 14)	437,000	-
Current payables (Note 14)	17,158	61,295
Trade payables	-	56
	1,034,165	**82,128**

18.3 Remuneration of the 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				
	Average No. of Persons	Salaries	Other Remuneration	Bylaw-Stipulated Emoluments	Pension Plans	Insurance Premiums
Directors	7	-	400	358	-	-
Senior executives	4.5	877	-	-	61	8
TOTAL		**877**	**400**	**358**	**61**	**8**

2015

	Thousands of Euros				
	Average No. of Persons	Salaries	Bylaw-Stipulated Emoluments	Pension Plans	Insurance Premiums and Other
Directors	8.3	1,978	467	16	36
Senior executives	4.3	815	-	33	7
		2,793	**467**	**49**	**43**

Details of each of the directors' remuneration are provided in the Company's annual remuneration report for 2016. The increase in directors' remuneration in 2015 is the result of the discharge and settlement of two senior directors' contracts.

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 and EUR 13 thousand inn 2015; the increase in 2016 is due to the inclusion of an additional "Run-off" clause, at a cost of EUR 11 thousand.

18.4 Situations of conflict of interest involving the directors

The members of the Board of Directors and the parties related to them have not been involved in any situations of conflict of interest that had to be communicated according to the provisions of article 229 of the Consolidated Text of the Limited Liability Company Law. However, they did report the following:

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

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

- Meliloto, S.L., E.A.C. Inversiones Corporativas, S.L. and Mr. Carlos Manuel Jarque Uribe abstained from participating in the deliberations and vote on several agreements related to the awarding of services provision contracts to companies of the FCC Group.

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

19. Information on the environment

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

20. Other disclosures

20.1 Headcount

The average number of employees, by professional category, in 2016 and 2015, is as follows:

Professional Category	Average Number of Employees	
	2016	2015
Directors	-	2
Senior executives	5	5
Management and university graduates	20	20
Other line personnel and further education college graduates	8	8
Clerical staff	9	12
	42	**47**

At 2016 and 2015 year-end, the number of employees at the Company was 42 and 47 respectively.

In addition, the headcount at the end of 2016 and 2015, by gender and category, was as follows:

Professional Category	2016		2015	
	Men	Women	Men	Women
Senior executives	4	1	4	1
Management and university graduates	11	9	11	10
Other line personnel and further education college graduates	8	-	8	-
Clerical staff	3	6	3	8
	26	**16**	**26**	**19**

At year-end 2016, the Company does not have any employee with a degree of disability equal of higher than 33%.

20.2 Fees paid to auditors

In 2016 and 2015, the fees for financial audit and other services provided by the Company's auditors, Deloitte, S.L. or by a firm in the same group or related to the auditors, were as follows:

2016

Description	Services provided by the Financial Auditor and by Related Companies
Audit services	85
Other attest services	-
Total audit and related services	**85**
Other services	229
Total professional services	**314**

2015

Description	Services provided by the Financial Auditor and by Related Companies
Audit services	85
Other attest services	26
Total audit and related services	**111**
Other services	159
Total professional services	**270**

19. Events after the reporting period

During 2016, and at the date of authorization for issue of these financial statements, no additional relevant events had occurred that might have a material effect thereon.

Realia Business, S.A.

Management Report

For the year ended

31 December 2016

MANAGEMENT REPORT OF THE YEAR ENDED 31 DECEMBER 2016

THE COMPANY AND ITS ORGANIZATIONAL AND OPERATING STRUCTURE:

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 are focused mainly on two lines of business:

a) PROPERTY MANAGEMENT: this activity is carried on by the company Realia Patrimonio S.L. (wholly owned by Realia Business, S.A.) and through its controlling interests in investees. This activity is carried on entirely in Spain.

   These equity investments represent around 53% of the value on the asset side of the Realia Business, S.A.'s balance sheet.

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

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

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

Activities abroad are carried on by (directly or indirectly) wholly owned subsidiaries of Realia Business, S.A.

Realia Business, S.A. is listed on the Spanish Stock Market Interconnection System in Madrid and its most significant shareholders include the FCC Group, with an ownership interest of 36.92% and the Mexican open-ended company Inversora Carso, S.A. de Capital Variable, with 33.84%. The latter owns a stake in the FCC Group, direct and indirect, amounting to 70.77%.

Its organizational structure may be summarized as follows:

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

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

GENERAL MANAGEMENT: This reports directly to the Board of Directors and is a Member of the Board.

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 an area sales office in each geographical region where the Company is present.

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

2. CHANGES IN THE EQUITY INVESTMENT PORTFOLIO:

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

Additions:

None

Disposals:

In February 2015, the Portuguese company Studio Residence Iberia Investimentos was no longer consolidated under the “equity method”, after it was declared insolvent and a judicial administrator was appointed.

In May 2016, Portfolio de Grandes Áreas Comerciales S.A.U. was acquired by its parent, Realia Patrimonio.

Changes:

None

3. AVERAGE PAYMENT PERIOD

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

	2016
	Days
Average payment period to suppliers	34
Ratio of paid transactions	34
Ratio of payable transactions	28
	Thousands of Euros
Total payments made	6,871
Total outstanding payments	630

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

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

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

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

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

The maximum payment period applicable to the Company in 2015 under Law 3/2004, of 29 December, on combating later payments in commercial transactions and pursuant to the transitory provisions of Law 15/2010, of 5 July, was 60 days, since the conditions provided for in Law 11/2013, of 26 July, are fulfilled.

4. MAIN AGGREGATES OF 2016

Realia Business registered total revenues of EUR 21.2 Million in 2016, versus the EUR 15.3 Million of 2015, a 28.6% increase, due to the growth in revenues from the sale of developments and land (+5.7 million). EBITDA (see APMS, section 6) in 2016 was EUR -4.7 Million in 2016, versus EUR -11.4 Million in 2015, an improvement of 58.8%.

This improvement is explained by two factors:

- Improved sales margins of the units delivered

- Reduction in overhead

- As a result of the valuation performed by independent experts of residential housing assets at 31 December, the value of land, building lots and ongoing construction in progress decreased by EUR 40.12 Million, and provisions for impairment were made for EUR 31.96 Million for land and building lots and EUR 5.7 Million for ongoing construction. Additionally, the company created provisions for EUR 2.8 Million for completed developments, and reversed impairment for EUR 2.8 Million for products delivered during the year.

- Additionally, a EUR 5.4 Million provision was made for the write-down of commercial loans that Realia holds for the sale of land. In view of the time elapsed since the default and the lack of resolution of the litigation, this provisions seems reasonable.

- Financial revenue in 2016 amounted to EUR 146.2 Million, versus 0.7 Million in 2015. This notable increase in financial revenue is justified by:

    - The haircuts obtained from the cancellation of the syndicated loan of the company, amounting to EUR 72.4 Million.

    - The haircut obtained from the cancellation of the participating loan Sareb had in 2015, and acquired by Inmobiliaria Carso in December 2015 and become an ordinary loan with a haircut of EUR 41.3 Million.

    - Dividends from its subsidiary Realia Patrimonio, for EUR 32.5 Million.

- Financial costs in 2016 reached EUR 6.1 Million, against EUR 17.9 Million in 2015. This improvement is due to the reduction of the company’s debt after the write-off of the syndicated loan, the reduction of rates and margins respect to the debt outstanding in 2015.

- Accordingly, the financial result of Realia at 31 December 2016 was EUR 130.7 Million, versus EUR -17.7 Million in 2015, an improvement of 838.4%, generating a strong positive impact on the company’s results before and after tax.

- Profits before tax at 31 December 2016 reached EUR 82.9 Million, and net profits after taxes amounted to EUR 62.6 Million, versus the EUR -29.5 Million and EUR -31.5 Million of 2015, respectively.

CAPITAL INCREASE

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

- Once the capital increase was finished, the majority shareholders of the company now hold the following stakes: FCC 36.925%, and Inversora Carso 33.844% (representing a 70.769% ownership percentage by Inversora Carso, considering direct and indirect ownership).

INDEBTEDNESS

- After the completion of the last capital increase, Realia has written off the full amount (20.4 Million) of the participating loan that Inversora Carso acquired from Sareb, and 80 Million of the Caixa loan related to homebuilding have been repaid.

- At year-end 2016, Realia Business reduced its bank borrowings by EUR 340.1 Million, down to EUR 107.3 Million, 76% lower than in 2015. The debt structure is materialized in:

  - Credit policy with a balance of EUR 103.5 Million, maturing in June 2018.

  - Mortgage loan (remaining amount) of a completed development for EUR 3.6 Million, and maturing in June 2018.

- At 31 December 2016, Realia Business' net bank borrowings (see APMS section 6) amounted to EUR 54.3 Million, 86.9% lower than in December 2015, with a loan to value ratio (see APMS, section 5) of 46.7%, including the value of all its assets and financial holdings.

- Additionally, intragroup loans increased by EUR 28 Million, as a consequence of the net drawn down by Realia Business of the loan granted by its subsidiary Realia Patrimonio, with a limit of EUR 435 Million.

- Average weighted interest rate of bank borrowings at 31 December 2016 is 0.70%, versus 1.84% at the end of 2015.

VALUATION OF ASSETS:

- At 31 December 2016, Realia Business's property assets (including financing holdings) had a market value of EUR 1,833 Million, 1.4% lower than in December 2015 in absolute terms, due to the adjustments in land value and the reduction in finished product stock, and 0.3% lower in like for like terms (excluding the effect of the sale of completed developments products). The portfolio of rental assets increased its value by 4.4%.

- The NNAV (net net asset value) (see APMS; section 6) at 31 December 2016, after capital increase adjustments for EUR 147 Million (concluded in January 2017), is EUR 805 Million, versus EUR 552 Million at 31 December 2015. In unit terms, the share price was 1.25 € per share, 4% higher than the previous year (1.20€ per share).

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

PROPERTY MANAGEMENT BUSINESS

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

- Rental revenues, excluding passed-on expenses to tenants, amount to EUR 58.9 Million, a decrease of 5%, mainly due to the emptying of the Los Cubos building (building for sale). In like for like terms (excluding Los Cubos), a slight recovery is visible in occupancy and rents, with a 2% increase in the latter.

- No investments or disposals of property assets were made during the year, with the exception of an extension of 5,000 sq. m. in an industrial warehouse in Agoncillo (Logroño), with a total investment of EUR 1.1 Million.

HOMEBUILDING DEVELOPMENT BUSINESS

This business in carried out mainly by the parent Realia Business S.A., with smaller participations from subsidiaries like Realia Polska, Realia Portugal and Retingle. The aggregates of the activity are:

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

- At 31 December 2016, Realis 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 housing lots for sale for self-development.

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

STOCK MARKET INFORMATION

The main stock exchange market aggregates in 2016 and their evolution are as follows:

Share price at year-end 2016 (€/share)	0.86
Share price at year-end 2015 (€/share)	0.76
Variation in share price (%)	13.16%
Market capitalization at year-end (€)	396,246,202
Maximum share price during the year (€/share)	1.15
Minimum share price during the year (€/share)	0.63
Average share price during the year (€/share)	0.90
Average daily traded volume (€)	288,351
Average traded volume (shares)	319,307

At the General Meeting of Shareholders held on 21 June 2016, authorization was approved to buy back treasury shares, for the maximum period legally permitted, and pursuant to the requirements established in art. 146 of the Corporation Law.

The movements during the year were as follows:

	No. of shares	Thousands of Euros
Balances as at 31 December 2015	**610,000**	**675**
Disposals	-	-
Acquisitions	-	-
Balances as at 31 December 2016	**610,000**	**675**

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

5. DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES

After 2016, a good year for the property sector, macroeconomic forecasts for 2017 are positive, and GDP is expected to grow around 2.2-2.4%. Despite political uncertainties in Europe, America and Spain, it is expected that this growth in GDP will have a positive impact on the sector, and hopefully this will translate into:

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

b) There will be a gradual consolidation of financing for developers, relaxing current strict conditions for access, such as the requirement of a high % of pre-sales. Financing for the purchase of ready-for-construction land is expected to flow, with good locations and guaranteed demand.

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

d) Greater demand for space due to the settlement of new companies from the UK.

Together, all these factors may affect the results of the Group, and it is expected that the macroeconomic forecasts of the Spanish economy will have a positive impact.

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

1) Negotiation for the refinancing and restructuring of Realia Patrimonio’s debt, maturing in April 2017, so that a new financial structure is possible, contributing to the development of the Realia Group.

2) Increase in the development activity, with the start of new homebuilding developments, in areas with demand, such as Madrid, Barcelona, Palma de Mallorca… that will contribute cash-flow and results to the group.

Financial risk management objectives and policies

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

Financial risk management is the responsibility of the Financial Department, which has the necessary mechanisms in place to control exposure to changes in interest and exchange rates, and credit and liquidity risks.

The main financial risks affecting the Company are the following:

Credit risk

The Company engages mainly in property development, the sale of land and the lease of property assets. Property development does not entail any credit risk since payment is automatically received on delivery of the asset. With regard to the sale of land, it is normal practice to allow customers certain payment deferrals. Unsecured commercial loans for land sales currently amount to EUR 13,704 thousand, which the Company wrote down due to the related risk. Lastly, there is no material risk with regard to the lease of property assets, although the current crisis has caused an upturn in non-payment and doubtful deeds. Company management has recognized provisions for all these contingencies based on the late payment period of doubtful debts.

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 many companies in the sector.

In recent years, some signs of improvement appeared in the market, albeit concentrated on demand for products in prime locations in the medium-high segment, and borrowing conditions improved, especially to individuals or self-build development projects. However, there continued to be no direct financing available for developers. This trend continued in 2016, and the strong liquidity of the financial system, and low interest rates, allowed for new financing opportunities to appear, including the property sector, but under very restrictive and selective criteria for the borrowers.

During 2015, as part of the negotiations with the financial creditors of the parent Realia, an agreement was reached on 10 December 2015 to reduce by 9% the total syndicated loan debt, amounting to EUR 802,759 Million, provided that the conditions for debt repayment are fulfilled. Payment milestones have been broken down into four: 50% of the debt payable on December 2015, 12.15% payable on 29 January 2016, 12.85% payable 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 it made the second and third payments, for EUR 183,104 thousand. The last payment, amounting to EUR 183,905 thousand, due on 30 May 2016, was made on 7 April 2016, after the Company entered into an agreement with a bank on 6 April 2016, for EUR 183,649 thousand, due on 30 June 2018, thus cancelling in full the syndicated loan and recovering the security delivered. Inversora Carso, S.A. de C.V., has guaranteed this loan.

At year-end 2016, Realia Business S.A: holds a long-term loan with its subsidiary Realia Patrimonio, for EUR 465,036 thousand, maturing in 2018. Currently, this subsidiary is undergoing a process of refinancing of its syndicated loan, maturing on 27 April 2017. The sole director of Realia Patrimonio, S.L.U. expects to complete the refinancing process successfully during the first quarter of 2017.

The parent, Realia Business, S.A., has prepared a treasury budget that reflects the existence of liquidity to face its payment commitments within the next 12 months.

The main aggregates of the cash projections for 2017, based on a minimum basis of recurring business, dividends and other payments received for services rendered to Group companies, excluding any extraordinary land-sale transactions, led to estimated collections of EUR 26.7 Million which, together with estimated payments of EUR 21.9 Million, give rise to a positive net cash flow of

EUR 4.8 Million which, together with the available cash balance, will be used to repay the current debt.

Solvency risk

At 31 December 2016, the net bank or similar borrowings of Realia Business, S.A. amounted to EUR 54,258 thousand, as shown in the following table:

	Thousands of Euros
Gross bank borrowings:	
Bilateral loan	103,465
Mortgage loans	3,597
Accrued interest	184
Cash and cash equivalents	(52,988)
Net bank or similar borrowings	**54,258**

The indebtedness ratio of the Company amounts to 46.7%, including net financial debt attributed to the corresponding percentages of subsidiaries, and the GAV of assets attributed, according to the following breakdown:

Net bank borrowings (1)	**720,330**
Realia Business S.A.	54,258
Subsidiaries (attributable)	666,702
GAV of assets attributed (1)	**1,541,689**
Realia Business S.A.	329,329
Subsidiaries (attributable)	1,212,360
Loan to value (1)	**46.7%**

(1) See APMS, section 6

At year-end 2016, the Company has EUR 330,712 in positive working capital, due mainly to the long-term maturity of its bilateral loan and the inter-company loan with Realia Patrimonio S.L.U. (both mature in 2018).

At 31 December 2016, net bank borrowings of the Company account for 5.2% of its liabilities and equity.

Interest rate risk

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

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

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

Foreign currency risk

The Company is not exposed to a significant level of foreign currency risk.

Market risk

The residential property market has deteriorated steadily since mid-2007 until 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 like Madrid or Barcelona, product supply is scarce, and new developments are starting. In view of this situation. Realia is considering the launch of new developments in these cities and in some others where there is an attractive demand for homes.

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

Regarding the rental market, in which Realia Business operates through its subsidiary Realia Patrimonio, a slight recovery of demand for space is visible, rental prices are stabilizing, and the incentives to rent demanded by customers are reduced. On the other hand, investment activity in the property management sector continues its upward positive trend.

For all these reasons, Realia 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 of residential property area can provide.

6. ALTERNATIVE PERFORMANCE MEASURES (APMS)

The following information is presented in order to comply with ESMA's Guidelines on APMs, to improve comparability, reliability and comprehension of its financial information. The Group presents its results according to IFRS, and to some Alternative Performance Measures that provide additional financial information that facilitates the evaluation of its performance and are used by the Group to make its financial decisions and to assess the performance of the Company. Following is the additional information of the indicators included in this management report.

EBITDA = Gross operating result

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

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

NET BANK BORROWINGS:

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

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

NET NET ASSET VALUE (NNAV):

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

LOAN TO VALUE (LTV):

Calculated as the ratio between the EFN net financial borrowings and the asset replacement value GAV (market value of the assets plus transactions costs, determined by an independent expert (CB Richard Ellis according to RICS criterion and TINSA according to ECO criterion).

GAV (Liquidation Value)

Market value of assets determined by independent experts (TINSA and CBRE).

7. FORECAST FOR 2017

The main lines of activity for Realia Business in 2017 will focus on:

1) Improvement and strengthening of revenue. To this end, it plans to start new developments in areas of consistent demand and very low or non-existent supply, especially in areas of Madrid, Barcelona and others with similar market characteristics.

2) Improvement of margins, due both to rationalization and optimization of expenses, 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 one.

The 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 one hundred and twenty six (126) pages of stamped paper numbered sequentially from OM4437719 to OM4437844, 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 OM4437845 on both sides.

MR. JUAN RODRIGUEZ TORRES	MR. GERARDO KURI KAUFMANN
Non-Executive Chairman	Chairman of the Board
Proprietary Director	Executive Director
Chairman of the Executive Committee	Member of the Executive Committee
Member of the Appointment and	
Remuneration Committee	
Member of the Audit and Control Committee	
___________________________________	___________________________________
EAC INVERSIONES CORPORATIVAS, S.L.	MELILOTO, S.L.
Rep: MRS. ESTHER ALCOCER KOPOLOWITZ	Rep: MRS. ALICIA ALCOCER KOPLOWITZ
Member of the Board	Member of the Board
Proprietary Director	Proprietary Director
Member of the Executive Committee	Member of the Executive Committee
Member of the Appointment and	Member of the Appointment and
Remuneration Committee	Remuneration Committee
___________________________________	___________________________________
MRS. CARMEN IGLESIAS CANO	MR. CARLOS MANUEL JARQUE URIBE
Member of the Board	Member of the Board
Independent Director	Proprietary Director
Member of the Appointment and	
Remuneration Committee	
Member of the Audit and Control Committee	

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