



**REALIA**

CORPORATE  
RESPONSIBILITY  
AND ANNUAL  
REPORT







CORPORATE RESPONSIBILITY AND ANNUAL REPORT 2017

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## ABOUT THIS REPORT

REALIA presents this Corporate Responsibility and Annual Report to account for its social and economic performance during 2017.

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# LETTERS

LETTER FROM THE CHAIRMAN

LETTER FROM THE CEO



# LETTER FROM THE CHAIRMAN

Juan Rodríguez Torres

NON-EXECUTIVE CHAIRMAN

*Dear shareholders:*

After a period during which Realia's performance was affected by a number of financial and capital restructuring processes, I have the pleasure of presenting now the results for the year 2017, characterized by the normality of operations and institutional and corporate stability.

Indeed, after two years, 2015 and 2016, during which we experienced takeovers, capital increases, refinancing operations, debt haircuts, etc., this year we can show recurrent results, not affected by extraordinary impacts. As a result, EBITDA has grown by 7.4% over 2016 and reached 44.9 M

Net attributable profit went up to 30.5 Million euros, versus 115.7 in 2016, a year that felt the strong impact of the debt haircuts. In like for like terms for both years, adjusted for accounting purposes with no reflection on the cash (excluding debt haircuts, variation in provisions and effects of the asset valuation), the result of 2017 would have been 17.5 Million, versus 19.4 Million in 2016. This decrease is due to the 7 Million increase in financial costs associated to the new long-term loan to Realia Patrimonio.

**“Results in 2017 are  
marked by a return to  
operational, institutional  
and corporate stability”**

A new loan was obtained for the property business in 2017, which was signed on the April 27th. This financing, maturing in 7 years, has a margin very well adjusted to the length and the risk, and currently stands at 170 bp, and was granted by leading Spanish and international banks.

During 2017 we have witnessed the confirmation of the recovery of the sector in Spain, thanks to the boost from the economic activity and the improvement on employment. The REITs (Real Estate Investment Trusts) consolidated during the year as the key players in the rental business, strengthened by their positive evolution in capital markets and by the entrance of development companies in these markets, backed by great institutional investors, which resulted in a complete turnaround of the sector in the Spanish Stock Market (including the return of Metrovacesa to the Market in the first months of 2018).

The improvement in the economic activity had a favorable impact on the real estate sector, both in the rental business, where occupancy has clearly increased, especially in the office segment, where Realia concentrates most of its property, with the corresponding impact on rents; and also in the housing market, which has significantly increased the number and amounts of the transactions, and its prices, although it is clearly very selective in terms of products and areas.

Practically all business indicators (Revenues, Margins, Ebitda, Occupancy, Housing sales, Debt) have improved over 2016, and somehow this has reflected on the share price, which went up by 28%, to 1.10 Euros at year-end.

In 2017 we completed the urbanistic administrative formalities so that we can resume our development activity in 2018. The recovery of this activity, focused on some specific locations which have proven to have enough solvent demand, will allow the enhancement the value of some of the REALIA's land bank

We hope the optimistic forecasts for the homebuilding business are confirmed in 2018, and the office sector maintains its strength, and that the consistency in consumption will translate into a greater demand for space in Shopping Centers. With the invaluable contribution from our team of professionals, we hope that this year we can see new improvements in the Company results.

We also have the trust from our suppliers, the loyalty of our customers and the commitment from our shareholders.

Many thanks to those who trust Realia and its team of professionals.



**Juan Rodríguez Torres**  
Chairman



# LETTER FROM THE CEO

Gerardo Kuri Kaufmann  
CHIEF EXECUTIVE OFFICER

*Dear shareholders:*

2016 was a year of shareholding and financial restructuring, in which the Company achieved a capital and debt structure deemed as sustainable and adequate to face this new phase in the cycle with a slow but steady growth. 2017 was the year in which Realia focused on the operational development of the business, to the extent that even the two singular events of the year (new funding for Realia Patrimonio and the sale of the Los Cubos building) must be considered as part of the regular activities. The new funding was obtained after a process of negotiation with a group of leading banks, with a majority of Spanish lenders, and at a reasonable market cost for the Company and quite satisfactory in terms of length and risk (170 bp/ Euribor (3)). The sale of the Los Cubos is part of the Company's strategy to turnover assets that will not provide additional value. This disposal helped us place the debt and the Loan to Value ratio within a more reasonable range for Realia.

**"2017 was the year in  
which Realia has focused  
on the operational  
development of the  
business"**

## RESULTS 2017

Realia had total revenues of 100.7 Million euros in 2017, 3.6% higher than in 2016, due to the increase in revenues in all lines of business, except sales of Fixed Assets and Land. This, combined with the reduction in costs, allowed EBITDA to reach 44.9 Million in 2017, against 41.8 Million in 2016, an increase of 7.4%.

Profit before taxes at 31 December 2017 amounted to 54.7 Million, and attributed net profit was 30.5 Million, 0.047 euros per share. We think that this return of approximately 4.3% over the capitalization value, must be improved, and for this reason we will resume the homebuilding development activity, which will undoubtedly have a positive contribution to the income account.

## INDEBTEDNESS

At year-end 2017, Realia had reduced its gross banking debt by 88 Million euros, down to 763 Million, 10% lower than in 2016. After reducing the debt, and the new long-term financing (7 years) obtained by Realia Patrimonio, the loan to value (LTV) is at 37.9%, a level suited to the risk profile and asset mix of the Company.

## ASSET VALUATION

At 31 December 2017, Realia's real estate assets have a market value of 1,789 Million euros, 2.4% lower than in December 2016 in absolute terms, due to the sale of the Los Cubos building (52M) and the reduction in stock of finished product. The rental assets portfolio, in like for like terms, has increased its value by 2.3%.

Net net asset value (NNAV) at 31 December 2017 is 1.29 euros per share, 3% higher than in 2016 (1.25 euros).

## PROPERTY BUSINESS

The property business continued to show its strength in 2017: rent revenues amounted to 60.1 Million, a 2% increase over the previous year, due to the increased occupancy, currently at 94.6%, and the greater strength of market rents, especially in offices, where Occupancy reached 96.2%

We have implemented a proactive policy in order to maintain the profitability of the business, which reached a net margin on rents of 87%, renegotiating the contracts about to expire. Additionally, we continued to invest in building maintenance and cost reduction.

## RESIDENTIAL DEVELOPMENT BUSINESS

We continued to accelerate the sale of stock during 2017, and have delivered 103 units for an amount of 21.7 Million euros, 14% more than in 2016 (19 Million – 96 units).

At 31 December 2017, Realia has 387 units (homes, commercial premises and offices) in stock, completed and pending delivery (19 of them already sold). Additionally, it owns 41 plots of land for single-family housing for sale for self-development.


In these twelve months, the good prospects of the homebuilding business have helped us analyze the viability of building new residential projects in areas where there is demand for this product. And of course, we have continued the urbanistic management of land at different levels, waiting for the right market conditions that will allow prices to go up.

In conclusion, we have lived a very intense and fruitful year, and we have a promising future ahead of us. The time has come for REALIA to return to a path of sustained growth and to generate higher value for all its shareholders. Our human team is already at work, in co-operation with our suppliers, to build the best real estate offering in the market for our customers.

In 2018, we will continue to raise our margins, both through the rationalization and optimization of expenses and production costs and through price recovery. We want to consolidate Realia as a great company, not necessarily the largest, but one of the most profitable for its shareholders while attractive to its customers, suppliers and employees.

There is a lot of work yet to be done and many challenges to face. We hope you will be by our side on this journey, as you have done so far. I want to take the opportunity of the presentation of this Annual and Corporate Responsibility Report 2017 to thank you for the trust on our company all these years, even at the hardest times, and the support you continue to give us today, when we have started this new stage.

Many thanks to all.



**Gerardo Kuri Kaufmann**  
Chief Executive Officer



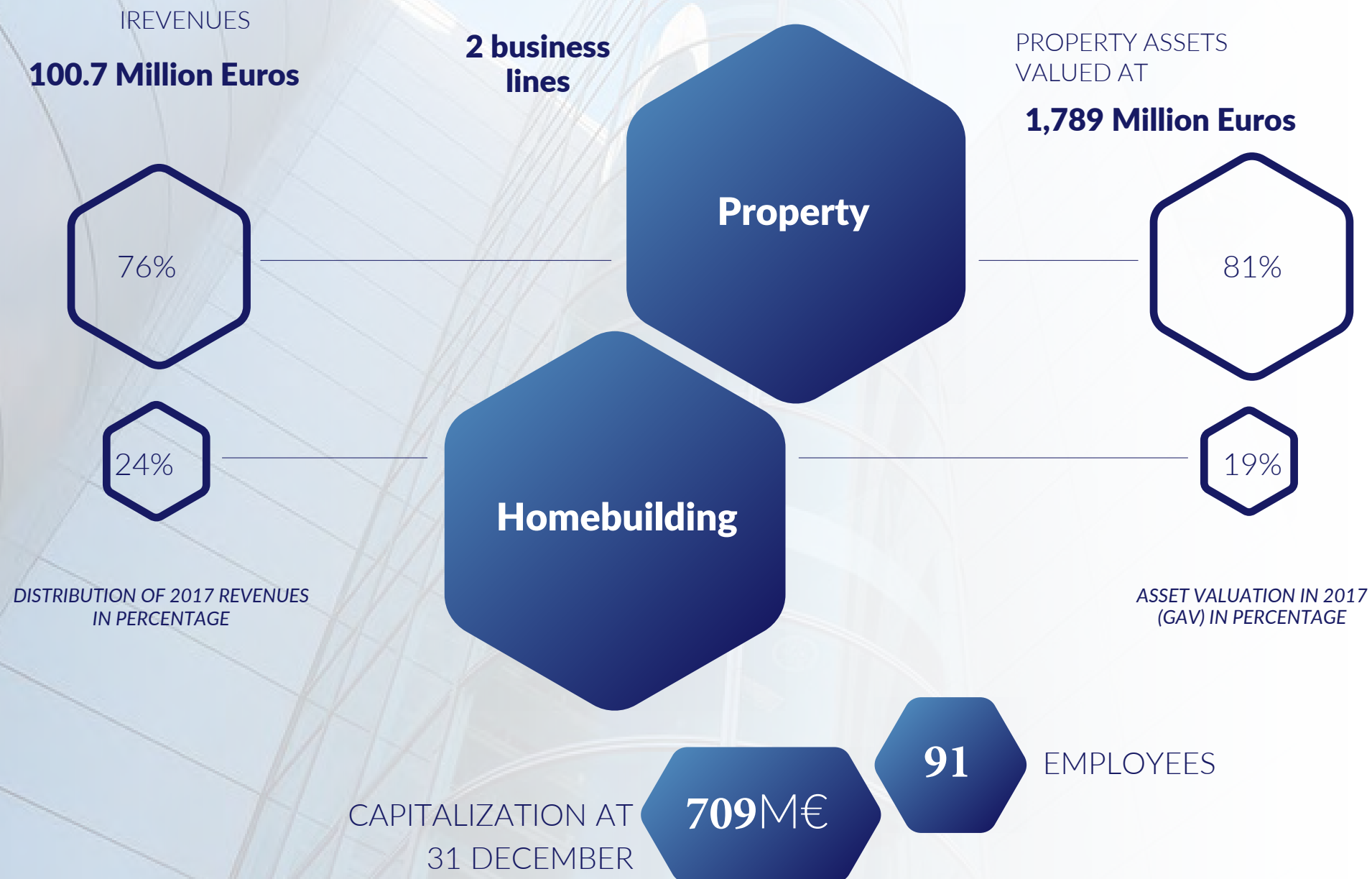
# REALIA TODAY

KEY DIMENSIONS

FINANCIAL INDICATORS

COMPANY PROFILE

## Key dimensions 1/2





## Key dimensions 2/2

### NUMBER AND LOCATION OF ASSETS

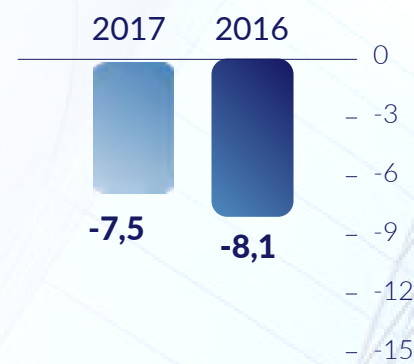


Figures at year-end

# Financial indicators 1/2

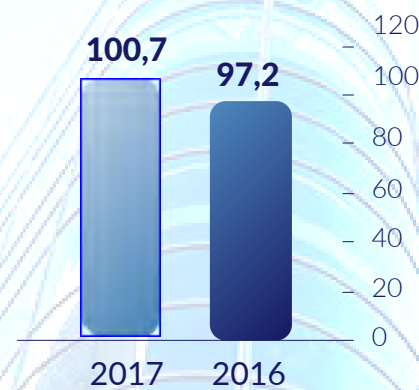
## RECURRENT OVERHEAD

MILLION EUROS



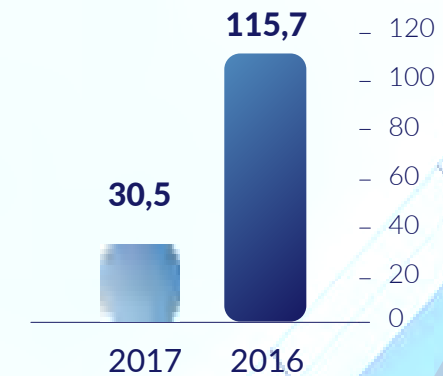
## REVENUES

MILLION EUROS



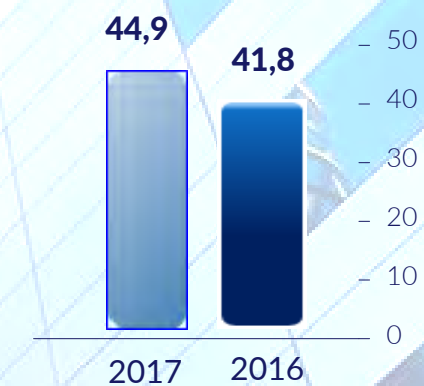
## NET PROFIT

MILLION EUROS



## EBITDA

MILLION EUROS



## FINANCIAL RESULT

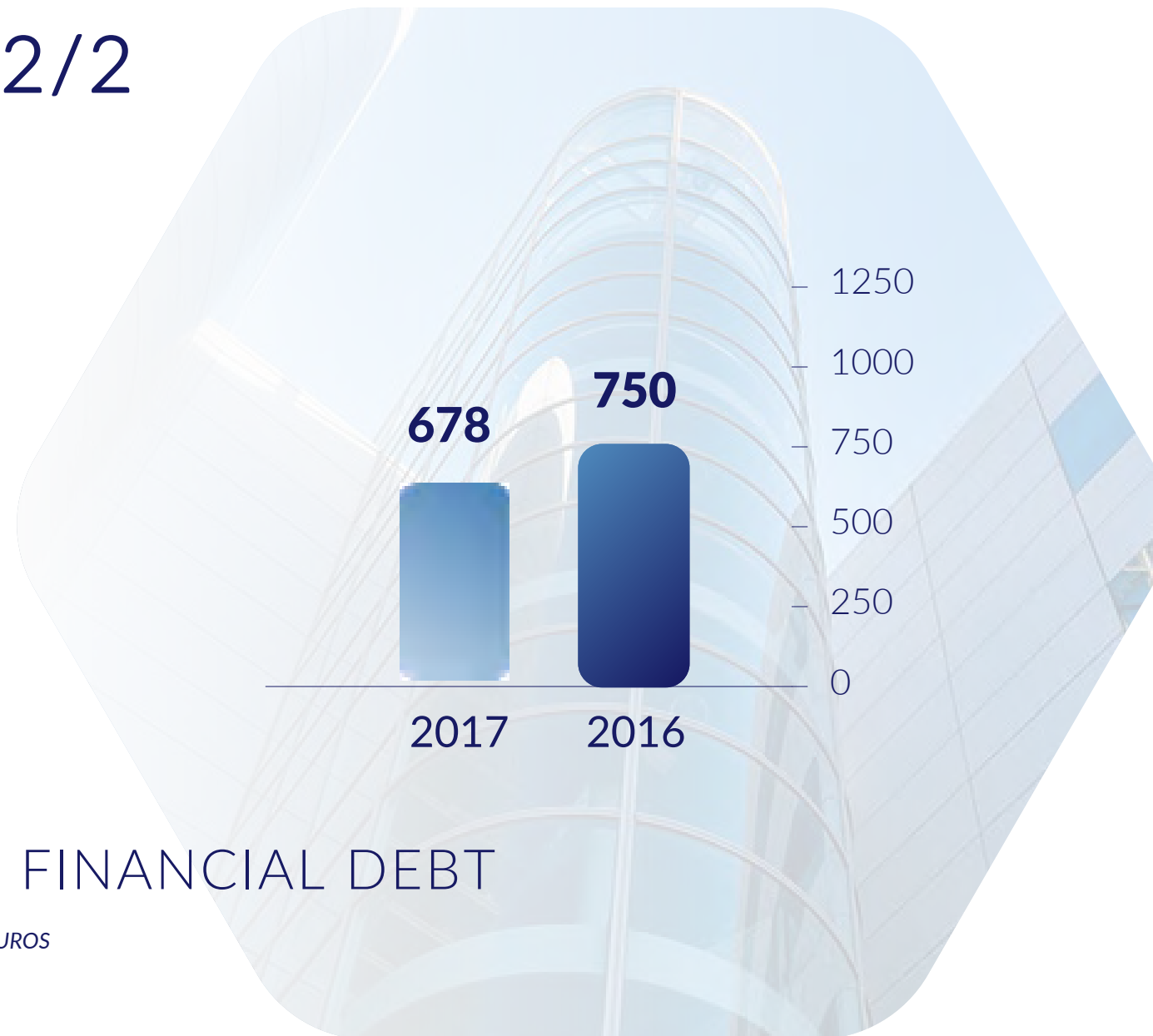
MILLION EUROS



Figures at year-end.



# Financial indicators 2/2



NET FINANCIAL DEBT

MILLION EUROS

Figures at year-end.

# Company Profile 1/3

## MISSION

To offer quality real estate solutions to companies and individuals with the objective of creating value for the shareholder through an efficient asset selection and management, excellence in service, eco efficiency-linked innovation and responsible management

## VALUES

### TRANSPARENCY

Leadership in the sector, making management know-how available to shareholders.

### DIALOGUE

Maintaining trust-based and mutual benefit relationships with stakeholders.

### PROFESSIONALISM

Profound knowledge of the sector, value creation for the company and its customers.

### GOOD GOVERNANCE

High level decisions are made to attain long-term business sustainability.

### INNOVATION

Constant search for solutions that create added value to the company and to society.

## VISION

REALIA aims to consolidate as a great company, a benchmark in the Spanish real estate sector for its profitability, with a growing high-value added building rental business in prime areas, constant renovation of assets, stable relations with customers, adaptation of its offering to the demand, resource optimization of resources and projects in the homebuilding area, and cost reduction

# Company Profile 2/3

REALIA IS DEDICATED TO THE DEVELOPMENT, MANAGEMENT AND OPERATION OF OFFICE BUILDINGS, SHOPPING CENTERS AND LAND.

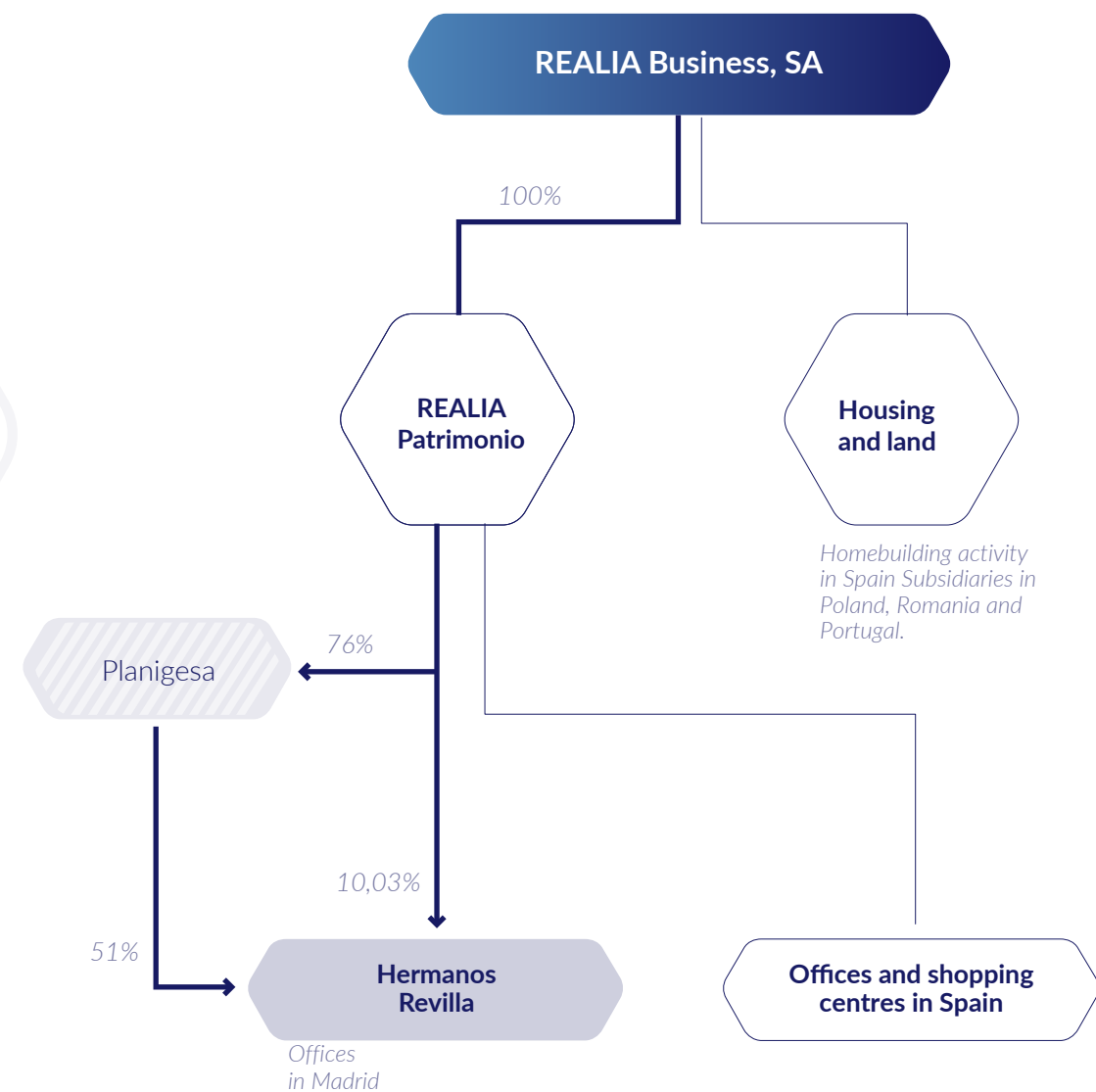
## Property business

It generates recurrent revenues through the lease and management of office buildings and shopping centers, and extraordinary revenues through asset rotation.

## Homebuilding business

It generates revenues through the development and sale of properties, mainly housing, and land management.

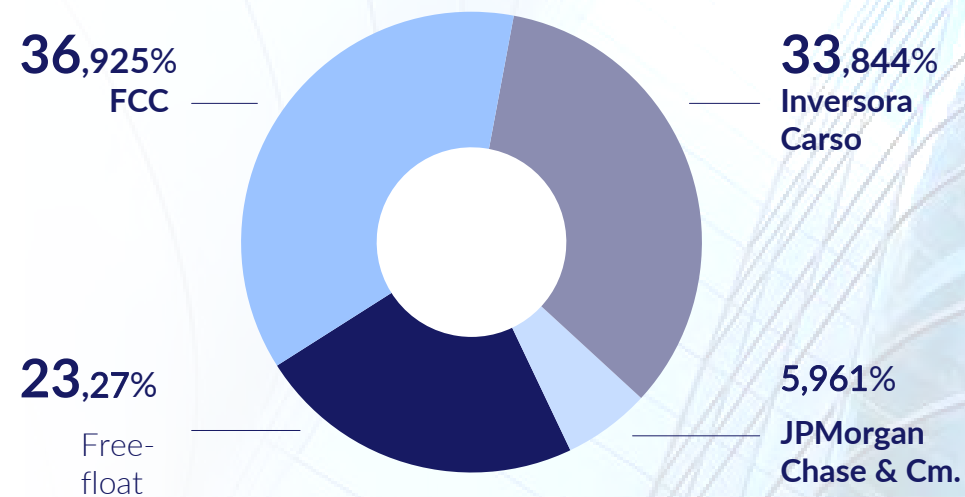
## CORPORATE STRUCTURE (simplified scheme)





# Company Profile 3/3

## SHAREHOLDER STRUCTURE IN PERCENTAGE



*Figures at year-end.*

## COMPANY INFORMATION

Name :  
**REALIA Business S.A.**

Address:  
**Pº de la Castellana 216, 28046, Madrid**

Phone:  
**91 353 44 00**

Website:  
**www.realia.es**

Share capital:  
**154.753.909 €**

No. of shares:  
**644.807.956**

Share price  
**0,24 €**

Activity:  
**Property - Homebuilding**

Markets:  
**Spain, others.**

# EVOLUTION OF THE COMPANY

ECONOMIC AND INDUSTRY ENVIRONMENT

STRATEGY

RESULTS FOR THE YEAR

Financial situation

Asset valuation

Lines of Business

STOCK EXCHANGE EVOLUTION

TABLES: EVOLUTION OF THE BUSINESS

# Economic and industry environment

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After the global crisis that started in 2008 and had an especially serious impact on the real estate sector, and hit the Spanish economy especially hard, we are witnessing a recovery in recent years. Annual GDP growth in Spain reached 3.3% and 3.1% respectively in 2016 and 2017, the highest of the major economies of the EU. According to forecasts, this growth rate will fall to 2.9% in 2018.

GDP registered four years of consecutive growth to 2017, and recovered 80% of the losses caused by the crisis in real terms. The dynamism of 2017 is favoured by the fall in oil prices, interest rates in all-time lows, the record figures of the tourist industry, the devaluation of the euro versus the dollar, the improvement of the foreign balance and the increase in public expenditure.

As was the case in 2015 and 2016, the Spanish real estate investment market has been at the center of foreign investors' radar due to the high returns and the improved economic situation, whereas REITs (Real Estate Investment Trusts) have remained decisive players in the operations. According to consultant Savills Aguirre Newman, real estate investment in Spain amounted to 9,000 Million euros.



The housing sector continues to pick up the pace. According to data from the National Institute of Statistics (INE), housing sales increased by 14.6% in 2017, the largest increase since 2007, and surpassed the 460,000 transactions mark, thanks to the boost from second-hand homes and despite the 4.5% price increase, according to the College of Property Registrars.

### INVESTMENT MARKET

With 9,000 m in transactions, real estate investment reached a record figure in investment in the last decade, and ranked number two in the historical series, only 20% under the 10,700 Million of 2007.

Hotels and retail registered their respective all-time records in 2017. The evolution of the indicators of tourism and consumption reinforce the interest of investors in these products.

On the contrary, offices and logistics centers decreased their annual figures compared to 2016 due to a strong scarcity of product.

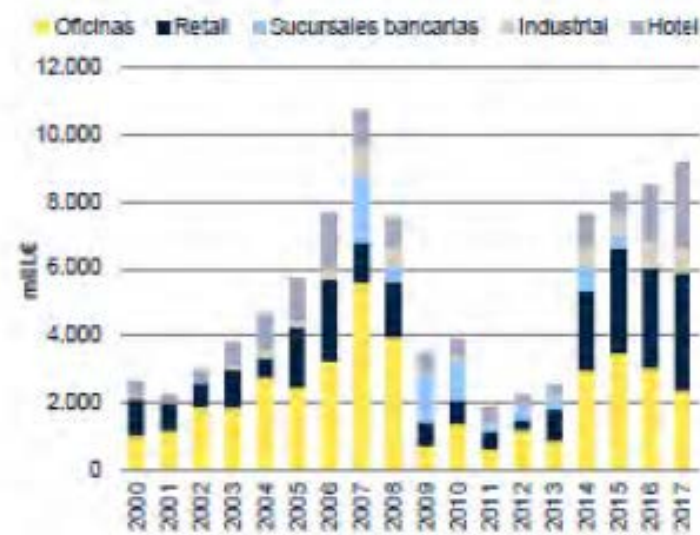
Alternative products are increasingly important in the real estate investment market. The saturation of players in the most common segments (offices, retail, industrial/logistic and hotels), the scarcity of products for sale or opened processes, and the strong dependence of economic cycles and the possibility of reaching higher returns, have diverted investor appetite to these asset classes, and are attracting international companies specialized in these markets in their countries of origin.

Cross-border capital continues to lead the market, and accounts for 63% of the total of the commercial property sector, led by US funds, followed by funds from UK and France.

The yields of prime products have been stable during 2017, and they are expected to remain stable in 2018. Only the retail parks sector, still above the levels before the crisis, could experience some adjustments.

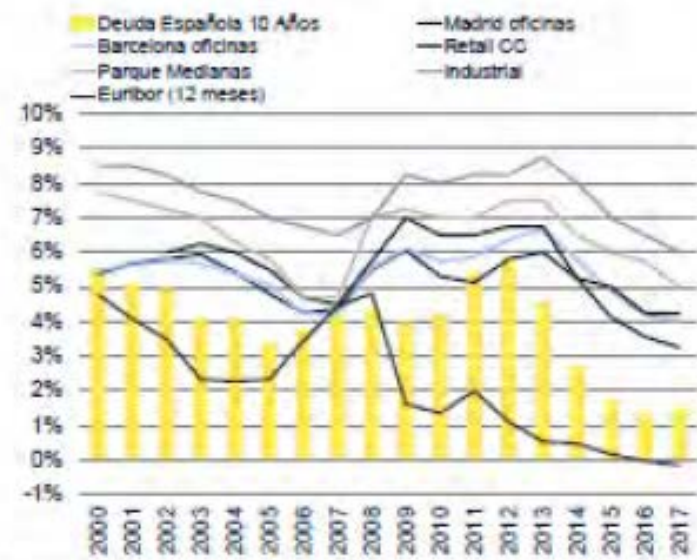
## INVESTMENT MARKET IN SPAIN

### VOLUME OF INVESTMENT PER SECTOR



Source: Savills Aguirre NewmaN

### PRIME YIELDS vs 10-YEAR DEBT AND EURIBOR



Source: Savills Aguirre NewmaN



### OFFICE RENTAL

#### Madrid

According to Savills Aguirre Newman the office stock in Madrid has reached 13.2 million sq. m. take up in 2017 went up to 630,000 sq. m.

#### **Supply:**

Availability rate decreased by 133,500 sq. m. in 2017, down to 10.3% of the office stock. This decrease was especially visible within the perimeter of the M30, where availability is around 5%, whereas in the area between the M30 and the M40 is around 13.3%.

Rental space area expected to be completed within the next two years is around 320,000 sq. m., lower to the rate of new take up in 2017.

#### **Demand:**

Office take up in Madrid recorded 630,000 sq. m. of surface area last year, the highest figure since 2007, and much higher than the average of the last ten years (445,000 sq. m.). This record volume of absorption was achieved thanks to the strong activity in the last quarter of the year, when four transactions for more than 14,000 sq. m. took place

This positive behavior, boosted by economic growth and improved business outlook, led to a reduction in the availability rate and increased rental prices in all areas.

#### **Prices:**

In Madrid's prime area, average rental prices are approaching 30 /sq. m./month, with the highest around 36 euros. Prices have also gone up 7% within the M30, reaching an average of 13 euros / sq. m. / month.

#### Barcelona

According to BNP Paribas Real Estate, at year-end 2017, take up was 304,345 sq. m. in aggregated terms, a 5.6% increase over the previous year. This increase is mainly due to the strong activity of the first half of the year, and recorded the best first semester of the year since 2007.



*Albasanz 16, Madrid*

The low availability of office rental space, especially in the central areas of the city, together with demand pressure, is generating an upward pressure on prices. Average rent prices in the most exclusive area of the city (PRIME), the upper side of the Diagonal, reached 23.5 /sq. m. /month, and the highest prices reached 25/sq. m. /month in the most exclusive properties. In non-central areas, due to the increase in demand in recent months and the good quality of its buildings, rent prices have increased considerably. In the last quarter of the year, average rent prices increased by an annual rate of 5.0%, and reached 16.4/ sq. m. / month.

### SHOPPING CENTERS

According to Savills Aguirre Newman, the total retail surface area in Spain reached 16.5 million square meters in 2017, an increase of 1.4% over 2016.

During 2017, 240,000 sq. m. of gross leasable surface area opened in Spain. These figures are still low and are far from the 642,000 sq. m. average of the period 2008-2012.

Retail density is 353 sq.m. for every thousand inhabitants. This ratio has grown slowly in recent years, due to the moderate construction activity in the retail segment.

The number of visitors to shopping centers increased slightly in 2017, 1.8% higher than in 2016 (according to data from the Spanish Association of Shopping Centers, calculated on like for like surface areas). Total sales have increased by 3.5%, up to 43.950 Million Euros.







### RESIDENTIAL MARKET

Investment in housing continues the positive trend of 2015 and 2016, after seven years of decline, a true turning point. The positive signs that were initially detected in the housing market in 2014 have strengthened during 2016 and 2017.

Housing sales went up to 464,423 in 2017, 14.6% higher than in 2016, despite the slowdown of the last months of the year. Second hand housing still accounts for 82.1% of the number of sales transactions, even though there is a slight recovery of new home sales for the first time. It is noticeable that home purchases (new and second hand) by foreign nationals were up to 13%.

However, the recovery is not uniform. Average growths for the whole of the country, both in prices and in terms of activity, help conceal very different situations. Thus, recovery is very dynamic in prime locations of metropolitan areas and among the best coastal and tourist areas, to the point of depletion of quality product, which explains the resumption of development activity. However, in other areas such as the periphery and suburbs of metropolitan areas, there is excess supply and the sales of new homes is still very moderate.

In 2017, a new increase in the annual variation of the price of subsidized housing took place, 4.5% over 2016. According to the statistics of appraised values of the Ministry of Development, the average price of homes, 199,500 euros, is higher for the first time than the average price observed during the previous cycle (197,000 euros in 2007).

Since reaching minimum values of construction permits, ranging from 35,000 to 40,000 homes started at the end of 2013, some areas are starting to pick up the pace in locations with lack of product and latent demand (Barcelona, Madrid, Costa del Sol, Balearic Islands), up to 80,786 in 2017. In these prime locations with shortage of product and consolidated demand, off-plan sales are starting and there is a renewed interest for land.





### LAND MARKET

The evolution of land transactions and prices has been one of the main characteristics of the sector in 2017. According to the Situación Inmobiliaria España Report, prepared by BBVA Research, land transactions maintained their adinamism and the number of urban land transactions finished 2017 with an inter-annual growth rate of 17.0%. Apparently, land prices seem to have reinforced the growth trend that started after 2014, with a 13% increase in price over 2014 during the first nine months of the year, according to said report.

#### New main players

Currently, there are new main players in the sector. On the one hand, big IPOs are planned, and on the other, major corporate mergers are taking place. Accordingly, it is quite likely that new alliances will be formed in the near future in which every partner will contribute capital, since the formulas in which one partner provided assets and the other provided financial muscle are becoming obsolete.

Additionally, it is expected that during the next 10 years, the top 10 developers will develop some 61,000 homes, approximately 14% of the stock considered as necessary for a smooth market considering the growth in housing demand.

#### Key considerations for 2018

The land market is concentrated around the main cities and their great metropolitan areas. Seven provinces concentrate nearly half of the transactions (44%). Madrid and Barcelona account for more than 22% of the total.

The supply of ready-for-construction land is limited, and this is causing the existence of areas where prices tend to rise. In some locations, land accounts for nearly 50% of the total price of the home. Some professionals of the sector predict that available land will run out within four or five years, as a result of the Public Administrations' halt in the processes of new land generation. In view of this situation, market reactivation measures are needed to speed up the generation of land ready for construction. Thus, the reduction in the periods of time necessary for the awarding of licenses, a stable legal framework and a reduction in taxes would be very positive.



*Guillena, Sevilla*

#### Construction costs are on the rise

On the other hand, construction costs have increased notably, around 10-15% according to developers. The lack of skilled labor and the excessive workload are having an impact on work execution times, which has an impact on the costs and therefore, on the final price families pay for their home. The industrialization of the sector could be a possible solution to this problem.

The key to the new real estate development market lies in the efficient use of capital at the time of investing on the land, so that the goal of the investment is to acquire the necessary commodity to develop a given project, and not as a business in itself, as was the case in the past when financing was given to the development of land, regardless of its stage of development, with practically no financial costs. The margin of activity must focus on the development and not speculation on the land. To this end, it is essential to optimize construction costs and the development timelines, and to minimize after-sales costs.



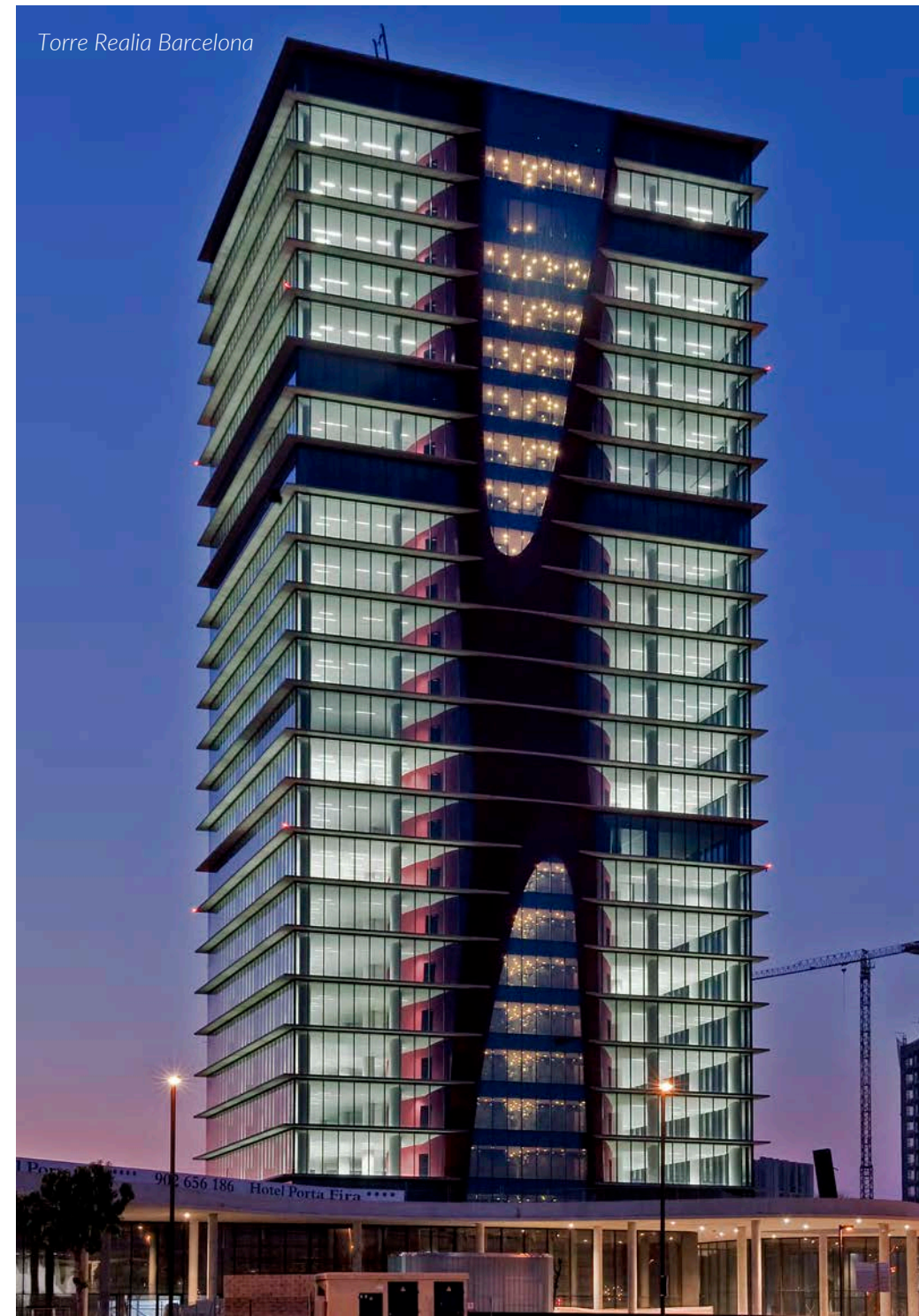
# Strategy

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REALIA established as priorities for 2017 the restructuring of the property business debt, continuing with the improvement in cost rationalization, increase in revenues, and focusing the company resources to resume the homebuilding development activity. All the actions during the year have focused on these goals.

REALIA focused its strategy on meeting its short and medium term financial stability plan to become a company with stable recurrent revenues and a balanced debt, in order to tackle new projects in the future.

After surviving the burst of the real estate bubble through the reinforcement of the property business since 2006 through an ambitious program of investment of prime assets, the company is currently focusing its business on the optimization of the profitability of these assets and the reactivation of its homebuilding business through the resumption, as soon as possible, of its development activity.



### OVERALL BUSINESS STRATEGY FOR 2017

The company maintains a clearly differentiated strategy in its two business areas. During the year, all necessary actions have been taken to optimize revenues and expenses of all its rental assets, whereas in the homebuilding area, it focused its efforts on the reduction of stock, land management and the analysis of new developments to be started shortly.



### BUSINESS STRATEGY BY AREAS

#### Property Business

- Renegotiation of contracts about to expire.
- Sale of assets that have reached a certain level of maturation.
- Adequate building maintenance.

#### Homebuilding Business

- Recovery of housing prices, taking advantage of the opening up of mortgage credit and increasing housing demand.
- Analysis of the feasibility of tackling new developments in areas with effective product demand. Request for administrative licenses to start construction.
- To preserve the value of buildings taking special care of maintenance.
- To continue urbanistic land management to promote development activity in the future.

## STRATEGIC PRIORITIES FOR 2018

REALIA has defined three strategic priorities for 2018:

- Improvement and strengthening of revenues; to that end, it plans to start new developments in cities where demand is consistent and supply is very low or nonexistent, especially in areas of Madrid, Barcelona, Palma de Mallorca and other with the same market characteristics.
- Improvement of margins, both through rationalization and optimization of expenses and production costs, and price recovery.
- Possibility of asset rotation and/or acquisition of new assets, according to market offers and opportunities, with the goals of improving the operating account and creating value for the group.

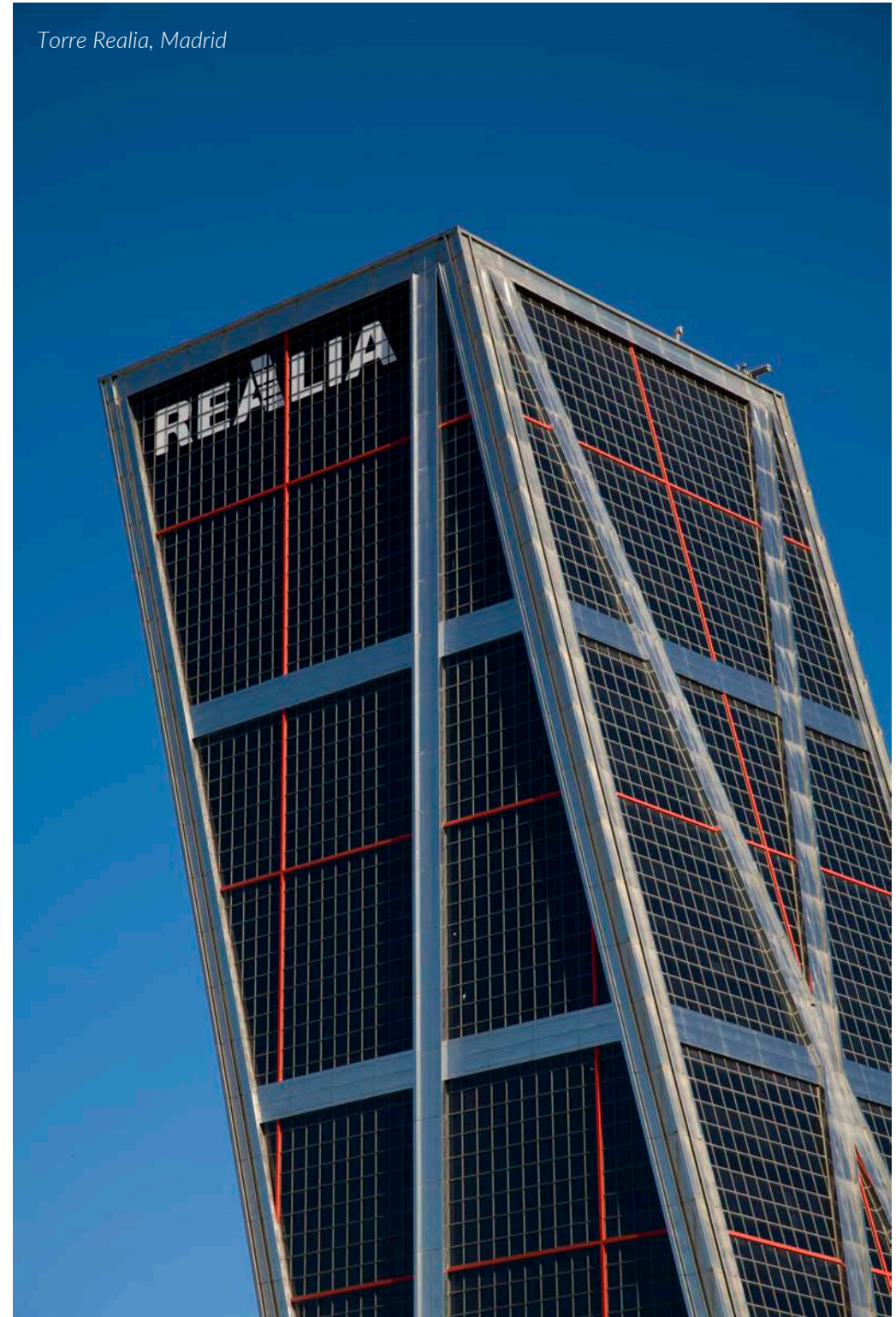


# Results for the year

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- Realia had total revenues of 100.7 M Euros in 2017, 3.6% higher than in 2016, due to the increased revenues in all of its business lines, except sales of Tangible Fixed Assets and Land.
- EBITDA was 44.9 Million Euros in 2017, against 41.8 Million in 2016, 7.4% higher.
- Profit before taxes at 31 December 2017 reached 54.7 Million and attributed net profit amounted to 30.5 Million Euros.
- Net recurring attributed profit (discounting the effect of haircuts, variations in tangible fixed asset valuations and provisions) amounted to 17.5 Million Euros in 2017, against 19.4 Million in 2016. This decrease can be attributed to the change in financial costs arising from the new Realia Patrimonio's financing.

Torre Realia, Madrid





## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Millions of Euros (M€)

	2017	2016	Variation (%)
<b>TOTAL OPERATING REVENUES</b>	<b>100,7</b>	<b>97,1</b>	<b>3,6</b>
Rents	60,1	58,9	2,0
Provision for Expenses	16,2	15,6	4,0
Sale of property (profit/loss)	0,0	0,4	-100,0
Developments	21,7	19,0	14,0
Land	0,0	1,1	-100,0
Services	1,2	0,3	343,4
Other revenue (development and property)	1,5	1,8	-15,4
<b>Gross Margin</b>	<b>52,5</b>	<b>50,2</b>	<b>4,5</b>
Rents	52,2	51,0	2,2
Developments	0,1	-1,1	108,6
Services	0,3	0,3	-4,8
Structural Costs	-7,5	-8,1	7,4
Other Expenses	-0,1	-0,4	60,0
<b>EBITDA</b>	<b>44,9</b>	<b>41,8</b>	<b>7,4</b>
Amortizations	-0,3	-0,4	15,7
Provisions	1,1	-49,7	102,2
<b>EBIT</b>	<b>45,6</b>	<b>-8,3</b>	<b>646,8</b>
Result from valuation of investment property at fair value	20,6	49,2	-58,2
Net financial result	-16,2	106,0	-115,3
Equity method	4,7	-1,0	552,3
<b>Result before taxes</b>	<b>54,7</b>	<b>145,8</b>	<b>-62,5</b>
Taxes	-11,4	-15,7	27,3
<b>Profit before taxes</b>	<b>43,3</b>	<b>130,1</b>	<b>-66,7</b>
External partners	12,9	14,4	-10,7
<b>Attributable Net Result</b>	<b>30,5</b>	<b>115,7</b>	<b>-73,7</b>
<b>Recurrent Attributable Net Result</b>	<b>17,5</b>	<b>19,4</b>	<b>-9,4</b>

Total revenues of the company in 2017 amount to 100.7 Million Euros, 3.6% higher than in 2016, thanks to the increase in revenues on all business lines, except sales of Tangible Fixed Assets and Land.

EBITDA increased by 7.4%, up to 44.9 Million Euros, as a result of margin improvement in the rental and development business and the reduction of structural costs and other expenses.

Financial costs increased from 7.7 to 16.2 Million in like for like terms (deducting the impact of haircuts in 2016), as a consequence of the new financing of Realia Patrimonio in April 2017 at market margins, but much higher than those in force, agreed in 2007.

Provisions have increased to a total of 1.1 (net recovery); the main ones are the adjustments to land value ( 6.3 M), recoveries from the sale of residential product, and other recoveries from defaults, litigation, etc.

The valuation criterion for real estate investments (rental assets) at fair value has produced a positive result of 20.6 Million in 2017, against 49.2 Million in 2016.

Following a prudence criterion, tax credits for negative tax bases and others, unrecognized at 31 December 2017, amounted to 61 Million Euros.

Net attributed result for 2017 amounts to 30.5 Million Euros, against 115.7 Million of attributable net result in 2016.

Net attributed recurring profit (minus the effect of haircuts, variation in tangible fixed assets valuation and provisions) amounts to 17.5 Million in 2017, versus 19.4 Million in 2016. This decrease can be attribute to the variation in financial costs mentioned above. With constant financial costs, recurring net profit in 2017 would have reached 23.9 Million, 23% higher than in 2016.

## OPERATIONAL DATA SUMMARY

### Property Area

	2017	2016	Variation (%)
Leasable surface area (sq. m.)	<b>405.862</b>	<b>405.359</b>	<b>0,1</b>
Occupancy (%)	<b>94,6</b>	<b>94,0</b>	<b>0,6</b>

### Development Area

Units delivered (homes, commercial premises or plots)			
Millions of Euros	<b>21,7</b>	<b>19,0</b>	<b>14,0</b>
Units	<b>103</b>	<b>96</b>	<b>7,9</b>

### Land

	2017	2016	Variation (%)
Consolidated Land Reserve (buildable sq. m.)	<b>1.851.392</b>	<b>1.852.040</b>	<b>0,0</b>

### Empleados

	2017	2016	Variation (%)
No. of Employees	<b>91</b>	<b>95</b>	<b>-4,2</b>

Source: REALIA



**INDEBTEDNESS**

At year-end 2017, Realia had reduced its gross financial banking debt by 88 Million Euros, down to 763 Million, 10% lower than in the prior year.

After the debt reduction and the new funding obtained by Realia Patrimonio, the financial result in 2017 amounted to 16.2 Million, versus 106 Million in 2016. Excluding the impact of the haircuts applied in 2016 (113 M), the financial result in like for like terms of the prior year would have been -7 Million Euros.

The Realia group has hedged against its exposure to interest rate fluctuations. Specifically, the property loan is hedged for 70% of its amount, until maturity.

The weighted average interest rate of the gross debt at 31 December 2017 is at 1.97%, versus 0.54% at year-end 2016, including the cost of interest rate hedges.

At 31 December 2017, Realia has a net financial banking debt of 678 Million euros, 10% lower than in December 2016, with a loan to value (LTV) of 37.9%.

"At year-end 2017, Realia had reduced its net financial banking debt by 88 Million euros, down to 763 Million, 10% lower than in 2016"



Valdebebas, Madrid



## Financial situation

In 2017, Realia reduced its net debt by 72 Million, thanks to the cash-flow generation of the business, and the sale of the Los Cubos building.

The new financing of Realia Patrimonio materialized in a syndicated loan in April 2017, for an initial amount of 582 Million, with final maturity in 2024. The spread of the loan may range from 170 to 200 bp, depending on the Loan To Value.

At 31 December 2017, the weighted average interest rate of the gross interest-bearing debt, including hedging derivatives, is of 1.97%, versus 0.54% at 31 December 2016, including the cost of interest rate hedges.

### Forecasts for 2018

The loan associated to the development activity will mature due on 30 June 2018 for an approximate amount of 133 Million.

The company is currently negotiating its extension for an amount of 120 Million, and the remaining 13 Million will be paid with the cash available.

## FINANCIAL STRUCTURE

	REALIA Patrimonio Property	REALIA Business Developments and Land	TOTAL 2017	TOTAL 2016	Var.(%)
Syndicated	576	0	576	678	-15,1
Other loans	62	135	196	174	12,9
Valuation of derivatives	3	0	3		
Interest	3	0	3		
Arrangement cost	-15	0	-15	-1	-1.408,0
<b>Total Debt</b>	<b>628</b>	<b>135</b>	<b>763</b>	<b>851</b>	<b>-10,4</b>
Cash	25	60	85	101	-15,8
<b>Net Debt</b>	<b>603</b>	<b>75</b>	<b>678</b>	<b>750</b>	<b>-9,6</b>

*María de Molina 40, Madrid*

## Asset valuation

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At 31 December de 2017, Realia's real estate assets have a market value of 1,789 Million Euros, 2.4% lower than December 2016 in absolute terms, due to the sale of the Los Cubos building (52 M) and the reduction in finished product stock. The rental assets portfolio, in like for like terms, has increased its value by 2.3%.

The net net asset value (NNAV), at 31 December 2017 is 833 Million euros versus 805 Million at 31 December 2016. In unit terms, the price is at 1.29 euros per share, 3,5% higher than in 2016, 1.25 euros per share.

81% of the value of assets corresponds to the property activity (1,447 Million), and the remaining 19%, to the homebuilding business.





Castellana 41, Madrid

### NET NET ASSET VALUE

Net net asset value after taxes (NNAV) of REALIA reached 833 Million euros, and the NNAV per share amounts to 1.29 euros, 3.5 % higher than in December 2016

## Asset Valuation

As in previous reporting periods, the valuation of Realia's real estate assets at 31 December 2017 was performed by two independent experts: CBRE (CB Richard Ellis) valued the Asset portfolio of Realia Patrimonio and subsidiaries, whereas Tinsa valued the asset portfolio of Realia Business and its subsidiaries.

Tinsa applied the ECO Valuation and Appraisal Method (according to Ministerial Order ECO/805 2003). The ECO valuation standard uses the sustainable collateral value. This is characterized by a principle of prudence in the different methods, and its main feature is the valuation of non-sectorized land as rural land.

((M€))	2017	2016	YtY Variation (%)
Rental assets	1.390,5	1.412,6	-1,6
Tertiary land	56,1	56,1	0,0
<b>TOTAL PROPERTY ASSETS</b>	<b>1.446,6</b>	<b>1.468,7</b>	<b>-1,5*</b>
Completed residential product	56,2	77,0	-27,0
Homebuilding land and others <sup>(1)</sup>	286,6	287,3	-0,2
<b>TOTAL HOMEBUILDING ASSETS</b>	<b>342,8</b>	<b>364,3</b>	<b>-5,9</b>
<b>TOTAL ASSETS</b>	<b>1.789,4</b>	<b>1.833,0</b>	<b>-2,4</b>

**\*In like for like terms, the variation is 2.3%**

**(1) Including 4.93 M of the Guillena (Seville) golf course**

## Summary of the Main Business Lines

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### PROPERTY BUSINESS

Rent revenues, excluding passed-on expenses, amount to 60.1 Million, a 2% increase over 2016, due to the increase in office occupancy and the strong situation of market rents, especially in the office market.

Global occupancy of rental buildings reached 94.6% at year-end 2017, versus 94% in 2016. Office occupancy reached 96.2%.

The Los Cubos building in Madrid was sold during the year for a price of 52M, which agreed with the last available valuation.



### RESIDENTIAL HOMEBUILDING BUSINESS

103 units were delivered during 2017 for an amount of 21.7 Million euros, 14% more than the 19 Million (96 units) of 2016.

At 31 December 2017, Realia has 387 units in stock (homes, commercial premises and offices) completed and ready for delivery (19 of them sold). Additionally, it has 41 plots of land for single-family units allocated for sale for self-development.

Realia's land portfolio at 31 December 2017, amounts to 1,851,392 sq. m. of buildable space, mainly in Madrid, Central Region and Andalusia.



REALIA's balance sheet shows total assets for 2,014 Million euros.

On the liabilities side, the most relevant aspects are the increase in net equity from 777 Million euros in 2016 to 806 Million euros in 2017, and the reduction of debt (10.4%)

## CONSOLIDATED BALANCE SHEET

Millions of euros

ASSETS			LIABILITIES		
	2017	2016		2017	2016
Tangible fixed assets	5	5	Attributed net equity	806	777
Investment property	1.383	1.356	Minority shareholders	238	232
Inventories	296	315	Payables to credit institutions and similar	763	851
Trade and receivables	14	12	Trade and payables	22	21
Cash and equivalents	85	101	Other liabilities	184	178
Other assets	231	269			
<b>Total Assets</b>	<b>2.014</b>	<b>2.059</b>	<b>Total Liabilities</b>	<b>2.014</b>	<b>2.059</b>

Source: REALIA



# Stock Exchange evolution

Realia's shares finished 2017 at 1.10 euros, a 27.9% increase over the price at year-end 2016.

## EVOLUTION OF REALIA

### Stock Exchange Information 2017

Price at year-end (€/share)  
**1,100**

Stock Market capitalization at year-end (€)  
**709.288.752**

Maximum price during the year (€/share)  
**1,140**

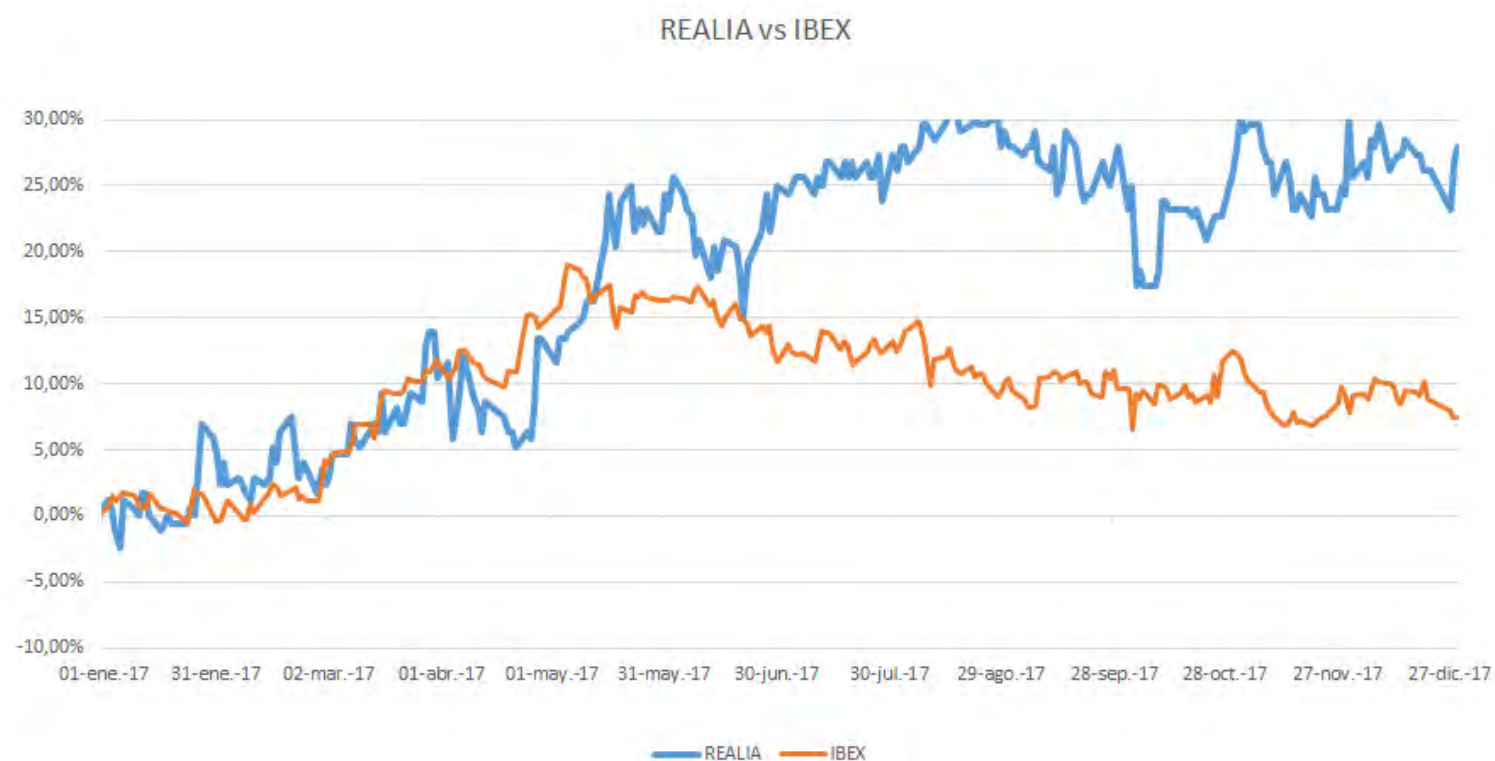
Minimum price during the year (€/share)  
**0,830**

Average price during the period (€/share)  
**0,999**

Average daily trading volume (€)  
**252.550**

Average daily trading volume (shares)  
**253.784**

Source: REALIA



# Evolution of the business

## RESULTS 2017

Millions of euros

	2017	2016	2015
<b>Total Revenues</b>	<b>100,7</b>	<b>97,1</b>	<b>94,9</b>
Revenues from operations	83,5	79,8	76,0
Revenues from sale of assets	-	0,4	0,1
Other revenues	17,2	16,9	18,8
<b>Total Ebitda</b>	<b>44,9</b>	<b>41,8</b>	<b>40,5</b>
Ebitda from developments and land	-3,6	-4,6	-10,9
Ebitda from rents	48,2	46,4	51,7
Ebitda from services and others	0,3	-0,4	-0,4
Ebitda from the sale of assets	-	0,4	0,1
Amortizations and provisions	0,8	-50,1	-12,1
Net financial result	-16,2	106	-19,4
Other results	25,3	48,1	30,0
<b>Profit before taxes</b>	<b>54,7</b>	<b>145,8</b>	<b>39,0</b>
Taxes	-11,4	-15,7	13,0
Result of discontinued activities	-	0	-0,0
<b>Profit after taxes</b>	<b>43,3</b>	<b>130,1</b>	<b>26,0</b>
Minority shareholders	-12,9	-14,4	-8,8
<b>Attributable net profit</b>	<b>30,5</b>	<b>115,7</b>	<b>17,2</b>

Source: REALIA

## PROPERTY BUSINESS RESULTS

	Thousands of euro		
	2017	2016	2015
Rents	64.945	63.732	66.277
Passed-on expenses	18.348	17.410	17.116
Other revenues	610	690	418
<b>Total revenues</b>	<b>83.903</b>	<b>81.832</b>	<b>83.811</b>
- As Cancelas revenues (50%) + Other	6.993	6.672	6.041
<b>Consolidated Revenues</b>	<b>76.910</b>	<b>75.160</b>	<b>77.770</b>
Recoverable common expenses	-22.914	-23.082	-22.605
Non recoverable common expenses	-4.630	-3.903	-2.835
<b>Gross Margin</b>	<b>56.359</b>	<b>54.847</b>	<b>58.371</b>
- As Cancelas margin (50%) + Other	4.209	4.287	2.631
<b>Consolidated Margin</b>	<b>52.150</b>	<b>50.560</b>	<b>55.740</b>
Rents Margin	86,8%	86,1%	87,9%

Source: REALIA



## PROPERTY BUSINESS MANAGEMENT INFORMATION

	Million euros		
	2017	2016	2015
<b>Surface area in operation broken down by type (sqm)</b>	<b>405.862</b>	<b>405.359</b>	<b>400.574</b>
Offices	226.729	226.721	226.191
Shopping centers	135.876	135.381	135.338
Warehouses, leisure and others	43.257	43.257	39.045
<b>Parking places</b>	<b>10.115</b>	<b>10.102</b>	<b>10.102</b>
<b>Occupancy (%)</b>	<b>94,6%</b>	<b>94%</b>	<b>91,5%</b>

Source: REALIA

## HOMEBUILDING BUSINESS RESULTS

*Million euros*

	2017	2016	2015
<b>Total revenues</b>	<b>21,7</b>	<b>21,2</b>	<b>14,2</b>
Revenues from developments	21,7	20,1	14,1
Revenues from land	--	1,1	0,1
<b>Cost of developments</b>	<b>24,8</b>	<b>24,8</b>	<b>24,9</b>
<b>Cost of land</b>	<b>0,5</b>	<b>1,0</b>	<b>0,1</b>
<b>Ebitda Developments and Land</b>	<b>-3,6</b>	<b>-4,6</b>	<b>-10,8</b>

Source: REALIA

## MANAGEMENT INFORMATION: HOMEBUILDING BUSINESS

	2017	2016	2015
<b>Units delivered</b>			
Number of units	103	96	71
Revenues (M €) <sup>(1)</sup>	21,7	19	13,1
Average price (€)	209.710	197.142	184.507
<b>Units delivered by Autonomous Community</b>			
Madrid / Central	58	57	32
Catalonia	7	12	10
Castilla y León	-	-	-
Andalusia	21	8	17
Balearic Islands	-	-	-
C. Valenciana	16	15	11
Canaries	-	-	-
International	1	4	1

(1) Other revenue is not included

Source: REALIA



# MANAGEMENT INFORMATION: LAND

 En m<sup>2</sup>

	2017	2016	2015
<b>Surface area (sq. m.)</b>			
Land reserve	1.851.392	1.852.040	1.868.677
<b>Distribution by Autonomous Community (sq. m.)</b>			
Andalusia	677.142	677.142	669.977
Aragón	139.039	139.039	154.508
Balearic Islands	9.559	9.559	9.559
C. Valenciana	99.074	99.074	99.074
Canaries	4.965	4.965	18.541
Castilla La Mancha	222.238	222.886	222.886
Castilla y León	64.451	64.451	63.323
Catalonia	81.226	81.226	93.034
Galicia	47.538	47.538	6.184
International	10.912	10.912	10.912
Madrid	453.650	453.650	479.081
Murcia	41.598	41.598	41.598

Source: REALIA

# BUSINESS LINES

## PROPERTY

Assets

Strategy

Results

Financial situation

## HOMEBUILDING

Assets

Strategy

Results

Financial situation

# Property

---

REALIA owns a valuable property asset portfolio which grew by 2.3% in 2017 in like for like terms, up to 1,446.6 Million euros, and generated rent revenues for 60.1 Million euros, with a margin of 87% thanks to the high occupancy of its buildings, 94.6%.

At 31 December 2017, REALIA manages 405,862 sq. m. of rental property, all of them currently in operation. Additionally, there is a land reserve mainly for tertiary use of 127,977 sq. m.

REALIA operates office buildings and shopping and recreation centers in Spain.



REALIA's property business concentrates 81% of the value of its assets and 76% of its revenues

# ASSETS

Description of the Rental Property business:

REALIA's property activity is focused on the management and development of the property assets for rent to third parties. The property area (which includes rent and development of offices, shopping centers, other investment property and the sale of property) accounts at 31 December 2017 for 76.4% of the operating revenues for an amount of 76.9 Million euros.

At 31 December 2017, the Property area of the REALIA Group employs 50 people (55% of the total workforce of the REALIA Group).

The assets are incorporated to this portfolio through one of the three following ways:

- Acquisition of buildings already constructed.
- Establishment of alliances or acquisitions with/from other companies.
- Proprietary development of new property assets.

The REALIA Group owns office buildings in Madrid, Barcelona and Seville.

Additionally, the REALIA Group owns shopping and recreation centers in Madrid, Leganés, Murcia, Guadalajara, Soria and Santiago de Compostela.

Property's Surface area December 2017

Building	City	Surface area 2017
<b>PLAZA NUEVA PARQUE COMERCIAL</b>	Madrid	52.675
<b>EL SEQUERO</b>	Logroño	40.544
<b>C.C. FERIA PLAZA</b>	Guadalajara	32.507
<b>TORRE REALIA BARCELONA</b>	Barcelona	31.964
<b>PUERTA DE EUROPA ESTE</b>	Madrid	28.424
<b>SALVADOR DE MADARIAGA, 1</b>	Madrid	25.398
<b>AS CANCELAS</b>	Santiago de Compostela	25.218
<b>ALBASANZ, 16</b>	Madrid	19.551
<b>LA NORIA FACTORY OUTLET</b>	Murcia	13.807
<b>ACANTO, 22</b>	Madrid	13.248
<b>MARIA DE MOLINA, 40</b>	Madrid	9.684
<b>ALBASANZ, 14</b>	Madrid	9.123
<b>AV. BRUSELAS 36</b>	Madrid	8.857
<b>PRÍNCIPE DE VERGARA, 132</b>	Madrid	8.807
<b>C.N.KANSAS CITY</b>	Sevilla	8.735
<b>MANUEL BECERRA CENTRO WELLNESS</b>	Madrid	6.645
<b>GOYA 29</b>	Madrid	5.060
<b>C.N. EISENHOWER II</b>	Madrid	5.004
<b>C.N. EISENHOWER III</b>	Madrid	5.004
<b>PASEO DE LA CASTELLANA, 41</b>	Madrid	4.584
<b>C.N. EISENHOWER IV</b>	Madrid	4.543
<b>C.N. EISENHOWER I</b>	Madrid	4.519
<b>ALBASANZ, 12</b>	Madrid	4.160
<b>ALFONSO XII, 30</b>	Madrid	4.007
<b>SERRANO, 21</b>	Madrid	3.865
<b>GOYA,8</b>	Madrid	3.836
<b>GOYA,6</b>	Madrid	3.688
<b>MARQUÉS DEL DUERO, 4</b>	Madrid	3.000
<b>MUSGO, 1</b>	Madrid	2.916
<b>Pº DEL ESPOLÓN, 10</b>	Soria	2.900
<b>PRIM, 19</b>	Madrid	2.786
<b>MUSGO, 3</b>	Madrid	2.475
<b>GOYA, 6 Y 8 C.C.</b>	Madrid	2.124
<b>JORGE JUAN, 35</b>	Madrid	1.950
<b>MARIA TUBAU</b>	Madrid	1.539
<b>GARCÍA DE PAREDES, 94</b>	Madrid	909
<b>JOSÉ ABASCAL, 2</b>	Madrid	681
<b>MANUEL FERRERO</b>	Madrid	597
<b>CLOT</b>	Barcelona	361
<b>VILLANUEVA, 15</b>	Madrid	165
<b>TOTAL GENERAL</b>		405.862



### OFFICES

Generally, lease contracts of office buildings include in the property area of the REALIA Group are agreed upon the usual terms and conditions in the market. Normally, the main characteristics of these contracts are the following:

- Three-year contracts with no early expiration option.
- Rent increase according to inflation rates.
- Update of rent prices to market prices upon contract renewal.
- The tenant normally takes care of all the expenses.

Some of the main customers of REALIA at 31 December 2017, are tenants and leading companies such as Amadeus, Grupo Marsh, Gómez Acebo Pombo Abogados, PMG, etc.; none of them, however, represents more than 8% of the total annualized rents of the office portfolio of the REALIA Group.

The following table lists the ten main tenants of the REALIA Group in office rentals and their relevance relative to the total rents of the Group at 31 December 2017.

Top 10 tenants	City	% over annualized rents
Tenant 1	Madrid	5,46%
Tenant 2	Madrid	3,27%
Tenant 3	Barcelona	2,41%
Tenant 4	Madrid	1,87%
Tenant 5	Madrid	1,78%
Tenant 6	Madrid	1,72%
Tenant 7	Madrid	1,60%
Tenant 8	Madrid	1,30%
Tenant 9	Madrid	1,24%
Tenant 10	Barcelona	1,06%
TOTAL TOP 10		21,71%

The following table shows the expiration of office lease contracts of the REALIA Group at 31 December 2017 by volume of annualized rents, taking into account the options of anticipated contract termination

Expiration of contracts (or termination option)	% over annualized rents Offices	% over annualized rents Total
2018	28,29%	19,36%
2019	22,64%	15,49%
2020	17,09%	11,70%
2021	16,61%	11,37%
2022 and subsequent	15,37%	10,52%
	100,00%	68,45%



The leasable office surface area of the REALIA Group at 31 December 2017 amounted to 226,729 sq. m. above ground. The occupancy rate at 31 December 2017 is 96.2%.

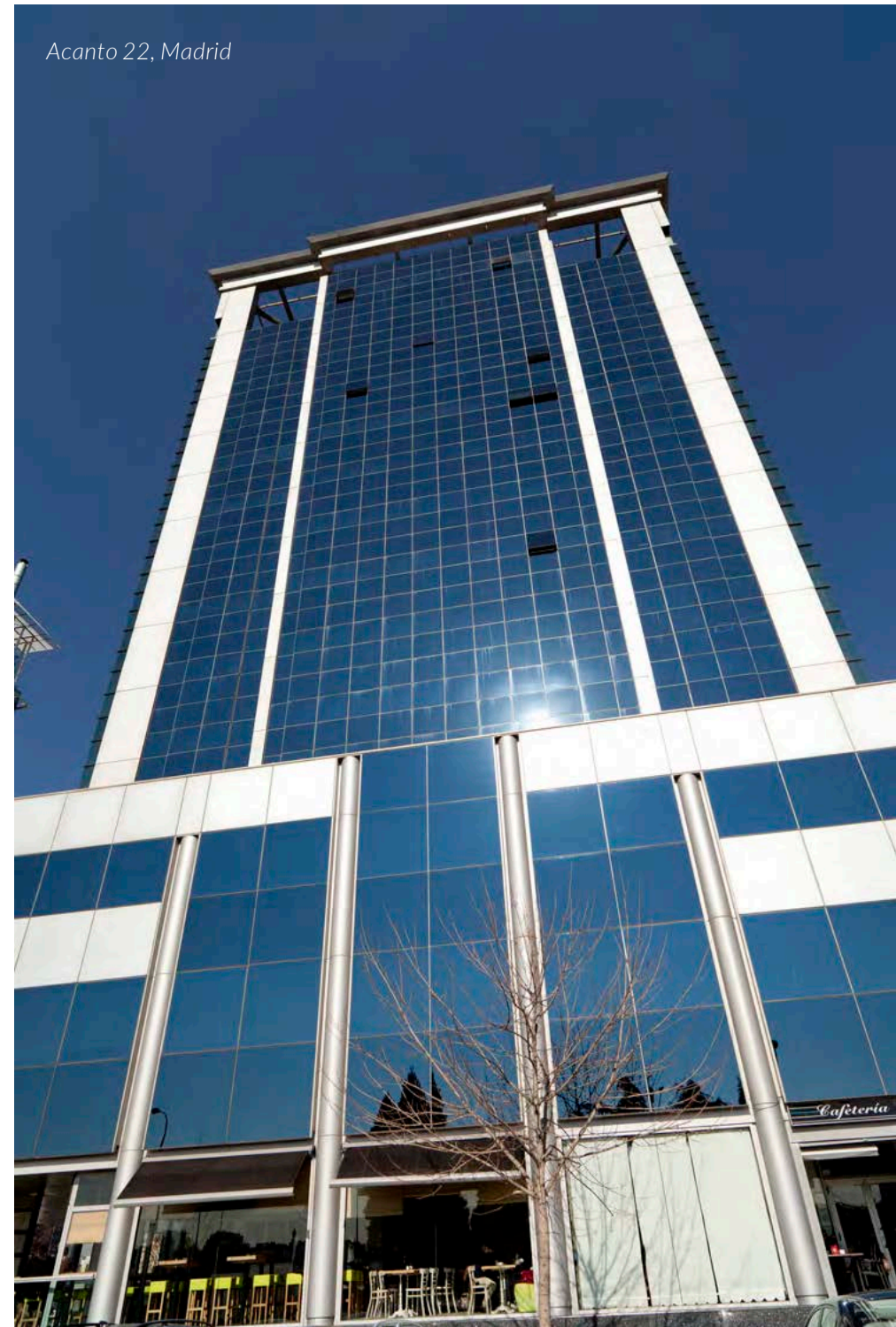
The following table includes a summary of the main characteristics of the offices in operation, owned by the REALIA Group at 31 December 2017, by location:

### Distribution of the portfolio of Offices in commercial operation

Area	2017		Occupancy		
	Surface Area	GAV	2017	2016	2015
CBD	84.420	573	97,0%	95,4%	90,2%
BD	42.653	164	100,0%	98,1%	92,9%
Periphery	99.656	290	93,9%	92,1%	86,8%
<b>TOTAL</b>	<b>226.729</b>	<b>1.027</b>	<b>96,2%</b>	<b>94,5%</b>	<b>89,2%</b>

The office portfolio in 2017  
reached an occupancy level of  
**96.2%**

Acanto 22, Madrid





### SHOPPING CENTERS

In the case of shopping centers, the usual terms and conditions of the sector are also applied, even though their specialization and diversity, and the high number of operators in the same environment (there can be 100 tenants or more in the same center) require a long and complex process of negotiation. Generally, the main characteristics of these contracts are the following:

- Minimum duration between three and five years.
- Rent increase according to inflation rates.
- Updating of rent prices to market prices upon contract renewal.
- Variable percentage of rents according to the revenues of the tenant.
- Passing on of all expenses to the tenant.

Some of the best customers of REALIA in this business area, at 31 December 2017, include leading firms from different sectors, such as Grupo Inditex, Carrefour, Decathlon, Bricomart, Primark, although none of them account for more than 3.5% of the total annualized rents of the property portfolio and 12% of the annualized rents from shopping centers, respectively, of the REALIA Group.

The following table lists the top 10 tenants of the REALIA Group in the shopping center lease area, and their relevance relative to the total rents of the Group at 31 December 2017.

Top 10 tenants	City	% over annualized rents
Tenant 1	Madrid /Santiago	3,16%
Tenant 2	Madrid	2,18%
Tenant 3	Madrid	1,49%
Tenant 4	Guadalajara/Madrid	1,11%
Tenant 5	Madrid	1,06%
Tenant 6	Guadalajara/Santiago	0,91%
Tenant 7	Guadalajara/Santiago/Murcia	0,88%
Tenant 8	Guadalajara	0,50%
Tenant 9	Guadalajara/Santiago/Murcia/Madrid	0,43%
Tenant 10	Madrid	0,42%
TOTAL TOP 10		12,15%







S.C. As Cancelas, Santiago de Compostela

The following table shows the expiration of shopping center lease contracts of the REALIA Group by volume of annualized rents relative to total rents at 31 December 2017, taking into account the options for early termination.

Expiration of contracts (or termination option)	% over annualized rents of Shopping Centers	% over total annualized rents
2018	22,87%	6,17%
2019	27,74%	7,49%
2020	12,20%	3,29%
2021	7,21%	1,95%
2022 and subsequent years	29,98%	8,09%
	100,00%	26,99%

The following table includes a summary of the main characteristics of the shopping and recreation centers operated by the REALIA Group in Spain, by type of center, at 31 December 2017.

Distribution of the Portfolio of Shopping Centers in Operation					
Area	2017		Occupancy		
	Surface Area	GAV	2017	2016	2015
CBD	5.024	26	85,7%	85,7%	83,1%
BD	39.152	85	83,2%	88,7%	89,0%
Periphery	91.700	165	93,4%	92,6%	90,0%
TOTAL	135.876	277	90,2%	91,2%	89,4%



One of the main shopping centers in the portfolio is Jardín de Serrano, with 2,124 sq. m. of retail space located on the so-called Golden Mile of Madrid, which houses premium retail stores.

The Centro Wellness Manuel Becerra is also located in the Salamanca district of the capital city. It is located on the old lot of the Universal cinema, and preserves its two main facades.

The largest center among the shopping center portfolio of Madrid is the Parque Comercial Plaza Nueva de Leganés, south of the city. This center, designed in the shape of a plaza and with large landscaped areas, has 52,675 sq. m. of surface area and 2,987 parking spaces (more than half of them covered). The center responds to the strong demand of an area with more than one million inhabitants.

La Noria Murcia Outlet Shopping, in turn, recreates a Mediterranean village, with its main street and shops in every house. With 13,807 sq. m., it is the first center with a discount format in the region of Murcia.

El Ferial Plaza de Guadalajara, with 32.507 sq. m., offers its customers more than 100 stores from the main retailers of the market in the area of greater growth of the capital city of La Alcarria.

Finally, the Realia Group operates the Centro Comercial As Cancelas in Santiago de Compostela, with more than 50,000 sq. m. of space, through the Company As Cancelas Siglo XXI, of which it owns a 50% stake.





## Strategy

The strategy of the property business in 2017 seeks to optimize the profitability of its rental assets through two main lines:

- Renegotiation of the contracts about to expire.

REALIA signs long-term lease contract with tenants of proven solvency, which normally have a duration between three and five years.

In order to avoid having unoccupied properties, its commercial policy is pro-active. Thus, it anticipates the expiration of contracts to negotiate their extension and offers temporary incentives to occupancy, such as staggered rents, rent-free periods, etc.

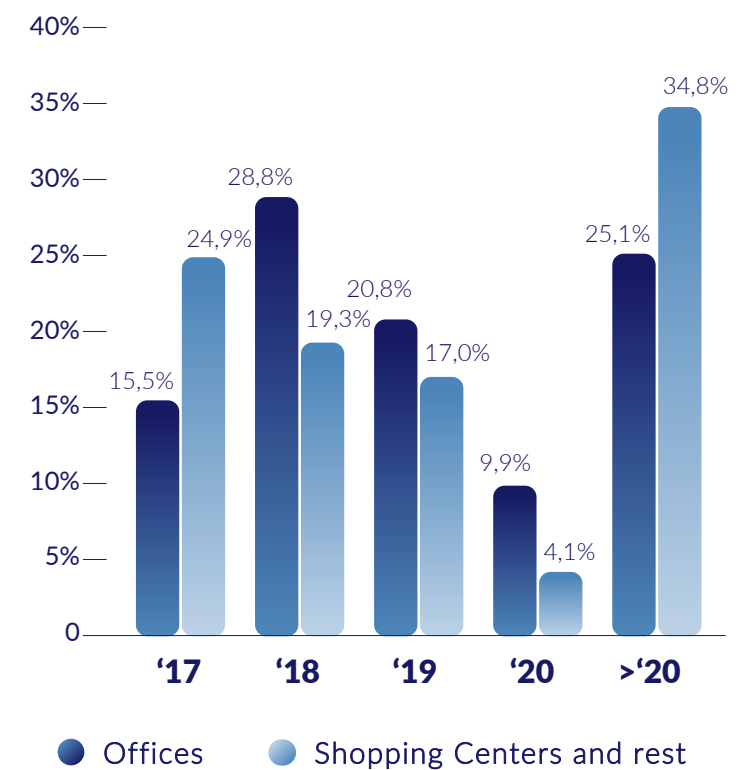
Thanks to this strategy, building occupancy increased to 94.6% in 2017, against 94% in the prior year, higher than the occupancy of offices (92.6%) and shopping centers (90,2%).

- Asset rotation

The company has implemented asset rotation for a number of years, when they have achieved a period of maturation, in order to maintain the quality of the properties and to provide extraordinary revenues to the group.

## EXPIRATION OF CONTRACTS

*In percentage*



Source: REALIA



In 2017, REALIA sold the Los Cubos building, located between the airport and the city center. The sale of this asset, valued at 52 Million euros, contributed to reduce the debt of the company.

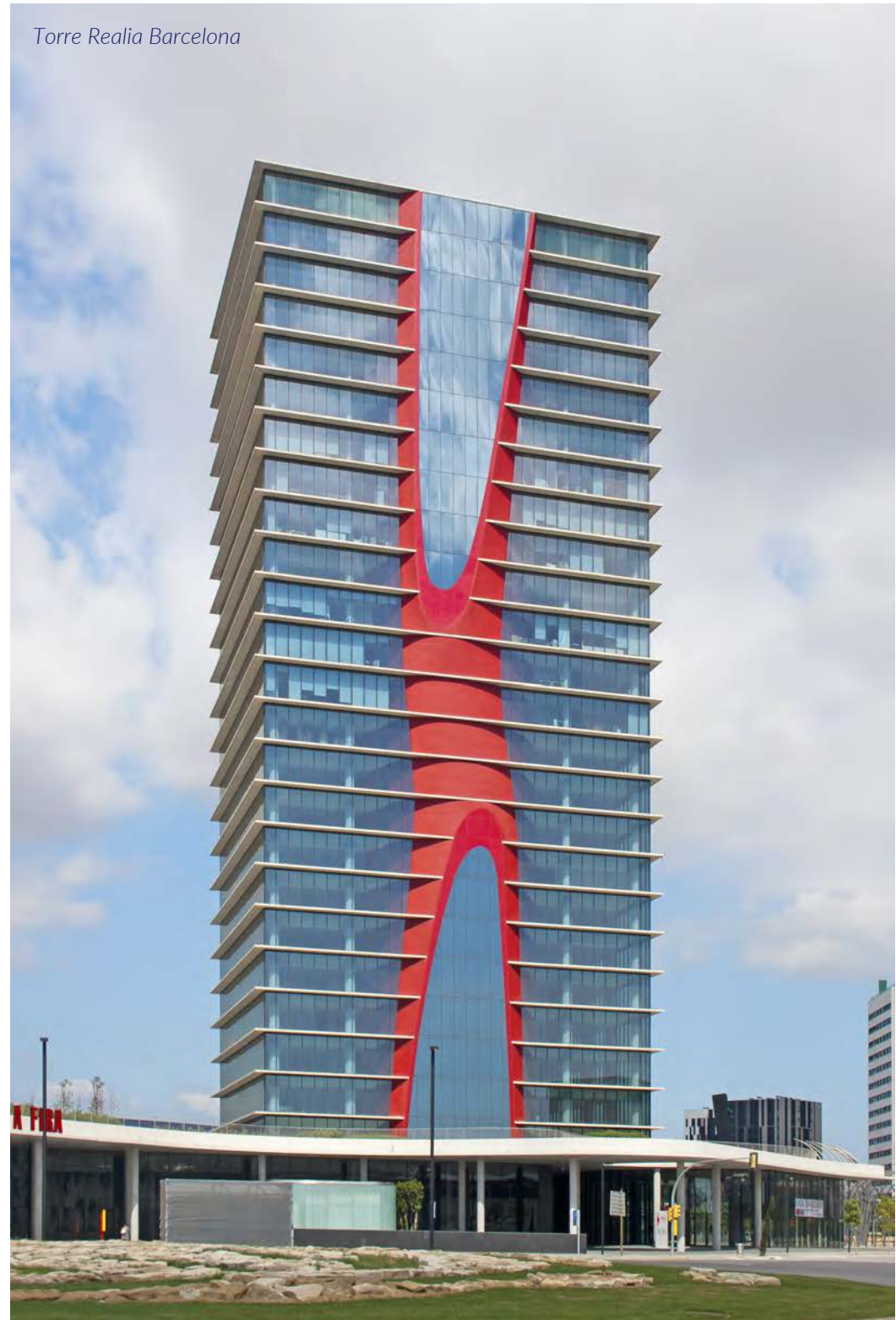
- Adequate building maintenance

Maintenance of rental assets is a priority for REALIA , for it increases the comfort and the value of its buildings. These improvements include the upgrade of the safety, accessibility and energy efficiency conditions.

During the year, the REALIA Group allocated 3.2 Million euros to the renovation of its buildings.

Maintenance of rental  
assets is a priority for  
REALIA

*Torre Realia Barcelona*



# Results

## RENTS

Thousands of euro	2017	2016	Var.(%)
Rents	64.945	63.732	1,9%
Passed-on expenses	18.348	17.410	5,4%
Other revenues	610	690	-11,6%
<b>Total revenues</b>	<b>83.903</b>	<b>81.832</b>	<b>2,5%</b>
- As Cancelas revenues (50%) + Other	6.993	6.672	4,8%
<b>Consolidated Revenues</b>	<b>76.910</b>	<b>75.160</b>	<b>2,3%</b>
Recoverable common expenses	-22.914	-23.082	0,7%
Non recoverable common expenses	-4.630	-3.903	-18,6%
<b>Gross Margin</b>	<b>56.359</b>	<b>54.847</b>	<b>2,8%</b>
- As Cancelas margin (50%) + Other	4.209	4.287	-1,8%
<b>Consolidated Margin</b>	<b>52.150</b>	<b>50.560</b>	<b>3,1%</b>
Rents Margin	86,8%	86,1%	0,8%

- Global rent revenues show a 1.9% increase due to the improvement in the office portfolio, which improved its occupancy to 96.2%, despite the drop in Shopping Centers (1.9%), as a result of the 1% decrease in occupancy.
- Margin on rents increased to 86.8%, thanks to the increase in revenues and the stability in the ratio between incurred/passed on expenses.
- By cities, there is increased occupancy and revenues on the CBD and BD of Madrid, and on Torre Realia Barcelona.

## RENT REVENUES RENT BY USES (homogenous surface areas)

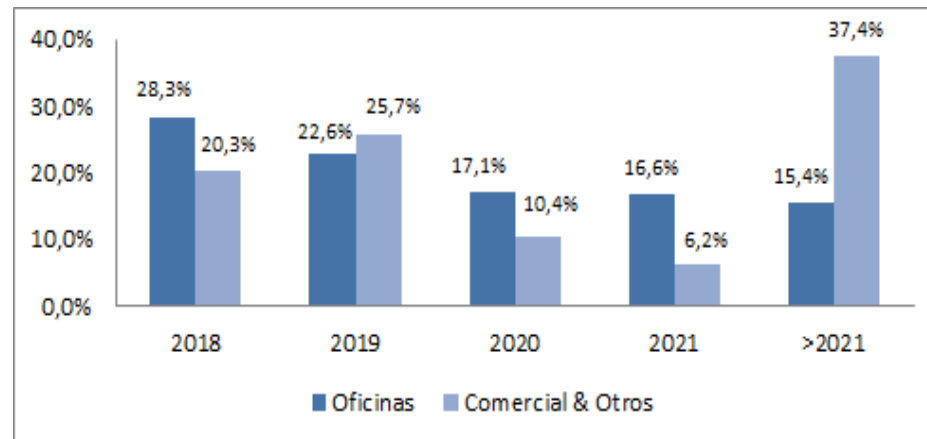
(Thousands of Euros)	2017	2016	Var(%)	GLA (sqm)	Ocup. 2017 (%)	Ocup. 2017( %)
<b>Offices</b>	<b>44.241</b>	<b>42.851</b>	<b>3,2%</b>	<b>226.729</b>	<b>96,2%</b>	<b>96,2%</b>
CBD	21.406	21.358	0,2%	84.420	97,0%	96,8%
BD	7.942	7.511	5,7%	42.653	100,0%	98,4%
Periphery	14.893	13.982	6,5%	99.656	93,9%	94,4%
<b>Retails &amp; Leisure</b>	<b>17.036</b>	<b>17.365</b>	<b>-1,9%</b>	<b>135.876</b>	<b>90,2%</b>	<b>95,0%</b>
Other	3.668	3.515	4,3%	43.257	100,0%	89,7%
<b>Total Revenue</b>	<b>64.945</b>	<b>63.732</b>	<b>1,9%</b>	<b>405.862</b>	<b>94,6%</b>	<b>94,0%</b>

## RENTS BY CITIES (homogenous surfaces)

Thousands of Euros)	2017	2016	Var(%)	GLA (sqm)	Ocup. 2017 (%)	Ocup. 2017 (%)
<b>Madrid</b>	<b>46.521</b>	<b>45.670</b>	<b>1,9%</b>	<b>249.826</b>	<b>96,9%</b>	<b>96,0%</b>
CBD	22.049	22.007	0,2%	79.563	97,1%	96,8%
BD	9.750	9.293	4,9%	49.895	100,0%	98,4%
Periphery	14.722	14.369	2,5%	120.367	95,4%	94,4%
<b>Barcelona</b>	<b>5.475</b>	<b>4.720</b>	<b>16,0%</b>	<b>32.325</b>	<b>97,7%</b>	<b>95,0%</b>
Other	12.949	13.341	-2,9%	123.711	89,1%	89,7%
<b>Total Revenue</b>	<b>64.945</b>	<b>63.732</b>	<b>1,9%</b>	<b>405.862</b>	<b>94,6%</b>	<b>94,0%</b>



EXPIRATION OF CONTRACTS OVER ANNUALIZED RENTS  
(Taking into account the early termination options)



Occupancy has gone up  
to 94.6%

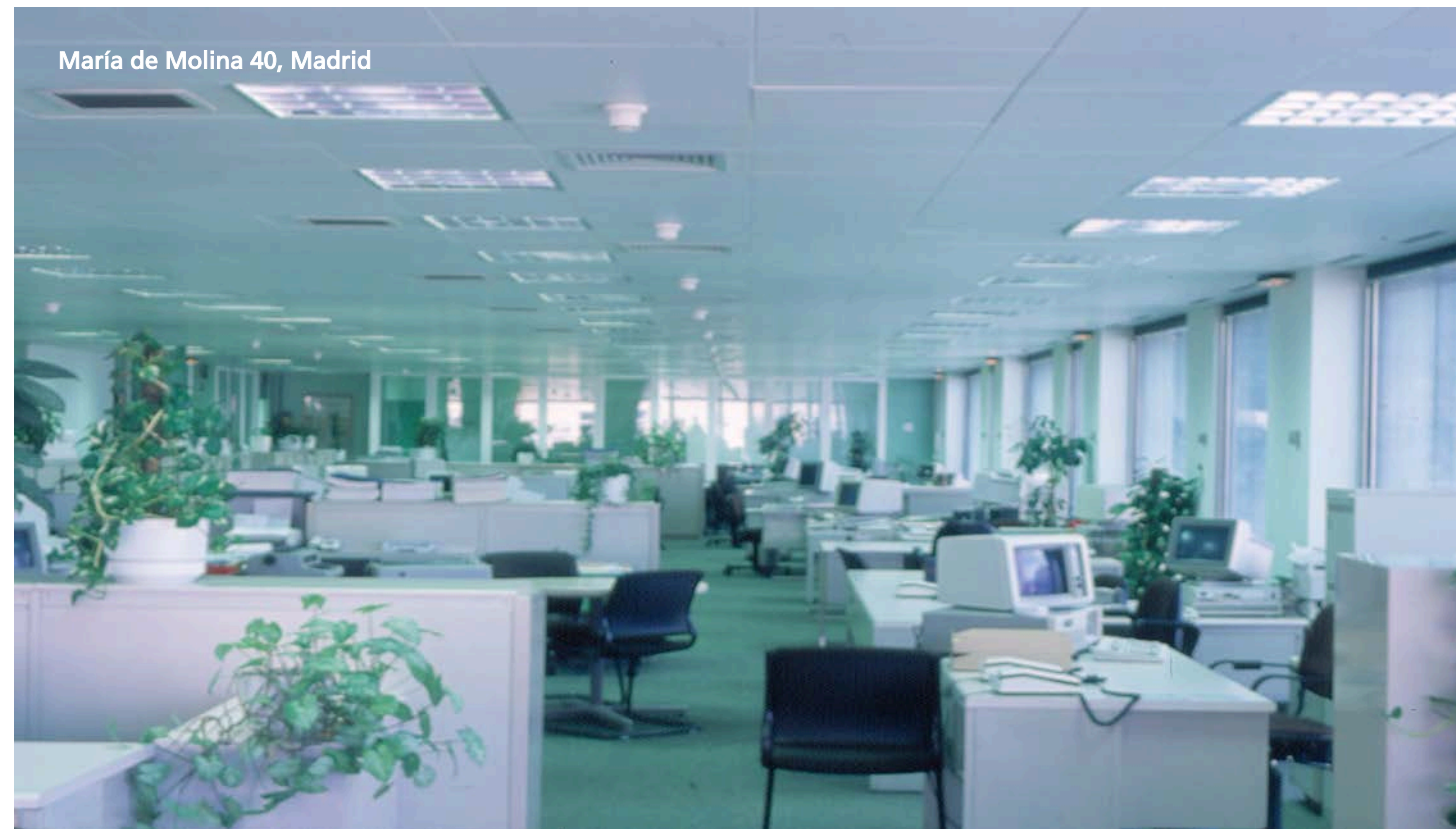
#### OCCUPANCY ABOVE MARKET AVERAGE

In line with the greater dynamism of the office market registered in 2017, global occupancy of the rental buildings grew considerably at year-end. Occupancy in 2016 was 94%, and it went up to 94.6% in 2017, above market average in most big cities in Spain.

In line with the evolution of the rental market, occupancy is higher in Madrid (96.9%) and Barcelona (97.7%), whereas in the rest of the cities is at 89.1%.

The property business is expected to continue its slow recovery during 2018, with rising rents and lower demands to rent incentives, such as rent-free periods or aids to establishment.





## Financial situation

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REALIA Patrimonio's net debt amounted to 603 Million euros at 31 December 2017. Net banking debt accounted for 628 Million euros; 25 Million correspond to cash at hand.

The bulk of the bank debt is a Property syndicated loan negotiated and signed on April 2017 maturing in 7 years, 2024. This loan renewal was done at market prices, with a syndicate of 6 banks, for an amount of 582 Million euros.

This loan is hedged against interest rate fluctuations for 70% of its amount, until maturity.



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REALIA's homebuilding activity generated 22.6 Million euros in revenues, 4% more than in 2016, as a result of the higher housing demand, especially in Madrid.

During the year, the company analyzed the feasibility of undertaking new developments in Madrid, Barcelona and Palma de Mallorca.

REALIA's homebuilding business comprises the development and sale of real estate products, especially housing, and the management and sale of land for construction.



# Assets

The valuation of Realia Business's homebuilding assets at 31 December 2017 was conducted by independent expert TINSA, following the ECO Appraisal and Valuation Method.

(€mm)	2017	2016	Var. interan.(%)
Land bank	287	287	-0,2%
Finished units	56	77	-23,3%
<b>Land and Homebuilding Valuation</b>	<b>343</b>	<b>364</b>	<b>-4,9%</b>

*Valuation according to the ECO Method  
Land includes 4.93 M € of a golf course*

The residential homebuilding business has been valued at 343 Million euros, 4.9% lower than in 2016, due to the reduction in stock of the finished product. Land value has remained practically constant, and its relative situation throughout the different stages of urban development.

Realia has a portfolio of 387 completed units at 31 December 2017 (homes, commercial premises and offices) undelivered, 19 of which are sold pending delivery, and 368 are for sale (62 in Madrid and Central area, 169 in Andalusia, 75 in the Eastern Region, 50 in Catalonia, 11 in Portugal and 1 in Poland).

Additionally, it has 41 land plots for single-family housing for sale for self-development (15 in Catalonia and 26 in Andalusia).

## LAND PORTFOLIO VALUATION

	Gross land (000 sqm)	Building and (000 sqm)	GAV 2017 MM €	GAV 2017 €/m²	GAV 2016 MM€	GAV 2016 €/m²	Var. €/m² (%)
Zoning	3.308	521	10	19	10	19	0%
Planning	1.761	647	44	67	44	68	-1%
Urbanization	191	214	66	310	65	307	1%
Project	478	470	162	345	163	348	-1%
<b>TOTAL</b>	<b>5.738</b>	<b>1.852</b>	<b>282</b>	<b>152</b>	<b>283</b>	<b>153</b>	<b>0%</b>

Valuation according to the ECO Appraisal-Valuation Method  
Does not include the Guillena golf course for 4.9 M

Home stock evolution	2017	2016	Var. (%)
<b>Pre-sales</b>			
Number of units	109	105	3,8%
Total value of contracts (€MM)	22,8	21,0	8,6%
<b>Deliveries</b>			
Number of homes	103	96	7,3%
Total value of contracts (€MM)	21,6	19,0	13,7%
<b>Stock at eoP</b>			
Number of units	409	511	-20,0%





Valdebebas, Madrid

REALIA has a land portfolio of 1,851,392 sq. m. of buildable area at 31 December 2017

### LAND

REALIA has a land portfolio of 1,852,040 sq. m. of buildable area at 31 December 2017.

25% of the buildable area corresponds to land ready for construction, whereas 12% of the land is in the urban planning stage, 35% in land planning and 28% in the spatial planning stage.

By geographic areas, 49% is concentrated in Madrid and the central region, whereas 36% is in Andalusia, 8% in the Eastern region, 5% in Catalonia and 1% in the Canaries. In Romania there is one plot of land that accounts for 1% of the total

### LAND PORTFOLIO

Realia holds a land portfolio of 5,742,496 gross sq. m., and 1,851,392 sq. m. of buildable land at 31 December 2017, 25 % of which are ready for construction land and 49% are located in Madrid and the Central Region

#### Distribution of the Land Portfolio (Buildability in sq. m.)

##### PBy urban planning situation

Buildability (000) sq. m. Spatial	
Planning	521
Land planning	647
Urban planning	214
Ready for construction	470
<b>TOTAL</b>	<b>1,851</b>

##### By areas

Buildability (000) sq. m.	
Andalusia	677
Canaries	19
Catalonia	93
Central	902
Eastern Region	150
Poland/Romania	11
<b>TOTAL</b>	<b>1.851</b>

REALIA focuses its developments on first residences and in the tourist areas with greater demand. Thus, 74% of its stock corresponds to first homes and 26% to second residences.

At 31 December, the stock of residential homes was valued at 56 Million euros, 23% lower than in 2016, as a result of the reduction in stock.

# Strategy

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The strategy of the homebuilding business has focused on the reduction of the housing stock and the management of land to preserve the value of the investments.

## **Increase in housing prices**

Taking advantage of the access to mortgage loans and the greater housing demand, the company has applied a restrictive discount policy in the developments with a greater potential due to their type and location. Thus, in 2017, the average price reached 209.7 thousand euros, against 198 thousand euros in 2016. This increase is due to the greater weight of sale of developments such as Valdebebas and Ibiza, with higher unit prices.

## **Analysis of the feasibility of new projects**

Though there are currently no ongoing developments, the company is analyzing the feasibility of new projects in areas where there is product demand, such as Madrid, Barcelona or Palma de Mallorca

## **Preserving the value of properties**

The company plays special emphasis on maintenance, in order to preserve the quality of its properties for sale and protect their value.

## **Continue with the urban management of land**

At the same time, the company continued the urban management of land in different areas, pending market conditions to allow it to become viable.

*Valdebebas, Madrid*



## Results

Total revenues from the development and land area in 2017 increased to 22.6 Million, 4% higher than in 2016, due to the increase in sales of developments.

	Million euros		
	2017	2016	Variation (%)
<b>REVENUES</b>			
Developments	21,7	19,0	14,0
Land and others	0,9	2,7	-66,0
<b>Total Revenues</b>	<b>22,6</b>	<b>21,7</b>	<b>4,0</b>
<b>EXPENSES</b>			
Cost of sales	-18,8	-18,9	0,8
Rest of costs	-3,7	-3,9	4,9
<b>Total Expenses</b>	<b>-22,5</b>	<b>-22,8</b>	<b>1,5</b>
<b>Margin Developments</b>	<b>0,1</b>	<b>-1,1</b>	<b>111,9</b>
<b>Margin Developments (%)</b>	<b>1%</b>	<b>-5%</b>	
Reversal Provision Completed Product	3,1	3,0	3
<b>Margin (minus Provisions)</b>	<b>3,2</b>	<b>1,9</b>	<b>68</b>

Developments delivered	No of units	Revenues M€
Madrid/Center	58	15,3
Eastern	16	2,2
Catalonia	7	1,2
Andalusia	21	2,8
Poland	1	0,2
<b>TOTAL</b>	<b>103</b>	<b>21,6</b>





## Financial situation

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The loan for the development activity will mature on the 30 June 2018. The company is negotiating its extension for an amount of 120 Million.





# CORPORATE GOVERNANCE BODIES

## Corporate Governance Bodies

Annual General Meeting of Shareholders

Board of Directors

CEO

Remuneration Policy

## Ethical Framework

Ethical Code

Fiscal Policy

Internal Code of Conduct

## Risk Management

# Corporate Governance Bodies

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REALIA has adopted a Corporate Governance system focused on the sustainable achievement of its corporate goals, which is permanently updated according to the applicable legislation and the good governance recommendations of the Stock Market Authority (CNMV). Last year, it amended its By-Laws, the Board Regulation and the Directors' Remuneration Policy; no additional amendments were necessary this year.

The Corporate Governance system is structured around its main governance bodies, the General Shareholders' Meeting and the Board of Directors, which are in turn defined and regulated by the By-Laws and their respective regulations and which establish the rules of conduct of the company with third parties, according to the corporate values and goals.

The CEO, under delegation from the Board of Directors, is responsible for the design and review of the organizational structure of the group.

On 3 May 2016, the Board of Directors amended the Board Regulation (articles 12, 25, 44 and 45) in order to adapt it to the amendment of the Corporations Act introduced by Law 22/2015, of 20 July, of Account Audits, and to the amendments to the By-Laws that were to be submitted to the General Shareholders' Meeting for Approval.

On 21 June, the General Shareholders' Meeting amended articles 25 and 27 of the By-Laws on the Board Committees and the Audit and Control Committee to adapt its drafting to the amendments of the Corporations Law introduced by Law 22/2015, of 20 July, of Account Audits of 2015.

No additional modifications were made in 2017 of the By-Laws and Regulations of the company.

The General Meeting of Shareholders also approved the amendment of the Remuneration Policy that was made upon the renewal of the Board of Directors after the incorporation of Inversora Carso as a shareholder. The recommendations of the Code of Good Governance of Listed Companies of the CNMV, and the policies of companies of similar characteristics in terms of size, sector of activity or shareholding structure were taken into account in the establishment of the new Remuneration Policy, in force during 2016, 2017 and 2018.

**No additional amendments to the By-Laws and Regulations of the company were necessary in 2017**

## COMPLIANCE WITH THE CODE OF GOOD GOVERNANCE OF THE CNMV

During 2017, REALIA Business, S.A. has complied with 28 out of 64 recommendations of the CNMV; it partially complied with 13; 19 were not applicable, and provided clarifications on four more. Therefore, taking into account the percentage of Recommendations complied or partially complied (64.06% of the recommendations, or 91.11% of the recommendations applicable) and those that required an explanation (6.25% of the total), the conclusion is that the degree of compliance with the Code of Good Governance of Listed Companies is acceptable.

REALIA submits annually to the Stock Market Authority (CNMV) a Corporate Governance Report, and a Directors' Remuneration Report, which are available at the corporate website [www.realia.es](http://www.realia.es).

Apart from providing a summary of the social, economic and environmental performance of REALIA, this report attempts to explain the advances made in the area of Corporate Governance.





## General Shareholders' Meeting

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The General Meeting of Shareholders is the highest body of representation of the share capital. It meets a minimum of once a year within the first six months of the year.

In 2017, only one meeting of the ordinary General Meeting of Shareholders was held, on 21 June, which approved the accounts of the previous year and resolved on the distribution of profits, and reached, among others, the following agreements:

- Re-election of EAC Inversiones Corporativas, S.L., Meliloto, S.L., and Mrs. Carmen Iglesias Cano as Members of the Board of the Company.
- To establish a maximum annual amount for the whole of the Board at 590,000 euros, excluding the remuneration of the CEO for its executive functions.
- To authorize the call for General Meeting at least fifteen days in advance, provided that the company offers shareholders the possibility to vote through electronic means accessible to all shareholders.



The General Meeting of Shareholders is the highest body of representation of the share capital.

Jorge Juan, 35



## Board of Directors

The Board of Directors of REALIA is composed by seven members, one of which is an executive director, four are proprietary directors, and two are independent directors.

The Board of Directors is responsible for the investment and financing policy, the definition of the group's structure, the Corporate Governance policy and the Corporate Social Responsibility policy. The Board is in charge of establishing the management and budgetary goals, and the remuneration policy. Additionally, it evaluates the performance of the senior managers, the risk management and control policy and the dividend policy.

The Board held seven meetings during 2017, on two occasions adopted agreements through a written procedure without holding a session, and discussed the following subjects: the preparation of mandatory reports on its operation; the freezing of the total payroll; the formulation of annual accounts and interim financial reports; approval of the Annual Corporate Governance Report and the Annual Remuneration Report; risk management and control systems; money laundering prevention; approval of several related party transactions and agreements related to the subjects to be discussed at the General Meeting of Shareholders.

The Board of Directors organizes its work in three committees: Executive Committee, Appointment and Remuneration Committee, and Audit and Control Committee.

- **Executive Committee**

The Executive Committee assumes the duties and competences delegated by the Board of Directors. It takes care of the monitoring and supervision of the management of the company that requires continuous attention and, if necessary, its swift adaptation, and all other matters that may influence on the positioning and future prospects of the company and its group in the market.

It met on four occasions during 2017.

- **Appointment and Remuneration Committee**

Responsible for the remuneration of directors and senior managers, the appointment and dismissal of the members of the Board, and the annual evaluation, among other duties.

It held four meetings in 2017.

- **Audit and Control Committee**

The main duty of the Audit and Control Committee is to support the Board of Directors in its monitoring duties, through the periodic review of the process of preparation of the economic and financial information, the internal audit function and the independence of the external auditor.

The Audit and Control Committee met on eight occasions during 2017.

### PROFILE OF THE DIRECTORS

The Members of the Board of REALIA are professionals of proven solvency, honesty, technical competence and expertise, appointed on the basis of a preliminary report from the Appointment and Remuneration Committee.

The company considers that the number of independent directors in the Board adequately guarantees the interests of the free float, which at year-end accounted for 23% of the share capital.

It is worth noting that there are four women directors out of the seven members of the Board, 57% of the total, a much higher percentage than in most of the listed Spanish companies.



Nudo Eisenhower, Madrid



## CONSEJO DE ADMINISTRACIÓN

Name	Position	Type of Director	Executive Committee	Appointment and Remuneration Committee	Audit and Control Committee
D. Juan Rodríguez Torres	Non-executive Chairman	Proprietary Appointed by proposal from I.C.	Chairman	Member	Member
D. Gerardo Kuri Kaufmann	CEO	Executive	Member		
Dña. Carmen Iglesias Cano	Member	Independent		Member	Chairwoman
EAC Inversiones Corporativas, S.L. Represented by Dña. Esther Alcocer Koplowitz	Member	Proprietary, Appointed by proposal from FCC	Member	Member	
D. Carlos Manuel Jarque Uribe	Member	Proprietary, Appointed by proposal from FCC			
Dña. M <sup>a</sup> Antonia Linares Liébana	Member	Independent		Chairwoman	Member
Meliloto S.L. Represented by Dña. Alicia Alcocer Koplowitz	Member	Proprietary, Appointed by proposal from FCC	Member	Member	
D. Jesús Rodrigo Fernández	Secretary (not a member)		Secretary (not a member)	Undersecretary (not a member)	Undersecretary (not a member)
D. José María Richi Alberti	Undersecretary (not a member)		Undersecretary (not a member)	Secretary (not a member)	Secretary (not a member)

Board of REALIA at 31 December 2017

## CEO

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The CEO, Mr. Gerardo Kuri Kaufmann, under delegation from the Board of Directors, is responsible for the design and review of the organizational structure of the group.

He is also responsible for the establishment of the objectives and the organizational strategy and for the control of its execution to guarantee the viability of the business.

CC Ferial Plaza, Guadalajara



Palma de Mallorca



Torre Realia, Madrid



# Remuneration Policy

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REALIA's remuneration policy seeks to promote its long-term profitability and sustainability, based in the principles of transparency, moderation, compensation for dedication and proportionality with the evolution of results.

In May 2016, the Board of Directors approved the change of its remuneration policy – previously amended in 2015– to adapt it to the new shareholding structure of the company. The General Meeting of Shareholders held on 21 June 2016 ratified this resolution by 99.5658% of the votes present or represented; this policy will be in force in 2016, 2017 and 2018.

Taking into account the recommendations of the Good Governance Code of Listed Companies, and those of other companies of similar characteristics regarding the sector, size or shareholding structure, has established the following remuneration criteria:

- I. It must be adequate to attract and retain the directors of the desired profile and to remunerate the dedication, qualification and responsibility demanded by the position, without compromise to the independence of criteria of non-executive directors.
- II. It must respond to a market criterion.
- III. It must respond to the dedication and responsibility of the directors.
- IV. Regarding executive directors, it must recognize their ability to increase the value of the company as a result of their impact on results, their skills and professional profile, recognizing a specific remuneration for their executive duties, and must be independent and compatible with their duties as directors.
- V. Regarding the non-executive chairman of the Board, it must recognize the responsibility and critical nature of the office, with a specific remuneration for the position.
- VI. Regarding the remuneration concepts, the directors' remuneration policy is composed by an annual fixed amount based on criteria of responsibility (fixed pay) and dedication (attendance allowances) inherent to the office.



*Torre Realia, Barcelona*

## REMUNERATIONS IN 2017

In 2017, the overall remuneration of directors was reduced to 695,000 euros, an 8.2% reduction on the payments made in 2016 (757,000 euros). This figure includes the remuneration of the CEO for its executive duties.





Guillena, Sevilla

## Ethical framework

REALIA guides its actions according to the values of Transparency, Dialogue, Professionalism, Good Governance and Innovation. Based on these principles, it has established a set of internal rules to ensure the honest conduct of its employees, tools for its monitoring and mechanisms to apply in case of noncompliance. In 2016, it adopted this ethical framework through the approval of a new Fiscal Policy and the modification of its Directors' Remuneration Policy.

REALIA' activity is subject to the current legislation and is guided by a number of rules and procedures that guarantee its ethical conduct.

The backbone of this ethical framework is the Ethical Code that determines the conduct of all the employees of the group, irrespective of their position or location. During 2017, it started the process of reviewing and updating of the Ethical Code, and it is expected to be completed in 2018. As a listed company, it also has an Internal Code of Conduct for the stock market, and since October 2016, a Fiscal Policy that establishes the principles and good tax practices that the company must follow.

Acanto 22, Madrid

# Ethical Code

REALIA's Ethical Code, approved by the Board of Directors in its meeting of 16 November 2010, is the fundamental rule that guides the behavior of all the employees of the group in the performance of their activities and in relation to third parties, regardless of their position or location. During 2017, the company started the process of reviewing and updating the Ethical Code, and it is expected to be completed during 2018.

The patterns of behavior mentioned in the Ethical Code fall into the following categories: compliance with the rules, respect for individuals, personal data protection, customer care, fraud prevention and commitment to the environment, the market, the company and the community.

All the employees of REALIA have formally signed the Ethical Code and keep a copy of it. This document is also available at the corporate Intranet.

The company also applies this code to its suppliers, and reserves the right to contract goods and services from the companies that comply with it.

## Internal Whistleblowing Channel

REALIA's employees may report conducts contrary to the Ethical Code, raise questions or suggest improvements through an internal incidence-reporting channel, available through the corporate Intranet or through the following address:

## Grupo Realia

Att. Delegado de procedimiento de comunicación del Comité de Seguimiento del Reglamento Interno y Ético. Paseo de la Castellana, 216. 28046 Madrid

The company guarantees the confidentiality of all communications made through this channel, which is under the mandate and supervision of the Audit and Control Committee.

No incidents regarding compliance with the Ethical Code were reported in 2017.

## PRINCIPLES OF THE ETHICAL CODE



Source: REALIA

## Fiscal Policy

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As part of the development of its ethical framework and at the request of the Audit and Control Committee, the Board of Directors approved unanimously the Corporate Fiscal Policy of the group in its session held on 24 October, which includes its commitment with the application of the following good tax practices:

- Not using contrived structures alien to the company's activities with the sole purpose of reducing its tax burden.
- Avoid opaque structures for tax purposes.
- Not establishing or acquiring companies based on tax havens.
- Performing transactions with related parties always at market value.
- Evaluate properly the investments and transactions which in principle seem to entail a special fiscal risk.
- Collaborate with the tax Authorities in the detection and search for solutions regarding fraudulent fiscal practices that the company is aware of.
- Regarding taxes that the companies of the group pay as their main contribution to the public charges and, therefore, one of its contributions to society.
- Provide the information and documentation of fiscal relevance requested by the competent Tax Authorities, in the shortest time possible and with the appropriate scope.

In order to ensure compliance with this policy, the company is committed to adopt the necessary control mechanisms and dedicate the appropriate human and material resources.

Control over the Fiscal Policy is the duty of the Audit and Control Committee, which reports to the Board the fiscal policies applied and the consequences of the corporate transactions from the point of view of taxes.





# Internal Code of Conduct

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In order to promote transparency in the activities of the group and the adequate investor information and protection, REALIA has an Internal Code of Conduct that establishes the criteria and procedures to follow in Stock Market transactions and in the use and dissemination of relevant information.

Among other provisions, the Regulation establishes the treatment of privileged information and confidential documents, the procedure to follow on transactions of own shares, or the duties of the Audit and Control Committee.

This rule is addressed to directors, managers, external advisors and the personnel of the Stock Market and Investor Relations departments.

The Chairman of the Audit and Control Committee, who is responsible of compliance with the provisions of the Internal Regulation, is in charge of informing them of their obligations. The Chairman is responsible for the record and is obliged to report periodically to the Board of Directors or the Executive Committee.

## Regular Training

In order to guarantee the quality of financial information and its compliance with current legislation, REALIA organizes training sessions periodically for the staff responsible for its preparation, as well as in the evaluation of the Internal Control System on Financial Information, which covers accounting rules, audits, internal control and risk management.

Several training sessions were held in 2017 on accounting, fiscal, labor and business rules and internal audits and the role internal auditors must play within the new business and technological environment, as well as other aspects of regulatory compliance.

*Marqués de Duero 4, Madrid*



*Nudo Eisenhower, Madrid*

# Risk Management

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REALIA has created a risk management system that involves the whole organization, to identify, analyze and respond to any contingency that may affect its corporate goals. During 2017, the company continued with the internal evaluation of the operational efficiency of the controls in place, a process that will continue in 2018.

REALIA's risk management model is structured around three main axes:

A clear organizational structure that defines the roles and functional responsibilities.

A framework for the identification, quantification and evaluation of risks.

Response to the risks supervised by the Audit and Control Committee.

The control system is developed through several stages. Initially, the key business process is identified, as well as the critical risks associated according to their nature and likelihood of occurrence. Later, risks are analyzed according to their potential impact on the management objectives. Finally, the policies, guidelines and limits associated to the risks are established and implemented.

This system involves the whole organization. The Board of Directors establishes the policies, procedures, limits and structure for risk control and management; the management of each of the functional areas analyzes their evolution and takes the corrective measures it deems necessary; the Internal Audit Area provides an independent evaluation of the appropriateness, adequacy and efficacy of the internal control system and the risk management system, reporting the results to the Audit and Control Committee. Finally, the External Auditor meets with the Audit and Control Committee in order to present the conclusions of its work.





The Risk Control and Management Policy includes the need to establish a control system for the financial information that brings together the corresponding criteria, policies, procedures, controls and documentation. The implementation of this System is carried out based on the identification of 21 key processes that distinguish the dual nature of REALIA's business: property development on one hand, and property management on the other.

During 2017, the operational efficiency of the controls implemented continued to be evaluated through selective sampling and specific analyses, and the evaluation of the different cycles of activity was also updated.

### **Main Risks for 2017**

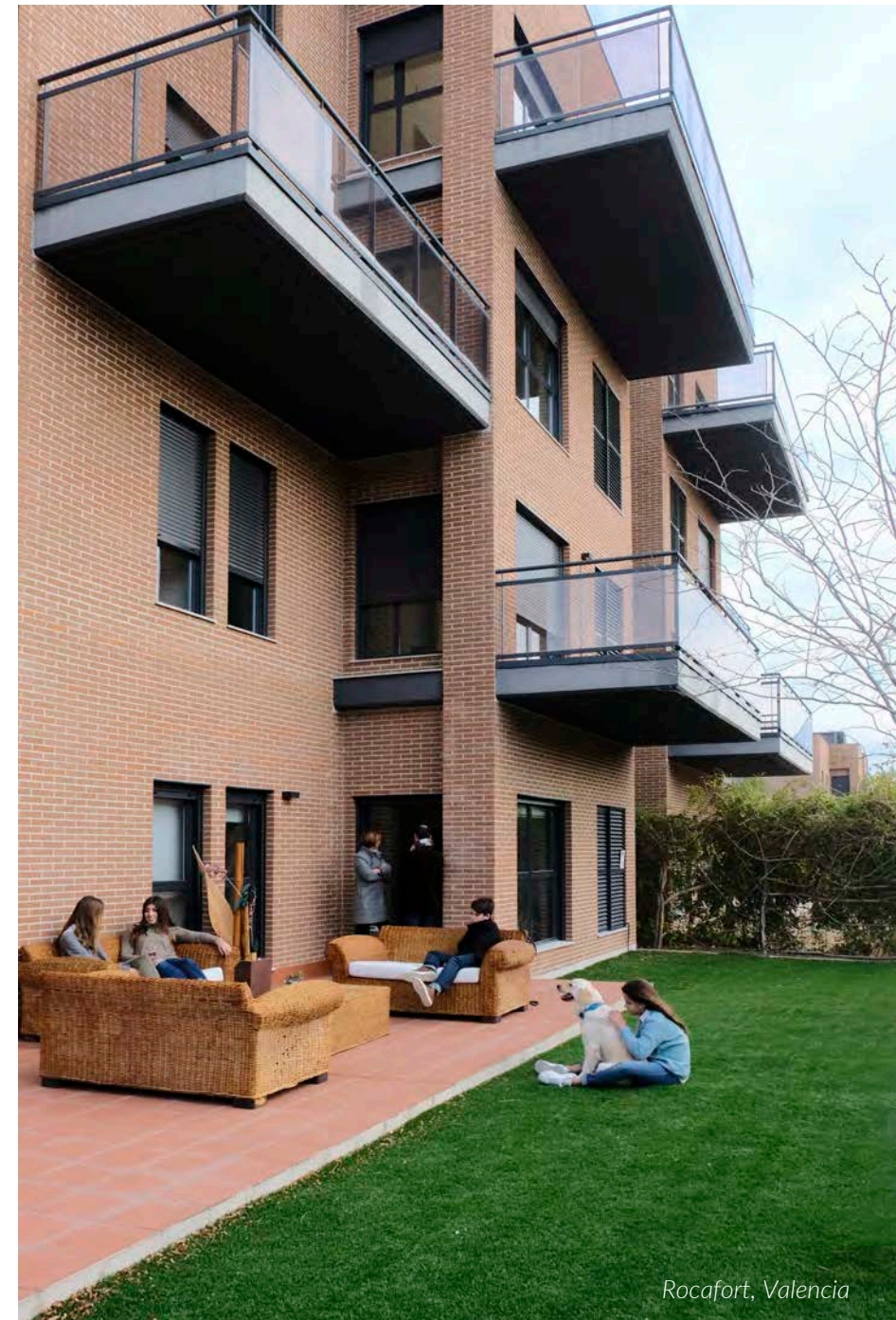
REALIA's most significant risks in 2017 were the following:

#### **Solvency risk**

At 31 December 2017, net banking debt of the REALIA group amounted to 677,953 thousand euros.

The indebtedness ratio (loan to value) of the group was to 37.0%, considering the net banking debt attributed to the corresponding percentage of subsidiaries and the GAV of assets.

At year-end 2017, the group has 225.6 thousand euros in positive working capital, despite the upcoming maturity of its bilateral loan on 30 June 2018, which the management expects to extend.



Rocafort, Valencia





Prim 19, Madrid

### Market risks

The residential market started to deteriorate in 2007 and this trend continued until the end of 2014, when demand started a slight recovery in some areas and cities. This pickup was consolidated during 2015 and 2016 and continued in 2017, and even in some areas of cities like Madrid and Barcelona, demand is very scarce and new developments are starting. In view of this situation, Realia is contemplating the launch of new developments in these cities and in other location where there is demand for residential housing.

However, despite this improvement, the stock of product is still high in most of the national territory, and therefore the recovery of prices to levels before the crisis is still limited and is concentrated on areas with demand, and access to finance by developers and buyers is very restricted.

Regarding the rental market, in which Realia Business S.A. operates through its Realia Patrimonio, S.L.U. and Hermanos Revilla, S.A., demand for space is slightly picking up, rent prices are stabilizing and incentives for settlement demanded by customers are lowering. On the other hand, investment activity in the property sector has been high, albeit lower than in 2016, and suffered the negative consequences of the evolution of the investment market in Catalonia over the last four months. Consequently, the Realia Group believes that it must focus its efforts on its two current business lines. In the property area, where its extraordinary portfolio grants it an outstanding position, it must optimize its asset management to increase operational margins and the generation of value from its assets.

In the development area, it must optimize the value of its current assets, through price increases of its finished product, the management of its land portfolio and the progress of its developments on locations with consistent demand.

### Legal and fiscal risks

The activities of the group are subject to legal and fiscal provisions and urban requirements. Local, regional, national and European administrations may impose sanctions for noncompliance with these rules and requirements.

A change in this legal and fiscal environment may affect the overall planning of the group's activities. The group, through the appropriate internal departments, monitors, analyzes and, if necessary, applies the necessary measures.

### Money laundering and monetary crime prevention risks

These risks are controlled through the prevention and control system the Group has implemented, according to the applicable legislation, and with the Manual that establishes the internal procedure rules on this matter; a Control, Information and Communication Body, that coordinates its activities with the employees and the Prevention Services; and a Technical Unit responsible for the processing and analysis of information, and to analyze and channel the communications on potentially suspicious transactions. This Manual is updated annually in order to adapt its wording to legal developments and the recommendations of an independent expert or just to implement the measures included in the manual.

Just like in previous years, the company was subject in 2017 to an annual audit performed by an independent expert as established by the Law. Once again, no significant risks for the company were identified in the area of money laundering and monetary crimes.





*Roquetas de Mar, Almería***Personal Data Protection Risks**

These risks are controlled by special standard clauses included in the contracts in different situations which, according to the Rule governing this matter, allow for the limitation or even extinguish any liability from Realia Business, S.A. The Realia Group has several Files registered with the Data Protection Agency, which provide the appropriate security measures, and has an officer in charge of data protection.

The company was subject in 2017 to the biannual audit by an independent expert established by the Law.

**Consumer and User Protection Risks**

The Group meets the demands of the different national and regional legislations on the subject of consumers and users. In fact, it has specific contract templates for those Autonomous Communities with specific legislation on this subject. Additionally, the Group responds customarily to all possible claims that it may receive from public consumer bodies, in a spirit of conciliation and reparation.



# Corporate Responsibility

Realia, a responsible company

Fulfilment of Objectives

Stakeholders

Shareholders and investors

Employees

Customers

Suppliers

Community

Environmental Management

Energy efficiency

Adequate waste management

Sustainable construction

Promotion of a responsible conduct

# Realia, a Responsible Company

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REALIA is committed to the protection of the natural environment, takes into consideration the expectations of its stakeholders and maintains its commitment to ethics, integrity and good governance. During 2017, it continued to advance in these areas, according to its Corporate Responsibility (CR) Master Plan.

REALIA's CR Master Plan establishes three axis of action: commitment with the environment and protection of nature, commitment to the groups and communities where it operates, and commitment to ethics and good governance.

The company is aware of the importance of preserving the environment for the future generations, and manages its rental buildings and developments keeping in mind energy efficiency and sustainable construction. According to these parameters, it conducts an annual review of its energy consumptions; it processes waste appropriately and incorporates energy efficiency measures in its buildings.

REALIA's activity contributes to the advancement of society and its stakeholders through job creation, paying taxes, contracts with suppliers and the preservation of value of its assets. The company is in permanent contact with its stakeholders through different channels



# Fulfilment of objectives

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REALIA has maintained up to date its control mechanisms associated to the Ethical Code and the whistleblowing channel, and is committed to the continuous improvement of its Corporate Governance system, adapting it to the best national and international practices.

Ethical conduct and respect and compliance with both internal and external regulations define the policy of the REALIA Group, and are materialized in its ETHICAL CODE.

Since the first edition of the Code was drafted (Nov-2010), great changes have taken place both in the regulation (the reform of the Criminal Code of 2015 is especially relevant, with the introduction of the "liability of legal entities"), and in the economic, social and technological environments. Consequently, the Board of Directors of the REALIA Group, through its Audit and Control Committee, has promoted the review and update of the Ethical Code to adapt it to the new business, regulatory and corporate reality; and to turn it into a pillar of the compliance risk prevention system.

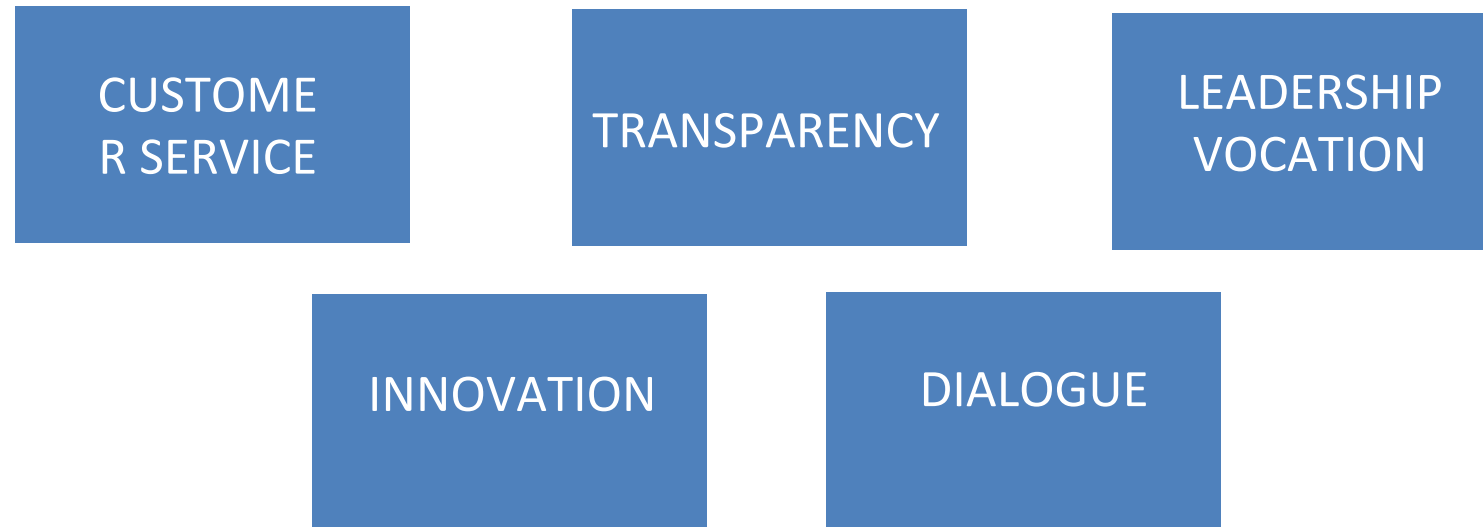
The main goals of the new Ethical Code, which has been subject to revision throughout 2017 and is expected to be approved by the Board of Directors during the first semester of 2018, will be the following:

- To establish the principles, values and rules of conduct that must govern the conduct of the companies and employees of the REALIA Group, in order to promote ethical and responsible behavior in the performance of its professional activity; and to reinforce the commitment of the company with the principles of business ethics and transparency, consolidating a common culture and patterns of conduct shared and respected by all its employees.
- To define the criteria for conduct of managers and employees; drawing the lines that can never be crossed even if they could generate profit for the company; to prevent and avoid conducts that may lead to frauds, scams and corruption in business.
- It's the axis and the pillar of the regulatory compliance system; the fundamental rule that guides the conduct of all the employees of the group in their activities and their relations to third parties.

The Ethical Code is addressed to all directors, managers and employees of the REALIA Group, regardless of the type of contract governing their labor relation, their position in or their geographic location. It is a complement to the Corporate Social Responsibility, the Internal Code of Conduct in matters related to Stock Markets and the Board Regulation. These, together with the legal rules, make up the framework that must govern the conduct of its managers and employees.



# Values that define the REALIA Group



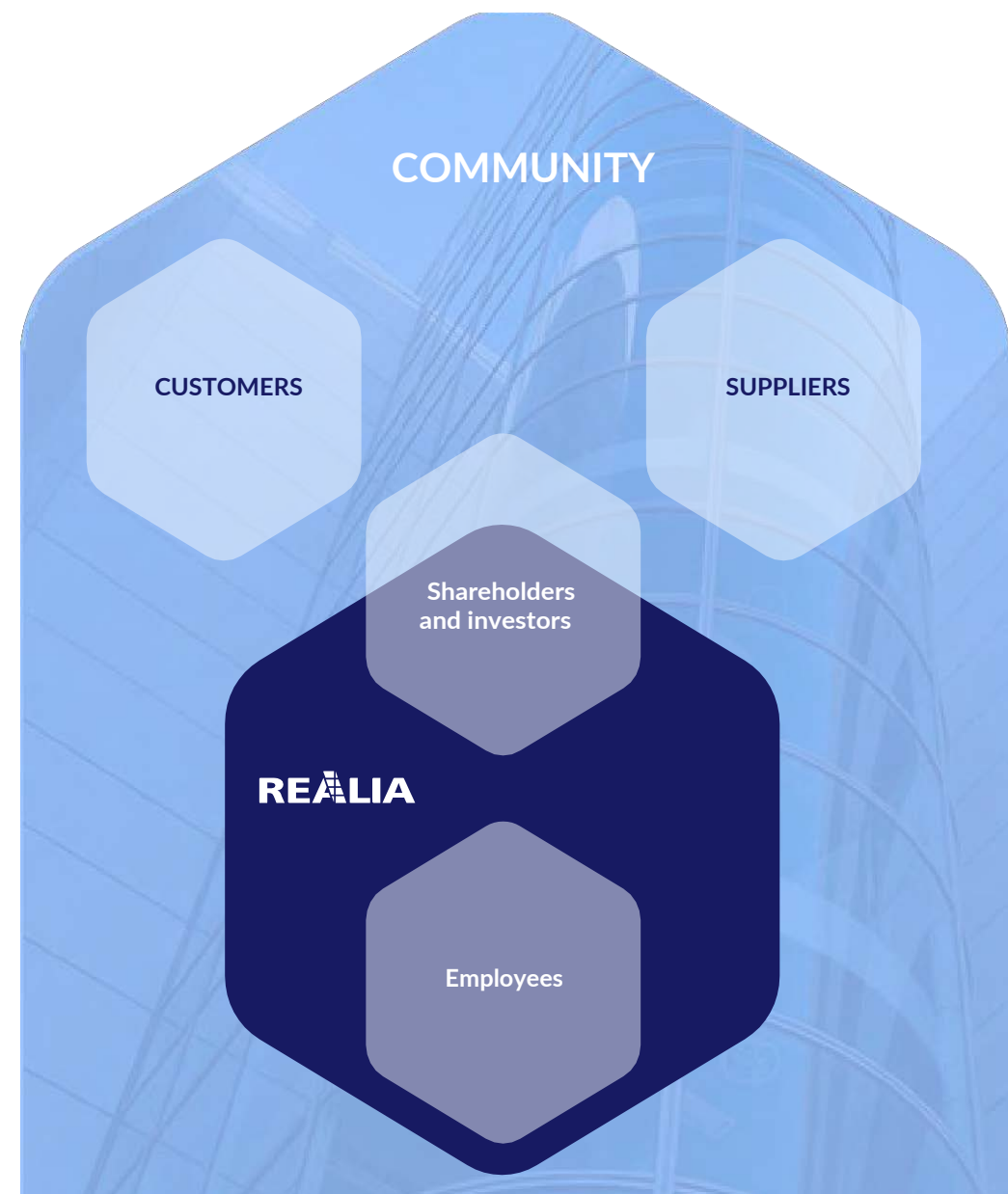
The Ethical Code is inspired by the values that define the REALIA Group: Customer Service, Transparency, Leadership Vocation, Innovation and Dialogue. The patterns of ethical conduct described in the Code are implemented through the Basic Principles of Conduct, which are the DNA of the Organization, namely:

- ❖ Regulatory Compliance and respect for ethical values.
- ❖ Respect for individuals.
- ❖ Internal control and fraud prevention.
- ❖ Personal data protection.
- ❖ Taking care of customers.
- ❖ Commitment to the Market, the Company and the Community.
- ❖ Commitment to society and the environment.

# Stakeholders

During 2017, REALIA has kept a fluid and transparent communication with its stakeholders to identify, prioritize and respond to their expectations.

The corporate website is the common channel for all stakeholders, even though the company promotes dialogue with all of them through different communication channels



# Shareholders and Investors

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Inversora Carso and FCC controlled more than 70% of REALIA's shares at year-end, whereas JPMorgan Chase & Co owned 5.961 % of the shares. The rest of the share capital was in the hands of minority shareholders.

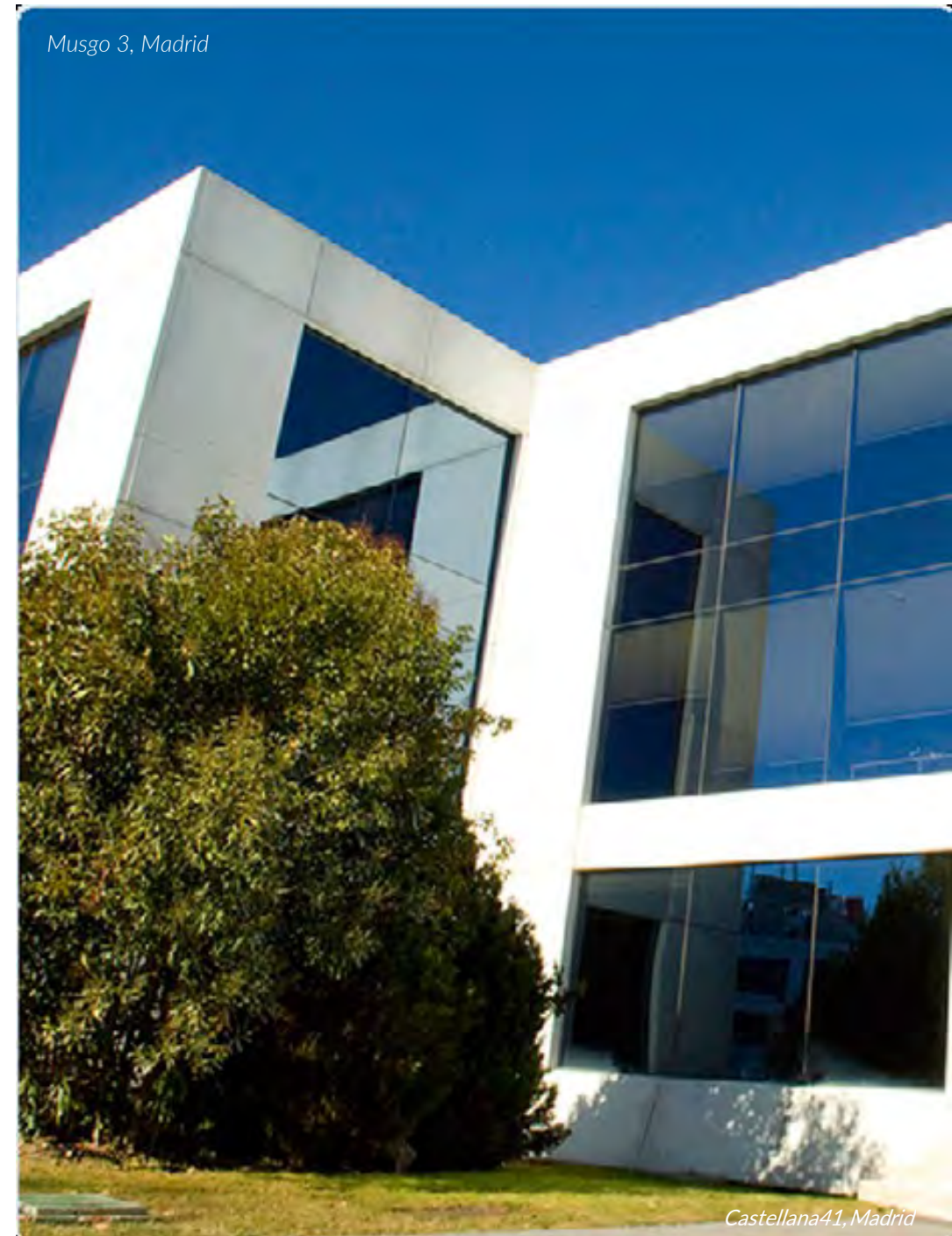
In order to prevent potential imbalances and conflicts of interest between the controlling and minority shareholders, REALIA's Corporate Governance system guarantees the rights of all shareholders and investors, regulates the representation of minority shareholders in the governance bodies and limits their power, by means of checks and balances.

## Communication Channels

Besides good governance practices, the company is equipped with information and accountability mechanisms that help investors, shareholders and the market in general to make sound decisions in the purchase and sale of shares.

- **Corporate website**

The main communication channel is the corporate website, [www.realia.es](http://www.realia.es), which meets the technical and legal specifications of Circular 3/2015 of the CNMV.





This portal, accessible from all mobile and fixed devices, offers the investor community and the rest of stakeholders relevant information about the evolution of the company. By clicking on the section “Shareholders and investors”, they can access information on the shares and share capital, the main financial aggregates, stock market information and the results of the company. They also have access to the main aspects of the “Corporate Governance”.

- **Email**

Shareholders and Investors may contact directly with the Investor Relations Area through their email.

- **Shareholders’ Electronic Forum**

Before the General Meeting of Shareholders, the company created a Shareholders’ Electronic Forum. This Forum publishes the proposals submitted for their incorporation to the agenda, the request for endorsement of such proposals, and the initiatives to reach the required percentage to exercise the right of a minority, as well as offers, requests or voluntary proxies.

### **Transparency in Information**

Throughout the year, REALIA has maintained a policy of information transparency with the investor community, offering information to the markets, in compliance with the Law of Corporations and their internal regulation. 17 relevant events were reported to the CNMV during the year.

All the information actions undertaken by the company have complied with the Internal Code of Conduct.

## CONTACT INVESTOR RELATIONS

### PHONE

**+34 913534406**

### FAX

**+34 913534417**

### ADDRESS

**Pº de la Castellana, nº 216, planta 1ª.  
28046, Madrid**

### EMAILS

**[inversores@realia.es](mailto:inversores@realia.es)  
[accionistas@realia.es](mailto:accionistas@realia.es)**

# Employees

REALIA's workforce is composed by 91 experienced professionals specialized in the real estate business, who contribute their experience and dedication to achieve the corporate objectives. The company is aware of their importance, and offers them the best possible conditions, and an adequate climate to favor their professional development.

## Defense of fundamental rights

Besides a strict respect for the applicable labor legislation, REALIA embraces the labor rights universally recognized by the United Nations Global Compact, including respect for fundamental rights, the support to the freedom of association and collective bargaining, and nondiscrimination at work.

In accordance with these principles, the company manages its human resources on the basis of three axes: equal opportunities, development of the skills of its employees, and protection of their health and safety.

## Equal opportunities

REALIA is actively involved in the defense of equal opportunities and nondiscrimination; accordingly, recruitment and promotion processes, just like remuneration, are related to performance and are conducted with the appropriate publicity.

The company promotes equality between men and women in access to employment, training, promotion and working conditions. Four of the seven members of the Board of Directors are women.



### Training

REALIA is aware that the intellectual capital of the company relies on its workforce, and promotes learning and training accordingly.

### Health and safety at work

REALIA has an external Prevention Service to protect the health and safety of its employees. During 2017, it evaluated the risks of the workplaces and conducted medical examinations.

The company promotes the conciliation of work and family of its employees, and accordingly, it redefined some years ago its working hours, a measure that also helps decrease energy consumption.

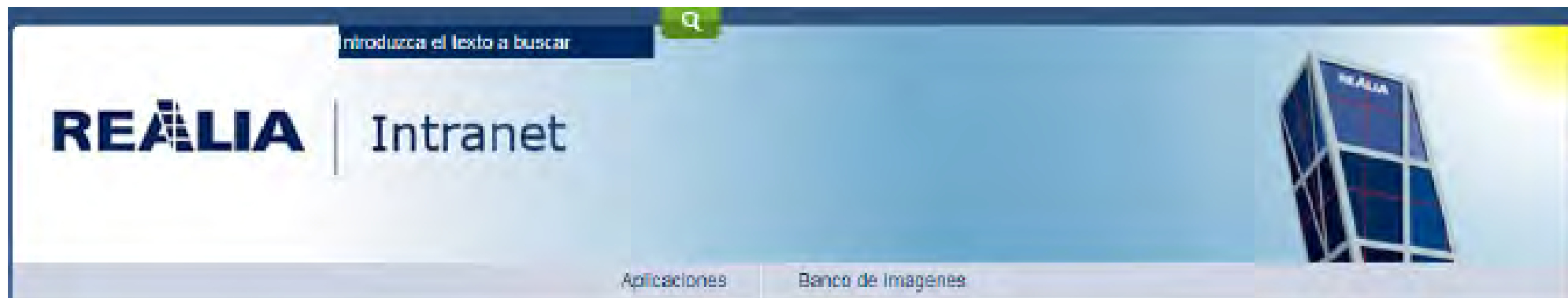
### Social benefits to retain talent

REALIA seeks to offer its employees optimal conditions to retain the best talent and uses social benefits for that purpose. These include medical insurance, life insurance, allowances for meals and contributions to pension plans.

### Communication with employees

The company keeps a dialogue with its employees through the corporate Intranet, email and internal memos, to communicate relevant news and decisions.

Employees may report violations of the Ethical Code or report incidences regarding economic and financial information through the Intranet.





# Customers

REALIA aims to be perceived as the best company in the real estate market, and strives to offer quality property and excellent services, suited to all types of customers: homebuyers, tenants and shopping center users.



REALIA's commercial network serves potential customers from regional delegations, sales offices and its headquarters. Expert and well-trained professionals, who show the properties to customers, explain the economic conditions and if necessary, provide their support through the process of rental or sale, make up the network.

Customers can also access the properties offered by the company through the websites [www.realia.es](http://www.realia.es) and where they can see images and large size drawing of the properties. Customers can request information on every property by clicking on it; additionally, they can access a personal online advisor, which responds within 24 hours to the questions asked, even though the company guarantees a response within 72 hours.

## Homebuyers

The multi-channel strategy is intensified in the case of homebuyers.

On one hand, the salespeople who work in sales offices provide excellent service to customers, helping them before, during and after the handover of keys. Besides showing the homes and offering them information about their specifications, in most developments, they also facilitate access to mortgage loans referring their customers to a bank to analyze their financing options.

In 2017, REALIA's sales network organized open door days in some residential developments. In these events, some selected units at competitive prices are showcased. A specific marketing plan was developed for these events.

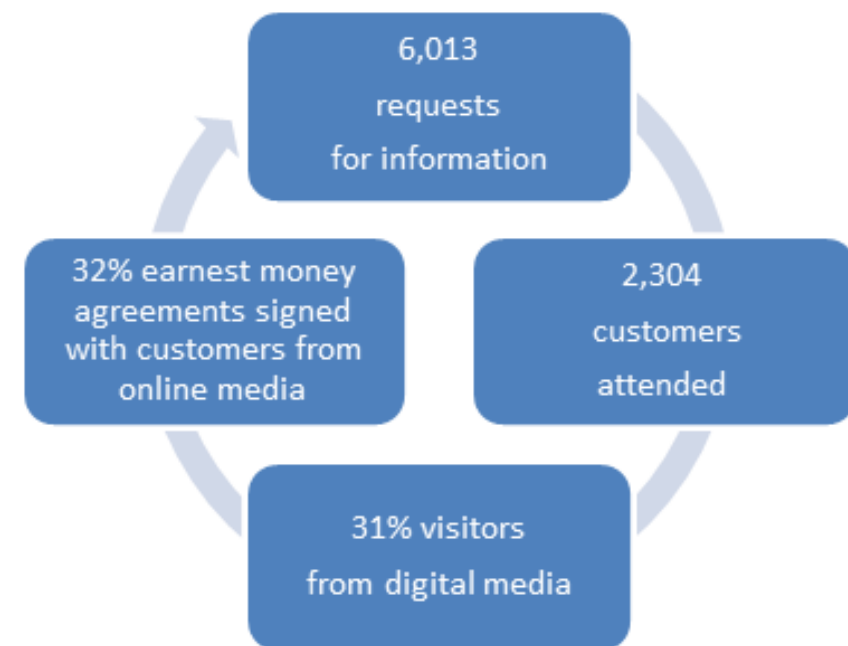
On the other hand, the company interacts with potential buyers sending the users registered in its database a newsletter with interesting articles on housing, home decoration, mortgage loans or information about the location of its properties. These articles are published at the online REALIA Magazine. 45 articles were posted in 2017.

In parallel, the company contracts advertising space in the media, mainly online media and real estate websites. Additionally, it uses other digital marketing tools to present its developments, such as SMS landing, Google Adwords campaigns, etc.

Through this multi-channel strategy, REALIA responded to 6,013 requests for information, including phone calls and emails, and 2,304 customers were attended at the sales offices.

Out of these interactions, 31% of the visits received by the salespeople were customers from digital media, and 32% of the earnest money agreements signed were with customers from online media (website, Internet marketing campaigns and real estate portals).

## INTERACTIONS WITH CUSTOMERS FROM DIGITAL MEDIA IN 2017





### Tenants

REALIA provides quality services to its tenants that improve the appeal of its properties.

It offers customized solutions for all tenants in its offices, according to their needs and income level; is flexible in the adaptation of working spaces and promotes the constant improvement of common services, such as concierges, cleaning or security.

REALIA maintains its buildings proactively, applying efficiency measures, economies of scale, etc., to reduce costs, in order to preserve the value of each building and increase the comfort of the tenants.

Professional teams in different areas (maintenance, legal, commercial, urbanistic and economic-financial), assisted by external professionals, provide these services to tenants.

Specialized consultants under the supervision of the company are in charge of the management of shopping centers.



In recent years, a number of improvements have been made to the common areas of buildings to improve the comfort of visitors.

One such example of the Torre Realia Madrid project, to be completed in 2018, with the installation of a shower area with dressing rooms and lockers, to promote the practice of sport.

Also, work has started to install bicycle parking at the Kansas City (Seville) building, Nudo Eisenhower Business Center (Madrid) and Torre Realia Madrid, with the goal of promoting the practice of sports and protect the environment.



*Bicycle parking at CN Nudo Eisenhower Business Center, Madrid*



*Bicycle parking at Av. Kansas City building, Sevilla*

# Safe and Healthy Building

In 2017, Torre REALIA Madrid was one of the first two buildings in Spain to obtain the “SAFE AND HEALTHY BUILDING” certification.

The purpose of this certification is to promote and certify best practices in the commercial operation of buildings, in the areas of health, safety and wellbeing of individuals, bringing together a set of legal standards (Occupational Risk prevention, Environmental Management, Accessibility, Insurance, etc.) and conducts, values and improvements on these areas.

These certificates are an innovative and unique initiative in Spain, and even in Europe. The user of the building (tenant, supplier, visitor) can verify at any time the they are indeed in a “Safe and Healthy Building”, either looking at the certification plate installed on the facade, or through the QR code that offers the details of the certification on the screen of their mobile devices.

Nearly 200 items are reviewed for this certification, broken down into 12 different groups. There are four different categories that the building can obtain: “Good”, “Very good”, “Excellent” and “Outstanding”.

Torre RELIA Madrid, obtained the “Excellent” category, and plans to implement improvement strategies in order to attain the “OUTSTANDING” category at the next annual review (2018).





### Shopping Centers users

In the case of shopping centers, they are managed by specialized consultants under the supervision of the company.

All of REALIA's centers have been design following criteria of functionality and accessibility, in order to guarantee a pleasant shopping experience. Thus, they combine recreation and shopping areas, and are equipped with spacious common areas and adequate spaces for the movement of vehicles and visitors.

A clear example of its focus on sustainability and Corporate Social Responsibility is the renovation of the Ferial Plaza center located in Guadalajara, where more than 6,200 sq. m. of new retail space have recently opened, creating more than 100 direct and indirect jobs, who have started working in the new stores.

This renovation included the repainting of the building, the improved image in accesses to the parking and the signs, the creation of new parking spaces for families and express parking for visits up to 10 minutes, the creation of unique rest areas and the opening of a children area with playroom and the renovation of the babies' room.

REALIA is committed to building sustainability and environmental protection. Several frequency shifters on several vertical movement elements (elevators, ramps and escalators). The installation of these management and optimization systems allows to maintain this equipment on standby when they are not being used.



Ferial Plaza , Guadalajara



# Suppliers

REALIA has contributed to create wealth in the location where it is present through contracts with local suppliers.

Most of the suppliers are Spanish companies that offer their services in the Spanish territory. Abroad, it has suppliers in Poland, Portugal and Romania to meet the needs of its residential homebuilding in Warsaw, Lisbon and Bucharest, respectively.

## Selection criteria

Historically, the selection and contracting of REALIA's suppliers is based on economic and technical criteria in both works and building rehabilitation. In these cases, general conditions are defined and included in the corresponding building specifications, for bidding and awarding of work contracts.

The Procurement Area is governed by the following principles:

- Strict selection of work contractors, according to technical criteria.
- Assuming responsibility for the health and safety conditions of the works.
- Preparation of the Construction Plan, guaranteeing compliance with the contract milestones.
- Guaranteeing REALIA's quality standards.
- Compliance with legal environmental requirements.

Goya 8, Madrid



Goya 8, Madrid

# Community

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REALIA aims to involve the community in the planning and management of its property developments to minimize the potential negative impact they may have on the social and natural environments.

Before starting construction of a new development or the rehabilitation of a rental building, the company contacts all stakeholders to listen to their concerns and consider their proposals for improvement.

Citizen participation is essential for REALIA in the planning of a development, since it provides it with a 360<sup>a</sup> view of the impact of its activity on the environment.

The creation of spaces for recreation and the improvement of the roads are some examples of the initiatives from neighbor associations, retailers and public administrations that the company takes into consideration in its project designs.

Throughout the year, the group continued its urban management of land, and it has established contacts with local and regional authorities to that end. These contacts took place under the utmost legality and transparency, according to the principles contained in the Ethical Code.





### Collaboration with ASPRIMA

Being a prominent player in the property sector, REALIA is a member of the Association of Property Developers of Madrid, Asprima, whose goal is to defend the professional interests of real estate companies, and whose priority rule is service to the community and dialog with the public administrations.

### Social Work

The company also participates and supports several social and solidary campaigns in its shopping centers.

In 2017, shopping centers participated in several social campaigns for the promotion of culture and sports. Under REALIA's supervision, shopping center managers lent common spaces to some foundation, NGOs and cultural associations such as Red Cross, Menudos Corazones, Firemen, Greenpeace, Down, etc., to raise funds, attract new members or raise the awareness of the population on some matters.

### Collaboration in the protection of the peregrine falcon in L'Hospitalet de Llobregat.

Realia collaborates in the protection of the peregrine falcon in Hospitalet de Llobregat since 2010.



In 2010, a falcon nest was installed at the Torre REALIA Barcelona, located at the plaza Europa in l'Hospitalet. This nest is used by couples of falcons, which breed annually.

The project is part of the biodiversity program of the city, and seeks to establish a breeding, viable population of peregrine falcons in L'Hospitalet, which will contribute to increase the wildlife diversity and regulate the population of urban birds such as pigeons, starlings or conures.

The nest box has been recently renovated, and is now safer for the offspring. Also, a camera has been installed to monitor the birds more closely and watch them live through the city website.



REALIA strives to guarantee a quiet, peaceful breeding area during season, so that the falcons can breed normally.

Since the start of the program to reintroduce the peregrine falcon, in 2008, 13 birds have been born, 6 males and 7 females.



L'Hospitalet City Council awarded a plate to REALIA in recognition of its collaboration with the Project for the protection of the peregrine falcon.

The L' Hospitalet Madrid City Council awarded to REALIA a plate in recognition for its collaboration in this biodiversity program, to establish a viable breeding population of the peregrine falcon in the city.



Since the start of the program to reintroduce the peregrine falcon, in 2008, 13 birds have been born, 6 males and 7 females.

# Environmental management

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REALIA is strongly committed to environmental protection. In 2017, it continued the implementation of efficiency measures and defined the constructive characteristics of future developments according to the principles of sustainable architecture.

REALIA's Corporate Responsibility Master Plan establishes the need to manage the environment in a way that it reduces the footprint of its activities on the environment and favors the sustainable use of resources.

Following the Basic Principles of Environmental Protection included in the Guide of Good Practices of the group, the company applies the 3R rule (Reduce, Reuse and Recycle) and maintains a preventive rather than corrective approach to its projects.



*Hato Verde, Sevilla*

## BASIC PRINCIPLES OF ENVIRONMENTAL PROTECTION







REALIA's environmental management is structured around four lines of action:

- ❖ Energy efficiency
- ❖ Adequate resource management
- ❖ Sustainable construction
- ❖ Promotion of responsible conduct

Thanks to these actions, and just like in previous years, no incidences or sanctions took place related to environmental protection

## Energy efficiency

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REALIA's buildings underwent an energy audit in 2016. 17 buildings were selected for this audit, whose energy consumption accounted for 86.28% of the total energy consumption of the group. The audit was performed on each of the communities where REALIA has a presence.

With this audit, the company complies with Royal Decree 56/2016 of 12 of February, which transposes Directive 2012/27/UE of the European Parliament and the Council of 25 October 2012 regarding energy audits, certification of service providers and energy auditors and the promotion of efficiency in the supply of energy.

According to the law, the company must audit the buildings again 4 years after the last audit.

During the year, REALIA continued to evaluate its consumptions and CO2 emissions and introducing efficiency measures in the buildings under its management. Thanks to this policy, it maintained during the last five years a downward trend in both consumption and emission of polluting gases.



# Adequate waste management

REALIA promotes selective waste collection in its offices and shopping centers, and provides all tenants with a recycling station in every building for the sorting and selective recycling of waste.

This system allows for the recycling of paper, cardboard and toner, and to segregate toxic and hazardous waste for its subsequent collection and delivery to authorized waste managers.

The company collaborates with several companies and organizations in the collection of waste, depending on the type of waste. In the case of the Ferial Plaza de Guadalajara Shopping Center, it collaborates with Ambilamp, a non-profit organization, in the collection and processing of waste from lamps and electrical equipment. Furthermore, it has drafted a new waste management guide for this center.

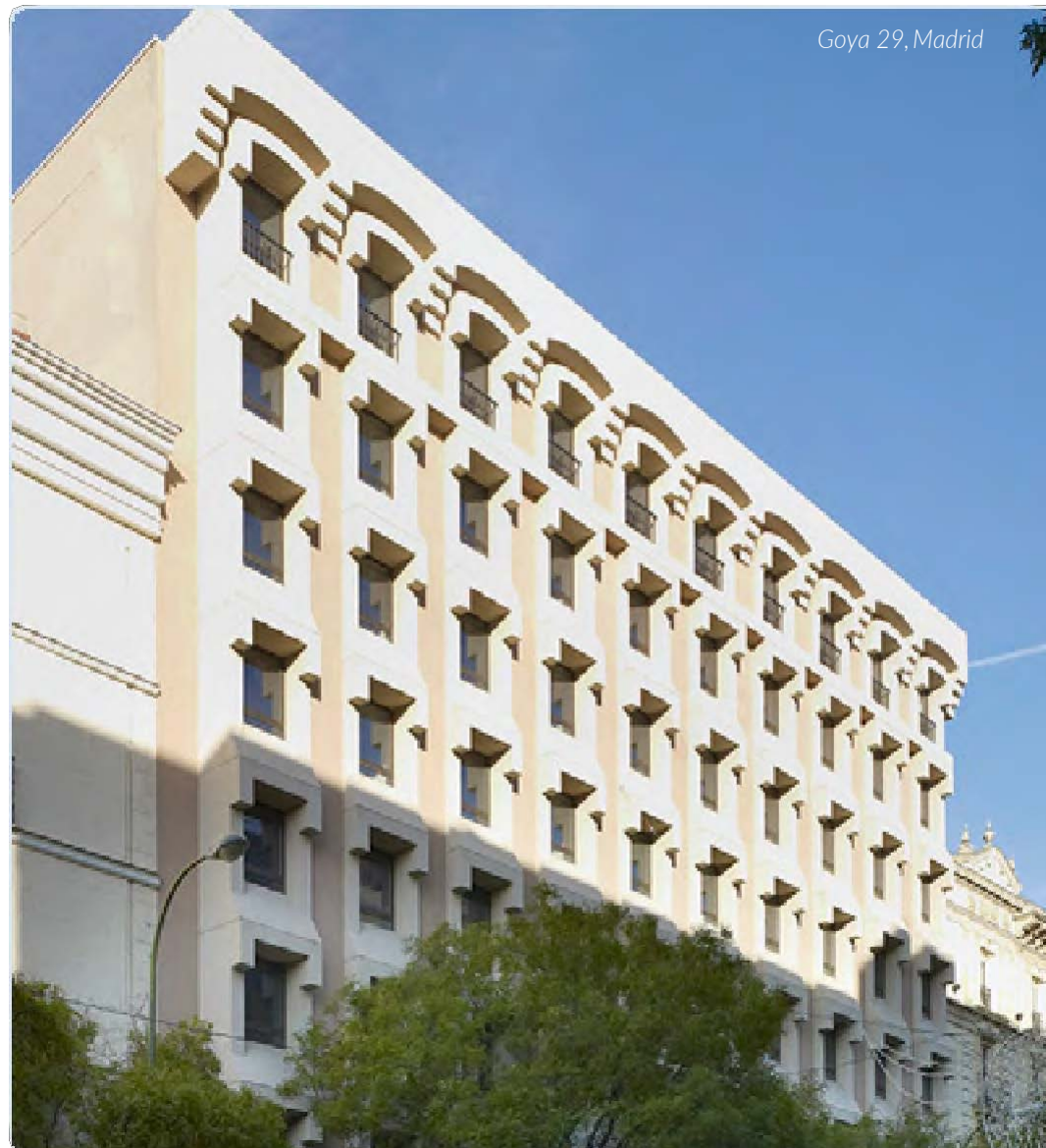
## 3R Principle

Historically, REALIA follows the 3R Principle (Reduce, Reuse and Recycle) in its construction and renovation works. From the planning stage of a project to the end of construction, it strives to manage its waste efficiently.

To that end, it sorts the waste, it stores them in designated zones, gives special treatment to Hazardous waste and reuses the material from excavation in rehabilitation works. Finally, it Transports construction and demolition waste to deposits, crushing plants or authorized waste managers.



# Sustainable construction



*Goya 29, Madrid*

The buildings constructed by REALIA meet the principles of sustainable construction: respect for the environment, use of low impact materials throughout their life cycle, and incorporation of energy efficiency measures. All residential homebuilding projects meet the standards of the Building Code.

In order to obtain a better energy rating of homes in future projects, REALIA intends to implement a number of improvements in construction and quality of the materials used, to favor energy savings in the homes. With these measures, a “B” rating can be routinely obtained.

The company will build facades ventilated through ceramic panels, prefabricated or similar. This will result in good insulation and weatherproofing of the exterior, avoiding the impact of weather conditions on the interior.

In order to prevent energy losses through the openings in the facade, the quality of the carpentry profiles and the glass will be improved, providing them with an air chamber and glass panels of the appropriate thickness and number. The new techniques favor the use of glass with solar control capabilities.

The third essential aspect for the improvement of efficiency is the use of the appropriate ventilation systems in the homes, in compliance with standards DB-HS and DB-HE of the Building Code through mechanical elements and pipes managed efficiently by the user.

Regarding the consumption of hot water for sanitation, solar panels will continue to be installed and upgraded to reduce energy consumption in the heating of water, promote accumulation and achieve the correct distribution of water to all users. Additionally, total consumption will be reduced through the installation of new, more efficient faucets and mixers.

In summary, REALIA’s future homes will consume less energy while they maintain the same degree of comfort or even higher, and reducing its environmental impact.





## Promotion of responsible conduct

REALIA promotes an environmentally responsible conduct, within the company, among its customers and in its supply chain.

To this end, it has drafted a Guide of Good Practices - addressed to employees, external personnel, suppliers and contractors - that brings together the best practices in the use of materials and products, energy management, waste treatment and transport.

In parallel, the company favors recycling in the workplace under the slogan "When you recycle, you win"

In shopping centers and offices, it promotes sustainable conduct among its users through posters about the preferential use of elevators, water saving on the restrooms or the correct use of waste collection stations, among others.

In shopping centers, maintenance personnel informs retailers and store managers of the possible measures they can adopt to reduce energy consumption, such as opening hour adjustments or improvements in insulation.