Consolidated financial statements

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a. Auditors' Report

PRICEWATERHOUSECOOPERS

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A free translation of the report on the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU). In the event of a discrepancy, the Spanish language version prevails

AUDIT REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Renta Corporación Real Estate, S.A.

1. We have audited the consolidated annual accounts of Renta Corporación Real Estate, S.A. (the parent Company) and its subsidiary companies (the Group), consisting of the consolidated balance sheet as at 31 December 2005, the consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes to the consolidated annual accounts for the year then ended, the preparation of which is the responsibility of the Directors of the parent Company. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on the work carried out in accordance with auditing standards generally accepted in Spain, which require the examination, on a test basis, of evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

2. The accompanying consolidated annual accounts for 2005 are the first that the Group has prepared applying International Financial Reporting Standards adopted by the European Union (IFRS-EU), which generally require that the financial statements present comparative information. Thus, and in accordance with corporate law, the Directors of the parent Company present, for comparative purposes only, for each item of the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity and the notes to the consolidated annual accounts, in addition to the consolidated amounts for 2005, the corresponding amounts for the previous year as well obtained by application of IFRS-EU in force at 31 December 2005. Accordingly, the amounts for the previous year differ from those reflected in the 2004 consolidated annual accounts, which were formulated in accordance with the accounting principles in effect that year. Note 5 to the accompanying consolidated annual accounts contains the differences arising from the application of the IFRS-EU to consolidated equity at 1 January 2004 and at 31 December 2004 and to consolidated Group profit for 2004. Our opinion refers exclusively to the consolidated annual accounts for 2005. On 23 March 2005, we issued our audit report on the 2004 consolidated annual accounts, formulated under the accounting principles in force that year, in which we expressed an unqualified opinion.

PricewaterhouseCoopers Auditores, S. L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79031290

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3. In our opinion, the accompanying consolidated annual accounts for the year 2005, appearing on pages 7 to 78, present fairly, in all material respects, the consolidated financial position of Renta Corporación Real Estate, S.A. and its subsidiaries at 31 December 2005, the consolidated results of its operations, the changes in consolidated equity and its consolidated cash flow for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards adopted by the European Union, applied on a basis consistent with those used in preparing the corresponding financial statements for last year, which have been incorporated into the consolidated annual accounts for 2005 for comparative purposes.

4. The accompanying consolidated Directors' Report for 2005, appearing on pages 79 to 82, contains the information that the parent Company's Directors consider relevant to the Group's position, the evolution of its business and of other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned consolidated Directors' Report coincides with that of the consolidated annual accounts for 2005. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the Group companies' accounting records.

PricewaterhouseCoopers Auditores, S.L.

Miguel Alfocea Martí
Audit Partner

13 February 2006

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b. Financial statements

Renta Corporación Real Estate, S.A.

Contents of the consolidated financial statements

31 December 2005

A free translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU). In the event of a discrepancy, the Spanish language version prevails.

Consolidated balance sheet. At 31 December

(thousands of Euros)

ASSETS	Note	2005	2004
Non current assets			
Property, plant and equipment	**7**	1,027	841
Intangible assets	**8**	131	33
Investments in associates	**9**	495	246
Long-term receivables	**10**	142	77
Long-term prepayments	**10**	245	191
Deferred tax assets	**19**	195	3,378
Total non current assets		**2,235**	**4,766**
Current assets			
Inventories	**11**	323,534	227,218
Trade and other receivable	**10**	64,247	26,534
Loans and receivables with related parties	**34.6**	1,094	10,743
Available-for-sale financial assets	**34.7**	-	8
Cash and cash equivalents	**12**	3,180	2,233
Total current assets		**392,055**	**266,736**
Total assets		**394,290**	**271,502**

The notes on pages 13 to 78 are an integral part of these consolidated financial statements

Consolidated balance sheet. At 31 December

(thousands of Euros)

EQUITY AND LIABILITIES	Note	2005	2004
EQUITY			
Share capital and reserves attributable to equity holders of the company			
Share capital	13	21,427	21,464
Cumulative translation adjustment	14	(7)	-
Retained earnings and other reserves	15	62,970	33,351
		84,390	54,815
Minority interests	16	604	470
Total equity		**84,994**	**55,285**
LIABILITIES			
Non current liabilities			
Trade and other payables	17	27	677
Current liabilities			
Trade and other payables	17	81,218	30,114
Borrowings	18	216,129	178,920
Current income tax liabilities	27	11,922	6,506
Total current liabilities		**309,269**	**215,540**
Total liabilities		**309,296**	**216,217**
Total equity and liabilities		**394,290**	**271,502**

The notes on pages 13 to 78 are an integral part of these consolidated financial statements

Consolidated income statement. Year ended at 31 December

(thousands of Euros)

	Note	2005	2004
Revenue	**20.1**	320,843	219,589
Other income	**20.2**	3,258	3,163
Purchase costs and changes in inventories	**21**	(242,692)	(169,669)
Employee benefit expense	**24**	(9,125)	(7,432)
Amortisation, depreciation and impairment losses	**22**	(290)	(294)
Other operating expenses	**23.1**	(13,525)	(10,453)
Local taxes	**23.2**	(4,780)	(3,495)
Operating profit		**53,689**	**31,409**
Financial expenses	**26**	(4,907)	(5,795)
Share of profit / (loss) of associates	**9**	(41)	84
Profit before income tax		**48,741**	**2,698**
Income tax expense	**27**	(16,105)	(5,300)
Profit for the year		**32,636**	**20,398**
Attributable to:			
Company shareholders	**15**	32,502	19,949
Minority interests	**16**	134	449
Earnings per share for profit attributable to the equity holders during the year (in Euros per share)			
- Basic	**29.1**	1.48	0.96
- Diluted	**29.2**	1.48	0.96

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A free translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU). In the event of a discrepancy, the Spanish language version prevails.

Consolidated statements of changes in e quity

(thousands of Euros)

		Attributable to equity holders of the company				
	Notes	Share Capital (Note 13)	Cumulative translation adjustment (Note 14)	Retained earnings and other reserves (Note 15)	Minority interests (Note 16)	Total equity
Balance at 1 January 2004		**8,135**	**-**	**18,432**	**21**	**26,588**
Cost of equity transactions	**13.5**					
- Gross		(1,350)	-	-	-	**(1,350)**
- Tax effect		472	-	-	-	**472**
Profit for the year		-	-	19,949	449	**20,398**
Total recognised income and expense for the period		(878)	-	19,949	449	**20,398**
Purchase of treasury shares	**13.3**	(3,450)	-	-	-	**(3,450)**
Cancellation of treasury shares	**13.3**	3,946	-	-	-	**3,946**
Capital reduction	**13.2, 15**	(289)	-	(3,114)	-	**(3,403)**
Issue of shares	**13.2, 13.5**	14,000	-	-	-	**14,000**
Dividends paid	**15**	-	-	(1,916)	-	**(1,916)**
Balance at 31 December 2004		**21,464**	**-**	**33,351**	**470**	**55,285**
Profit for the year		-	-	32,502	134	**32,636**
Total recognised income and expense for the period		-	-	32,502	134	**32,636**
Purchase of treasury shares	**13.3**	(94)	-	-	-	**(94)**
Cumulative translation adjustment	**14**	-	(7)	-	-	**(7)**
Dividends paid	**15**	-	-	(2,987)	-	**(2,987)**
Sale of treasury shares	**13.3, 15**	57	-	104	-	**161**
Balance at 31 December 2005		**21,427**	**(7)**	**62,970**	**604**	**84,994**

The notes on pages 13 to 78 are an integral part of these consolidated financial statements

Renta Corporación Real Estate, S.A.

Consolidated cash flow satement presented using the indirect method
Year ended at 31 December

(thousands of Euros)

	Notes	2005	2004
Cash flows from operating activities			
Cash used in operations	31	(25,663)	(68,847)
Interest paid	26	(7,690)	(8,704)
Taxes paid	27	(7,506)	(6,143)
Net cash used in operating activities		(40,859)	(83,694)
Cash flows from investing activities			
Purchases of property, plant and equipment	7	(361)	(370)
Proceeds from sale of property, plant and equipment	31	-	5
Purchases of intangible assets	8	(114)	(14)
Acquisition of available-for-sale financial assets		(290)	(58)
Income from the sale of available-for-sale financial assets	31	8	32
Loans granted to related parties	34	(700)	(11,703)
Repayment of loans granted to related parties	34	9,312	4,239
Deposits	10	(677)	(878)
Repayment of deposits and guarantee deposits	10	541	1,242
Interest received	26	399	388
Net cash generated from/(used in) investing activities		8,118	(7,117)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	**13.2, 13.5**	-	13,122
Acquisition of treasury shares	**13.3**	(94)	(3,450)
Income from treasury shares	**13.3**	161	-
Proceeds from borrowings	**18**	409,197	375,672
Repayment of borrowings	**18**	(372,589)	(308,913)
Dividends paid	**15**	(2,987)	(1,916)
Net cash generated from financing activities		33,688	74,515
Cash at beginning of the year	**12**	2,233	18,529
Cash at end of the year	**12**	3,180	2,233
Net (decrease)/increase in cash and cash equivalents		**947**	**(16,296)**

The notes on pages 13 to 78 are an integral part of these consolidated financial statements

1. General information

Renta Corporación Real Estate, S.A. (hereon, the Company) is a real estate company which at the 2005 year end has a group (hereon, the Group), made up of 12 companies: Renta Corporación Real Estate, S.A., as parent company, 8 subsidiaries and 3 associates. Appendices I and II to these Notes include additional information on the entities included in the consolidation scope.

For the purposes of the preparation of the consolidated financial statements, a group is understood to exist when the parent company has one or more subsidiary entities over which the parent company has either direct or indirect control. The principles applied in the preparation of the consolidated financial statements of the Group, as well as the consolidation scope, are set out in Note 2.2.

On 8 December 2004 the parent company acquired all the shares of a British company that changed its registered name to Renta Properties (UK) Limited. The share capital of this company was Pound Sterling 1, and on 14 December 2004 this company issued 99 shares with a par value of 1 Pound Sterling each, which were fully subscribed by Renta Corporación Real Estate, S.A.

On 7 April 2005 the parent company took up a 50% shareholding in the incorporation of a Spanish company called RC Marruecos Tánger, S.A., which, on 4 November 2005 changed its registered name to Mixta África, S.A. Furthermore, on 4 November 2005 the parent company sold 2% of its shareholding, keeping 48%.

On 25 May 2005 RC Marruecos Tánger, S.A. fully incorporated the Moroccan company RC Fundación Marruecos Tánger, S.A.R.L.

On 4 November 2005 the parent company fully acquired a German company that changed its registered name to RC Real Estate Deutschland GMBH.

On 15 June 2005 Renta Properties (UK), Limited incorporated an English company under the registered name of One Vincent Square, Limited. The share capital of this company was fully contributed by Renta Properties (UK), Limited.

The central offices of Renta Corporación Real Estate, S.A. for administrative and tax purposes are located in Barcelona in Avenida Diagonal, 449, 2º and its Tax Identification Number (C.I.F.) is A-62.385.729.

The Group divides its activities into three business areas: residential refurbishment, transformation of buildings and transformation of land, including the following tasks:

- **Residential refurbishment:** acquisition of residential buildings or buildings with mixed uses, for their renovation and later sale, normally by units.
- **Transformation of buildings:** acquisition of large urban buildings, usually office or industrial buildings, and transforming them either through their improvement and repositioning in the market or through changes in the main uses.
- **Transformation of land:** acquisition of large building complexes for transformation through the design and later processing through official channels of modifications of the use of the buildings and/or current zoning in order to create development land for construction or sale thereafter.

The three business areas use the same process, consisting of the acquisition of real estate assets for transformation and later sale. This transformation process is aimed at creating value through the adaptation of buildings to market demands.

These processes include acting on the different elements that make up real estate assets and their valuation, which are: physical condition, use, the rental situation and profitability, zoning laws, legal issues, etc.

The Group operates mainly in the domestic market as well as in France, England and Germany.

These consolidated financial statements have been approved by the Board of Directors on 13 February 2006.

No changes are expected to these Consolidated Financial statements as a result of their adoption by the General Meeting of Shareholders.

2. Summary of significant accounting policies

Set out below are the main accounting policies applied in the preparation of the consolidated financial statements. These policies have been applied consistently throughout all the years presented, unless otherwise stated.

Index of Accounting Policies

2.1 Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Standards issued by the IASB. The consolidated financial statements have been prepared on the basis of the accounting records of Renta Corporación Real Estate, S.A. and its consolidated companies and include the adjustments and reclassifications for the purposes of homogenisation with the accounts of the parent Company.

IASB and IFRIC have issued the following standards and interpretations which have application in years subsequent to the one started 1 January 2005, the standards are: IFRS-6 “Exploration for and evaluation of mineral resources”, IFRS-7 “Financial instruments: disclosures”, IFRIC Interpretation 4 “Determining whether an arrangement contains a lease”, IFRIC Interpretation 5 “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”, IFRIC Interpretation 6 “Liabilities arising from participating in a specific market – Waste electrical and electronic equipment”, IFRIC Interpretation 7 “Applying the restatement approach under IAS-29 Financial reporting in hyperinflationary economies” and IFRIC Interpretation 8 “Scope of IFRS-2” (IFRIC Interpretation 7 and 8 have not been still adopted by the European Union). The Group has performed an analysis of possible impact on the financial statements at 31 December 2005 and has concluded that there is not any significant impact in the financial statements.

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements.

Until the year ended 31 December 2004, inclusive, the Group’s consolidated financial statements had been prepared in accordance with the provisions of company law and the standards set down in the General Accounting Plan and Royal Decree 1815/1991, which adopted the standards for drawing up of consolidated financial statements (Generally Accepted Accounting Principles (GAAP)). In view of the fact that these standards differ from IFRS, Group Management has restated the 2004 figures in order to present comparative information under IFRS.

The consolidated financial statements have been prepared using the historical cost convention.

The preparation of consolidated financial statements compliant with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company´s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 4.

The requirements of the standards mentioned above have been fully met and, therefore, the financial statements present a true and fair view of the assets, financial position and results of the operations of the Group.

The figures set out in the documents that make up these consolidated financial statements (balance sheet, profit and loss account, statement of changes in shareholders’ equity, cash flow statements and notes to the financial statements) are stated in Thousands of Euros, unless otherwise disclosed.

The Group companies close their fiscal year on 31 December and the accounts at that date are the ones used in the consolidation.

2.2 Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies. Control is assumed to exist when the shareholding constitutes more than half of the voting rights, unless control is limited by contractual agreements or other circumstances. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control over another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date on which control ceases..

Inter-company transactions, balances and unrealized gains on transactions between the Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Appendix I to these Notes contains the information on all the fully consolidated subsidiaries.

b) Associates

Associates are all entities over which the Group has significant influence but not control. Significant influence is presumed when the parent company holds between 20% and 50% of the voting rights or when other circumstances demonstrate the existence of significant influence. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group´s share of losses in an associate equals or exceeds its interests in the associate, including any other unsecured receivable the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Appendix II to these Notes contains the information and details of associates consolidated by the equity method.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

a) Primary format of segment reporting: business segments

- **Residential refurbishment:** acquisition of residential buildings or buildings with mixed uses, for their renovation and later sale, normally by units.
- **Building transformation:** acquisition of large urban buildings, usually office or industrial buildings, and transforming them either through their improvement and repositioning in the market or through changes in the main uses.
- **Land transformation:** acquisition of large building complexes for transformation through the design and later processing through official channels of modifications of the use of the buildings and/or current zoning in order to create development land for construction or sale thereafter.

b) Secondary format of segment reporting: geographic segments

Following criteria based on location of assets,
- Domestic
- Foreign

2.4 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Euros, which is the Group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the presentation currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

The translation differences from non-monetary items, such as equity instruments kept at fair value impacting results for the year, are presented as profit or loss of fair value. The translation differences from non-monetary items, such as equity instruments classified as available-for-sale financial assets, are carried under net equity in the revaluation reserve.

c) Group companies

The results and financial position of Renta Properties (UK), Ltd., One Vincent Square, Ltd. y RC Fundación Marruecos Tánger, S.A.R.L., which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates of the year (unless this average is not a reasonable approximation of the accumulated effect of the rates on the dates of the transaction, in which case the income and expense are translated at the date of the transactions); and
(iii) all resulting exchange differences are recognized as a separate component of equity.

2.5 Property, plant and equipment

All property, plant and equipment are presented at cost less accumulated depreciation and impairment, except land, which is presented net of impairment, since it is not depreciated.

The historical cost includes expenses directly attributable to the acquisition of the assets.

Improvements which extend or improve the useful lives of existing assets are capitalised, provided that it is probable that they will generate future economic benefits and their cost can be reasonably estimated. Repair and maintenance costs are expensed in the year in which they are incurred.

Land is not depreciated. Other assets, deducted their residual value, are depreciated using the straight-line method, over their estimated useful lives, as follows:

	Years
Buildings	50
Plant	10
Furniture	10
Computer equipment	4
Vehicles	6.25
Other property, plant and equipment	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Intangible assets

Acquired computer software and licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (four years).

2.7 Impairment of assets

At the balance sheet dates the Group evaluates whether there is any indication of impairment of an asset. If so, the Group estimates its recoverable amount.

Assets that are subject to amortisation are tested for impairment whenever internal or external events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognized through profit and loss for the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Financial assets

The Group classifies its financial assets as follows: assets at fair value recorded in the profit and loss account, investments held to maturity, loans and accounts receivable, available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

The Group does not have assets at fair value recorded in the profit and loss account or assets held to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group supplies money, goods or services directly to a debtor with no intention of trading with the account receivable. They are included in current assets in “Trade and other receivables”, except for maturities greater than 12 months after the balance sheet date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They basically include the shareholdings in entities that are neither associates nor subsidiaries. These financial assets are stated at fair value and the variations in fair value are debited to a net equity account until the disposal of the investment, at which time the investments are taken to profit and loss.

2.9 Inventories

Inventories include buildings, land and plots and are measured at the lower of cost and net realizable value. Cost of inventories includes the cost of purchase and all additional costs necessary to bring the assets in their present condition and location, such as refurbishments, improvements, and unrefundable taxes, amongst other. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Net realizable value is assessed at every year-end.

Interest expense from borrowings directly attributable to the acquisition and refurbishment of a qualified property as well as amortisation of ancillary costs incurred in connection with the arrangements of borrowings, are capitalised as a part of the cost of the property. A qualified property is an asset that needs a period of transformation greater than 12 months for its intended use. Borrowing costs are capitalised over the time needed to complete and prepare the asset for its intended use. Other interest costs are expensed.

The specific cost identification method is used, i.e., only the costs incurred that can be accurately assigned to each product in inventories are capitalised.

The amounts disbursed for premiums on purchase options on properties (generally buildings and land) are stated at their cost under inventories. The payment of purchase options constitutes the normal way through which the group undertakes the first phase of the property acquisition, prior to the final purchase.

2.10 Trade and other receivables

Trade receivables are recognized initially at fair value. After initial recognition are measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate (see note 3.2). The amount of the provision is recognized in the income statement.

Cash received in advance from customers is presented as a liability in the balance sheet at the amount actually received.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of any tax effect, as the case may be.

When a Group entity acquired shares in the Company (treasury shares), the consideration paid, including any directly attributable incremental cost (net of tax on profit) is deducted from the equity attributable to the Company's shareholders until its cancellation or disposal. When these shares are sold, any amount received, net of any directly attributable incremental cost of the transaction and the respective income tax effects, are included in the net equity attributable to the Company's equity holders.

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

In this caption are included liabilities arising from commitments for fixed return granted to some customers. The Group, as an incentive to purchase a property, ensures its customers a fixed return on the property sold for a certain number of years. The return can be granted directly or through a lease agreement. The Group does not maintain any involvement in the property sold. The cost related to these transactions is considered as a discount given to the customer and is classified as a deduction from the sale revenue.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

Deferred income tax is provided in full, using the balance liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Their recovery is evaluated each year and the recoverability of those that have not been capitalised are evaluated again.

2.15 Income tax and other taxes

The parent company avails itself of the group taxation regime for corporate income tax purposes and is therefore taxed jointly with its subsidiaries Renta Corporación Real Estate R.A., S.A.U., Renta Corporación Real Estate O.N., S.A.U. and Renta Corporación Real Estate G.O., S.L.U.

The Group company Renta Corporación Real Estate Patrimonio, S.L. is taxed under the regime for holding companies.

Corporate income tax expense is recognised based on the reported profit as adjusted for permanent differences between reported and taxable profits, and the effects of any tax credits and deductions to which the Group companies are entitled.

Renta Corporación Real Estate R.A., S.A.U. as from 2001 is subject to the special prorated VAT regime.

Renta Corporación Real Estate Patrimonio, S.L., Renta Corporación Real Estate G.O., S.L.U. y Renta Corporación Real Estate O.N., S.A.U. as from 2004 are subject to the special prorated VAT regime.

Masella Oeste, S.L., and Renta Corporación Real Estate, S.A. are subject to the general prorated VAT regime.

2.16 Provisions

Provisions are recognised when the Group has a present obligation and when it is probable, legally or implicitly, as a result of past events, that disbursements will be made to settle the obligation, and when the amount of the obligation can be reliably estimated.

2.17 Revenue and expense recognition

Revenue is measured at the fair value of the sale of assets and services to third parties.

The sales of goods are recognised when a Group entity:

- has transferred substantially all risks and rewards of ownership, specifically, the ownership of the assets when the public deed of purchases sale of the buildings has been executed;
- does not maintain any involvement in the current management of the assets sold, to the extent normally associated with ownership, nor retains effective control over them;
- the amount of the ordinary income can be reliably valuated;
- it is probable that it will receive the economic benefits related to the transaction;
- the costs incurred, or to be incurred, in relation to the transaction can be valuated reliably.

The Group considers that the criteria specified above are usually met when the transfer of the ownership of the property has been legally formalized in a public document.

In the case of the reinvoicing of works, when the sale price of a product includes an identifiable amount for after-sale services, this amount is deferred and recognised as income over the period in which the service will be rendered. The deferred amount is that covering the estimated cost of the services agreed, together with a reasonable profit on them.

When the Group grants an option to customers on a non-financial asset, receives economic consideration for the achievement of specific goals agreed between the parties. When the amount received is not irrevocable and unconditional but is conditioned by the occurrence of specific events or achievements of goals the consideration received is treated as an advance payment that is recognised as revenue in the moment the option is exercised (for the achievement of the goals agreed) or when the option vests.

Interest income is recognised using the effective interest rate method.

Expenses are recognised when they accrue, independent from when they are paid. The cost of inventories is recognised when the goods are recognised as a sale.

2.18 Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The income from lease contracts with tenants of the properties acquired is considered to be incidental, since the lease contracts are maintained for a short period, until the Group sells the property or enters into an agreement by virtue of which the tenant will vacate the property after the payment of compensation by the Group.

The assets leased to third parties under operating leases are carried under inventories on the balance sheet since they existed when the assets were acquired for future sale in the ordinary course of business of the Group. The income from the lease is recognised on a straight-line basis over the term of the lease.

2.19 Related party transactions

Transactions with related entities are recorded when there has been a transfer of resources or obligations and are stated at the amount agreed by these entities.

2.20 Dividends

Dividends distributed to the Company's shareholders are recognised in the consolidated financial statements of the Group in the year in which the decision is adopted.

2.21 Purchased call options on treasury shares

Contracts which are settled receiving a fixed amount of treasury shares in exchange for cash or other financial assets are considered as equity instruments. Purchased call options on treasury shares with a gross physical settlement are accounted for as a reduction in equity. All the amounts paid as a premium on the purchased call option are also deducted from equity.

2.22 Environmental Costs

Expense arising from business actions designed to protect and improve the environment are expensed when incurred.

Expenses are capitalised when they represent additions to tangible fixed assets in order to minimise environmental impact and to protect and improve the environment and are depreciated over the useful life of the asset.

3. Management of financial risk

3.1 Financial risk factors

Credit risks

The Group face risks relating to certain accounts receivables: almost all of the Group sales of property are settled in cash at the time of transfer of title. Occasionally, payment of all or part of the purchase price may be made subsequent to the transfer of title to the property. In these cases, the payment due to the Group is ordinarily guaranteed by a bank. However, in limited circumstances, the Group may receive only a personal guarantee secured by the transferred property rather than a bank guarantee. While the Group has not experienced any significant difficulties in the past relating to the collection of the Group accounts receivable from purchasers of the Group properties, there can be no assurance that the Group will in the future be able to collect all such amounts owed to the Group.

Liquidity risks

Decreases in the liquidity of the real estate market: the Group generally seeks, through dynamic asset management, to limit the period of time between the Group acquisition and sale of properties to less than 12 months. To the extent that the liquidity of the real estate market decreases, the Group could be required to sell properties at lower prices, or possibly at a loss, or to hold such properties in inventory longer than planned, either of which could have a material adverse effect on the Group business, results of operations and financial condition.

Interest rate risks

Increase in interest rates: in almost all cases, purchasers of the Group real estate properties finance at least a portion of the purchase price with mortgage loans. An increase in interest rates in the countries in which the Group operates would increase purchasers' mortgage loan costs and negatively affect the attractiveness of mortgage loans as a source of financing for the purchase of the Group real estate properties and could reduce demand for the Group real estate properties, which could have a material adverse effect on the Group business, results of operations and financial condition.

The Group faces risks associated with the use of debt to finance acquisitions of property: the Group relies on debt financing, primarily in the form of mortgage loans and credit from financial institutions, to finance the Group acquisition of properties and the Group refurbishment and transformation activities. As a result, the Group is subject to risks normally associated with debt financing, including the risk that the cash flow from the Group properties is insufficient to meet the Group debt service requirements. The Group mortgage loans are secured by mortgages over the property being acquired. If the Group is unable to meet the Group debt service obligations in respect of any of these properties, any foreclosure of such property would result in a loss of income and asset value.

In addition, because the Group debt bears interest at variable rates, an increase in prevailing interest rates would increase the Group financing costs and could adversely affect the Group ability to meet the Group existing debt service obligations. The Group does not currently hedge the Group interest rate exposure.

3.2 Fair value estimation

The nominal value of trade receivables (deducted impairment losses) and payables does not differ significantly from their fair value, being their expiring date placed in the short-term.

The fair value of financial liabilities is estimated discounting the cash flows contractually agreed at the market interest rate available for similar financial instruments.

4. Accounting estimates and judgements

The estimates and judgements are evaluated continuously on the basis of historical experience and other factors, including the expectation of future events believed reasonable under the circumstances. There are no estimates and judgements that could have a significant risk of leading to a material adjustment to the book values of assets and liabilities within the following financial year.

The estimates made by Group management are as follows:

Inventories: the recoverable amount of inventories has been calculated on an individual basis with reference to their net realizable value (estimated selling price in the ordinary course of business less estimated selling costs). The market prices are analysed for buildings in each location as well as the main costs of sale, which are basically commissions agreed for each estate.

Their classification as short-term assets is made bearing in mind the average operating period for each business segment, which is normally less than a year. The financing of these inventories is classified on the basis of the latter.

Trade and other receivables: In respect of the collection of accounts receivable, although most sales of property made by the Group are settled in cash upon transfer of ownership, the remaining property sales are paid for totally or in part after the transfer of title to the new owner. In these cases, and generally speaking, the payment owed to the Group is generally covered by a bank guarantee or a retention of title agreement or similar real guarantee formulas that enable the Group to recover the ownership of the building in the event of a default on payment. Accordingly, the recoverability of the receivable is guaranteed.

Property, plant and equipment: The useful lives of fixed assets are calculated using the estimate of the period in which the assets will generate profit for the Group. These useful lives are reviewed at the year end, and, if expectations differ from previous estimates, the changes are booked as a change in accounting estimates.

Deferred income tax: the recoverability of the deferred income tax assets is evaluated when they are generated depending on the evolution of Group profit forecast in its overall business plan.

Liabilities arising from profitability agreements: obligations related to profitability agreements (see Note 2.13) are estimated by subtracting from the rents to be paid to the purchaser of the building sold, the amounts estimated that will be obtained by the Group for future rental. This estimate is made on the one hand on the basis of the actual rents agreed and on the other through estimates of the amount that will be obtained for the rental of the flats still not rented out, according to the information available on the rented flats.

5. Transition to IFRS

5.1 Basis of transition to IFRS

5.1.1 Application of IFRS 1

The consolidated financial statements at 31 December 2005 are its first consolidated financial statements as per IFRS, and, accordingly, the Group has applied IFRS 1 in the preparation of the opening balance sheet.

The date of transition to IFRS of the Company is 1 January 2004. The Group prepared its opening balance sheet as per IFRS in force at 31 December 2005, including IAS 32 and 39, which it has been applying since 1 January 2004.

IFRS 1 grants exemptions from some requirements of other IFRSs and also sets down exceptions to retrospective application of some aspects of other IFRSs. In the preparation of the opening balance sheet the Group has availed itself of all the exceptions established in IFRS 1 related to retrospective application of some aspects of other IFRSs. None of the exemptions from some requirements of other IFRSs has been considered applicable to the Group.

5.2 Reconciliations between IFRS and Spanish GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation provides an overall view of the effect on equity of the transition at 1 January 2004 and 31 December 2004 (Note 5.2.1). The following three reconciliations include details of the effect of the transition in relation to:

- Equity at 1 January 2004 (Note 5.2.1 and 5.2.2)
- Balance Sheet and Equity at 31 December 2004 (Note 5.2.1 and 5.2.3)
- Income statement for the year ended 31 December 2004 (Note 5.2.4)

(thousands of Euros)

5.2.1 Summary of equity adjustments

	1-01-2004	Note	31-12-2004	Note
Total equity as per Spanish GAAP	**30,144**		**61,221**	
Reversal of start-up and capital increase expenses	(452)	5.2.2 (a)	(231)	5.2.3 (a)
Deferred tax assets	1,529	5.2.2 (b)	1,849	5.2.2 (b), 5.2.2 (c)
Booking of share options	(543)	5.2.2 (c)	-	
Revenue recognition	(3,900)	5.2.2 (d)	(4,600)	5.2.4 (a)
Reclassification of minority interests	24	5.2.2 (e)	470	5.2.3 (g)
Elimination of start-up and capital increase amortisation	-		124	5.2.4 (b)
Recognition of commission expenses	-		(577)	5.2.4 (c)
Opening conversion adjustments against capital	-		(33)	5.2.2 (a)
Opening conversion adjustments against retained earnings and other reserves	-		(2,991)	5.2.3 (j)
Other adjustments	(214)	5.2.2 (f)	53	
Total adjustments	**(3,556)**		**(5,936)**	
Total equity under IFRS	**26,588**		**55,285**	

5.2.2 Reconciliation of equity at 1 January 2004

Set out below is an explanation of the most significant adjustments to equity:

(a) Reversal of start-up and capital increase expenses

Reversal of start-up expenses	(401)
Reversal of capital increase expenses	(51)
Total effect – Increase / (Decrease) in start-up and capital increase expenses	**(452)**

In accordance with IAS 38, start-up costs cannot be capitalised as an asset, and, therefore, they have been reversed against reserves net of their respective tax effect.

In accordance with IAS 32, cost of an equity transaction should be accounted for as a deduction from equity net of tax effect. Accordingly, costs of equity transactions have been deducted from equity net of their tax effect.

(thousands of Euros)

(b) Deferred income tax assets

Tax effect of the reversal of start-up and capital increase expenses (See note 5.2.2. a)	158
Tax effect of the deferral as per IFRS of certain income from the cession of purchase options (See Note 5.2.2. d)	1,365
Tax effect of other adjustments	6
Total effect – Increase / (Decrease) of deferred tax assets	**1,529**

(c) Accounting for share options

Reclassification to shareholders' equity of a purchase option on treasury shares	(543)
Total effect – Increase / (Decrease) Trade and other receivables	**(543)**

The Company had a purchase call option on own shares that will be settled through a payment in cash. Consequently, the option in question is an equity instrument and must be stated after subtracting the capital, both for the Premium paid and the later purchase of shares when the option is exercised. Consequently, for the purposes of the 2004 opening balance sheet, the amount paid for the Premium must be reclassified by increasing capital.

(d) Revenue recognition

Deferral of certain income for the cession of purchase options under IFRS	3,900
Total effect – Increase / (Decrease) of non current trade and other accounts receivable	**3,900**

As per IFRS, income relating to certain premiums received from the cession of purchase option rights has been deferred until the respective contracts are exercised or mature.

(e) Minority interests

Reclassification of the minority interests as part of net equity	(24)
Total effect – Increase / (Decrease) of minority interests	**(24)**

Under IFRS, minority interests are stated under equity.

(thousands of Euros)

(f) Other adjustments

Other adjustments	**(214)**

These include adjustments that are individually insignificant in disclosure terms.

5.2.3 Reconciliation of the balance sheet at 31 December 2004

	Note 5.2.3	Spanish GAAP	Effect of the transition to IFRS	IFRS
ASSETS				
Non current assets		**2,038**	**2,728**	**4,766**
Start-up expenses	a	559	(559)	-
Property, plant and equipment		841	-	841
Goodwill		75	(75)	-
Intangible assets		239	(206)	33
Investments in associates		247	(1)	246
Long-term receivables		77	-	77
Long-term prepayments		-	191	191
Deferred income tax assets	b	-	3,378	3,378
Current assets		**267,370**	**(634)**	**266,736**
Inventories		227,323	(105)	227,218
Trade and other receivables		26,334	200	26,534
Loans and receivables with related parties		10,743	-	10,743
Available-for-sale financial assets		8	-	8
Treasury shares - short-term		57	(57)	-
Cash and cash equivalents		2,233	-	2,233
Prepayments and accrued income	c	672	(672)	-
Total assets		**269,408**	**2,094**	**271,502**
NET EQUITY				
Share capital and reserves attributable to equity holders of the company		**61,221**	**(6,406)**	**54,815**
Share capital	d	8,381	13,083	21,464
Profit for the year attributed to the parent company	e	22,396	(22,396)	-
Retained earnings and other reserves	f	30,444	2,907	33,351
Minority interests	g	**-**	**470**	**470**
Total equity		**61,221**	**(5,936)**	**55,285**
Minority interests	g	**470**	**(470)**	**-**

(thousands of Euros)

	Note 5.2.3	Spanish GAAP	Effect of the transition to IFRS	IFRS
LIABILITIES				
Non current liabilities		**677**	**-**	**677**
Trade and other payables		677	-	677
Current liabilities		**207,040**	**8,500**	**215,540**
Trade and other payables	h	22,334	7,780	30,114
Borrowings	i	178,200	720	178,920
Current income tax liabilities		6,506	-	6,506
Total liabilities		**207,717**	**8,500**	**216,217**
Total equity and liabilities		**269,408**	**2,094**	**271,502**

Set out below is an explanation of the most significant adjustments made to equity:

(a) Start-up and capital increase expenses

Effect on expenses of start-up and capital increase expenses at the transition date (See Note 5.2.2. a)	(452)
(i) Elimination of the amortisation for the year of start-up and capital increase expenses (See Note 5.2.4. b)	124
(ii) Elimination of the increases for the year of start-up expenses (See Note 5.2.4. c)	(19)
(iii) Adjustment to the increases for the year for capital increase expenses (See Note 5.2.3. d)	(212)
Total effect – Increase / (Decrease) in start-up and capital increase expenses	**(559)**

(i) Start-up costs that can be capitalised under GAAP are not under IFRS, and, consequently, the amortisation for the year under local GAAP has been eliminated, bearing in mind the respective tax effect. Capital increase expenses cannot be capitalised, and consequently, amortisation for the year under local GAAP has been eliminated, bearing in mind the respective tax effect.

(ii) In accordance with IAS 38 start-up costs cannot be capitalised as formation expenses and, accordingly, they have been reversed against results, net of their respective tax effect.

(iii) Capital increase expenses are stated after subtracting shareholders' equity.

(thousands of Euros)

(b) Deferred income tax assets

Tax effect of the reversal of start-up and capital increase expenses (See Note 5.2.3 a)	196
Tax effect of the deferral under IFRS of certain income from the cession of purchases options (See Note 5.2.3 h)	2,975
Tax effect of the recognition of commission expenses (See Note 5.2.3 c)	202
Tax effect of other adjustments	5
Total effect – Increase / (Decrease) of deferred tax assets	**3,378**

(c) Prepayments and accrued income

(i) Prepayments for services	(95)
(ii) Prepayments brokering commissions (see Note 5.2.4 c)	(577)
Total effect – Increase / (Decrease) of prepayments and accrued income	**(672)**

(i) Prepayments must be carried under trade and other accounts receivable.
(ii) Prepayments and accrued income related to brokering commissions must be expensed for the year.

(d) Capital

(i) Reclassification of the 2004 share premium reserve (See Note 5.2.3. f)	14,051
Reversal of the capital increase expenses on the transition date net of the tax effect (See Note 5.2.2. a)	(33)
Elimination of the increases in 2004 of the capital increase expenses net of the tax effect (See Note 5.2.3. a)	(138)
(ii) Adjustment to capital increase expenses net of the tax effect (See Note 5.2.4. c)	(740)
(iii) Reclassification of treasury shares	(57)
Total effect – Increase / (Decrease) in capital	**13,083**

(i) In accordance with IFRS, the existing share premium reserve under Spanish GAAP, since it is a contribution made by the shareholders, is considered share capital.
(ii) Under IFRS the capital increase expenses must be deducted from capital, net of the tax effect.
(iii) In respect of treasury shares booked under assets as per Spanish GAAP, under IFRS these must be deducted from Net Equity.

(e) Results for the year attributed to the parent company

Reclassification of results for the year attributed to the parent company (See Note 5.2.3 f)	(22,396)
Total effect – Increase / (Decrease) of results for the year attributed to the parent company	**(22,396)**

(thousands of Euros)

In accordance with IFRS, results attributed to the parent company must be carried under Retained earnings and other reserves.

(f) Retained earnings and other reserves

Reclassification of results attributable to the parent company (See Note 5.2.3. e)	22,396
Reclassification of the share premium reserve (See Note 5.2.3. d)	(14,051)
Impact on Accumulated results of the 2004 IFRS conversion adjustments (See Note 5.2.4.)	(2,447)
Reversal of the start-up expenses net of the tax effect (See Note 5.2.2. a)	(261)
Impact net of the tax effect of the deferral of certain income for cession of purchase options (See Note 5.2.2. d)	(2,535)
Other adjustments	(195)
Total effect – Increase / (Decrease) of accumulated results and other reserves	**2,907**

(g) Minority interests

(i) Reclassification of minority interests as part of net equity	470
Total effect – Increase / (Decrease) of minority interests	**470**

(i) In accordance with IFRS, minority interests must be stated under net equity.

(h) Current creditors and other accounts payable

(i) Accumulated deferral of certain income from cessions of purchase options under IFRS	8,500
(ii) Reclassification of borrowings received from third parties as part of borrowings (see Nite 5.2.3 i)	(720)
Total effect – Increase / (Decrease) Non-current creditors and other accounts payable	**7,780**

(i) Under IFRS, the income relating to certain premiums receipts for the cession of purchase options has been deferred until their respective contracts are exercised or expire.

(ii) Under IFRS both borrowings from third parties and interest accrued and not paid must be reclassified as borrowings.

(thousands of Euros)

(i) Borrowings

Reclassification of borrowings received from third parties as part of borrowings (see Note 5.2.3 h)	720
Total effect – Increase / (Decrease) Non current creditors and other accounts payable	**720**

(j) Opening conversion adjustments against retained earnings and other reserves

Reversal of star-up and capital increase expenses (see Note 5.2.2 a)	(452)
Deferred tax assets (see Note 5.2.2 b)	1,529
Renenue recognition (see Note 5.2.2 d)	(3,900)
Other adjustments	(168)
Total effect – Increase / (Decrease) Initial retained earnings and other reserves	**(2,991)**

5.2.4 Reconciliation of the income statement for the year ended 31 December 2004:

	Note 5.2.4	Spanish GAAP (Expenses)/ Income	Effect of the transition to IFRS	IFRS (Expenses) / Income
Revenue	a	225,475	(5,886)	219,589
Other income		3,163	-	3,163
Purchase costs and changes in inventories	f	(169,659)	(10)	(169,669)
Employee benefit expense		(7,432)	-	(7,432)
Amortisation, depreciation and impairment losses	b	(758)	464	(294)
Other operating expenses	c	(13,590)	3,137	(10,453)
Local taxes		(3,495)	-	(3,495)
Gross operating profit		**33,704**	**(2,295)**	**31,409**
Net financial expenses	d	(4,098)	(1,697)	(5,795)
Participation in profit of associates		84	-	84
Amortisation of consolidation goodwill	f	(12)	12	-
Extraordinary results	f	(60)	60	-
Consolidated profit before tax		**29,618**	**(3,920)**	**25,698**
Income tax	e	(6.776)	1,476	(5,300)
Consolidated profit before minority interests		**22,842**	**(2,444)**	**20,398**
Results attributed to minority interests	f	(446)	(3)	(449)
Profit for the year		**22,396**	**(2,447)**	**19,949**

(thousands of Euros)

Set out below is an explanation of the most significant adjustments to the income statement:

(a) Revenue

(i) Reclassification as Decrease in sales income of the cost of the profitability agreements	(279)
Effect of the deferral as per IFRS of certain income from cessions of purchase options (See Notes 5.2.2 d y 5.2.3 h)	(4,600)
(ii) Reclassification of the income for reinvoicing of services to third parties is deducted from other operating expenses (See Note 5.2.4 c)	(1,124)
(iii) Reclassification of extraordinary income	117
Total effect – Increase / (Decrease) ordinary income	**(5,886)**

(i) In the financial statements prepared in accordance with local accounting principles, the costs related to the return granted to customers in connection with the purchase of a property were treated as part of the cost of sales. Under IFRS they are treated as a discount on the sale price.

(ii) In the financial statements prepared in accordance with local accounting principles, the income from the reinvoicing of costs of services rendered on behalf of third parties were classified as part of income for services rendered. However, in the preparation of consolidated financial statements in accordance with IFRS, it is treated as less expense.

(iii) The financial statements prepared in accordance with local accounting principles carry certain extraordinary income, which, in the consolidated financial statements under IFRS has been treated as other operating income.

(b) Fixed asset depreciation and amortisation

Reclassification of the amortisation of transfer rights (See Note 5.2.4 c)	51
(i) Elimination of the amortisation of the start-up and capital increase expenses (See Note 5.2.3 a)	124
(ii) Reclassification of the variation in the provision for inventories to purchase costs and changes in inventories	289
Total effect – (Increase) / Decrease in depreciation and amortisation of fixed assets	**464**

(i) The capital increase expenses in accordance with IFRS are not amortised, accordingly, the amortisation of these expenses carried in accordance with Spanish accounting principles has been eliminated. start-up costs in accordance with IFRS cannot be capitalised, accordingly, the amortisation of these expenses stated under Spanish accounting principles has been eliminated.

(ii) Under IFRS the variation in the provision for inventories has been reclassified to the consumption of goods for resale, since this is one more component of their cost.

(thousands of Euros)

(c) Other operating expenses

Reclassification of the amortisation of the transfer rights (See Note 5.2.4. b)	(51)
(i) Reclassification of the financial expenses related to the joint ventures (See Note 5.2.4 d)	898
Reclassification of the income for reinvocing services to third parties must be deducted from other operating expenses (See Note 5.2.4. a)	1,124
Elimination of the capitalisations of 2004 start-up expenses (See Note 5.2.3. a)	(19)
(ii) Reclassification of extraordinary expenses	(177)
(iii) Adjustment of capital increase expenses (See Note 5.2.3. d)	1,138
(iv) Reclassification of mortgage formalisation expenses (See Note 5.2.4. d)	805
Adjustment to the broker commission expense (See Note 5.2.3 c)	(577)
Other adjustments	(4)
Total effect – (Increase) / Decrease of other operating expenses	**3,137**

(i) Relates to the reclassification of shared operation costs that form part of financial results since these are costs related to financing that the Group receives from third parties.

(ii) The financial statements prepared in accordance with local accounting principles carry certain extraordinary expenses, which, in the consolidated financial statements under IFRS have been treated as other operating expenses.

(iii) As per IFRS the capital increase expenses must be deducted from capital, net of the tax effect. The gross amount totals Euros 1,138 thousand and the tax effect comes to Euros 398 thousand. (See Note 5.2.3. d)

(iv) In accordance with IFRS, the Company valuates mortgage debt at amortised cost calculated under the effective interest rate method. Consequently, mortgage formalisation expenses must be considered as part of financial expenses since they are taking into account when the effective interest rate method is used.

(d) Net financial expense

Reclassification of mortgage formalisation expenses (See Note 5.2.4 c)	(805)
Reclassification of financial expenses for loans from non financial institutions (See Note 5.2.4 c)	(898)
Other adjustments	6
Total effect – (Increase) / Decrease in net financial expense	**(1,697)**

(e) Deferred income tax

Impact on the income statement of deferred income tax liabilities	99
(i) Impact on the profit and loss account of deferred income tax assets	1,377
Total effect – Increase / (Decrease) Deferred income tax	**1,476**

(thousands of Euros)

(i) The impact on the profit and loss account of deferred income tax assets arising from adjustments in the transition from Spanish accounting principles to IFRS is as follows.

	Gross Amount	Tax Effect	Net amount
Elimination of the amortisation for the year of start-up and capital increase expenses (See Note 5.2.4 b)	124	(43)	81
Elimination of the increases for the year in start-up expenses	(19)	7	(12)
Effect of the adjustment to the broker commission expenses (See Note 5.2.4 c)	(577)	202	(375)
Effect of the deferral as per IFRS of certain income from the cession of purchase options (See Note 5.2.4 a)	(4,600)	1,610	(2,990)
Effect of the reclassification of the capital increase expenses (See Note 5.2.4. c)	1,138	(398)	740
Other adjustments	2	(1)	1
Total effect	**(3,932)**	**1,377**	**(2,555)**

(f) Other adjustments and reclassifications

Other adjustments and reclassifications	59
Total effect – Increase / (Decrease) results of the Group	**59**

These include adjustments that are individually insignificant in disclosure terms.

6. Segment information

6.1 Primary format of presentation segment reporting: business segments

At 31 December 2005, the Group is organised European-wide into three main business segments.

(i) Residential refurbishment
(ii) Building transformation
(iii) Land transformation

(thousands of Euros)

The main accounts for the year ended 31 December 2004 are:

Account	Residential refurbishment	Building transformation	Land transformation	Not assigned	Total Consolidation
Revenue (Note 20.1)	123,519	85,732	9,262	1,076	219,589
- External	123,519	85,732	9,262	1,076	219,589
- Other segments	-	-	-	-	-
Purchase costs and changes in inventories	(101,774)	(60,997)	(6,898)	-	(169,669)
Segment result	21,745	24,735	2,364	1,076	49,920
Total assets	113,534	92,240	24,888	20,840	271,502
Total liabilities	104,878	75,128	14,619	21,592	216,217

The main accounts for the year ended 31 December 2005 are:

Account	Residential refurbishment	Building transformation	Land transformation	Not assigned	Total Consolidation
Revenue (Note 20.1)	171,065	103,140	46,638	-	320,843
- External	171,065	103,140	46,638	-	320,843
- Other segments	-	-	-	-	-
Purchase costs and changes in inventories	(140,804)	(79,265)	(22,623)	-	(242,692)
Segment result	30,261	23,875	24,015	-	78,151
Total assets	134,066	84,063	160,981	15,180	394,290
Total liabilities	113,419	69,201	104,296	22,380	309,296

The accounting policies for all business segments are the same as the mentioned for the whole Group in Note 2 of these financial statements.

6.2 Secondary format of presentation segment information: geographic segments

The three business segments of the Group operate mainly in two geographical areas, although they are managed on a European basis.

Spain is the country of origin of the Group, and it is the main geographic area in which it operates.

REVENUE	2005	2004
Domestic	296,769	204,205
Foreign	24,074	15,384
	320,843	**219,589**

(thousands of Euros)

The revenue is assigned depending on the country in which the asset is located.

ASSETS	2005	2004
Domestic	305,094	247,918
Foreign	89,826	23,584
	394,920	**271,502**

Total assets are assigned on the basis of the location of the assets.

Breakdown of revenue by segment of activity and geography:

	2005		2004	
	Domestic	Foreign	Domestic	Foreign
Residential refurbishment	146,991	24,074	108,135	15,384
Building transformation	103,140	-	85,732	-
Land transformation	46,638	-	9,262	-
Other	-	-	1,076	-
	296,769	**24,074**	**204,205**	**15,384**

7. Property, plant and equipment

The breakdown and movements of different categories of property, plant and equipment are shown in the following table:

	Land and buildings	Other plant, tools and furniture	Other fixed assets	Total
At 1 January 2004				
Cost	51	498	295	844
Accumulated depreciation	(4)	(65)	(115)	(184)
Net book value	47	433	180	660
Year ended 31 December 2004				
Opening net book value	47	433	180	660
Additions	-	267	103	370
Disposals	-	(54)	(5)	(59)
Depreciation charge	(1)	(59)	(70)	(130)
Net book value	46	587	208	841
At 31 December 2004				
Cost	51	709	391	1.151
Accumulated depreciation	(5)	(122)	(183)	(310)
Net book value	46	587	208	841

(thousands of Euros)

	Land and buildings	Other plant, tools and furniture	Other fixed assets	Total
Opening net book value	46	587	208	841
Additions	-	218	143	361
Depreciation charge	(1)	(85)	(89)	(175)
Net book value	45	720	262	1,027
At 31 December 2005				
Cost	51	927	534	1,512
Accumulated depreciation	(6)	(207)	(272)	(485)
Net book value	45	720	262	1,027

The book value of tangible assets fully depreciated totals Euros 64 and Euros 7 thousand at 31 December 2005 and 2004, respectively.

Assets located outside Spain total Euros 12 thousand (2004: Euros 20 thousand)

The Group holds proper title to all the assets carried in its books, which are free of liens, charges and mortgages, and, which are, therefore, freely available.

8. Intangible assets

The breakdown and movement of intangible assets are set out below:

	Computer Software	Total
At 1 January 2004		
Cost	36	36
Accumulated amortisation	(7)	(7)
Net book value	29	29
Year ended 31 December 2004		
Additions	14	14
Disposals	-	-
Amortisation charge	(10)	(10)
At 31 December 2004	33	33
Cost	50	50
Accumulated amortisation	(17)	(17)
Net book value	33	33
Year ended 31 December 2005		
Additions	114	114
Amortisation charge	(16)	(16)
At 31 December 2005	131	131
Cost	164	164
Accumulated amortisation	(33)	(33)
Net book value	131	131

(thousands of Euros)

9. Investments in associates

The movement of investment in associates is set out below:

	Masella Oeste S.L.,	Mixta África S.A.	Total
At 1 January 2004	162	-	162
Participation in results	84	-	84
At 31 December 2004	246	-	246
Investments in associates	-	290	290
Participation in results	231	(272)	(41)
At 31 December 2004	477	18	495

The shareholding of the Group is held in non-listed companies, which main details are as follows:

Name	Country of incorporation	% shareholding	Assets	Liabilities	Operating income	Profit (loss)
2004						
Masella Oeste S.L.,	Spain	40%	5,260	4,642	5,420	209
2005						
Masella Oeste S.L.,	Spain	40%	1,953	757	6,069	578
Mixta África S.A.	Spain	48%	3,653	3,600	-	(547)
RC Fundación Marruecos Tánger S.A.R.L	Morrocco	(1)	3,222	2,969	-	(20)

(1) Fully participated by Mixta África, S.A.

The Group has not performed any transaction with Masella Oeste, S.L. during the years 2004 and 2005.

The volume of transactions with Masella Oeste, S.L., Mixta África, S.A and RC Fundación Marruecos Tánger, S.A. in 2004 and 2005 is as follows:

	Mixta África, S.A.	R C Fundación Marruecos Tánger, S.A.	Total
Rendering of services	434	-	434
Financial income	-	7	7

The balances at the 2004 and 2005 year end arising from sales and purchases of assets are as follows:

	Masella Oeste S.L.		Mixta África, S.A.	RC Fundación Marruecos Tánger, S.A.
	2005	2004	2005	2005
Receivables	-	14	-	-

(thousands of Euros)

The balances at the 2004 and 2005 year end arising from loans are as follows:

	Masella Oeste, S.L.		Mixta África, S.A.	RC Fundación Marruecos Tánger, S.A.
	2005	2004	2005	2005
Loans to associated companies	-	-	1,797	-

On 31 May 2005 a credit facility agreement was entered into by virtue of which Renta Corporación Real Estate, S.A. undertakes to provide Mixta África, S.A. a loan up to Euros 3,000 thousand. The initial term of the agreement is one year, extendible for new terms of one year each. The interest rate is set at Euribor at 3 months plus 0.75%.

10. Trade and other receivables

	2005	2004
Trade debtors for sales and services	41,881	10,039
Trade receivables with associated companies	-	14
Loans to associated companies	1,797	-
Other accounts receivable	5,887	4,475
Deposits - short-term	474	403
VAT and other tax receivables	14,208	11,603
Total short-term receivable	64,247	26,534
Deposits - long-term	142	77
Long-term prepayments	245	191
Total long-term receivables	387	268

Other accounts receivable basically carries provisions for notaries and solicitors.

Long-term prepayments includes the transfer rights on operating rental contracts to be deferred over the term of the rental contract.

The movement in deposits and deposits is as follows:

	Non-current	Current	Total
Opening balance at 1 January 2004	**53**	**791**	**844**
Increases	25	853	878
Decreases	(1)	(1,241)	(1,242)
Closing balance at 31 December 2004	**77**	**403**	**480**
Additions	84	593	677
Decreases	(19)	(522)	(541)
Closing balance at 31 December 2005	**142**	**474**	**616**

(thousands of Euros)

The breakdown of VAT and other tax receivables is as follows:

	2005	2004
VAT receivables	13,772	11,110
Municipal taxes	1	493
Tax credit	435	-
	14,208	**11,603**

The tax credit for tax loss carryforwards to be offset relate to 30% of the losses incurred by the subsidiary Renta Properties (UK), Limited, which the Group expects to be able to offset with the profit of future years.

There is no credit risk concentration in the debtor accounts for sales and services, given that the Group collects in cash on almost all its operations when the public deed is executed. Notwithstanding the above, during the year losses for bad debts of Euros 99 thousand have been recorded (2004: Euros 154 thousand).

11. Inventories

	2005	2004
Land and plots	106,805	26,026
Building acquired for refurbishment and construction	198,745	192,643
Works in progress	1,343	589
Purchase options	16,680	8,249
Provisions	(39)	(289)
	323,534	**227,218**

The cost of inventories recognised as expense and included in purchase costs and changes in inventories at 31 December 2004 and 2005 totals Euros 169,669 thousand and Euros 242,692 thousand respectively. (Note 21)

Buildings acquired for refurbishment at 31 December 2004 and 2005 includes interest capitalised in the amount of:

	2005	2004
Interest capitalised	3,190	1,753

Inventories at 31 December 2004 and 2005 include buildings and land under mortgage-backed loans carried under Borrowings (in current liabilities) totalling:

	2005	2004
Inventories under mortgage-backed loans	231,163	215,312
Mortgage-backed loans (See Note 18)	163,280	159,356

The options carried at 31 December 2005 relate to operations that will be undertaken from 2006 to 2008. The premiums on the purchase options at 31 December 2005 maturing in the 2007 and 2008 total Euros 1,302 thousand and Euros 400 thousand, respectively. The amount of the underlying asset optioned totals Euros 517,764 thousand.

The purpose of the purchase options is the acquisition of buildings that will become part of the Group's activity.

The loss on impairment of inventories stated in the profit and loss account for the year ended 31 December 2004 total Euros 289 thousand and for the year ended 31 December 2005 has cancelled provision by Euros 250 thousand.

On December the 1st, 2005 Renta Corporacion Real Estate ON and the city council of Barcelona signed a protocol for the urban development of the area of the former factory of Coats Fabra, located in Sant Andreu and the surrounding area, which is owned by the Group. The parties will comply with the agreements established in the protocol in the following way:

1. In the first phase, during the month of December 2005, the Group has exchanged part of the land of the factory with other properties owned by the city council of Barcelona.

2. In the second phase Renta Corporacion Real Estate ON will transfer to the city council of Barcelona the remaining portion of land (with the industrial buildings located thereon). As compensation, the city council of Barcelona will grant to the Group, within nine months, an amount of square meters available for free development in specific areas indicated by the city council. The properties involved in the second phase amount to 6,865 thousand of euros as of December 31, 2005.

3. In the final step for the completion of the protocol, the Group committed itself to selling to the city council of Barcelona (or whomever the council designates), within one year from the signing of the protocol, an existing building measuring 14,368 square meters with 3,592 square meters of land, whose carrying value, as of December 31, 2005 is Euro 9,580 thousand.

In the protocol the parties agreed that the Group will bear the expenses related with the urbanization and restructuring of the buildings located in the area of Coats Fabra. The Group will also have to pay an amount of 4,178 thousand of euros, which is a tax charged by the city council of Barcelona.

The income statement carries the income from inventories (buildings) leased temporarily to third parties until they are ready to be sold. The amount of these leases totals Euros 2,535 thousand (2004: Euros 3,046 thousand). (Note 20.2)

(thousands of Euros)

12. Cash and cash equivalents

	2005	2004
Cash and banks	3,180	2,233

The balance at 31 December 2004 and 2005 is entirely made up of cash on hand and deposits in current accounts in banks.

13. Share capital

	Capital (Nota 13.2)	Treasury shares (Note 13.3)	Share premium reserve (Note 13.5)	Total
At 1 January 2004	8,089	(553)	599	8,135
Balance at 31 December 2004	8,381	(57)	13,140	21,464
Balance at 31 December 2005	21,949	(94)	(428)	21,427

13.1 Movement in the number of shares

The movement in the number of shares has been as follows:

	Number of ordinary shares
At 1 January 2004	1,926,062
Capital reduction from reduction of treasury shares	(68,970)
Increase in capital	138,299
Balance at 31 December 2004	1,995,391
Split	19,953,910
Balance at 31 December 2005	21,949,301

All shares are fully subscribed and paid and enjoy the same rights.

The par value of each share in 2004 and 2005 has been as follows:

From	To	Par value (euros)
1-1-04	22-04-05	4.20
22-04-05	31-12-05	1.00

13.2 Movement in share capital

	Ordinary shares Par value (thousand)	Treasury shares Par value (thousand)	Total (thousand)
At 1 January 2004	8,047	42	8,089
Acquisitions (Note 13.3)	(257)	257	-
Capital reduction from reduction of treasury shares (Note 13.3)	-	(289)	(289)
Increase in capital	581	-	581
Balance at 31 December 2004	8,371	10	8,381
Increase in capital charges against the share premium reserve	13,552	16	13,568
Acquisitions (Note 13.3)	(21)	21	-
Sales (Note 13.3)	18	(18)	-
Balance at 31 December 2005	21,920	29	21,949

On 27 December 2004 the Extraordinary General Meeting of Shareholders agreed to increase the share capital of the Company by Euros 581 thousand to Euros 8,381 thousand by issuing 138,299 registered shares with a par value of Euros 4.20 each, with a share premium of Euros 97.03 per share, all of which are fully subscribed and paid.

On 22 April 2005 the Extraordinary General Meeting of Shareholders agreed to increase the share capital of the Company by raising the par value of the shares by Euros 6.80 each, charged against the share premium reserve, and maintaining the same number of shares, so that the share capital after the increase came to Euros 21,949 thousand, with the number of shares in circulation totalling 1,995,391, with a par value of Euros 11 each (Note 13.2).

After the above-mentioned capital increase was adopted, and on the same day, it was agreed to split the number of shares by decreasing the par value to Euro 1, in order to obtain a larger number of shares. The share capital and net equity remain unchanged, and the only thing that has increased is the number of shares in circulation. Thus, 11 new shares for each old share were issued, and share capital was set at Euros 21,949 thousand while the number of shares in circulation was set at 21,949,301 with a par value of euros 1 each.

13.3 Operation with treasury shares and purchase options

	Purchase options on treasury shares	Treasury shares	Total
At 1 January 2004	(543)	(10)	(553)
Balance at 31 December 2004	-	(57)	(57)
Balance at 31 December 2005	-	(94)	(94)

(thousands of Euros)

The Company at the beginning of 2004 had a purchase option contract on treasury shares for which it paid a Premium of Euros 543 thousand. During 2004 it has exercised the option by purchasing 58,371 shares at price of Euros 58.02 per share.

The movement in treasury shares during 2004 and 2005 has been as follows:

	Number	Par value	Average adquisition/ sale price	Cost	Purchase option	Total
Balance at 01-01-04	10,021	(42)	-	(10)	(543)	(553)
Acquisitions	61,253	(257)	0.05632	(3,450)	-	(3,450)
Capital reduction from reduction of treasury shares	(68,970)	289	-	3,403	543	3,946
Balance at 31-12-04	2,304	(10)		(57)	-	(57)
Acquisitions	1,926	(21)	0.0489	(94)		(94)
Balance before the capital increase by increasing the par value of the shares charged to the share premium reserve	4,230	(31)		(151)		(151)
Balance after the capital increase by increasing the par value of the shares charged to the share premium reserve	4,230	(47)		(151)		(151)
Balance after the split of the par value of the shares	46,530	(47)		(151)		(151)
Disposals	(17,560)	18	0.00325	57		57
Balance at 31-12-05	28,970	(29)		(94)		(94)

The Board of Directors of the Company agreed on 27 July 2004 to empower the Chairman of the Board of Directors, so that in the name and behalf of the company he could acquire through purchase-sale, within a maximum period of 15 days, 578 shares, numbering from 29,604 to 30,181, both inclusive, fully subscribed and paid, at a price of Euros 6 Thousand.

The Extraordinary General Meeting of Shareholders agreed on 8 September 2004 to authorise the acquisition of 58,371 shares at a price of Euros 58.02 per share.

The Extraordinary General Meeting of Shareholders agreed on 30 November 2004 to authorise the acquisition of a maximum of 4,787 shares at a minimum and maximum price of Euros 21 and 50 per share, respectively. Finally, during 2004, 2,304 shares were acquired, failing to reach the 4,787 shares mentioned at said Meeting of Shareholders.

The Extraordinary General Meeting of Shareholders agreed on 8 September 2004 to reduce the share capital of the Company through the reduction and cancellation of 68,970 fully subscribed and paid ordinary registered shares with a par value of Euros 4.20 each.

(thousands of Euros)

On 21 January 2005, as the result of the exercising the option right on the purchase of shares of the Company held by ex-member of the management, 1,926 treasury shares were acquired for an amount of Euros 94 thousand.

The final purpose of the treasury shares is their sale.

13.4 Rules on the transfer of shares

On 25 March 2002 The Extraordinary General Meeting of Shareholders agreed to modify the share transfer rules set out in the Articles of Association, stipulating that *inter-vivo* voluntary share transfers for consideration would be permitted if made to a spouse, ascendants, descendants or brothers or sisters of the transferring shareholder or of another shareholder. In the event that the transfer is made to third parties a procedure has been set up through which the Company can exercise a preferential purchase option right.

Mortis causa transfers will be governed by the former share transfer limit rules.

Except for the 3i Capital Participation Agreement, by virtue of which the parties are subject to certain regulations on the transfer of shares, no restrictions have been adopted by the members of the governing, oversight and management bodies and top managers of the Company in relation to the disposal within a specific period of time of their shares in the Company. The 3i Capital Participation Agreement is expected to terminate once the company is floated on the Stock Exchange.

13.5 Share premium reserve

	Capital increase expenses	Share premium reserve	Total
At 1 January 2004	(33)	632	599
Capital increase	(878)	13,419	12,541
Balance at 31 December 2004	(911)	14,051	13,140
Increase in capital charges against the Share premium reserve		(13,568)	(13,568)
Balance at 31 December 2005	(911)	483	(428)

On 27 December 2004 the Extraordinary General Meeting of Shareholders of Renta Corporación Real Estate, S.A. agreed to increase the share capital of the Company, by issuing 138,299 shares with a par value of Euros 4.20 each, with a share premium of Euros 97.03 per share, which generated a share premium reserve of Euros 13,419 thousand. The capital increase expenses related to this operation totalled Euros 878 thousand net of the tax effect.The Spanish Companies Act expressly permits the use of the share premium balance to increase share capital and does not establish any restrictions in relation to the distributability of this balance.

As indicated in Note 13.2, share capital has been increased as a result of the increase of the par value of the shares in 2005 against the share premium reserve.

(thousands of Euros)

13.6 Main shareholders

The Company's main shareholders at 31 December 2005 holding more than 5% director indirect control are as follows:

Name	Number of shares			% of control
	Direct	Indirect	Total	
Luis Rodolfo Hernández de Cabanyes	1,000,450	8,205,505	9,205,955	41.942%
Fundación Renta Corporación	1,438,811	847,902	2,286,713	10.419%
3i Group Plc.	1,222,463	950,807	2,173,270	9.901%
Josep-Maria Farré Viader	25,135	1,684,287	1,709,422	7.789%
Esther Elisa Giménez Arribas	1,100	1,155,803	1,156,903	5.271%

14. Cumulative translation adjustment

Renta Properties UK, Ltd. was acquired in December 2004 and, accordingly, in that year no translation adjustments were generated. The movement in 2005 has been as follows:

	Translation
31 December 2004	-
Translation adjustments:	
– Group	(7)
– Associates	-
31 December 2005	(7)

(thousands of Euros)

15. Retained earnings and other reserves

	Legal reserve	Other reserves of the parent company	Reserves in fully consolidated companies	Reserves in companies consolidated by the equity method	Retained earnings	Total retained earnings and other reserves
Balance at 1 January 2004	**718**	**7,379**	**(3,413)**	**(20)**	**13,768**	**18,432**
Distribution of 2003 income	900	(516)	13,317	67	(13,768)	**-**
Dividends	-	9,584	(11,500)	-	-	**(1,916)**
Capital reduction	-	(3,114)	-	-	-	**(3,114)**
Income for the year	-	-	-	-	19,949	**19,949**
Balance at 31 Demember 2004	**1,618**	**13,333**	**(1,596)**	**47**	**19,949**	**33,351**
Distribution of 2004 income	**59**	**(1,007)**	**20,813**	**84**	**(19,949)**	**-**
Dividends	-	4,313	(7,300)	-	-	**(2,987)**
Profit obtainend with treasury shares	-	**104**	-	-	-	**104**
Income for the year	-	-	-	-	32,502	**32,502**
Balance at 31 December 2005	**1,677**	**16,743**	**11,917**	**131**	**32,502**	**62,970**

15.1 Movements in reserves and retained earnings during 2004

Legal reserve

Due to the fact that the legal reserve as per article 214 of the Spanish Companies Act was not fully constituted, the parent Company allocated Euros 900 thousand of 2003 profit to it until it reached 20% of share capital.

Other reserves of the parent company

The reserves of the parent company have been increased as a result of the receipt of dividends from its subsidiaries totalling Euros 11.500 thousand, and have decreased as a result of the distribution of a dividend of Euros 1,916 thousand, adopted by the General Meeting of Shareholders of 16 April 2004. In accordance with current legislation in Spain, the parent Company has a treasury shares reserve totalling Euros 57 thousand.

Reserves in fully consolidated companies

The movement in Reserves in fully consolidated companies in 2004 has been as follows:

(thousands of Euros)

	Renta Corporación Real Estate R.A. S.A.U.	Renta Corporación Real Estate G.O., S.L.U.	Renta Corporación Real Estate O.N., S.A.U. S.A.S.U.	Groupe Immobilier Renta Corporación S.L.	Renta Corporación Real Estate, Patrimonio	Total
Balance at 1 January 2004	(305)	(2,450)	(381)	(179)	(98)	(3,413)
Inclusion of 2003 income	3,162	7,419	1,988	(3)	751	13,317
Reclassification of 2004 dividends	(3,000)	(7,000)	(1,500)	-	-	(11,500)
Balance at 31 December 2004	(143)	(2,031)	107	(182)	653	(1,596)

The General Meeting of Shareholders of Renta Corporación Real Estate R.A., S.A.U, of 15 April 2004, agreed to distribute a dividend of Euros 3,000 thousand.

The General Meeting of Shareholders of Renta Corporación Real Estate G.O, S.L.U, of 15 April 2004, agreed to distribute a dividend of Euros 7,000 thousand.

The General Meeting of Shareholders of Renta Corporación Real Estate O.N., S.A.U, of 15 April 2004, agreed to distribute a dividend of Euros 1,500 thousand.

Reserves in companies consolidated by the equity method

The movement in Reserves in companies consolidated by equity accounting in 2004 has been as follows:

	Masella Oeste S.L.,	Total
Balance at 1 January 2004	(20)	(20)
Inclusion of 2003 results	67	67
Balance at 31 December 2004	47	47

Retained earnings

Retained earnings have increased as a result of the inclusion of 2004 profit of Euros 19,949 thousand.

15.2 Movement in retained earnings and reserves in 2005

Legal reserve

Due to the fact that the legal reserve as per article 214 of the Spanish Companies Act was not fully constituted, the parent Company allocated Euros 59 thousand of 2004 profit to it until it reached 20% of share capital.

(thousands of Euros)

Other reserves of the parent company

The reserves of the parent company have been increased as a result of the receipt of dividends from its subsidiaries totalling Euros 7,300 thousand, and have decreased as a result of the distribution of a dividend of Euros 2,987 thousand, adopted by the General Meeting of Shareholders of 3 March 2005, which had been proposed by the Board of Directors on 4 February 2005. In accordance with current legislation in Spain, the parent Company has treasury shares reserve totalling Euros 94 thousand.

The parent company has sold treasury shares for a profit amounting to Euros 104 thousand, increasing its reserves in the same amount.

Reserves in fully consolidated companies

The movement in Reserves in fully consolidated companies in 2005 has been as follows:

	Renta Corporación Real Estate R.A. S.A.U.	Renta Corporación Real Estate G.O., S.L.U.	Renta Corporación Real Estate O.N., S.A.U. S.A.S.U.	Groupe Immobilier Renta Corporación S.L.	Renta Corporación Real Estate, Patrimonio	Renta Properties (UK) Limited	Total
Balance at 31 December 2004	(143)	(2,031)	107	(182)	653	-	(1,596)
Inclusion of 2004 results	4,599	288	989	556	14,394	(13)	20,813
Reclassification of dividends for the year 2005	(3,000)	(2,800)	(1,500)	-	-	-	(7,300)
Balance at 31 December 2004	1,456	(4,543)	(404)	374	15,047	(13)	11,917

Reserves in companies consolidated by the equity method

The movement in Reserves in companies consolidated by equity accounting in 2005 has been as follows:

	Masella Oeste S.L.	Total
Balance at 31 December 2004	47	47
Inclusion of 2004 results	84	84
Balance at 31 December 2004	131	131

15.3 Legal reserve

This reserve is not available for distribution and if it is used to offset losses should no other reserves be sufficiently available, it must be replenished out of future profits.

(thousands of Euros)

15.4 Other reserves of the parent company

Under Spanish legislation, the Company must set up a treasury shares reserve in an amount equal to the amount paid for the acquisition of the treasury shares. The remainder is allocated to voluntary reserves, which are freely available for distribution.

15.5 Reserves in fully consolidated companies

Includes restricted reserves as follows:

	2005	2004
Renta Corporación Real Estate R.A., S.A.U.	100	100
Renta Corporación Real Estate G.O., S.L.U.	37	37
Renta Corporación Real Estate O.N., S.A.U.	24	24
Groupe Immobilier Renta Corporación, S.A.S.U.	4	-
Renta Corporación Real Estate Patrimonio, S.L.	1	1
Renta Properties (UK), Limited	-	-
	166	162

The individual reserves of each company, as well as results for the year, are freely distributable, due to the fact that there are no restrictions on their distribution.

15.6 Reserves in companies consolidated by the equity method

Includes restricted legal reserves totalling Euros 6 thousand in 2004 and Euros 38 thousand in 2005.

15.7 Profit for the year

The contribution of each company in the consolidation to consolidated income, and the part relating to minority interests is as follows:

Company	2005		2004	
	Consolidated income	Income attributed to minority interests	Consolidated income	Income attributed to minority interests
Renta Corporación Real Estate, S.A.	(2,872)	-	(947)	-
Renta Corporación Real Estate R.A., S.A.U.	7,049	-	4,599	-

(thousands of Euros)

Company	2005		2004	
	Consolidated income	Income attributed to minority interests	Consolidated income	Income attributed to minority interests
Renta Corporación Real Estate G.O., S.L.U.	12,329	-	288	-
Renta Corporación Real Estate O.N., S.A.U.	12,054	-	989	-
Groupe Immobilier Renta Corporación, S.A.S.U.	718	-	556	-
Renta Corporación Real Estate Patrimonio, S.L.	3,756	134	14,394	449
Renta Properties (UK), Limited	(491)	-	(13)	-
Masella Oeste S.L.	231	-	83	-
Mixta África S.A.	(272)	-	-	-
	32,502	**134**	**19,949**	**449**

The proposed distribution of 2005 results and other reserves of the parent Company to be presented to the General Meeting of Shareholders, as well as the adopted distribution for 2004 is as follows:

	2005	2004
Basis of distribution		
Income for the year	12,995	1,106
Distribution		
Legal reserve	1,300	58
Retained earnings	1,609	1,048
Dividends	10,086	-
	12,995	1,106

16. Minority interests

	Renta Corporación Real Estate Patrimonio, S.L.
1 January 2004	**21**
Share in income	449
31 December 2004	**470**
Share in income	134
31 December 2005	**604**

(thousands of Euros)

17. Trade and other payables

	2005		2004	
	Current	Non current	Current	Non current
Trade creditors	58,916	-	13,243	-
Amounts owing to related parties	629	-	905	-
Outstanding remuneration	819	-	1,000	-
Other payables	527	27	10,301	677
Deferred income	6,000	-	-	-
Deposits received from customers	11,362	-	1,051	-
Social Security and other taxes	2,965	-	3,614	-
	81,218	27	30,114	677

For the year ending 31 December 2005, current deferred income includes the income deferred for a sale that will accrue in 2006.

For the year ending at 31 December 2004, Other payables include the debt of certain purchase option premiums ceded to third parties amounting to Euros 8,500 thousand.

Other payables for the year 2004 include, amongst others, two income guarantee agreements with real estate companies, which are broken down by expiry as follows:

2005	2006	2007
620	629	48

Other payables for the year 2005 include with reference to the income guarantee agreements with real estate companies mentioned before, which are broken down by expiry as follows:

2006	2007
508	27

Other payables also includes, for the year ending at 31 December 2004, an amount pending payment of Euros 1,000 relating to the payment for the purchase of shares of the Company from one of its shareholders.

(thousands of Euros)

18. Borrowings

	2005	2004
Current		
Loans/credit facilities with financial institutions	51,118	18,474
Mortgage-backed loans	163,280	159,356
Amounts owing to third parties	700	660
Interest debt	1,031	430
Total borrowings	216,129	178,920

Although the maturity of certain financial payables is not current, they are classified as current, as is the asset financed, since they offset each other when the asset is sold.

The movement in borrowings during 2004 and 2005 have been as follows:

	Loans from financial institutions	Mortgage-backed loans	Amounts owing to third parties	Interest debt	Total
At 1 January 2004	23,585	86,660	1,486	1,005	112,736
Financing	180,270	194,742	660	-	375,672
Cancellation of financing	(185,381)	(122,046)	(1,486)	-	(308,913)
Interest charges	-	-	-	5,786	5,786
Interest paid	-	-	-	(6,361)	(6,361)
Balance at 31 December 2004	18,474	159,356	660	430	178,920
Financing	261,830	146,667	700	-	409,197
Cancellation of financing	(229,186)	(142,743)	(660)	-	(372,589)
Interest charges	-	-	-	7,501	7,501
Interest paid	-	-	-	(6,900)	(6,900)
Balance at 31 December 2005	51,118	163,280	700	1,031	216,129

The Group has credit facilities with the following amounts drawn and not drawn down and maximum credit limits at 31 December 2004 and 2005.

2005		2004	
Amount drawn down	**Maximum credit limit**	**Amount drawn down**	**Maximum credit limit**
51,117	75,207	18,474	55,345

Mortgage-backed loans are guaranteed by buildings owned by different Group companies and carried under inventories (Note 11).

(thousands of Euros)

The average interest rate obtained during 2004 fluctuated between 3% and 3.5% p.a. for mortgage-backed loans and credit facilities, while in 2005 the average interest rate for mortgage-backed loans and for credit facilities has been 3.5 %p.a.

Borrowings, at 31 December 2004, also includes the amounts received from third parties totalling Euros 660 thousand formalised by means of loan agreements maturing in 2005 and accruing interest at the rate of 10% p.a. At 31 December 2005 includes a new amount granted to Shonan Investments, S.L. totalling Euros 700 thousand and accruing interest at the rate of 3% p.a.

Interest accrued and not settled at the year 2004 and 2005 end totals Euros 430 and 1,031 thousand.

The book value of borrowings of Group is denominated in the following currencies:

	2005	2004
Euros	203,582	178,920
Pounds Sterling	12,547	-
	216,129	178,920

19. Deferred income tax

The gross movement in deferred income tax has been as follows:

	2005	2004
Opening balance	3,378	1,430
Charge to income (Note 27)	(3,183)	1,948
Closing balance	195	3,378

Deferred tax assets	Prepaid expenses for sales commissions	Prepaid expenses generated from amortisations	Deferral of income	Others	Total
At 1 January 2004	-	158	1,365	6	1,529
(Charge) / credit to income	202	38	1,610	(1)	1,849
(Charge) credit to equity	-	-	-	-	-
At 31 December 2004	202	196	2,975	5	3,378
(Charge) / credit to income	(202)	(17)	(2,975)	11	(3,183)
(Charge) credit to equity	-	-	-	-	-
At 31 December 2005	-	179	-	16	195

There are no significant unrecognised deferred tax assets and liabilities.

(thousands of Euros)

20. Revenue and other income

20.1 Revenue

The breakdown of revenue is as follows:

	2005	2004
Sales	320,843	218,513
Services	-	1,076
Revenue (Note 6)	320,843	219,589

Services basically include income from various services related to the activity of the Group.

20.2 Other income

The breakdown of other income is as follows:

	2005	2004
Income from operating leases (Note 11)	2,535	3,046
Other income	723	117
Total other income	3,258	3,163

21. Purchase costs and changes in inventories

The breakdown of this account is as follows:

	2005	2004
Purchases of buildings and refurbishment costs	330,577	257,711
Variation in inventories	(87,635)	(88,331)
Variations in provision for inventories	(250)	289
Total consumption of goods sold (Note 11)	242,692	169,669

(thousands of Euros)

22. Amortisation, depreciation and impairment for losses

The breakdown is as follows:

	2005	2004
Depreciation of property, plant and equipment	175	130
Amortisation of intangible assets	16	10
Loss on uncollectible loans	99	154
	290	294

23. Other operating expenses and local taxes

23.1 Other operating expenses

The breakdown of this account is as follows:

	2005	2004
Leases	577	429
Repairs and maintenance	210	145
Professional and brokering services	6,979	5,665
Insurance premiums	330	235
Banking services	645	355
Publicity, advertising and public relations	2,664	1,854
Supplies	409	299
Other services	1,711	1,471
	13,525	10,453

Professional and brokering services mainly includes brokering commissions and the cost of advisors and lawyers.

23.2 Local taxes

Local taxes basically include special local taxes and non-refundable Value-Added Tax.

24. Employee benefit expense

The breakdown of employee benefit expense is as follows:

	2005	2004
Wages, salaries and severance payments (2004: Euros 284 thousand and 2005 Euros 429 thousand)	7,964	6,589
Social Security expenses	976	748
Other social expenses	159	95
Defined contribution plan	26	-
	9,125	7,432

25. Operating leases

The minimum future payables for irrevocable operating leases are as follows:

	2005	2004
Less than 1 year	392	350
Between 1 and 5 years	562	758
More than 5 years	-	-
	954	1,108

The expense recognised in the profit and loss account for the year relating to operating leases totals Euros 577 thousand (2004: Euros 429 thousand).

In the operating lease agreements executed by different Group companies, the asset leased relates to the buildings in which the central offices of the parent company are located, as well as the offices of national and foreign branches. The main information on these agreements is as follows:

Group Company	Asset leased	Location	Expiry of rental agreement (Thousand Euros)	Monthly rental payment (Thousand Euros)
Renta Corporación Real Estate R.A., S.A.U.	Head Office	Barcelona	1-09-07	2
Renta Corporación Real Estate R.A., S.A.U.	Head Office	Barcelona	1-01-08	2
Renta Corporación Real Estate R.A., S.A.U.	Head Office	Barcelona	1-01-08	2
Renta Corporación Real Estate, S.A.	Head Office	Barcelona	1-02-08	3
Renta Corporación Real Estate, S.A.	Head Office	Barcelona	1-03-08	8
Renta Corporación Real Estate R.A., S.A.U.	Branch	Madrid	31-08-08	5
Renta Corporación Real Estate R.A., S.A.U.	Branch	Malaga	30-09-10	1
Renta Corporación Real Estate R.A., S.A.U.	Branch	Seville	1-08-07	1
Groupe Immobilier Renta Corporacion, S.A.S.U.	Branch	Paris	28-02-08	6
Renta Properties (UK), Limited	Branch	London	27-01-10	4

(thousands of Euros)

26. Financial expenses

The breakdown of Net financial expense is as follows:

	2005	2004
Interest expense:		
– Interests from banks	(5,101)	(5,478)
– Remuneration from join ventures contracts	-	(898)
– Other	-	(18)
	(5,101)	**(6,394)**
Interest income:		
– Other	194	380
– Loans to related parties (Note 34)	-	219
	194	**599**
Net financial expense	**(4,907)**	**(5,795)**

Remuneration from joint ventures includes the amount accrued from the results of operations with joint venture partners in 2004, arising from contributions made for the participation in certain operations instrumentalised through these joint ventures in which the manager (Renta Corporación Real Estate R.A., S.A.U.) is responsible to the joint venture partners for all its equity and that of the holding company Renta Corporación Real Estate, S.A. During 2005 no joint ventures contracts have been entered into.

In the cash flow statement, interest paid includes:

	2005	2004
Interests from banks	5,101	5,478
Remuneration from join ventures contracts	-	898
Provision for interest accrued and not paid at the beginning of the year	430	1,005
Provision for interest accrued and not paid at the end of the year	(1,031)	(430)
Interest capitalised in inventories	3,190	1,753
	7,690	8,704

In the cash flow statement, interest received includes:

	2005	2004
Interest income	194	599
Provision for interest accrued and not collected at the beginning of the year	211	-
Provision for interest accrued and not collected at the end of the year	(6)	(211)
	399	388

(thousands of Euros)

27. Income tax

The income tax for the year is broken down as follows:

	2005	2004
Current tax	12,922	7,248
Deferred tax (Note 19)	3,183	(1,948)
	16,105	5,300

The current tax charge is made up as follows:

	2005	2004
Profit before income tax	48,741	25,698
Tax rate	35%	35%
Theoretical tax expense	17,059	8,994
Non-deductible expenses	(23)	78
Differences for using different tax rates	(822)	(3,567)
Reversal deferred tax liabilities	-	(99)
Deductions	(109)	(106)
Income tax for the year	16,105	5,300

The current tax charge is made up as follows:

	2005	2004
Current tax of companies taxed under the consolidation tax regime	12,453	4,040
Current tax of Renta Corporación Real Estate Patrimonio, S.L.	739	2,565
Current tax of Groupe Immobilier Renta Corporacion, S.A.S.U.	165	171
Current tax of Renta Properties (UK), Limited	(435)	-
Tax effect of IFRS adjustment	-	472
	12,922	7,248

The current tax liability is broken down as follows:

	2005	2004
Charge for current tax	12,922	7,248
Withholding and payments on account of corporate income tax of companies taxed under the consolidation tax regime	(625)	(115)
Withholding and payments on account of corporate income tax Renta Corporación Real Estate Patrimonio, S.L.	(645)	(155)
Withholding and payments on account of corporate income taxGroupe Immobilier Renta Corporacion, S.A.S.U.	(165)	-
Tax credit of Renta Properties (UK), Limited	435	-
Tax effect of IFRS adjustment	-	(472)
	11,922	6,506

(thousands of Euros)

In the cash flow statement, taxes paid include:

	2005	2004
Tax accrued	12,922	7,248
Current tax liability at beginning of the year	6,506	5,401
Current tax liability at the year end	(11,922)	(6,506)
	7,506	6,143

27.1 Consolidated taxation

As the Company meets the requirements set down in the Group Companies Corporate Income Tax Regime Chapter 7, Section 8 of Law 43/1995 of 27 December, it filed as parent company, for the first time in 2002, a consolidated tax return in conjunction with Renta Corporación Real Estate R.A., S.A.U., Renta Corporación Real Estate G.O., S.L.U. and Renta Corporación Real Estate O.N., S.A.U.

Due to the fact that certain operations are treated differently for corporate income tax purposes, and for the purposes of these financial statements, the taxable income for the year differs from accounting profit.

The reconciliation between accounting profit and taxable income for corporate income tax purposes is as follows:

	2005	2004
Consolidated profit	32,636	20,398
Deferred tax (Note 19)	3,183	(1,948)
Current tax	12,922	7,248
Results before tax	48,741	25,698
Effect of the transition to IFRS	(9,109)	3,920
Elimination of results of companies not belonging to the tax consolidation group		
- Renta Corporación Real Estate Patrimonio, S.L.	(5,141)	(17,310)
- Groupe Immobilier Renta Corporación, S.A.S.U.	(393)	(683)
- Renta Properties (UK) Limited	1,860	-
- Share in the profits of Masella Oeste, S.L. (equity method)	(231)	(84)
- Share in the losses of Mixta África, S.A. (equity method)	272	-
Non-deductible expenses for consolidation adjustments	(396)	12
Non-deductible expenses of individual companies		
-Non-deductible expenses	1	5
-Donations to Fundación Privada Renta Corporación	288	289
Taxable income	35,892	11,847

(thousands of Euros)

The current income tax charge comes to 35% of the taxable income for corporate income tax purposes less the respective deductions:

	2005	2004
Taxable income	35,892	11,847
Tax rate	35%	35%
Tax	12,562	4,146
Professional training deduction	8	5
Deduction for contribution to Fundación Privada Renta Corporación	101	101
Current tax charge	12,453	4,040

The parent Company and its subsidiaries have withheld and paid corporate taxes on account as follows:

	2005	2004
Withholding tax	100	62
Payments on account of corporate income tax	524	53

At 31 December 2004 and 2005, neither the parent company nor its subsidiaries have outstanding deductions available for offset.

27.2 Renta Corporación Real Estate Patrimonio, S.L.

The Group company Renta Corporación Real Estate Patrimonio, S.L. avails itself of the tax regime for investment entities.

The reconciliation between accounting profit and taxable income is as follows:

	2005	2004
Results of Renta Corporación Real Estate Patrimonio, S.L.	4,403	14,745
Corporate income tax	739	2,565
Profit before income tax	5,142	17,310
Non tax-deductible expenses	(307)	20
Taxable income	4,835	17,330

(thousands of Euros)

The current income tax charge for 2004 and 2005 is as follows:

	2005			2004		
			Total			**Total**
Taxable income	4,779	56	**4,835**	17,469	(139)	**17,330**
Tax rate	15%	40%		15%	40%	
Tax	717	22	**739**	2,620	(55)	**2,565**

Renta Corporación Real Estate Patrimonio, S.L. has withheld and paid corporate taxes on account as follows:

	2005	2004
Withholding tax	-	38
Payments on account of corporate income tax	645	117

27.3 Other aspects

All the companies in the consolidation scope are open to tax inspection for all the applicable taxes as from their incorporation, except for Renta Corporación Real Estate R.A., S.A. which is open to inspection by the Tax Authorities for the last four years for all main taxes applicable.

As a result, amongst other things, of the different interpretations to which Spanish tax legislation lends itself, additional tax liabilities may arise in the event of a tax inspection. The Directors of the parent Company consider, however, that any additional assessments that might be made would not significantly affect these financial statements.

28. Net profit / (loss) on exchange

The exchange differences (charged) / credited to the profit and loss account include the following items and amounts:

	2005	2004
Loss on exchange	59	-
Gains on exchange	(4)	-
	55	-

29. Earnings per share

29.1 Basic

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the average weighted number of ordinary shares in circulation during the year, excluding treasury shares acquired by the Company (Note 13).

In view of the fact that on 22 April 2005 a share split took place, and the number of shares in circulation was set at 21,949,301 (Note 13), the calculation of the basic earnings per share has been adjusted retrospectively for 2004.

	2005	2004
Profit attributable to the Company's shareholders	32,502	19,949
Average number of ordinary shares in circulation	21,911,437	20,802,391
Basic earnings per share (euros per share)	1.48	0.96

29.2 Diluted

Diluted earnings per share are calculated by adjusting the average weighted number of ordinary shares in circulation in order to reflect the conversion of all the potential dilusive ordinary shares. The company only has one class of ordinary dilusive shares, stock options.

As indicated above, there was a share split and, consequently the calculation of the diluted earnings per share has been retrospectively adjusted for 2004.

	2005	2004
Profit attributable to the Company's shareholders (Thousand Euros)	32,502	19,949
Average number of ordinary shares in circulation	21,911,437	20,802,391
Adjustment for stock options	-	(21,076)
Average number of ordinary shares for the purposes of calculating diluted earnings per share	21,911,437	20,781,315
Diluted earnings per share (euros per share)	1.48	0.96

30. Dividends per share

Dividends paid in 2004 and 2005 are as follows:

	2005	2004
Dividends paid (Thousand Euros)	2,987	1,916
Dividend per share (euros per share)	1.5	1

The General Meeting of Shareholders of 16 April 2004 adopted a resolution to pay a dividend of Euros 1,916 thousand against 2003 profit, which is a dividend of Euro 1 per share. At the time of the dividend payout there were 1,916,043 shares with the right to receive the dividend.

The Extraordinary General Meeting of Shareholders of 3 March 2005 adopted a resolution to pay an extraordinary dividend against voluntary reserves made up of undistributed profit totalling Euros 2,987 thousand, which is a dividend of Euros 1.5 per share. At that time there were 1,991,161 shares with the right to receive the dividend.

The distribution of a dividend per share of Euros 0.46 for share for 2005 has been proposed at the General Meeting of Shareholders of 9 February 2006. These consolidated financial statements do not reflect this dividend.

On 22 April 2005 the Extraordinary General Meeting of Shareholders agreed to increase the share capital of the Company by raising the par value of the shares by Euros 6.80 each, charged against the share premium reserve, and maintaining the same number of shares, so that the share capital after the increase came to Euros 21,949 thousand, with the number of shares in circulation totalling 1,995,391, with a par value of Euros 11 each (Note 13.2). In comparative terms, the dividend per share on the results for the year ended 31 December 2004 paid out in 2005 would amount to Euros 0.14 per share.

31. Cash generated from operations

	Note	2005	2004
Profit for the year attributable to company shareholders		32,502	19,949
Minority interests		134	449
Consolidated profit for the year		32,636	20,398
Adjustments for:			
– Taxes	27	16,105	5,300
– Depreciation of property, plant and equipment	7	175	130
– Amortisation of intangible assets	8	16	10
– (Profit)/loss on the disposal of property, plant and equipment (see below)		-	54
– Interest income	26	(194)	(599)
– Interest expense	26	5,101	6,376
– Loss in fair value of available-for-sale financial assets	26	-	18

(thousands of Euros)

	Note	2005	2004
– Participation in the loss / (profit) of associates	**9**	41	(84)
– Cumulative translation adjustment	**14**	(7)	-
Variations in working capital			
– Inventories		(96,316)	(92,224)
– Interest capitalised in inventories		3,190	1,753
– Trade and other accounts receivable		(36,810)	(10,135)
– Prepayments		(54)	(12)
– Trade and other payables - long-term		(650)	(2,903)
– Trade and other payables		51,104	3,071
Cash used in operations		(25,663)	(68,847)

In the cash flow statement, the income from the sale of property, plant and equipment includes:

	2005	2004
Book value (Note 7)	-	59
Profit / (loss) on the disposal of property, plant and equipment	-	(54)
Amount collected from the disposal of property, plant and equipment	-	5

In the cash flow statement, the income from the disposal of available-for-sale financial assets includes:

	2005	2004
Book value	8	50
Profit / (loss) on the disposal of available-for-sale financial assets	-	(18)
Amount collected from the disposal of available-for-sale financial assets	8	32

32. Contingencies

There are no, nor have there been, any governmental, legal, judicial or arbitrational proceedings (including those underway or pending resolution or those that the Directors are aware of that would affect the Company or the Group companies) that have had in the recent past or could have in the future significant effects on the Company or on the profitability of the Group.

The Group has been involved in a limited number of litigations. The matters and amounts involved are not significant or relevant, and generally concern issues relating to the refurbishment terms of the buildings or preference acquisition rights.

(thousands of Euros)

33. Commitments

Because of the Group's activity, the tangible assets balance is not significant, and, consequently there are no specific commitments on these assets.

At 31 December 2005, the Group is the guarantor to third parties and banks for guarantees amounting to Euros 19,724 thousand, and to associates for guarantees up to a maximum amount of Euros 180 thousand. These guarantees are basically required to guarantee the deposits received from customers and are carried under Trade and other payables. They are also required to guarantee future payments on purchases with deferred payment.

At 31 December 2005 Renta Corporación Real Estate, S.A. is the guarantor for Renta Corporación Real Estate R.A., S.A. of credit facilities totalling a maximum of Euros 129,684 thousand. Renta Corporación Real Estate R.A., S.A. has received guarantees of credit facilities totalling a maximum of Euros 4,000 thousand from Renta Corporación Real Estate R.A., S.A.

"Inventories" includes the premiums on the purchase options paid by the Group for the acquisition of real estate. Purchase options at 31 December 2005 and 2004 are broken down in the following table:

	2004	2005	% variac.
Number of purchase options	15	29	93.3%
Premium on purchase options paid	8,249	16,680	102.2%
Underlying asset optioned	146,002	517,764	251.5%

During 2005 there have been two purchase options vested and not executed at maturity, with an associated loss of Euros198 thousand.

At 31 December 2005 there are no relevant intragroup contracts or contracts with third parties other than those used in course of the Group's ordinary business that could give rise to significant obligations for the Group.

(thousands of Euros)

34. Related party transactions

34.1 Identification of related companies and parties

34.1.1 Members of the governing bodies of Renta Corporación Real Estate, S.A.

We set out below the composition of the Board of Directors and the status of its members in accordance with the Articles of Association and the Regulations of the Board of Directors of the Company:

Name	Office	Nature of office
Luis Rodolfo Hernández de Cabanyes	Chairman	Executive
Anna M. Birulés Bertran	Vice-Chairwoman	Executive
Josep-Maria Farré Viader	Chief Executive Officer	Executive
Esther Elisa Giménez Arribas	Director	Executive
Elena Hernández de Cabanyes	Director	Other external
Carlos Tusquets Trias de Bes	Director	External
Pedro Nueno Iniesta	Director	External Independent
César A. Gibernau Ausió	Director and Secretary	External Independent

34.1.2 Key directors of the company

The key directors of the Company are those persons that form part of the Management Committee, 16 persons to be exact, including the above-mentioned four executive members of the Board.

34.1.3 Control of the Board of Directors in the share capital of Renta Corporación Real Estate, S.A.

The Members of the Board of Directors have the following interests or control at 31 December 2005:

Name	Number of shares		% of control	
	Direct	Indirect	Total	
Luis Rodolfo Hernández de Cabanyes	1,000,450	8,205,505	9,205,955	41.942%
Anna M. Birulés Bertran	343,222	-	343,222	1.564%
Josep-Maria Farré Viader	25,135	1,684,287	1,709,422	7.789%
Esther Elisa Giménez Arribas	1,100	1,155,803	1,156,903	5.271%
Elena Hernández de Cabanyes	732,336	-	732,336	3.336%
Carlos Tusquets Trias de Bes	-	325,985	325,985	1.485%
Pedro Nueno Iniesta	-	225,522	-	1.027%
César A. Gibernau Ausió	221,320	-	221,320	1.008%

(thousands of Euros)

34.2 Sales of inventories, rendering of services and financial income

	2005	2004
Sale of inventories:		
Companies related by common shareholders		
- Second House Rehabilitación, S.L.	7,589	-
- Alta Business Serveis, S.L.	278	338
- Farfig 1988, S.L.	-	160
- Alderamin Star, S.L.	-	260
	7,867	**758**
Key management personnel and directors	1,060	320
Total sale of assets:	**8,927**	**1,078**

Additionally, Alderamin Star, S.L. in 2005 has paid deposits for the acquisition of flats from the Group in the amount of Euros 296 thousand.

	2005	2004
Rendering of services:		
Companies related by common shareholders		
- Second House, S.L.	1,851	1,135
- Alderamin Star, C.B.	255	-
- Lueco, S.A.	-	12
	2,106	**1,147**
Key management personnel and directors	-	-
Total rendering of services:	**2,106**	**1,147**

Services rendered to Second House, S.L. include the reinvoicing of building transformations managed by the Group.

	2005	2004
Financial income:		
Companies related by common shareholders		
- Second House, S.L.	56	49
- Second House Rehabilitación, S.L.	-	16
- Lueco, S.A.	53	154
- Shonan Investments, S.L.	5	-
	114	**219**
Key management personnel and directors	-	-
Total financial income:	**114**	**219**

(thousands of Euros)

34.3 Purchases of assets, services received and financial expenses

	2005	2004
Services received:		
Companies related by common shareholders		
- Second House, S.L.	1,752	837
- Second House Rehabilitación, S.L.	315	585
- Shonan Investments, S.L.	410	-
- Seguros Closa	315	233
- Fundación Privada Renta Corporación (donación)	288	288
- Gibernau & Plana Asociados	140	98
- Instituto Internacional de Finanzas, S.L.	96	88
- Lueco, S.A.	39	127
- Near Technologies, S.L.	38	-
- GP Consulting, S.L.	14	-
- Alta Business Serveis, S.L.	-	940
- 3i Group Plc	-	600
	3,407	**3,796**
Key management personnel and directors	-	-
Total services received:	**3,407**	**3,796**

On 12 December 2005 the Board of Directors adopted a resolution to formalise the criteria being followed in commercial relations between Renta Corporación Real Estate, S.A. and Second House, S.L. To this purpose, on 28 December 2005 the respective agreement was entered into by these parties, which regulates in detail the commercial relations between the two companies in order to guarantee maximum transparency and the application of market prices to operations undertaken between them.

	2005	2004
Financial expense:		
Key management personnel and directors	5	-
Total financial expenses:	**5**	**-**

On 19 July 2004, 57,834 shares in Second House, S.L. for Euros 58 thousand. That same year 50,027 shares were sold for Euros 32 thousand, generating a loss of Euros 18 thousand.

34.4 Remuneration paid to Members of the Board of Directors of the Company

We set out below a table showing the remuneration received only by Members of the Board of Directors of the Company in 2005 and 2004:

(thousands of Euros)

	2005	2004
Attendance at meetings of the Board of Directors / Delegated Committees	142	36

The total amount in life and accident insurance premiums as well as civil liability insurance premiums paid by the Company for Members of the Board of Directors and top managers totals Euros 1 thousand and Euros 24 thousand, respectively, in 2005. Furthermore, the total amount of medical insurance premiums paid by the Company for top management and executive directors of the Company total Euros 1 thousand.

34.5 Salaries and other contributions of key management, directors and Members of the Board

	2005	2004
Salaries and other contributions to Board Executive members	1,916	1,391
Salaries and other remuneration to the rest of key directors and managers	1,918	1,237
	3,834	**2,628**

There is a golden parachute clause for a key director which sets down an additional amount over and above the legal indemnity in the event of involuntary removal from office in the first eight years. This amount is equal to Euros 625,000 minus the amount stipulated by law.

34.6 Year end balances arising from sales and purchases of assets and services

	2005	2004
Accounts receivable		
Companies related by common shareholders		
- Second House, S.L.	-	1,088
	-	1,088
Key management personnel and directors	250	-
Total accounts receivable	**250**	**1,088**
	2005	**2004**
Accounts payable		
Companies related by common shareholders		
- Second House, S.L.	619	902
- Near Technologies, S.L.	4	-
- Lueco, S.A.	6	3
	629	905
Key management personnel and directors	-	-
Total accounts payable	**629**	**905**

(thousands of Euros)

34.7 Loans to related parties

Entity/person	Date	Capital	Interest rate	Maturity date
Lueco, S.A.	01-06-04	5,000	Euribor 3 months + 0.75%	Annual tacit extension
Second House, S.L.	27-09-04	6,000	Euribor 3 months + 0.75%	Annual tacit extension
Second House Rehabilitación, S.L.U.	12-01-04	1,500	Euribor 3 months + 0.75%	Annual tacit extension
Shonan Investments, S.L.	26-09-05	700	3%	1 year
Josep-Maria Farré Viader	23-12-03	394	0%	4 years
Josep-Maria Farré Viader	03-10-05	-700	3%	1 year
Subtotal J.M.F.V. y Shonan Investments, S.L.		394		
Pere Arimon and Esther Giménez	21-01-03	150	0%	

Entity/person	Balance 31-12-04	Balance 31-12-05	Maturity date
Lueco, S.A.	4,588	-	16-06-05
Second House, S.L.	4,541	-	28-06-05
Second House Rehabilitación, S.L.U.	106	-	03-01-05
	9,235	-	
Shonan Investments, S.L.	-	700	13-01-06
Josep-Maria Farré Viader	361	79	
Josep-Maria Farré Viader	-	-700	13-01-06
Subtotal J.M.F.V. y ShonanInvestments, S.L.	361	79	
Pere Arimon and Esther Giménez	60	-	31-12-04

34.8 Shareholdings of the Members of the Board of Directors

In accordance with the provisions of article 127.3.4 of the Spanish Companies Act, introduced by Law 26/2003 of 17 July, which modified the Stock Exchange Act, Law 24/1988, of 28 July and the Spanish Companies Act, in order to reinforce the transparency of public limited companies, we set out below the companies with the same, analogous or complementary activity as that which constitutes the corporate purpose of the Company in which Members of the Board of Directors hold an interest, including the shareholdings that they hold in group companies and the offices and functions, as the case may be, they hold therein:

Name	Name of company	Shareholding	Office or functions
Luis Rodolfo Hernández de Cabanyes	RENTA CORPORACIÓN REAL ESTATE PATRIMONIO, S.L.	3% direct	Sole Administrator
	SECOND HOUSE, S.L.	6.53% direct 40.77% indirect	-
	LUECO, S.A.	40.00%	Sole Administrator
	FINANTING 2001, S.L.	43.15% direct 20% indirect	-

(thousands of Euros)

Name	Name of company	Shareholding	Office or functions
Luis Rodolfo Hernández de Cabanyes	AURODOC 75, S.L.	43.15% direct 20% indirect	-
	TOGA 20, S.L.	43.15% direct 20% indirect	-
	SDEEGTUTERS, S.L.	43.15% direct 20% indirect	-
	DINOMEN, S.L.	43.15% direct 20% indirect	Sole Administrator
	ALDERAMIN STAR, S.L.	100% owned by 100% DINOMEN, S.L. %	Sole Administrator
Anna M. Birulés Bertran	SECOND HOUSE, S.L.	1.50%	-
Josep-Maria Farré Viader	SECOND HOUSE, S.L.	3.73% direct 1.95% indirect	-
	LUECO, S.A.	7.00%	-
	SHONAN INVESTMENTS, S.L.	74.71%	-
Esther Elisa Giménez Arribas	SECOND HOUSE, S.L.	4.13%	-
	LUECO, S.A.	5.00%	-
	ANPOL CAPITAL, S.L.	48.387%	Sole Administrator
	TOGA 20, S.L.	-	Sole Administrator
Elena Hernández de Cabanyes	SECOND HOUSE, S.L.	3.66%	Sole Administrator
	SECOND HOUSE REHABILITACION, S.L.	-	Sole Administrator
	LUECO, S.A.	4.00%	-
	PROMOTORA DE INDUSTRIAS GRÁFICAS, S.A.	2.00%	-
César A. Gibernau Ausió	SECOND HOUSE, S.L.	1.05%	-
	CHARCEBOY, S.L.	10.91%	-
	GP CONSULTING, SL.	11.96% indirect	General power
Carlos Tusquets Trias de Bes	LIFE MARINA IBIZA, S.L.	6.54%	-

35. Subsequent events

On 9 February 2006 the Ordinary General Meeting of Shareholders adopted a resolution, amongst others, to undertake an Initial Public Offering in order to float the company on the Stock Exchanges of Madrid and Barcelona.

(thousands of Euros)

36. Other information

36.1 Average number of employees of the Group by category

	2005	2004
Managers	3	3
Sales personnel	39	36
Administrative personnel	29	21
Skilled experts	7	2
Legal personnel	7	7
Services personnel	3	3
TOTAL	88	72

36.2 Audit fees

The fees accrued to PricewaterhouseCoopers Auditores, S.L. for auditing services, totals Euros 191 thousand in 2005 (Euros 95 thousand in 2004).

37. Environment

The parent Company and its subsidiaries have adopted the necessary measures to protect and improve the environment and minimise, as the case may be, environmental impact, by complying with current legislation in force. During the year the parent Company and its subsidiaries have not made environment-related investments or incurred expenses to protect and improve the environment, and, furthermore, they have not considered it necessary to set up any provisions for liabilities and charges of an environmental nature as they have no contingencies related to the protection and improvement of the environment or liabilities of an environmental nature.

APPENDIX I

Subsidiaries included in the consolidation

Registered name	Registered office	Shareholding		Company holding title	Activity	Auditor
		Cost in Thousand Euros	% of nominal			
Renta Corporación Real Estate R.A., S.A.U.	Avda. Diagonal 449, Barcelona (Spain)	1,346	100%	Rent Corporación Real Estate, S.A.	(1)	PwC
Renta Corporación Real Estate G.O., S.L.U.	Avda. Diagonal 449, Barcelona (Spain)	183	100%	Rent Corporación Real Estate, S.A.	(2)	PwC
Renta Corporación Real Estate Patrimonio, S.L. (*)	Avda. Diagonal 449, Barcelona (Spain)	3	96.97%	Rent Corporación Real Estate, S.A.	(2)	PwC
Renta Corporación Real Estate O.N., S.A.U.	Avda. Diagonal 449, Barcelona (Spain)	546	100%	Rent Corporación Real Estate, S.A.	(3)	PwC
Groupe Immobilier Renta Corporación, S.A.S.U.	Paris (France)	38	100%	Rent Corporación Real Estate, S.A.	(1)	PwC
Renta Properties (UK), Limited	London (Great Britain)	1	100%	Rent Corporación Real Estate, S.A.	(2)	PwC
One Vincent Square, Limited	London (Great Britain)		100%	Renta Properties (UK) Limited	(2)	PwC
RC Real Estate Deutschland GMBH	Berlin (Germany)	25	100%	Rent Corporación Real Estate, S.A.	(1)	Unaudited

(*) On 9 February 2006 the registered name of this company will change to Renta Corporacion Real Estate Finance, S.L.

The date of the closing of the financial statements is 31 December.

Activity:

(1) Residential refurbishment
(2) Building transformation
(3) Land transformation

APPENDIX II

Associates included in the consolidation

Registered name	Registered office	Shareholding		Company holding title	Activity	Auditor
		Cost in Thousand Euros	% of nominal			
Masella Oeste, S.L.	Avda. Diagonal 449, Barcelona (Spain)	116	40%	Rent Corporación Real Estate, O.N., S.A.U.	(6)	Unaudited
Mixta África, S.A.	Avda. Diagonal 443, Barcelona (Spain)	288	48%	Rent Corporación Real Estate, S.A.	(4)	Unaudited
RC Fundación Marruecos Tánger, Sarl	Rue du Liban, 43 Tangiers (Morrocco)	-	48%	Mixta África, S.A.	(5)	Unaudited

The date of the closing of the financial statements is 31 December

Activity:

(4) Holding company
(5) Company engaged in the construction of social housing
(6) New buildings promotion

c. Directors' Report

1. Evolution of the business

Ordinary income totals Euros 320.8 million, an increase on 2004 of Euros 101.3 million, or 46%, both years under International Financial Reporting Standards (IFRS). Consolidated operating profit has totalled Euros 53.7 million, an increase above 70%, while consolidated profit for the year attributable to shareholders has totalled Euros 32.5 million, an increase of 63% on last year.

The 41% growth in operating expenses as a whole is lower than the increase in income, which has led to an improvement in operating margin. The combination of greater efficiency of investment in terms of size / profitability, and a high level of cost efficiency, in spite of the increase in business volume, has made this improvement possible.

Financial costs have been slightly lower than last year, in spite of the growing investments of the group. The company has been able to offset the cost of the increase in operations by improving the structure and cost of financing. Local taxes in 2005 have increased significantly against the 2004 figure, due to the fact that in 2004 sales of certain buildings benefited from lower tax rates in force at that time.

The increase by Euros 12.6 million in consolidated profit attributable to shareholders, bearing in mind the change in the number of shares due to the capital increase operations against reserves and the split carried out during the year, has led to an increase of 54% against 2004, in comparative terms, of basic earnings per share, which have risen from Euros 0.96 to Euros 1.48 per share.

The growth in assets managed by the group is reflected in the main balance sheet figures, which reflect an increase in total assets of Euros 122.8 million.

Euros 323.5 million in land, buildings in inventories represents 82% of assets, an increase of Euros 96.3 million on 2004. This figure is especially relevant since it is an increase of 42%, and reflects the effect of the purchases of buildings made during 2005 which, at the year end, are now in the transformation phase.

The same account includes the amounts paid for the acquisition of investment options on buildings. These amounts total Euros 16.7 million at 31 December 2005, compared to Euros 8.2 million at the 2004 year end.

Net equity has reached Euros 85 million, an increase of Euros 29.7 million on 2004, which is an increase of 54% and reflects the inclusion of results for the year as well as certain adjustments to reserves as a result of the adoption on 1 January 2005 of International Financial Reporting Standards (IFRS).

Throughout 2005 different operations have been undertaken in order to adjust the par value and number of shares representing share capital to those normally used in the market.

Thus, by virtue of the resolution adopted by the Extraordinary General Meeting of Shareholders of 22 April 2005, capital was increased by Euros 13.6 million against share premium reserves. This increase was carried out through an increase in the unit par value of the shares, which rose to Euros 11. As a result of this operation capital totals Euros 21.9 million, without modifying the net Equity.

In addition and in order to put a larger number of shares into circulation, the same Shareholders Meeting adopted a resolution to split the number of shares by decreasing their unit value to Euro 1. As a result, there are now approximately 21.9 million shares in circulation.

Financial debt, according to the financial section above, represents 55% of net equity and liabilities as a whole. The ratio of debt to net equity is 2.5, a considerable reduction from 3.2 at the 2004 year end, in spite of the increase in activity. This has been due to the earnings reinvestment policy and the generation of a large profit for the year.

Creditors and other payables includes collections received as purchase commitments for building sale operations to be executed in the forthcoming months. This balance totals Euros 11.4 million, Euros 10.3 million more than at the 2004 year end.

2. Business evolution

The results obtained in 2005 confirm the positive development of the business model of Renta Corporación, based on the purchase, transformation and sale of large buildings with high levels of turnover.

Renta Corporación has grown also by expanding its business model, consisting of the acquisition, transformation and sale of urban buildings, in two major ways: expansion of the type of product acquired, types of buildings acquired, and, on the other hand, extending operations of the group geographically.

Thus, since its beginning, Renta Corporación has evolved and advanced in the development and steady consolidation of its business model. At the same time, the Company has maintained in the last few years a stiff growth rate, establishing a solid record of profits - especially strong, sustained increases in turnover and profit - while maintaining high levels of profitability.

The company plans to continue applying these strategies over the next few years in order to favour growth and does not foresee substantial changes being made to its business model.

3. Research and development

Due to the nature of the Group's activity, it does not make any investments in research and development.

4. Treasury shares

During 2005 the company has acquired 1,926 treasury shares (before the split) and has sold 17,659 treasury shares.

At 31 December 2005 the parent company held a total of 28,970 treasury shares, representing 0.13% of share capital. The par value of these shares totals Euros 29 thousand. The parent company has set up the respective treasury share reserve at 31 December 2005.

5. Subsequent events

The Extraordinary General Meeting of Shareholders of Renta Corporación of 9 February 2006 adopted a resolution to float the company on the Madrid and Barcelona Stock Exchanges and register it with the Sistema de Interconexión Bursátil Español (S.I.B.E. or Continuous Market) through which all its shares will be traded.

The Appointments and Remuneration Committee met on 7 February 2006 and proposed submitting to the Board of Directors for their approval the appointment of Carlos Solchaga Catalán and Juan Gallostra Iserna, as independent directors of the Company.

The Committee also proposed submitting to the Board of Directors for their approval the modification of the office of a Director, César A. Gibernau Ausió.

These resolutions were adopted by the Extraordinary General Meeting of Shareholders of 9 February 2006, and, consequently, the new composition of the Board of Directors is as follows:

Board of Directors (13 February 2006)		Audit Committee	Appointments and Remuneration Committee	Office
Chairman	Luis Hernández de Cabanyes			Executive
Vice-chairwoman	Anna M. Birulés Bertran	Director	Director	Executive
Chief Executive Officer	Josep-Maria Farré Viader			Executive
Director	Esther Giménez Arribas			Executive
Director	Elena Hernández de Cabanyes			External
Director	Pedro Nueno Iniesta			Independent
Director	Carlos Tusquets Trias de Bes	Secretary	Secretary	Non-executive
Secretary	César A. Gibernau Ausió	President	President	External
Director	Juan Gallostra Isern			Independent
Director	Carlos Solchaga Catalán			Independent

Note: The Board of Directors meeting of 9 February 2006 appointed Juan Velayos Lluis as legal counsel to the company.

6. Human Resources

The team of Renta Corporación is outstanding in terms of the calibre of its training, professionalism and motivation. People are for Renta Corporación its true basis of value creation. Since its beginnings as a company it has recognised and regarded the contribution of its professionals as a critical success factor. In this context, it devotes special attention to having an effective, agile, flexible organisation and a professional working culture in terms of procedures and systems, with easy access to continuous training and knowledge, forming part of its human resources policy.

The great strides made in terms of its business evolution has also had an impact on the number of employees, which has grown to 95 in 2005. During the year Renta Corpración has hired 17 new employees, which is an increase in staff size of 22% on 2004.

7. Environment

The Company has adopted the measures necessary for the protection and improvement of the environment and the minimisation, as the case may be, of any environmental impact, by complying with current legislation.

The impact of the construction of a building on the environment begins with the manufacture of materials and ends with the management of the waste generated by its demolition, with various phases of construction and use in between. The activity of Renta Corporación is based on the transformation of real estate assets. While it is true that construction generates a large volume of rubble, refurbishing actually minimises it.

In spite of the slight environmental impact involved in these transformations, in comparison with the alternative model of demolition and new construction, all the contracts entered into by Renta Corporación include a specific environmental protection clause that must be signed by the building contractor.