MILLENIUM HOTELS REAL ESTATE I SOCIMI, S.A. AND SUBSIDIARIES

Consolidated Financial Statements and Management Report
for the year ended
December 31, 2019

Consolidated statement of financial position at December 31, 2019

(In euros)

ASSETS	Notes	12/31/19	12/31/18 (*)
NON-CURRENT ASSETS		**319,933,723**	**75,147,952**
Property, plant, and equipment	6	12,229,073	476,746
Investment properties	7	307,464,233	74,500,000
Financial investments	8	240,417	3,426
Deferred tax assets	14	-	167,780
CURRENT ASSETS		**54,566,770**	**22,724,752**
Inventories	9	127,329	34,896
Trade and other receivables		7,468,281	874,639
Trade receivables	8	1,645,914	454,519
Receivable from public administrations	14	5,822,367	420,120
Financial investments	8	645,827	144,767
Other current assets	8	69,793	1,175,040
Cash and cash equivalents	10	46,255,540	20,495,410
TOTAL ASSETS		**374,500,493**	**97,872,704**

EQUITY AND LIABILITIES			
EQUITY		**266,898,446**	**59,723,327**
Capital and reserves		**267,415,804**	**60,038,849**
Share capital	11.1	50,000,000	59,014,000
Share premium	11.2	139,188,800	-
Reserves and retained earnings	11.3	55,705,980	(559,353)
Shares of the Parent company	11.4	(263,946)	-
Profit for the year attributed to the Parent company		22,784,970	1,584,202
Unrealized gains (losses) reserve	**11.5**	**(517,358)**	**(315,522)**
NON-CURRENT LIABILITIES		**93,600,979**	**35,626,261**
Borrowings		87,892,257	32,122,860
Bank borrowings	12.1	73,050,997	16,569,488
Finance lease liabilities	12.1	13,743,278	14,476,767
Derivatives	12.2	517,358	420,696
Other financial liabilities	12.3	580,624	655,909
Deferred tax liabilities	14	5,708,722	3,503,401
CURRENT LIABILITIES		**14,001,068**	**2,523,116**
Current provisions	13	53,034	53,034
Borrowings		6,985,588	2,127,288
Bank borrowings	12.1	4,227,903	855,147
Finance lease liabilities	12.1	1,340,574	1,081,101
Other financial liabilities	12.3	1,417,111	191,040
Trade and other payables		6,930,363	342,794
Suppliers and other payables	12.4	1,613,409	230,663
Employee benefits payable	12.4	4,316,365	-
Payables to public administrations	14	556,835	112,131
Customer advances	12.4	443,754	-
Other current liabilities		32,083	-
TOTAL EQUITY AND LIABILITIES		**374,500,493**	**97,872,704**

(*) See Note 2.1

The accompanying Notes 1 to 20 are an integral part of the consolidated statement of financial position at December 31, 2019.

Consolidated income statement for the year ended December 31, 2019

(Euros)

	Notes	2019	2018 (*)
Continuing operations			
Revenue		**4,538,994**	**2,564,453**
Rental income	7.1 and 16.1	4,267,656	2,564,453
Rendering of services	16.1	219,975	-
Sales income	16.1	51,363	-
Cost of sales		**(34,241)**	**-**
Other operating income		**27,624**	**-**
Employee benefits expense	**16.2**	**(5,751,158)**	**(344,271)**
Other operating expenses		**(1,035,290)**	**(812,207)**
External services	16.3	(691,035)	(649,045)
Taxes		(344,255)	(163,162)
Change in fair value of investment properties	**7**	**19,046,629**	**1,020,549**
Amortization and depreciation	**6**	**(94,868)**	**(38,124)**
Impairment losses	**5**	**-**	**(404,054)**
Tax benefits for business combinations	**5**	**6,835,482**	**-**
Other gains (losses)		**(1,191)**	**180,927**
OPERATING PROFIT		**23,531,981**	**2,167,273**
Finance income		**-**	**314,899**
From marketable securities & other financial instruments		-	314,899
Finance costs	**16.4**	**(713,473)**	**(666,437)**
Third-party borrowings		(713,473)	(666,437)
FINANCE COST		**(713,473)**	**(351,538)**
PROFIT BEFORE TAX		**22,818,508**	**1,815,735**
Income tax	14	(33,538)	(231,533)
CONSOLIDATED PROFIT FOR THE YEAR		**22,784,970**	**1,584,202**
Profit for the year attributed to the Parent company		**22,784,970**	**1,585,458**
Profit for the year attributed to minority interests		**-**	**(1,256)**

EARNINGS PER SHARE			
Basic earnings per share	4.19	**0.44**	**0.03**

(*) See Note 2.1

The accompanying notes 1 to 20 are an integral part of the consolidated income statement for the year ended December 31, 2019.

Consolidated statement of comprehensive income for the year ended December 31, 2019

(In euros)

	Notes	2019	2018 (*)
Consolidated profit (loss) for the year (I)		**22,784,970**	**1,584,202**
Income and expense recognized directly in consolidated equity			
From cash flow hedges	11.5	(244,407)	-
From other adjustments	11.3	(6,135,171)	(23,635)
Tax effect	11.5	(86,680)	-
Total income and expense recognized directly in consolidated equity (II)		**(6,466,258)**	**(23,635)**
Amounts transferred to consolidated income statement			
Cash flow hedges	11.5	147,745	(92,553)
Tax effect	11.5	(18,494)	-
Total amounts transferred to the consolidated income statement (III)		**129,251**	**(92,553)**
Total consolidated recognized income and expense (I+II+III)		**16,447,963**	**1,468,014**
Total consolidated recognized income and expense attributed to the Parent company		**16,447,963**	**1,468,014**
Total consolidated recognized income and expense attributed to minority interests		**-**	**-**

(*) See Note 2.1

The accompanying Notes 1 to 20 are an integral part of the consolidated statement of comprehensive income for the year ended December 31, 2019.

Consolidated statement of changes in equity for the year ended December 31, 2019

(In euros)

	Share capital (Note 11.1)	Share Premium (Note 11.2)	Reserves and Retained earnings (Note 11.3)	Shares of the Parent company (Note 11.4)	Profit (loss) year end attributed to Company company	Net unrealized gains/(losses) reserve (Note 11.5)	Minority Interests	Total
Balance at January 01, 2018 (*)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Consolidated recognized income and expense	**-**	**-**	**(23,635)**	**-**	**1,584,202**	**(91,297)**	**(1,256)**	**1,468,014**
Transactions with partners or owners:	**59,014,000**	**-**	**(535,718)**	**-**	**-**	**(224,225)**	**1,256**	**58,255,313**
Capital increases (reductions) (Note 11.1)	58,954,000	-	-	-	-	-	-	58,954,000
Increase (reduction) in equity arising from a business combination	60,000	-	(374,625)	-	-	(224,225)	1,351,301	812,451
Acquisitions (sales) of minority interests (Note 5)	-	-	(161,093)	-	-	-	(1,350,045)	(1,511,138)
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at Monday, December 31, 2018 (*)	**59,014,000**	**-**	**(559,353)**	**-**	**1,584,202**	**(315,522)**	**-**	**59,723,327**
Consolidated recognized income and expense	**-**	**-**	**(6,135,171)**	**-**	**22,784,970**	**(201,836)**	**-**	**16,447,963**
Transactions with partners or owners:	**(9,014,000)**	**139,188,800**	**60,816,302**	**(263,946)**	**-**	**-**	**-**	**190,727,156**
Capital increases (reductions) (Note 11.1)	(9,014,000)	139,188,800	60,811,200	-	-	-	-	190,986,000
Transactions with shares of the Parent company (net)	-	-	5,102	(263,946)	-	-	-	(258,844)
Other changes in equity	**-**	**-**	**1,584,202**	**-**	**(1,584,202)**	**-**	**-**	**-**
Balance at December 31, 2019	**50,000,000**	**139,188,800**	**55,705,980**	**(263,946)**	**22,784,970**	**(517,358)**	**-**	**266,898,446**

(*) See Note 2.1

Notes 1 to 20 form an integral part of the consolidated statement of changes in equity for the year ended December 31, 2019.

Consolidated cash flow statement for the year ended December 31, 2019
(In euros)

	Notes	2019	2018 (*)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**22,818,508**	**1,815,735**
Adjustments to profit		**(25,073,770)**	**(226,833)**
Amortization and depreciation	6	94,868	38,124
Impairment losses	5	-	404,054
Finance income		-	(314,899)
Finance costs	16.4	713,473	666,437
Change in fair value of investment properties	7	(19,046,629)	(1,020,549)
Other income and expenses	5	(6,835,482)	-
Changes in working capital		**139,679**	**1,670,164**
Inventories		9,555	(19,013)
Trade and other receivables		(5,543,930)	(2,031,259)
Other current assets		(39,227)	-
Trade and other payables		5,717,396	367,776
Other current liabilities		(4,115)	-
Other non-current assets and liabilities		-	3,352,660
Other cash flows from operating activities		**(722,458)**	**(1,235,655)**
Interest paid		(722,458)	(719,765)
Income tax receipts (payments)		-	(231,533)
Other amounts paid (received)		-	(284,357)
Cash flows from (used in) operating activities		**(2,838,041)**	**2,023,411**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		**(214,551,465)**	**(51,396,091)**
Property, plant, and equipment	6	(47,195)	-
Investment properties		(199,019,371)	(22,466,441)
Other financial assets		(441,851)	(28,929,650)
Business unit	5	(15,043,048)	-
Payments on investments		**3,800**	**-**
Other financial assets		3,800	-
Cash flows from investing activities		**(214,547,665)**	**(51,396,091)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments on equity instruments		**184,591,985**	**58,975,366**
Issue of equity instruments	11.1	184,850,829	58,975,366
Acquisition of equity instruments of the Parent company	11.4	(377,257)	-
Disposal of equity instruments of the Parent company	11.4	118,413	-
Proceeds from and payments of financial liabilities		**58,553,851**	**5,210,742**
Issues		60,919,241	13,462,742
Bank borrowings		60,917,011	13,778,264
Other borrowings		2,230	(315,522)
Repayment and redemption of		(2,365,390)	(8,252,000)
Bank borrowings		(2,276,163)	-
Other borrowings		(89,227)	(8,252,000)
Cash flows from financing activities		**243,145,836**	**64,186,108**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**25,760,130**	**14,813,428**
Cash and cash equivalents at beginning of period		20,495,410	5,681,982
Cash and cash equivalents at end of year	10	46,255,540	20,495,410

(*) See Note 2.1

The accompanying notes 1 to 20 are an integral part of the consolidated cash flow statement for the year ended December 31, 2019.

1. GENERAL INFORMATION ON THE GROUP

MILLENIUM HOTELS REAL ESTATE I SOCIMI, S.A. ("the Parent" or "Millenium") and subsidiaries ("the Group" or "the Millenium Group") comprise a group of companies whose main activities are as follows:

a. The acquisition and promotion of urban properties for their leasing, including refurbishment activities on buildings on the terms established in Law 37/1992 of December 28, on Value Added Tax;

b. The holding of shares or participation units in the capital of other Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario ("SOCIMI"- Spanish REIT) or in the capital of other non-resident companies in Spain which have the same corporate purpose as the SOCIMIs and are subject to a regime similar to the one established for SOCIMIs as far as legally required or bylaw-stipulated policies regarding distribution of profits are concerned.

c. The holding of shares or participation units in the capital of other resident or non-resident entities in Spain whose main corporate purpose is the acquisition of urban properties for their leasing, and which are subject to the same regime as the SOCIMIs as far as legally required or bylaw-stipulated policies regarding distribution of profits are concerned, and which fulfill the investment requirements established in article 3 of Law 11/2009 of October 26, regulating SOCIMIs (Note 1.1).

d. The holding of shares or participation units in Collective Property Investment Institutions regulated by Law 35/2003 of November 4 on Collective Investment Institutions, or the regulations which replace said law in the future; and

e. Other activities complementary to the above, understood as those which taken as a whole represent less than 20% of the Company's revenue in each tax period.

These business activities are at present carried out in Spain.

The Parent was incorporated on June 6, 2017 as a private limited company, under protocol number 2.919. Its registered address is Paseo de la Castellana 102, 28046, Madrid.

On December 22, 2017 the Parent acquired a 50% stake in the share capital of Varia Pza Magdalena, S.L. ("Varia") via subscription of a capital increase. The Parent did not acquired control over said company in said transaction.

On September 6, 2018 the Parent acquired the remaining 50% of Varia share capital, thus acquiring control over said company (Note 5).

Previously, on July 31, 2018 the Parent acquired 92.86% of the share capital of Millenium Hotels C220, S.L. ("C220"), thus acquiring control over said company (Note 5). Subsequently, on October 11, 2018 the Parent acquired the remaining 7.14% of C220 share capital.

On December 10, 2019 the Parent acquired all of the shares of Alcaidesa Holding, S.A.U. ("Alcaidesa Holding"), which in turn owned all of the share capital of Alcaidesa Gold, S.L.U. ("Alcaidesa Golf") (Note 5).

Finally, on December 19, 2019 a mercantile company was incorporated (MHRE San Roque, S.L., sole shareholder company) with share capital of 3,000 euros, fully subscribed and paid in by the Parent.

As a consequence, prior to July 31, 2018 the Parent was not a member of a group of companies on the terms established in article 42 of the Commercial Code.

The subsidiaries which together with the Parent form a part of the consolidation scope at December 31, 2019 are broken down as follows:

Company	Registered address	Activity	Group company owning the interest	% of direct ownership interest	Auditor	Consolidation method	Functional currency
Millenium Hotels C220, S.L.U.	Paseo de la Castellana 102, Madrid	(*)	Millenium Hotels Real Estate I SOCIMI, S.A.	100%	Unaudited	Full consolidation	Euro
Varia Pza Magdalena, S.L.U.	Paseo de la Castellana 102, Madrid	(*)	Millenium Hotels Real Estate I SOCIMI, S.A.	100%	Ernst & Young, S.L.	Full consolidation	Euro
Alcaidesa Holding, S.A.U.	Club de Golf Alcaidesa. Avenida Pablo Cerezo S/N, San Roque, Cádiz	(**)	Millenium Hotels Real Estate I SOCIMI, S.A.	100%	Pricewaterhose Coopers Auditores, S.L.	Full consolidation	Euro
Alcaidesa Golf, S.L.U.	Club de Golf Alcaidesa. Avenida Pablo Cerezo S/N, San Roque, Cádiz	(***)	Alcaidesa Holding, S.A.U.	100%	Pricewaterhose Coopers Auditores, S.L.	Full consolidation	Euro
MHRE San Roque, S.L.U.	Paseo de la Castellana 102, Madrid	(*)	Millenium Hotels Real Estate I SOCIMI, S.A.	100%	Unaudited	Full consolidation	Euro

(*) Acquisition and promotion of urban investment properties for leasing activities
(**) Acquisition, holding, use, and transformation of properties as well as other related activities. All types of transactions relating to urban properties and the organization of appropriate services for such purposes. The realization of those leisure, sports, and recreational activities or the rendering of services which contribute to the commercial development of the aforementioned operations.
(***) Construction, holding, administration, management, control, and operation of golf courses, including advisory services.

The subsidiaries included in the consolidation scope together with the Parent at December 31, 2018 are broken down as follows:

Company	Registered address	Activity	Group company owning the interest	% of direct ownership interest	Auditor	Consolidation method	Functional currency
Millenium Hotels C220, S.L.U.	Paseo de la Castellana 102, Madrid	(*)	Millenium Hotels Real Estate I SOCIMI, S.A.	100%	Ernst & Young, S.L.	Full consolidation	Euro
Varia Pza Magdalena, S.L.U.	Paseo de la Castellana 102, Madrid	(*)	Millenium Hotels Real Estate I SOCIMI, S.A.	100%	Ernst & Young, S.L.	Full consolidation	Euro

(*) Acquisition and promotion of urban investment properties for leasing activities

The subsidiaries use the same reporting periods as the Parent.

The Parent and Varia and C220 are regulated by Law 11/2009 of October 26, modified by Law

16/2012 of December 27, regulating SOCIMIs (Note 1.1).

Given the Group’s activity, it has no environmental expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial position or results. Thus, environmental disclosures are not provided in the accompanying consolidated financial statements.

The Group's functional currency is the euro as this is the currency of the primary economic area in which the Group companies operate.

1.1. SOCIMI regime

On July 25, 2017, the sole shareholder of Millenium until that date, Mr. Francisco Javier Illán Plaza, approved requesting that the Parent be treated under the special tax regime for SOCIMIs, applicable from the moment of its incorporation. Said communication was presented to the tax authorities on July 26, 2017.

On September 5, 2019, the sole shareholder of C220 and Varia decided to approve the option for both companies to avail themselves of the special SOCIMI tax regime, applicable from January 1, 2019, which was communicated to the tax authorities on September 27, 2019 in a timely and correct manner.

At December 31, 2019 the Parent and its subsidiaries C220 and Varia are thus regulated by Law 11/2009 of October 26, modified by Law 16/2012 of December 27, regulating SOCIMIs ("the SOCIMI Law").

The First Transitional Provision of the SOCIMI Law allows application of the SOCIMI tax regime on the terms established in article 8 of said Law, even when the requirements established therein have not been met at the incorporation date, provided that such requirements be fulfilled within the two years following the decision to opt for said regime. Consequently, the Parent applied the special SOCIMI tax regime from 2017 onwards while the aforementioned subsidiaries started applying it in 2019.

Article 3 of the SOCIMI Law establishes the following investment requirements for this type of company:

- The SOCIMIs must invest at least 80% of their assets in urban properties dedicated to rental activities or land dedicated to promotion of properties which will be used for that purpose, provided that the promotion is initiated within the three years following acquisition, as well as stakes in the share capital or equity of the other entities referred to in section 1 of article 2 of the aforementioned SOCIMI Law.

  The value of the assets shall be determined in accordance with the average of the consolidated quarterly balances of the year. When calculating said amount, the SOCIMI can opt to substitute carrying amounts with the market value of the items making up said balances, applicable to all consolidated balances of the year. For these purposes, this calculation does not include, if applicable, the money or credit rights arising from the transfers of said properties or interests carried out in the same year or prior years, provided that, in the latter case, the reinvestment period to which article 6 of the SOCIMI Law refers has not elapsed.

- Likewise, at least 80% of income generated during the tax period corresponding to each year, excluding revenue arising from the transfer of stakes and urban properties dedicated to fulfilling the corporate purpose, once the maintenance period to which the next section refers has elapsed, must arise from property leasing and dividends or shares in profit arising from said stakes.

This percentage shall be calculated over the consolidated results, should the SOCIMI be the parent of a group as per the criteria established in article 42 of the Commercial Code, regardless of residence and the obligation to prepare annual consolidated financial statements. Said group will exclusively be made up of SOCIMIs and the remaining entities to which section 1 of article 2 of the SOCIMI Law refers.

- The investment properties which make up the assets of the SOCIMI must be leased during at least three years. For purposes of calculation, the time periods for which the properties have been offered for leasing will be added, up to a maximum of one year. The time period shall be calculated as follows:

    - In the case of investment properties which make up the equity of the SOCIMI before availing itself of the regime, from the date of initiating the first tax period in which the special tax regime will be applied as established in the SOCIMI Law, provided that at said date it is being leased or is being offered for leasing. Otherwise, the following will apply:

    - In the case of investment properties promoted or acquired subsequently by the SOCIMI, from the date on which they were leased or offered for leasing for the first time.

- In the case of shares or participation units in entities to which section 1 of article 2 of the SOCIMI Law refers, they must be maintained as assets of the SOCIMI for at least three years counting from the acquisition date or, if applicable, from the beginning of the first tax period in which the special tax regime established in the SOCIMI Law is applied.

In addition, the SOCIMI Law establishes the following obligations:

- The shares of the SOCIMI must be admitted to trading on a regulated market or a multilateral trading system (a requisite which is not applicable to a sub-SOCIMI).

- The minimum capital required amounts to 5 million euros, the shares must be bearer shares and there can only be one type of share (a requisite which is not applicable to a sub-SOCIMI).

- The SOCIMI is obliged to distribute gains obtained during the year in the form of dividends to its shareholders, once the corresponding mercantile obligations have been fulfilled, and must agree upon the distribution within six months subsequent to the closing of each reporting period, as indicated in Note 3.1.

Failure to comply with the requirements established in the SOCIMI Law for applying said regime, will result in the SOCIMI filing its tax return under the general regime for companies starting from the tax period in which said non-compliance occurs, unless corrected in the subsequent year. In addition, the SOCIMI is obliged to pay, together with the tax payable for said tax period, the difference between the amount resulting from applying the general tax regime and the amount paid which results from applying the special tax regime for previous periods, without prejudice to any late payment interest, surcharges and fines which may be applicable.

The tax rate for SOCIMIs is fixed at 0%. However, when the dividends distributed by the SOCIMI to its shareholders with a stake greater than 5% are exempt or file taxes at a rate less than 10%, the SOCIMI will be subjected to a special rate of 19%, which will be considered the corporate tax rate, on the amount of the dividend distributed to said shareholders. Should it be applicable, this special tax must be settled by the SOCIMI within two months from the date on which the dividends were distributed.

At December 31, 2019 the Parent and subsidiaries C220 and Varia fulfill the requirements established in the SOCIMI Law.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1. Financial reporting framework applicable to the Group

The Company's financial statements for the year ended December 31, 2019 were prepared in accordance with the regulatory framework for financial information as established in:

- The International Financial Reporting Standards (IFRS) and Interpretations of the International Financial Reporting Standards Committee (IFRIC) adopted by the EU, in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and Council and subsequent modifications (together, "the IFRS-EU").
- Law 11/2009 of October 26, which regulates SOCIMIs with respect to disclosure requirements in the explanatory notes;
- Circular 6/2018 of the Alternative Stock Market on "Information to be provided by expanding companies and SOCIMIs admitted to trading on the Alternative Stock Market;"
- The Spanish Commercial Code and remaining applicable Spanish mercantile legislation.

The consolidated financial statements have been prepared by Millenium’s directors and will be submitted for approval by the shareholders in general meeting. It is expected that they will be approved without modification.

As these consolidated financial statements are the first which the Group presents under IFRS-EU, they were prepared in accordance with IFRS 1 "First-Time Adoption of IFRS." The consolidated financial statements for 2018 were prepared in accordance with the standards established in Spanish GAAP approved by Royal Decree 1514/2007 of November 16, 2016, modified in 2016 by Royal Decree 602/2016 of December 2, and Royal Decree 1159/2010 of September 17, approving the standards for preparation of consolidated financial statements. These consolidated financial statements were audited by Ernst & Young, S.L.

As indicated in Note 1, prior to July 31, 2018 the Parent was not a part of a group of companies on the terms established in article 42 of the Commercial Code, so that the date of first-time adoption of IFRS-EU used for preparation of the accompanying consolidated financial statements was July 31, 2018.

The reconciliation of the consolidated balance sheet at December 31, 2018 is shown below:

ASSETS	12/31/18 GAAP	Adjustments	12/31/18 IFRS-EU
NON-CURRENT ASSETS	**73,097,873**	**2,050,079**	**75,147,952**
Property, plant, and equipment	-	476,746	476,746
Investment properties	72,926,667	1,573,333	74,500,000
Financial investments	3,426	-	3,426
Deferred tax assets	167,780	-	167,780
CURRENT ASSETS	**22,724,752**	**-**	**22,724,752**
Inventories	34,896	-	34,896
Trade and other receivables	874,639	-	874,639
Financial investments	144,767	-	144,767
Other current assets	1,175,040	-	1,175,040
Cash and cash equivalents	20,495,410	-	20,495,410
TOTAL ASSETS	**95,822,625**	**2,050,079**	**97,872,704**

EQUITY AND LIABILITIES			
EQUITY	**58,151,830**	**1,571,497**	**59,723,327**
Capital and reserves	**58,467,352**	**1,571,497**	**60,038,849**
Share capital	59,014,000	-	59,014,000
Reserves and retained earnings	(559,353)	-	(559,353)
Profit for the year attributed to the Parent Company	12,705	1,571,497	1,584,202
Unrealized gains (losses) reserve	**(315,522)**	**-**	**(315,522)**
NON-CURRENT LIABILITIES	**35,234,019**	**392,242**	**35,626,261**
Borrowings	31,730,618	392,242	32,122,860
Deferred tax liabilities	3,503,401	-	3,503,401
CURRENT LIABILITIES	**2,436,776**	**86,340**	**2,523,116**
Current provisions	53,034	-	53,034
Borrowings	2,040,948	86,340	2,127,288
Trade and other payables	342,794	-	342,794
TOTAL EQUITY AND LIABILITIES	**95,822,625**	**2,050,079**	**97,872,704**

The adjustments made to investment properties are due to application of the fair value method for recognition of these assets in accordance with the provisions of IAS 40, attributing the resulting gains or losses from 2018.

The adjustments made to PP&E and non-current and current borrowings are due to recognition of the right-to-use asset and the corresponding lease liability, in accordance with the provisions of IFRS 16.

The reconciliation of the consolidated income statement for 2018 is shown below:

	12/31/18 PGC	Adjustments	12/31/18 IFRS-EU
Continuing operations			
Revenue	2,564,453	-	2,564,453
Work performed for own assets by the Group	1,324,688	(1,324,688)	-
Employee benefits expense	(344,271)	-	(344,271)
Other operating expenses	(2,119,855)	1,307,648	(812,207)
Change in fair value of investment properties	-	1,020,549	1,020,549
Amortization and depreciation	(552,784)	514,660	(38,124)
Impairment losses	(404,054)	-	(404,054)
Other gains (losses)	180,927	-	180,927

OPERATING PROFIT	**649,104**	**1,518,169**	**2,167,273**
Finance income	314,899	-	314,899
Finance costs	(719,765)	53,328	(666,437)
FINANCE COST	**(404,866)**	**53,328**	**(351,538)**
PROFIT BEFORE TAX	**244,238**	**1,571,497**	**1,815,735**
Income tax	(231,533)	-	(231,533)
CONSOLIDATED PROFIT FOR THE YEAR	**12,705**	**1,571,497**	**1,584,202**
Profit for the year attributed to the Parent Company	13,961	-	1,585,458
Profit for the year attributed to minority interests	(1,256)	-	(1,256)

The adjustments made to "Change in fair value of investment properties" and "Amortization and depreciation" are due to application of the fair value method for recognition of the corresponding assets in accordance with IAS 40, mentioned above.

A portion of the adjustments made to "Other operating expenses; Amortization and depreciation; and Finance costs" was due to the recognition and subsequent amortization of the right-to-use asset and accrued interest corresponding to the lease liability, in accordance with the provisions of IFRS 16.

In contrast, the income corresponding to capitalized costs related to investment properties was reclassified to the headings in the consolidated income statement where said costs had been recognized.

The reconciliation of the consolidated cash flow statement for 2018 is shown below:

	12/31/18 PGC	Adjustments	12/31/18 IFRS-EU
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	**244,238**	1,571,497	**1,815,735**
Adjustments to profit	**1,361,704**	**(1,588,537)**	**(226,833)**
Amortization and depreciation	552,784	(514,660)	38,124
Impairment losses	404,054	-	404,054
Finance income	(314,899)	-	(314,899)
Finance costs	719,765	(53,328)	666,437
Change in fair value of investment properties	0	(1,020,549)	(1,020,549)
Changes in working capital	**1,653,124**	**17,040**	**1,670,164**
Inventories	(19,013)	-	(19,013)
Trade and other receivables	(2,031,259)	-	(2,031,259)
Trade and other payables	367,776	-	367,776
Other non-current assets and liabilities	3,335,620	17,040	3,352,660
Other cash flows from operating activities	**(1,235,655)**	**-**	**(1,235,655)**
Interest paid	(719,765)	-	(719,765)
Income tax receipts (payments)	(231,533)	-	(231,533)
Other amounts paid (received)	(284,357)	-	(284,357)
Cash flows from (used in) operating activities	**2,023,411**	**-**	**2,023,411**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments	**(51,396,091)**	**-**	**(51,396,091)**
Investment properties	(22,466,441)	-	(22,466,441)
Other financial assets	(28,929,650)	-	(28,929,650)
Cash flows from investing activities	**(51,396,091)**	**-**	**(51,396,091)**

CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments on equity instruments	**58,975,366**	**-**	**58,975,366**
Issue of equity instruments	58,975,366	-	58,975,366
Proceeds from and payments of financial liabilities	**5,210,742**	**-**	**5,210,742**
Issues	13,462,742	-	13,462,742
Bank borrowings	13,778,264	-	13,778,264
Other borrowings	(315,522)	-	(315,522)
Repayment and redemption of	(8,252,000)	-	(8,252,000)
Other borrowings	(8,252,000)	-	(8,252,000)
Cash flows from financing activities	**64,186,108**	**-**	**64,186,108**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**14,813,428**	**-**	**14,813,428**
Cash and cash equivalents at beginning of period	5,681,982	-	5,681,982
Cash and cash equivalents at end of year	20,495,410	-	20,495,410

The adjustments correspond to the above explanation regarding reconciliation of the consolidated income statement.

Standards and interpretations issued by the IASB not yet applicable in the current reporting period

The Group intends to apply the standards, interpretations and amendments to standards issued by the IASB, not mandatory in the European Union, when they become effective and to the extent applicable.

The amendments applicable to the Group are as follows:

Amendments to IFRS 3 *Business Combinations*

The amendments change the standard's definition of a business in order to help entities determine whether a transaction must be recognized as a business combination or an acquisition of a group of assets. This distinction is very important as the acquirer only recognizes goodwill when a business is acquired.

The new definition of a business emphasizes that the purpose of a business is to provide goods and services for clients which generate income from the investment (such as dividends or interest) or which generate other income from ordinary activities; while the prior definition was based on the generation of profitability in the form of dividends, lower costs or other economic benefits, directly accruing to the investors or other owners, members, or shareholders.
The new definition of a business will be applicable to acquisitions made on or after January 1, 2020, with early application permitted.

Amendments to IAS 1 and IAS 8 *Definition of Materiality*

The modifications to the definition of materiality were introduced to simplify the assessment of what is considered material. The definition of materiality helps entities decide whether any information must be included in the consolidated financial statements. These modifications clarify said definition and include guidelines on how it must be applied. In addition, the explanations accompanying the definition have been improved and consistency of the definition of materiality ensured with respect to all standards.

These modifications will be applicable for years beginning on or after January 1, 2020, with early application permitted.

Although the Group is at present analyzing their impact, based on the analysis performed to date, it estimates that their initial application will not have a significant impact on its consolidated financial statements.

2.2. Fair presentation

The consolidated financial statements have been prepared based on the auxiliary accounting records of the companies included in the consolidation scope in accordance with prevailing accounting legislation to give a true and fair view of the Group's consolidated equity, consolidated financial position and consolidated results, as well as changes in consolidated equity and consolidated cash flows corresponding to the year ended December 31, 2019.

All figures included in the consolidated financial statements are expressed in euros, unless stated otherwise.

2.3. Critical issues regarding the measurement and estimation of uncertainty

The directors of Millenium have prepared the Group's consolidated financial statements using estimates to determine the carrying amounts of certain assets, liabilities, income, and expenses, as well as related disclosures. Those estimates were made on the basis of the best available information at year-end. However, given the uncertainty inherent in these estimates, future events could oblige the Group to modify them in subsequent years. Any such modifications would be done prospectively, as established in IAS 8.

Key assumptions concerning the future and other relevant data on the estimation of uncertainty at the closing date which entail a considerable risk of significant changes in the value of assets and liabilities in the subsequent reporting period are as follows:

- Compliance with the SOCIMI tax regime (Notes 1.1 and 14.3)

- Valuation of investment properties (Notes 4.2 and 7)

- Estimating the useful lives of PP&E items (Note 4.1)

- Recognition of deferred tax assets (Notes 4.8 and 14.2)

- Definition of transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an acquisition of assets (Notes 4.16 and 5).

2.4. Comparative information

In accordance with mercantile legislation, for comparative purposes, for each of the headings included in the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and the consolidated cash flow statement, in addition to the figures for 2019, those corresponding to the prior year are likewise presented. Quantitative information for the previous year is also included in the explanatory notes to the consolidated financial statements unless an accounting standard specifically states that this is not required.

As indicated in Note 1, prior to July 31, 2018, the Parent was not a member of a group of companies on the terms established in article 42 of the Commercial Code, so that the comparative information corresponds to the five-month period from July 31, 2018 to December 31, 2018. This circumstance must be taken into account for an appropriate understanding of the figures.

2.5. Consolidation principles

The main consolidation and measurement standards used by the Group to prepare these consolidated financial statements are summarized below:

a) The consolidated financial statements were prepared based on the accounting records of MILLENIUM HOTELS REAL ESTATE I SOCIMI, S.A. and the companies under its control (subsidiaries), referring to the year ended December 31, 2019 in all cases. Control by the Parent is considered to exist when it has effective control as per point (f) below.

b) The results for the year generated by the subsidiaries are included in the consolidated results from the effective acquisition date or incorporation date.

c) All accounts receivable and payable as well as other transactions between consolidated companies were eliminated upon consolidation.

d) When necessary, the financial statements of the subsidiaries are adjusted in order to ensure standardized accounting policies in line with those applied by the Parent of the Group.

e) Non-controlling interests (minority interests) are recognized at the proportionate amount of the fair value of identifiable assets and liabilities recognized. Minority interests in:

- The equity of its investees is presented as "Minority Interests" in the consolidated balance sheet under "Equity."

- Profit or loss for the year is presented under "Profit for the year attributable to minority interests" in the consolidated income statement.

f) The criteria applied to determine the consolidation method for each of the Group companies are shown below:

<u>Full consolidation method</u>

- Subsidiaries are consolidated under the full consolidation method and are understood to include all entities over which the Group has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than half the voting rights. When assessing whether the Group controls another entity, the existence and effect of potential voting rights that are exercisable or convertible at the closing date is taken into account.

- The accounting of subsidiaries is performed using the acquisition method. Acquisition cost is the fair value of the assets delivered, the equity instruments issued, and the liabilities incurred or assumed at the exchange date. Identifiable assets acquired and identifiable liabilities and contingencies assumed in a business combination are initially measured at their fair values as of the acquisition date, regardless of any minority interests. Any excess of the acquisition cost over the fair value of the Group's share of the identifiable net assets acquired is recognized as goodwill. If the acquisition cost is less than the fair values of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement of the corresponding year.

At December 31, 2019 and 2018 all subsidiaries were consolidated using the full consolidation method (Note 1).

3. APPROPRIATION OF PARENT COMPANY PROFIT

The directors of Millenium propose the following appropriation of the Parent's profit for 2019, a proposal expected to be approved by the shareholders in general meeting:

(Euros)	**2019**
Proposed appropriation	
Balance of the income statement (losses)	(4,747,332)
	(4,747,332)
Appropriation to:	
Offset losses from previous years	(4,747,332)
	(4,747,332)

3.1. Distribution of results and management of capital

As indicated in Note 1.1, Millenium and other Group companies are regulated by the special tax regime established in Law 11/2009 of October 26, modified by Law 16/2012 of December 27, which regulates SOCIMIs ("the Law" or "the SOCIMI Law"). In accordance with said Law, the SOCIMIs are obliged to distribute gains obtained during the year in the form of dividends to their shareholders, once the corresponding mercantile obligations have been fulfilled, and must agree upon the distribution within the six months subsequent to the closing of each reporting period, as follows:

a) 100% of the gains arising from dividends or profit-sharing based on interests held in other SOCIMIs or other interests whose main corporate purpose is the acquisition of urban properties.

b) At least 50% of the gains arising from transfer of properties and shares or participation units to which section 1 of article 2 of the SOCIMI Law refers, realized once the deadlines have elapsed to which section 3 of article 3 of this Law refers, relating to compliance with the main corporate purpose. The remaining gains must be reinvested in other properties or interests relating to compliance with the corporate purpose within three years subsequent to the transfer date. In default thereof, said gains must be distributed in their entirety together with the gains, if any, which arise in the year in which the reinvestment period ends. If the items subject to reinvestment are transferred within the holding period, any corresponding gains must be distributed in their entirety together with the gains, if any, which arise from the year in which they were transferred. The obligation to distribute does not affect the portion of those gains attributable to years in which the Group did not file taxes under the special tax regime established in the SOCIMI Law.

c) At least 80% of the remaining gains obtained.

When the distribution of dividends is performed with a charge against reserves arising from gains obtained during a year in which the special tax regime was applied, the distribution will obligatorily be on the terms referred to in the previous section.

Millenium is obliged to transfer 10% of profit for the year to a legal reserve until this reserve reaches an amount at least equal to 20% of share capital. Unless the balance of the reserve exceeds this amount, it cannot be distributed to shareholders (Note 11.3).

In accordance with the stipulations of the SOCIMI Law, Millenium's bylaws do not establish any other unrestricted reserve apart from the legal reserve.

4. RECOGNITION AND MEASUREMENT POLICIES

The main recognition and measurement accounting criteria applied by the Group in the preparation of these consolidated financial statements are the following:

4.1. Property, plant, and equipment

PP&E items are initially measured at cost, determined as the acquisition price or production cost. The cost of PP&E items acquired in a business combination is the fair value as of the acquisition date.

Following initial recognition, they are carried at cost less accumulated depreciation and any recognized impairment losses.

In addition, another component of PP&E items is the initial estimate of the present value of asset dismantling or retirement obligations and other associated costs, such as the cost of restoring assets, when these obligations trigger the recognition of provisions.

Expenses for repairs which do not prolong the useful life of assets and maintenance expenses are taken to the consolidated income statement in the year incurred. Expenses incurred to upgrade, expand or improve an asset that increase its productive capacity or prolong its useful life are capitalized as an increase in the carrying amount of the item, while the carrying amounts of any substituted assets are derecognized.

Once available for use, PP&E items are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives of PP&E items are as follows:

	Useful lives
Buildings	25-50 years
Machinery	5 years
Plant	3.5 years
Information technology equipment	4 years
Transport equipment	5 years

The Group reviews the residual values, useful lives, and depreciation methods for PP&E items at each year end, adjusting them prospectively where applicable.

4.2. Investment properties

The Group classifies as investment properties those non-current assets that are buildings it holds to obtain rent, capital gains, or both, rather than for production purposes or services other than renting, administrative purposes, or their sale in the ordinary course of its business. In addition, investment properties also include the land and buildings whose future use has not been decided upon at the moment of their inclusion in the Group's equity. Likewise, properties which are under construction or being improved for future use as investment properties, are also classified as investment properties.

Investment properties are measured at fair value at the end of each reporting period and are not subject to annual depreciation.

Gains or losses arising from changes in the fair value of investment properties are taken to the income statement in the year in which they arise.

The cost of those assets which require more than one year to be ready for use includes any related prior finance expenses which meet capitalization requirements.

In addition, the carrying amounts of investment properties also include a component corresponding to the initial estimate of the present value of asset dismantling or retirement obligations and other associated costs, such as the cost of restoring assets, when these obligations lead to recognizing provisions.

Expenses for repairs which do not prolong the useful life of assets and maintenance expenses are taken to the consolidated income statement in the year incurred. Expenses incurred to upgrade, expand or improve an asset that increase its productive capacity or prolong its useful life are capitalized as an increase in the carrying amount of the item, while the carrying amounts of any substituted assets are derecognized.

Costs relating to major repairs of investment properties, irrespective of whether the items affected are replaced or not, are identified as a component of the cost of the asset at the date of recognizing the asset in equity, and depreciated over the time remaining until the next major repair.

In accordance with IAS 40, the Group periodically determines the fair value of investment properties by taking as reference values the appraisals undertaken by external independent experts, so that at each year-end the fair value reflects the market conditions of the investment properties at that date. The valuation reports issued by the independent experts only contain the usual caveats and/or qualifications regarding the scope of the results obtained from the appraisals performed, which refer to acceptance that the information provided by the Group is complete and correct, and that the appraisal was carried out in accordance with the valuation standards published by the Royal Institute of Chartered Surveyors in Great Britain.

The main methodology utilized to determine the fair value of investment properties consists in discounting cash flows, based on the estimated expected future cash flows from the investment properties using an appropriate discount rate to calculate the present value of these cash flows. Said rate takes current market conditions into account and reflects all forecasts and risks relating to the cash flows and the investment. In order to calculate the residual value of the assets for the last year of the forecasts made regarding cash flows, a net exit yield is applied.

Note 7 includes detailed information on the net exit yields considered and the rate used for discounting projected cash flows.

4.3. Lease agreements

Leases qualify as finance leases when, based on the economic terms of the arrangement, all risks and rewards incidental to ownership of the leased item are substantially transferred to the lessee. All other lease arrangements are classified as operating leases.

Group as lessee

Assets acquired under finance lease arrangements are recognized, based on their nature, at the lower of the fair value of the leased item or the present value at the outset of the lease term of the minimum lease payments agreed upon, including any associated purchase option. A financial liability is recognized for the same amount. Contingent installments, service expenses, and reimbursable taxes (by the lessor) are not included in the calculation of agreed minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability. The total finance charge on the lease is recognized in the consolidated income statement for the year in which it is incurred, using the effective interest rate method. Assets are depreciated, amortized, impaired, and derecognized using the same criteria applied to assets of a similar nature.

In 2010 the Group entered into a finance lease agreement with CAIXABANK, effective at December 31, 2019, in order to finance the Vía Castellana hotel, one of its investment properties (Notes 7 and 12.1).

In addition, the Group applies the following recognition and measurement model to all operating leases in which it is lessee, except for assets of a low value and short-term lease arrangements:

- **Right-of-use assets**

The Group recognizes right-of-use assets at the inception date of the lease agreement. That is, the date on which the underlying asset is available for use. Right-of-use assets are measured at cost, less accumulated amortization and any impairment losses, and are adjusted in accordance with any changes in the valuation of associated lease liabilities. The initial cost of right-of-use assets includes the carrying amounts of lease liabilities recognized, direct initial costs, and lease payments made prior to the date on which the lease became effective. Any incentives received are discounted from the initial cost.

Right-of-use assets are amortized on a straight-line basis over the shorter of the estimated useful life or the lease term:

	Useful lives
Buildings	5-25 years

However, if the Group considers it is reasonably certain to acquire ownership of the leased asset at the end of the lease term, the right-to-use assets will be amortized based on the useful life of the asset. Right-to-use assets are subject to impairment loss testing.

The Group's lease agreements do not include dismantling or restoration obligations.

The right-to-use assets are presented under "Property, plant, and equipment" in the consolidated balance sheet.

- **Lease liabilities**

At the inception of the lease, the Group recognizes lease liabilities at the current value of the lease payments to be made over the lease term. The lease payments include fixed payments (including payments which contractually could be qualified as variable, but that in essence are fixed) less lease incentives, variable payments which depend on an index or a rate and the amounts expected to be paid in connection with guarantees of residual value. Lease payments also include the exercise price of a purchase option, if the Group is reasonably certain that it will exercise the option, and payments for lease cancellation fines, if the lease term reflects the Group's decision to exercise the lease cancellation option. The payments for variable leases which do not depend on an index or a rate are recognized as expenses for the period in which the event or circumstance triggering payment occurs.

When the present value of lease payments is calculated, the Group uses the incremental interest rate at the inception date of the lease, if the implicit interest rate for the lease cannot be determined easily. Subsequent to the inception date, the carrying amounts of lease liabilities are increased to reflect the accumulation of interest, and reduced by the lease payments made. In addition, the lease liability will be measured again if there are any modifications, changes to the lease terms, changes to essentially fixed lease payments, or a change in the evaluation regarding purchase of the underlying asset. The liability is also increased if there is a change in future lease payments arising from a change in an index or a rate used to determine these payments.

- **Short-term leases and leases of low value assets**

The Group applies the exemption relating to recognition of short-term leases to its transport equipment leases (*buggies*), which are of a duration of 12 months or less from the inception date and do not include a purchase option. It also applies the exemption regarding recognition of low value assets to the leases for office equipment considered of low value. The short-term lease payments and leases of low value assets are recognized as linear expenses during the lease term.

- **Judgments made in the determination of lease terms for contracts including a renewal option**

The Group determines the lease term as the non-cancelable term of the lease, to which optional extension periods are added, if it is reasonably certain that this option will be exercised. It also includes periods covered by the option to cancel the lease, if it is reasonably certain that this option will not be exercised.

The Group evaluates whether it is reasonably certain to exercise the renewal option. That is, it considers all pertinent factors which create an economic incentive to renew.

Subsequent to the inception date, the Group reevaluates the term of the lease, if there is a significant event or change in circumstances under its control which affects its capacity to exercise, or not exercise, the renewal option.

Group as a lessor

If the contract does not substantially transfer the risks and benefits inherent to ownership of the asset, the lease is classified as an operating lease. Income generated from the lease is accounted for linearly over the term of the contract and is included as revenue in the consolidated income statement to the extent that it is of an operational nature. Direct costs incurred when signing a lease contract are included as a greater value of the leased asset and amortized/depreciated over the lease term applying the same criteria used for revenue. Contingent payments are recognized as income in the year in which they accrue.

At December 31, 2019 the Group is party to operating lease agreements for most of the hotels included in its investment properties, though only the Vía Castellana, Eurostars Lucentum, and Meliá Bilbao hotels currently generate income, given that the remaining properties are under development (Notes 7 and 16.1).

4.4. Financial assets

Initial recognition and measurement

The financial assets owned by the Group are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on their contractual cash flow characteristics and the Group's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price.

In order for a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the outstanding principal.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For subsequent valuation, financial assets are classified in one of four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through other comprehensive income, recycling accumulated gains and losses (debt instruments)
- Financial assets at fair value through other comprehensive income without recycling gains and losses accumulated upon disposal (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at acquisition cost (debt instruments)

This is the most relevant category for the Group. The Group measures financial assets at amortized cost if the following two conditions are met:

- The financial assets are held in the framework of a business model whose purpose is to hold the financial assets in order to obtain contractual cash flows, and
- The contractual terms of the financial assets give rise to cash flows on specified dates which are solely payments of principal and interest on the outstanding principal.

The financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment. The gains or losses are recognized in the income statement when the asset is derecognized, modified, or impaired.

This category includes trade and non-trade receivables, which include financial assets with fixed or determinable payments that are not quoted on active markets and for which the Group expects to recover the full initial investment, except in cases credit deterioration.

Cancellation

Financial assets are derecognized from the Group's consolidated balance sheet when the contractual rights to the related cash flows have expired or when the assets are transferred, provided that the risks and rewards incidental to ownership are substantially transferred.

If the Group has not substantially transferred or retained the risks and rewards incidental to ownership of the financial asset, it is derecognized if control over the asset has not been retained. If control over the asset is retained, the Group continues to recognize it to the extent to which it is exposed to changes in the value of the transferred asset, i.e. to the extent of its continuing involvement, recognizing the associated liability as well.

Interest earned on financial assets

Interest on financial assets accrued after acquisition is recognized as income in the consolidated income statement using the effective interest rate method.

To this end, financial assets are recognized separately upon initial measurement based on maturity and unmatured accrued explicit interest at that date. Explicit interest refers to the contractual interest rate applied to the financial instrument.

Impairment of financial assets

The Group recognizes an impairment allowance for expected credit losses (ECLs) on all debt instruments not recognized at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. In the case of credit exposures for which there has not been a significant increase in credit risk since initial recognition, the impairment loss allowance is recognized for ECLs over the following 12-months. In the case of those credit exposures for which there has been a significant increase in credit risk since initial recognition, an impairment loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of when default may occur (a lifetime ECL).

In the case of trade receivables, the Group applies a simplified approach for calculating the ELCs. Therefore, the Group does not track changes in credit risk, but instead recognizes an impairment loss allowance based on lifetime ECLs at each reporting date.

The Group considers that a financial asset is in a default situation when contractual payments have been past due for 90 days. However, in certain cases, the Group can also consider a financial asset past due when internal or external information indicates it is unlikely for the Group to receive the pending contractual amounts in their totality before taking into account any credit improvements for the Group.

4.5. Financial liabilities

Initial recognition and measurement

At initial recognition financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, accounts payable or derivatives designated as hedging instruments in "effective hedges."

All financial liabilities are recognized initially at fair value, and in the case of loans and borrowings and accounts payable, net of the directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trading and any financial liability designated upon initial recognition as one to be measured at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the short term. This category includes those derivative financial instruments contracted by the Group which have not been designated as hedging instruments in hedge relationships as defined in IFRS 9. Embedded derivatives that have been separated are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on financial liabilities held for trading are recognized in the income statement. Financial liabilities are designated on initial recognition as measurable at fair value through profit or loss only if at the date of initial recognition the criteria described in IAS 9 are fulfilled. The Group has not designated any financial liabilities as measurable at fair value through profit or loss.

Loans and borrowings

This is the most relevant category for the Group. After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized, with any interest accrued recognized as per the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. Interest accrued as per the effective interest rate method is included under finance costs in the income statement.

This category is in general applicable for interest-bearing loans and borrowings. See Note 12 for more information.

Cancellation

A financial liability is derecognized when the related obligation is discharged, canceled or expires. When an existing financial liability is replaced by another provided by the same lender on substantially different terms and conditions or when the terms of an existing liability are substantially modified, this exchange or modification is accounted for by derecognizing the original liability and recognizing the new obligation. The difference in the respective carrying amounts is recognized in the income statement.

4.6. Derivative financial hedging instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to cover interest rate risk. These derivative financial instruments are initially recognized at the fair value of the date on which they are contracted and subsequently at the fair value of each closing date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or a firm commitment that has not been recognized;
- cash flow hedges when hedging exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a forecast transaction which is highly probable, or to exchange rate risk in a firm commitment that has not been recognized;
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship it wishes to apply, together with the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the item being hedged, the nature of the hedged risk, and the manner in which the Group will assess whether the hedging relationship meets the requirements to be considered effective (together with analysis of causes for ineffective hedging and the manner in which the hedging ratio will be determined). A hedging relationship qualifies for hedge accounting if it meets all the following requirements to be considered effective:

- the existence of an economic relationship between the hedged item and the hedging instrument;
- credit risk is not a dominant factor with respect to changes in value resulting from this economic relationship;
- the hedging ratio for the hedge relationship is the same as that arising from the amount of the hedged item which the Group is actually covering and the amount of the hedging instrument which the Group is actually utilizing to cover said amount of the hedged item.

The Group carries out cash flow hedging transactions for the loans received at variable interest rates by contracting financial swaps which allow for exchanging variable rates and fixed rates. With these cash flow hedges, the Group hedges its exposure to the risk of variable cash flows attributable to changes in interest rates on loans received. These hedges, provided they meet all the criteria for hedge accounting, are recognized as follows:

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income, while the ineffective portion is recognized immediately in the income statement. The reserve for cash flow hedges is adjusted so that it is equal to the lower of accumulated gains or losses on the hedging instrument and the accumulated change in the fair value of the hedged item.

For cash flow hedges, the accumulated amount in other comprehensive income is reclassified to the income statement as a reclassification adjustment in the same year or years during which the hedged cash flows affect results.

If the accounting of cash flow hedges is interrupted, the amount which has accumulated in other comprehensive income must remain there if the future hedged cash flows are still expected to materialize. Should this not be the case, the amount must be reclassified immediately to the income statement as a reclassification adjustment. Subsequent to the interruption, and once the hedged cash flow materializes, any remaining amount included in other comprehensive income must be recognized in accordance with the hedged transaction as described above.

4.7. Cash and cash equivalents

This heading includes cash in hand, current accounts, short-term deposits, and purchases of assets under resale agreements that meet the following criteria:

- They are readily convertible to cash
- They have a maturity of three months or less from the date of acquisition
- The risk of change in value is insignificant
- They are part of the Group's standard cash management strategy.

4.8. Income tax

Income tax payable or receivable comprises current tax payable or receivable as well as deferred tax expenses or income.

Current tax is the amount that Group companies pay in settlement of the income tax returns for the year. Deductions and other tax relief applicable to payable taxes, excluding withholdings and payments on account, are accounted for as a reduction in current tax. Similarly, tax loss carryforwards from prior years effectively applied in the current reporting period also reduce tax payable.

Deferred tax expense or income corresponds to the recognition and cancellation of deferred tax assets and liabilities. These include the temporary differences, identified as those amounts expected to be payable or recoverable, arising from the difference between the carrying amounts of assets and liabilities and their tax bases, as well as any unused tax loss carryforwards and unused tax credits. These amounts are measured at the tax rates that are expected to apply when the corresponding temporary differences or tax credits are expected to be realized or settled.

As indicated in Note 1.1, the Parent opted for application of the special tax regime for SOCIMIs from January 1, 2017. This decision was communicated to the tax authorities on July 26, 2017. In addition, on September 5, 2019 the sole shareholder of C220 and Varia approved application of the special SOCIMI tax regime to both companies, applicable from January 1, 2019. This decision was duly communicated to the tax authorities on September 27, 2019.

The general applicable tax rate for the year ended December 31, 2019 was 25%, while the tax rate applicable to the SOCIMIs was 0%. However, when the dividends distributed by Millenium to its shareholders with a stake greater than 5% are exempt or file taxes at a rate less than 10%, Millenium will be subjected to a special rate of 19%, which will be considered the corporate tax rate, on the amount of the dividend distributed to said shareholders. Should it be applicable, this special tax must be settled by Millenium within two months from the date on which the dividends were distributed.

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

Deferred tax assets are only recognized to the extent that it is considered probable that the Group will have future taxable income to enable their application, and provided the SOCIMI regime allows for this possibility.

Deferred tax assets and liabilities arising from transactions involving direct credits or debits to equity headings, are also accounted for with a balancing entry under consolidated equity.

Recognized deferred tax assets are reassessed at the end of each reporting period and the appropriate adjustments are made when there are doubts as to their future recoverability. Similarly, deferred income tax assets not recognized in the consolidated balance sheet are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow them to be recovered.

Deferred tax assets and liabilities are measured using the tax rates expected to prevail upon their reversal, based on tax legislation approved, and in accordance with the manner in which the Group reasonably expects to recover the asset's carrying amount or settle the liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or non-current liabilities, respectively.

4.9. Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the consolidated balance sheet as current or non-current. Accordingly, assets and liabilities are classified as current when they are associated with the Group's normal operating cycle, which is less than one year, and it is expected that they will be sold, consumed, realized or settled within the course of that cycle; if they differ from the aforementioned assets and are expected to mature, be sold or settled within one year; if they are held for trading or are cash and cash equivalents, the use of which is not restricted to more than one year. All other assets and liabilities are presented as non-current.

4.10. Segmented financial reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed, discussed, and assessed by the Group's chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4.11. Income and expenses

In accordance with the accruals principle, income and expenses are recognized when they occur, regardless of when actual payment or collection occurs.

Revenue is recognized when it is probable that the economic benefits embodied by the transaction will flow to the Group and the amount of income and costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, less any trade discounts, rebates or similar items granted by the Group, as well as interest, if any, on the nominal amount of credit extended. Applicable indirect taxes on transactions which are reimbursed by third parties are not included in revenue.

Rental income is recognized on a straight-line basis over the term of the contract, even if the contract establishes incremental payments.

4.12. Related party transactions

Related-party transactions are recognized according to the measurement principles described above.

Given that the prices of related party transactions are adequately supported, Millenium's directors consider that there are no risks which might result in significant tax liabilities in the future.

4.13. Treasury shares

Treasury shares are recognized under consolidated equity as a decrease in "Capital and reserves" when acquired, and no gains or losses are recognized in the consolidated income statement on sale or cancellation. Income and expenses incurred in connection with treasury share transactions are recognized directly under consolidated equity as a decrease in reserves.

4.14. Provisions and contingencies

Liabilities of uncertain timing or amounts are recognized in the consolidated balance sheet as provisions when the Group has a present obligation (be it legal, contractual or deriving from an implicit or tacit obligation) as a result of past events, the settlement of which is expected to result in a quantifiable outflow of resources embodying economic benefits.

Provisions are measured at the present value of the best possible estimate of the amount needed to cancel the obligation or transfer it to a third party, recognizing any corresponding adjustments to the provisions as a finance cost as they accrue. Provisions expiring within one year are not discounted when the financial effect is not material. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the corresponding liability.

Compensation receivable from a third party when obligations corresponding to provisions are settled is recognized as an asset without reducing the provision, provided there is no doubt that this reimbursement will actually be received and that it does not exceed the amount of the liability recognized. When a contractual or legal relationship exists by virtue of which the Group is required to externalize the risk, and thus it is not liable for the related obligation, the amount of the reimbursement is deducted from the amount of the provision.

Contingent liabilities, meanwhile, are possible obligations arising from past events, materialization of which is conditional upon the occurrence of future events not wholly within the Group's control as well as those present obligations arising from past events for which it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. These liabilities are not recognized in the financial statements but are disclosed in the accompanying explanatory notes, unless the possibility of an outflow of resources is remote.

4.15. Termination benefits

Under prevailing labor law, the Group is obliged to pay termination benefits to employees dismissed under certain circumstances. Reasonably quantifiable termination benefits are recognized as an expense in the year in which the Group is demonstrably committed to terminating employment.

4.16. Business Combinations

Business combinations in which the Group acquires control of one or more businesses by merging or spinning off several companies, or by acquiring all of the assets and liabilities of a company or part of a company that qualifies as a business or several businesses, are accounted for using the acquisition method, which entails recognizing the acquisition-date fair values of the identifiable assets acquired and liabilities assumed, so long as fair value can be reliably determined.

The difference between the cost of the business combination and the value of identifiable assets acquired less the cost of liabilities assumed is recognized as goodwill, where the difference is positive, or as income in the consolidated income statement, where the difference is negative.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity. Further, contingent consideration which is classified under financial assets or financial liabilities in accordance with IFRS 9 ("Financial Instruments") is measured at fair value, recognizing the changes in fair value in the income statement in accordance with IFRS 9. Other contingent consideration beyond the scope of IFRS 9 is recognized at fair value at the closing date and any changes in fair value are recognized in the income statement.

Provisional values are used to measure business combinations when the measurement process required for application of the acquisition method has not been completed by the end of the reporting period. These values should be adjusted within a year from the date of acquisition. Adjustments recognized to complete initial measurement are made retroactively, so that the resulting values are those that would have been recognized had the adjustment been made initially, and the comparative figures are thus restated.

4.17. Remuneration plan for Board members and executives

The incentive plan known as "Promote" was approved by the shareholders in their ordinary general meeting on May 10, 2019. It was exclusively designed to promote and remunerate the Millenium Management Team, in accordance with the conditions established in the respective contracts of each executive Board member or employee. This plan is of indefinite duration and involves accruing the right to receive shares as an incentive when, for each calculation period (the financial year), the conditions established therein are met.

These conditions mainly establish that the total returns generated for shareholders be greater than a specified percentage. These returns are measured as the total amount of dividends distributed plus the restated carrying amounts of assets (EPRA NAV), excluding any capital increase carried out during each calculation period. Thus, this remuneration is focused on generating returns for the shareholders obtained via active management rather than portfolio volume.

The right to the incentive is calculated annually on an accruals basis, and is settled via the delivery of shares. Should it not be possible to deliver all the shares accrued, settlement will be in cash. The Management Team cannot dispose of said shares for a period of one year counted from the date on which they are delivered.

4.18. Calculation of fair value

The Group measures its financial instruments, such as derivatives, and non-financial assets, such as investment properties, at their fair value at the closing date of the consolidated financial statements.

Fair value corresponds to the price receivable from sale of an asset or the price that would be paid for transferring a liability in an arms length transaction between market participants at the transaction date. Fair value is based on the assumption that the transaction relating to sale of an asset or transfer of a liability take place:

- In the main market for the asset or liability, or
- in absence of such a main market, in the market in which the transaction can be carried out on the most favorable terms.

The main market, or most favorable market, must be a market to which the Group has access.
The fair value of an asset or liability is calculated using the hypotheses that the market participants would use when offering the corresponding asset or liability, assuming that these market participants are acting in their own economic interest.

The calculation of the fair value of a non-financial asset takes into account the capacity of the market participants to generate economic benefits from better and increased use of said asset or via its sale to another market participant who could make better and increased use of said asset.

The Group utilizes measurement techniques appropriate to the circumstances and with sufficient information available for calculating fair value, maximizing the use of relevant observable variables and minimizing the use of variables that cannot be observed.

All assets and liabilities for which fair value calculations are made or disclosures provided in the financial statements are categorized as per the fair value hierarchy described below, based on the lowest significant value for calculation of fair value taken as a whole:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Measurement techniques for which the lowest significant variable used in the calculation is directly or indirectly observable.
- Level 3 - Measurement techniques for which the lowest significant value used in the calculation is not observable.

For assets and liabilities which are recognized at fair value in the consolidated financial statements on a recurring basis, the Group determines whether there were any transfers between different hierarchy levels by reviewing their categorization (based on the lowest significant value used in the calculation of fair value taken as a whole) at the end of each reporting period.

The disclosures relating to the fair value of financial instruments and non-financial assets measured at fair value or for which fair value is disclosed, are included in the following notes:

- Investment properties (Notes 4.2 and 7)
- Derivative financial instruments (Notes 4.5 and 12.2)

The following table shows the fair value hierarchy for the Group's assets and liabilities:

		Fair value measurement used (Euros)			
2019	**Valuation date**	**Total**	**Quoted value on active markets (Level 1)**	**Significant observable variables (Level 2)**	**Significant unobservable variables (Level 3)**
Assets measured at fair value					
Investment properties (Note 7)					
Hotels being operated	12/31/2019	118,800,000	-	-	118,800,000
Hotels in development	12/31/2019	187,037,000	-	-	187,037,000
Financial liabilities measured at fair value					
Derivatives (Note 12.2)					
Interest rate swaps	12/31/2019	517,358	-	517,358	-

There were no transfers between Levels 1 and 2 during 2019.

The following table shows the fair value hierarchy for the Group's assets and liabilities:

2018	Valuation date	Fair value measurement used (Euros)			
		Total	Quoted value on active markets (Level 1)	Significant observable variables (Level 2)	Significant unobservable variables (Level 3)
Assets measured at fair value					
Investment properties (Note 7)					
Hotels being operated	12/31/2018	62,000,000	-	-	62,000,000
Hotels in development	12/31/2018	12,500,000	-	-	12,500,000
Financial liabilities measured at fair value					
Derivatives (Note 12.2)					
Interest rate swaps	12/31/2018	420,696	-	420,696	-

There were no transfers between Levels 1 and 2 during 2018.

4.19. Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing profit for the year attributable to the ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

	12/31/2019	12/31/2018
Profit (loss) attributable to shareholders of the Parent (euros)	22,784,970	1,585,458
Weighted average number of shares outstanding (shares)	51,930,809	59,014,000
Basic earnings per share (euros)	**0.44**	**0.03**

Diluted earnings per share

Diluted earnings per share are calculated by adjusting profit for the year attributable to holders of the Parent's equity instruments and the weighted average number of ordinary shares outstanding by all the dilutive effects inherent to potential ordinary shares, that is, as though all potentially dilutive ordinary shares had been converted.

As the Parent does not have different classes of potentially dilutive ordinary shares, no diluted earnings per share were calculated.

5. BUSINESS COMBINATIONS

Acquisition of Alcaidesa Holding, S.A.U.

On December 10, 2019 the Parent carried out a purchase-sale transaction for an amount of 15,200 thousand euros in which it acquired 100% of the shares of Alcaidesa Holding, S.A.U., a company which in turn held 100% of Alcaidesa Golf, S.L.U.

The assets and liabilities resulting from said acquisition and their inclusion in the consolidated financial statements for the year ended December 31, 2019 were as follows:

(Thousands of euros)	Carrying amount	Fair value adjustments	Market value recognized at acquisition
Property, plant, and equipment	20,188	(8,388)	11,800
Investment properties	13,702	(2)	13,700
Deferred tax assets	4,731	(4,731)	-
Inventories	102	-	102
Trade and other receivables	82	-	82
Current accruals	17	-	17
Cash	157	-	157
Total assets	**38,979**	**(13,121)**	**25,858**
Non-current borrowings	(416)	-	(416)
Deferred tax liabilities	(2,325)	91	(2,234)
Current borrowings	(215)	-	(215)
Trade and other payables	(920)	-	(920)
Current accruals	(37)	-	(37)
Total liabilities	**(3,913)**	**91**	**(3,822)**
Total net assets at market value	**35,066**	**(13,030)**	**22,036**
Amount paid			**15,200**
Gains from the business combination			**6,836**

At the acquisition date, Alcaidesa Holding, S.A.U. was titleholder, indirectly via Alcaidesa Golf, S.L.U., and amongst other assets, of the golf courses called "Alcaidesa Link" and "Alcaidesa Heathland," which include a club house and urban land for residential use (50,000m2), all located at the seafront in the municipality of San Roque, Cádiz.

As a result of said acquisition, a profit of 6,836 thousand euros was generated, recognized in the consolidated financial statements.

If this business combination had been carried out on January 1, 2019, it would have generated revenue of 4.2 million euros and a negative result of 0.6 million euros for the consolidated Group.

Acquisition of Millenium Hotels C220, S.L.

On July 31, 2018, the Parent acquired 92.86% of the participation units of Millenium Hotels C220, S.L. for an amount of 17,867 thousand euros.

The assets and liabilities resulting from said acquisition and their inclusion in the consolidated financial statements for the year ended December 31, 2018 were as follows:

(Thousands of euros)	Carrying amount	Fair value adjustments	Market value recognized at acquisition
Investment property	28,298	9,802	38,100
Deferred tax assets	257	-	257
Non-current financial investments	3	-	3
Trade and other receivables	29	-	29
Cash	164	-	164
Total assets	**28,751**	**9,802**	**38,553**
Non-current and current finance lease payables	(15,994)	-	(15,994)
Derivatives	(192)	-	(192)
Deferred tax liabilities	(666)	(2,451)	(3,117)
Other financial liabilities	(270)	-	(270)
Trade and other payables	(55)	-	(55)
Minority interests	-	(1,351)	(1,351)
Total liabilities	**(17,177)**	**(3,802)**	**(20,978)**
Total net assets at market value	**11,574**	**6,000**	**17,574**
Goodwill	-	-	293
Amount paid			**17,867**

At the acquisition date, Millenium Hotels C220, S.L. was titleholder to all the goods and rights comprising its equity, in particular those items related to the hotel business located on the Paseo de la Castellana de Madrid (Hotel Vía Castellana).

As a consequence of acquiring 92.86% of the participation units, goodwill amounting to 9,802 thousand euros was generated, recognized as a greater value of the investment properties. In addition, a deferred tax liability arose as a consequence of this transaction, corresponding to the difference between market and tax values of the real estate assets in the amount of 2,451 thousand euros.

The remaining goodwill generated, amounting to 293 thousand euros, was impaired at December 31, 2018.

Subsequently, on October 11, 2018 the Parent acquired the remaining 7.14% of participation units, for an amount of 1,511 thousand euros, which generated 161 thousands of euros of reserves in consolidated companies, as well as a negative result of 1 thousand euros.

If this business combination had been carried out on January 1, 2018, it would have generated 2.3 million euros of revenue and a positive result of 0.7 million euros for the consolidated Group.

<u>Acquisition of Varia Pza Magdalena, S.L.</u>

The Parent has formed a part of the share capital of Varia Pza Magdalena, S.L. since December 22, 2017, the date on which said company carried out a capital increase in the amount of 2,500 thousand euros, fully assumed and paid in by the Parent. Thus, with said transaction, it became titleholder of 50% of the participation units of Varia Pza Magdalena, S.L.

On September 6, 2018 the Parent carried out a purchase-sale transaction for acquiring the remaining 50% of the participation units of said company, for an amount of 3,010 thousand euros. Consequently, the aggregate purchase of all share capital of said company totaled 5,510 thousand euros.

The assets and liabilities resulting from said acquisition and their inclusion in the consolidated financial statements for the year ended December 31, 2018 were as follows:

(Thousands of euros)	Carrying amount	Fair value adjustments	Market value recognized at acquisition
Investment property	10,952	1,120	12,072
Deferred tax assets	5	-	5
Inventories	2	-	2
Trade and other receivables	153	-	153
Current financial investments	3	-	3
Cash	150	-	150
Total assets	**11,265**	**1,120**	**12,385**
Bank borrowings	(5,000)	-	(5,000)
Current provisions	(53)	-	(53)
Other financial liabilities	(1,559)	-	(1,559)
Deferred tax liabilities	-	(280)	(280)
Trade and other payables	(93)	-	(93)
Total liabilities	**(6,705)**	(280)	**(6,985)**
Total net assets at market value	**4,560**	**840**	**5,400**
Goodwill			111
Amount paid			**5,510**

At the acquisition date, Varia Pza Magdalena, S.L. was titleholder to all the goods and rights comprising its equity, in particular the hotel business at a building located in Seville, currently undergoing construction work for conversion into a hotel (the future Hotel Radisson Sevilla).

As a consequence of this acquisition, goodwill amounting to 1,120 thousand euros was generated, recognized as a greater value of the investment properties. In addition, a deferred tax liability arose as a consequence of this transaction, corresponding to the difference between market and tax values of the real estate assets in the amount of 280 thousand euros.

The remaining goodwill generated, amounting to 111 thousand euros, was impaired at December 31, 2018.

If this business combination had been carried out on January 1, 2018, it would have generated 0 million euros of revenue and a positive result of 0.3 million euros for the consolidated Group.

6. PROPERTY, PLANT, AND EQUIPMENT

The breakdown and movements of the different items composing PP&E are as follows:

(Euros)	12/31/18	Additions/ Allowances	Derecognitions	Business combinations (Note 5)	12/31/19
Cost					
Land	-	-	-	2,443,368	2,443,368
Buildings	-	-	-	8,772,515	8,772,515
Machinery	-	-	-	194,949	194,949
Plant	-	41,809	-	-	41,809
Data processing equipment	-	5,386	-	-	5,386
Transport equipment	-	-	-	389,168	389,168
Right-of-use assets	514,870	-	-	-	514,870
	514,870	47,195	-	11,800,000	12,362,065
Accumulated depreciation					
Buildings	-	-	-	-	-
Machinery	-	-	-	-	-
Plant	-	(2,584)	-	-	(2,584)
Data processing equipment	-	(786)	-	-	(786)
Transport equipment	-	-	-	-	-
Right-of-use assets (amortization)	(38,124)	(91,498)	-	-	(129,622)
	(38,124)	(94,868)	-	-	(132,992)
Net carrying amount	**476,746**				**12,229,073**

The additions recognized under "Plant" during 2019 correspond to the refurbishment work performed on the offices which the Parent leases from Grupomillenium Investment Partners, S.L. (Note 6.1).

(Euros)	1/1/18	Additions/ Allowances	Derecognitions	Business combinations	12/31/18
Cost					
Right-of-use assets	-	-	-	514,870	514,870
	-	-	-	514,870	514,870
Accumulated amortization					
Right-of-use assets	-	(38,124)	-	-	(38,124)
	-	(38,124)	-	-	(38,124)
Net carrying amount	**-**				**476,746**

The additions from the business combination in 2018 correspond to the formation of the Millenium Group on July 31, 2018 (Note 1).

6.1. Leases previously classified as operating leases

The Parent has leased its offices in Madrid from Grupomillenium Investment Partners, S.L. until March 31, 2023. Subsequently, this contract will automatically be renewed for one-year periods unless the lessee (Millenium) expressly states otherwise.

The lease payments made in connection with said contract amounted to 60,000 euros for the year ended December 31, 2019 (2018: 45,000 euros; Note17.1).

Further, the Group company C220 has leased certain corridors in the building where the Hotel Vía Castellana is located to the Owners Association of said building until October 2025.

The future minimum payments under said lease agreements, non-cancelable at each annual closing date, are as follows:

(Euros)	12/31/19	12/31/18
Within one year	88,618	86,340
Between one and five years	271,774	323,427
More than 5 years	31,851	68,815
TOTAL	**392,243**	**478,582**

6.2. Leases previously classified as finance leases

The carrying amounts of PP&E items acquired under finance leases are as follows:

(Euros)	12/31/19	12/31/18
Machinery	194,949	-
Transport equipment (buggies)	389,168	-
TOTAL	**584,117**	**-**

These finance lease arrangements arise from the business combination generated upon acquisition of Alcaidesa Holding, S.A.U. and Alcaidesa Golf, S.L.U. (Note 5), with the following characteristics:

- The lease terms are of 5 years in all cases, maturing in June 2021, July 2022, January 2023, and August 2023.
- The interest rate is fixed at 2.90%.
- The conservation and maintenance expenses are on account of the lessee (the Group company Alcaidesa Golf, S.L.U.).
- The amount of the purchase option is equivalent to the last installment payable on the finance lease.
- There are no contingent lease payments.

7. INVESTMENT PROPERTIES

At December 31 the Group held the following investment properties:

Real estate investment	Location	Euros 12/31/2019	Euros 12/31/2018
Hotel Vía Castellana	Paseo de la Castellana 220, Madrid	40,700,000	38,100,000
Hotel Eurostars Lucentum	Avenida Alfonso X El Sabio 11, Alicante	28,100,000	23,900,000
Hotel Radisson Sevilla (*)	Plaza de la Magdalena 1 and c/ Rioja 26, Sevilla	25,790,000	12,500,000
Hotel Alma Sevilla (*)	Plaza San Francisco 11-12, Sevilla	6,330,000	-
Hotel Radisson Bilbao (*)	Gran Vía de Don Diego López de Haro 4, Bilbao	24,800,000	-
Hotel Carrera de San Jerónimo (*)	Carrera de San Jerónimo 9-11, Madrid	91,000,000	-
Hotel Meliá Bilbao	Lehendakari Leizaola 29, Bilbao	50,000,000	-
Hotel & Villas La Alcaidesa (*)	San Roque, Cádiz	37,500,000	-
Hotel Palacetes de Córdoba (*)	Cabezas 19, Córdoba	1,617,000	-
TOTAL		**305,837,000**	**74,500,000**

(*) Hotel under development

The breakdown and movements for investment properties at December 31, 2019 are as follows:

(Euros)	12/31/18	Additions	Transfers	Business combinations (Note 5)	Changes in fair value	12/31/19
Hotels being operated	62,000,000	51,074,207	-	-	5,725,793	114,699,999
Hotels in development	12,500,000	141,486,163	6,030,001	13,700,000	13,320,836	191,137,001
Advances	-	7,657,234	(6,030,001)	-	-	1,627,233
TOTAL	**74,500,000**	**200,217,604**	**-**	**13,700,000**	**19,046,629**	**307,464,233**

On March 27, 2019 Millenium acquired a property located at the calle Gran Vía de Don Diego López de Haro no. 4 in Bilbao for an amount totaling 23,500,000 euros. The expenses associated with this acquisition amounted to 231,562 euros.

On April 4, 2019 the Varia Group company acquired a property located at calle Rioja no. 26 in Seville for 8,500,000 euros. Together with a property located at Plaza de la Magdalena 1 in Seville it will be used for the Hotel Radisson Sevilla. The expenses associated with this acquisition amounted to 226,581 euros.

On April 26, 2019 Millenium acquired two properties located at Plaza San Francisco no. 11 and 12 in Seville for an amount totaling 5,715,000 euros. The two properties will make up the future Hotel Alma Sevilla. The expenses associated with this acquisition amounted to 149,949 euros.

On September 24, 2019 Millenium acquired a property located at the calle Cabezas no.19 in Cordoba for 1,300,000 euros, having already paid an advance of 130,001 euros for said property in February 2019. The expenses associated with this acquisition amounted to 203,249 euros.

On October 31, 2019 Millenium acquired two buildings located at the calle Carrera de San Jerónimo no. 9 and 11 in Madrid for 82,000,000 euros, having already paid an advance of 4,100,000 euros for said properties in August 2019. Together, they will make up the future Hotel Carrera de San Jerónimo. The expenses associated with this acquisition amounted to 2,129,017 euros.

On November 7, 2019 Millenium acquired Hotel Melía in Bilbao for 49,284,960 euros. The expenses associated with this acquisition amounted to 463,413 euros.

In May and October 2019 Millenium made two advance payments, each amounting to 900,000 euros, for the purchase of land in the province of Cadiz. Subsequently, Millenium ceded its position in the purchase options contract for said land in favor of its subsidiary MHRE San Roque, S.L.U. and on December 27, 2019 this subsidiary acquired said land for a total amount of 18,000,000 euros, with associated expenses totaling 186,884 euros.

Further, the heading for advance payments includes a deposit of 627,233 euros set up as a guarantee in connection with the auction for purchasing the "Palacio de La Tinta" building in Malaga and an advance payment of 1,000,000 euros made on December 19, 2019 for purchasing the two premises located on the bottom floor of the future Hotel Carrera de San Jerónimo.

The remaining additions during 2019 correspond to costs capitalized in connection with the construction and refurbishment work for various hotels, amounting to 6,699,756 euros, of which 528,023 euros correspond to finance expenses.

The breakdown of investment properties and corresponding movements at December 31, 2018 are as follows:

(Euros)	1/1/18	Additions	Transfers	Business combinations	Changes in fair value	12/31/18
Hotels being operated	-	22,466,441	-	38,100,000	1,433,559	62,000,000
Hotels in development	-	841,453	-	12,071,557	(413,010)	12,500,000
TOTAL	**-**	**23,307,894**	**-**	**50,171,557**	**1,020,549**	**74,500,000**

The additions from the business combination in 2018 correspond to the formation of the Millenium Group on July 31, 2018 (Note 1).

During 2018 an amount of 22,466,441 euros was recognized corresponding to the purchase of the Hotel Eurostars Lucentum of Alicante, acquired by Millenium on February 16, 2018- This amount also included expenses associated with the acquisition, totaling 466,441 euros. The remaining additions during 2018 correspond to acquisition expenses and expenses capitalized in connection with the refurbishment work being carried out at the Hotel Plaza de la Magdalena since its inclusion in the consolidation scope, amounting to 841.453 euros.

At December 31, 2019 investment properties had been mortgaged with various financial entities in guarantee of loans and totaling 78,242,089 euros (2018: 17,697,203 euros). In addition, a finance lease was recognized in the amount of 14,476,767 euros (2018: 15,557,868 euros at December 31, 2018) in connection with the hotel Vía Castellana (Note 12.1).

All properties are covered by insurance policies for the amount required to reconstruct and refurbish them.

Likewise, all properties are located in Spain.

The fair value indicated for each of the properties corresponds to the estimated market value based on the appraisals performed by independent experts in accordance with the valuation standards published by the Royal Institute of Chartered Surveyors (RICS) in Great Britain. In order to calculate said fair value, discount rates acceptable for a potential investor were used, in line with those applied in the market for assets with similar characteristics and locations. Further, in order to calculate the residual value of an asset for the last year of the forecasts made regarding cash flows, a net exit yield is applied. The valuation model is in accordance with the recommendations of the "International Valuation Standards Committee" and are consistent with the principles established in IFRS 13.

The breakdown of the net exit yields considered and the rate used for discounting projected cash flows is as follows:

December 31, 2019	***Net exit yields***	***Discount rate***
Hotels being operated	5.25% - 6.50%	7.00% - 8.50%
Hotels in development	4.50% - 7.00%	6.75% - 13.00%

December 31, 2018	***Net exit yields***	***Discount rate***
Hotels being operated	5.50% - 6.00%	7.25% - 7.75%
Hotels in development	5.25%	7.00%

A change of a quarter percentage point in the net exit yield has the following impact on the valuations used by the Group for determining the recoverable amounts for the hotels it operates:

	12/31/19		
(Euros)	**Carrying amount**	**-0,25% in net exit yields**	**+0,25% in net exit yields**
Hotel Vía Castellana	40,700,000	42,000,000	39,500,000
Hotel Eurostars Lucentum	28,100,000	28,900,000	27,400,000
Hotel Meliá Bilbao	50,000,000	51,400,000	48,700,000

(Euros)	12/31/18 Carrying amount	-0,25% in net exit yields	+0,25% in net exit yields
Hotel Vía Castellana	38,100,000	39,900,000	36,500,000
Hotel Eurostars Lucentum	23,900,000	25,000,000	23,000,000

In contrast, a change of a quarter percentage point in the estimated construction costs for the hotels under development has the following impact on the valuations used by the Group for determining their recoverable amounts:

(Euros)	12/31/19 Carrying amount	-2.5% in construction costs	+2.5% in construction costs
Hotel Radisson Sevilla	25,790,000	25,980,000	25,590,000
Hotel Alma Sevilla	6,330,000	6,437,000	6,224,000
Hotel Radisson Bilbao	24,800,000	25,090,000	24,514,000
Hotel Carrera de San Jerónimo	91,000,000	91,300,000	90,100,000
Hotel & Villas La Alcaidesa	37,500,000	40,260,000	34,660,000
Hotel Palacetes de Córdoba	1,617,000	1,672,000	1,562,000

(Euros)	12/31/18 Carrying amount	-2.5% in construction costs	+2.5% in construction costs
Hotel Radisson Sevilla	12,500,000	12,613,313	12,332,020

7.1. Leases previously classified as operating leases

Except for certain hotels under development, the investment properties owned by the Group are leased to third parties via operating lease contracts as described below:

- The Eurostars Lucentum Hotel was leased for an initial period which finalizes in August 2020, plus an optional extension period of five years. The lessee has already informed Millenium that this option will be exercised. The revenue from this lease is fixed and includes scaled increases, in accordance with the stipulations of the contract.

- The Vía Castellana Hotel was leased for an initial period finalizing in February 2024. Revenue from this lease is composed of a fixed part and a variable part referenced to the leased hotel's net invoicing.

- With respect to the future Radisson Sevilla Hotel, on March 20, 2019 the Varia Group company signed an operating lease agreement in connection with this property for a duration of 20 years, income from which will accrue once the lessee is given control over the finished property. Lease revenue from the hotel is composed of a fixed component and a variable component referenced to the operating results obtained by the hotel.

- With respect to the future Radisson Bilbao Hotel, on March 20, 2019 Millenium signed an operating lease agreement in connection with this property for a duration of 20 years, income from which will accrue once the lessee is given control over the finished property. Lease revenue from the hotel is composed of a fixed component and a variable component referenced to the operating results obtained by the hotel.

- With respect to the future Hotel Alma Sevilla, on May 14, 2019 Millenium signed an operating lease agreement in connection with this property for a duration of 20 years, income from which will accrue once the lessee is given control over the finished property. Lease revenue from the hotel is composed of a fixed component and a variable component referenced to the operating results obtained by the hotel.

- The Melía de Bilbao Hotel was leased for an initial duration which finalizes in September 2024, plus an automatic extension for a single period of 5 years, should neither of the parties object. Lease income from this contract, in which Millenium was subrogated at the moment of acquiring said property (Note 7) is fixed and referenced to annual CPI.

- The Hotel Vía Castellana has 47 parking spaces which have been leased to the operator of the hotel. In addition, the property has another 22 parking spaces which are leased to third parties other than the hotel operator, via monthly contracts that are tacitly renewable. These leases generate fixed income amounting to approximately 17 thousand euros annually.

In addition, with respect to the Melía de Bilbao Hotel, Millenium has contracted the following operating lease agreements with third parties, and with respect to which it was subrogated upon acquisition of the property:

- Premises to be operated as a restaurant were leased until December 31, 2020 (the end of the automatic annual renewals). The revenue from this lease agreement is fixed and referenced to annual CPI.

- Four contracts ceding use of space on the rooftop terrace of the Melía Bilbao Hotel, for the installation of telecommunications antenna, maturing in December 2022, March 2024, and January 2029 for the two remaining contracts. In all cases the revenue agreed upon is fixed and referenced to annual CPI.

The income from said operating lease contracts amounted to 4,267,656 euros for the year ended December 31, 2019 (2018: 2,564,453 euros; Note16.1).

The expenses associated with the investment properties that have generated this income are broken down as follows:

(Euros)	2019	2018
Supplies	50,651	41,557
Taxes	287,824	273,581
Other operating expenses	100,787	94,292
TOTAL	**439,262**	**962,214**

The breakdown of future minimum collections from the non-cancelable operating lease contracts (without including the contracts relating to hotels under development as they are not yet in force) is as follows:

(Euros)	12/31/19	12/31/18
Within one year	5,990,526	3,232,659
Between one and five years	21,626,642	9,550,793
More than 5 years	1,168,750	263,448
TOTAL	**28,785,918**	**13,046,900**

7.2. Leases previously classified as finance leases

The carrying amount of the investment properties acquired under finance lease arrangements is as follows:

(Euros)	12/31/19	12/31/18
Hotel Vía Castellana	40,700,000	38,100,000
TOTAL	**40,700,000**	**38,100,000**

The finance lease agreement has the following characteristics:

- The lease term is 15 years and matures in April 2025.
- A variable interest rate of Euribor +1.25% is applied.
- Conservation and maintenance expenses are assumed by the lessee (the C220 Group company). However, given that the property has been subleased (Note 7.1), the Group only assumes the expenses related to repairing defects in the structure, roofing, or rooftop and facade of the building.
- The amount of the purchase option is equivalent to the last installment payable on the finance lease.
- There are no contingent lease payments.

The breakdown of future minimum finance lease payments is as follows:

(Euros)	12/31/19	12/31/18
Within one year	1,132,762	1,081,101
Between one and five years	5,082,504	6,215,266
More than 5 years	8,261,501	8,261,501
TOTAL	**14,476,767**	**15,557,868**

8. FINANCIAL ASSETS

The breakdown of financial assets by category and class is as follows:

(Euros)	Debt securities 12/31/19	Debt securities 12/31/18	Loans, derivatives, and other 12/31/19	Loans, derivatives, and other 12/31/18	Total 12/31/19	Total 12/31/18
Non-current financial assets						
Financial assets at amortized cost	3,425	3,426	236,992	-	240,417	3,426
	3,425	3,426	236,992	-	240,417	3,426
Current financial assets						
Financial assets at amortized cost	-	-	2,361,534	1,774,326	2,361,534	1,774,326
	-	-	2,361,534	1,774,326	2,361,534	1,774,326
TOTAL	**3,425**	**3,426**	**2,598,526**	**1,774,326**	**2,601,951**	**1,777,752**

These amounts are included in the following consolidated balance sheet headings:

(Euros)	Debt securities 12/31/19	Debt securities 12/31/18	Loans, derivatives, and other 12/31/19	Loans, derivatives, and other 12/31/18	Total 12/31/19	Total 12/31/18
Non-current financial assets						
Financial investments (Note 8.2)	3,425	3,426	236,992	-	240,417	3,426
	3,425	3,426	236,992	-	240,417	3,426
Current financial assets						
Trade receivables (Note 8.1)	-	-	1,645,914	454,519	1,645,914	454,519
Financial investments (Note 8.2)	-	-	645,827	144,767	645,827	144,767
Other current assets	-	-	69,793	1,175,040	69,793	1,175,040
	-	-	2,361,534	1,774,326	2,361,534	1,774,326
TOTAL	**3,425**	**3,426**	**2,598,526**	**1,774,326**	**2,601,951**	**1,777,752**

The carrying amounts of these financial assets do not differ significantly from their fair value.

8.1. Trade receivables

The breakdown of this heading is as follows:

(Euros)	12/31/19	12/31/18
Clients	481,976	3,887
Invoices pending issue	195,938	450,632
Trade bills	968,000	-
TOTAL	**1,645,914**	**454,519**

The balance for invoices pending issue mainly corresponds to the invoice pending issue at year end for the variable income accrued during the last quarter on the Hotel Vía Castellana lease (Note 7.1). At December 31, 2018 it also included the property tax (IBI) for 2018 with respect to said hotel, payable by the lessee.

Trade bills correspond to letters of credit received from the lessee of the Eurostars Lucentum Hotel in guarantee of rental payments (Note 12.3).

8.2. Current and non-current financial investments

The breakdown of these headings is as follows:

(Euros)	12/31/19	12/31/18
Non-current financial investments		
Deposits	3,425	3,426
Guarantees	236,992	-
TOTAL	**240,417**	**3,426**
Current financial investments		
Deposits	392,852	93,923
Guarantees	252,975	50,844
TOTAL	**645,827**	**144,767**

The guarantees relate to amounts deposited with the corresponding public authorities in connection with work being performed on some buildings.

At December 31, 2019, current deposits include 300,000 euros corresponding to an escrow deposit set up as a guarantee for complying with certain obligations in connection with the sale of the Hotel Carrera de San Jerónimo (Notes 7 and 12.3).

9. INVENTORIES

The breakdown of this heading is as follows:

(Euros)	12/31/19	12/31/18
Golf shop merchandise	68,270	-
Other consumables	18,624	-
Prepayments to suppliers	40,435	34,896
TOTAL	**127,329**	**34,896**

No provisions were set aside during 2019 or 2018 for any impairment losses on inventories.

10. CASH AND CASH EQUIVALENTS

This heading records the current accounts held by the Group, bearing market interest rates. The corresponding balances at December 31, 2019 totaled 46,255,540 euros (2018: 20,495,410 euros). There are no restrictions on these balances.

The Group generally places cash and cash equivalents at financial institutions with high credit ratings.

11. EQUITY

The breakdown of consolidated equity and related movements are shown in the consolidated statement of changes in equity.

11.1. Share capital

Millenium was incorporated on June 6, 2017 with a total of 60,000 shares at a nominal value of one euro each, numbered from 1 to 60,000, both inclusive.

On March 12, 2018, the sole shareholder of Millenium until that date, disbursed the pending 45,000 euros of capital, filing said operation at the Mercantile Registry on May 28, 2018.

In addition, on March 12, 2018 a capital increase of 12,590,000 euros was ratified by public deed. The increase was carried out with a charge against monetary contributions via the creation of 12,590,000 ordinary shares at a nominal value of one euro each, numbered from 60,001 to 12,650,000, both inclusive. Said capital increase was filed at the Mercantile Registry of Madrid on April 11, 2018.

On May 11, 2018 a new capital increase was carried out in the amount of 9,070,000 euros, of which 8,350,000 euros were settled by offsetting credits and the creation of 8,350,000 shares at a nominal value of one euro each, numbered from 12,650,001 to 21,000,000, both inclusive; and 720,000 euros were charged against monetary contributions, via the creation of 720,000 shares at a nominal value of one euro each, numbered from 21,000,001 to 21,720,000, both inclusive. Said capital increase was filed at the Mercantile Registry of Madrid on June 22, 2018.

On July 27, 2018 a new capital increase of 25,397,000 euros was ratified by public deed. It was carried out with a charge against monetary contributions via the creation of 25,397,000 shares at a nominal value of one euro each, numbered from 21,720,001 to 47,117,000, both inclusive. It was filed at the Mercantile Registry of Madrid on August 29, 2018.

On December 28, 2018 two new capital increases, which together totaled 11,897,000 euros, were ratified by public deed. The transaction was carried out with a charge against monetary contributions via the creation of 11,897,000 shares at a nominal value of one euro each, numbered from 47,117,001 to 59,014,000, both inclusive, and filed at the Mercantile Registry of Madrid on January 21, 2019.

On March 28, 2019 two new capital increases, which together totaled 16,500,000 euros, were ratified by public deed. The transaction was carried out with a charge against monetary contributions via the creation of 16,500,000 shares at a nominal value of one euro each, numbered from 59,014,001 to 75,514,000, both inclusive, and filed at the Mercantile Registry of Madrid on April 22, 2019.

On April 04, 2019 a capital increase of 500,000 euros was ratified by public deed. It was carried out with a charge against monetary contributions via the creation of 500,000 shares at a nominal value of one euro each, numbered from 75,514,001 to 76,014,000, both inclusive, filed at the Mercantile Registry of Madrid on April 24, 2019.

On May 14 the decisions approved by the shareholders in their ordinary general meeting held on May 10, 2019 were ratified by public deed. The decisions taken included a capital reduction of 60,811,200 euros, that is, 15,202,800 euros via reduction of the nominal value of the shares from 1 euro to 20 cents per share, in order to increase the legal reserve of Millenium up to 20% of the share capital resulting from said reduction, that is, 3,040,560 euros, and setting aside a reserve which can only be used under the same conditions established for capital reduction, in the amount of 57,770,640 euros. Further, the decision was taken to increase the nominal value of Millenium's shares from 20 cents to 1 euro per share, by grouping together circulating shares so that five shares would be converted into one new share (countersplit), reducing the total number of shares from 76,014,000 to 15,202,800, without altering the total share capital. Finally, the decision was taken to modify the shares of Millenium, transforming the bearer shares into book entries via Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear). These decisions were filed at the Madrid Mercantile Registry on May 23, 2019.

On June 20, 2019 a new capital increase was ratified by public deed, approved by the shareholders in their ordinary general meeting on May 10, 2019, amounting to 34,797,200 euros with a charge against monetary contributions, and via creation of 34,797,200 shares at a nominal value of one euro each, represented by book entries. Said shares were issued with a share premium of 4 euros per share, corresponding to a total share premium of 139,188,800 euros (Note 11.2). Said capital increase was filed at the Mercantile Registry of Madrid on June 21, 2019.

The costs of the capital increases carried out during the year ended December 31, 2019 amounted to 6,135,171 euros (2018: 23,635 euros), recognized as a lower amount of reserves (Note 11.3).

At December 31, 2019 Millenium's share capital consisted of 50,000,000 shares (2018: 59,014,000 shares) with a nominal value of 1 euro each. All the shares are of the same class, bear the same rights, and are listed on the Alternative Stock Exchange in the SOCIMI segment.

The breakdown of shareholders holding ownership interest in the share capital of Millenium greater than 5% at December 31, 2019 is as follows:

Shareholder	**% of ownership interest**
Ibervalle, S.L. (controlled by the Isidro family)	24.83%
Pelham Capital, Ltd.	9.93%
Alazady España, S.L. (controlled by José María Castellano)	5.60%
Siemprelara, S.L. (controlled by Leopoldo del Pino)	5.60%

The breakdown of shareholders holding ownership interest in the share capital of Millenium greater than 5% at December 31, 2018 is as follows:

Shareholder	**% of ownership interest**
Alazady España, S.L. (controlled by José María Castellano)	16.96%
Garganta Construcciones, S.L. (controlled by Antonio Vicente Giménez and María José Martínez)	11.87%
Coblilac, S.L. (controlled by María del Mar and Miguel Ángel García Baquero)	8.48%
Mutua Médica, M.P.S.	8.48%
Liquid Investments, S.L. (controlled by Héctor Fabián Gómez-Sainz)	6.79%

11.2. Share premium

The share premium can be freely distributed. The year ended December 31, 2019 saw an increase in the share premium of 139,188,800 euros as a result of the capital increase approved by the shareholders in their ordinary general meeting held on May 10, 2019, filed at the Mercantile Registry of Madrid on June 21, 2019 (Note 11.1).

11.3. Reserves and retained earnings

The breakdown and movements in the items recognized under this heading are as follows:

(Euros)	Balance at 12/31/18	Appropriation of results	Capital reduction (Note 11.1)	Capital increase expenses (Note 11.1)	Other changes	Balance at 12/31/19
Legal reserve	-	-	3,040,560	-	-	3,040,560
Reserves at consolidated companies	(161,093)	-	-	-	1,257	(159,836)
Voluntary reserves	(23,635)	-	57,770,640	(6,135,171)	3,845	51,615,679
	(184,728)	-	60,811,200	(6,135,171)	5,102	54,496,403
Retained earnings	(374,625)	1,584,202	-	-	-	1,209,577
TOTAL	**(559,353)**	**1,584,202**	**60,811,200**	**(6,135,171)**	**5,102**	**55,705,980**

(Euros)	Balance at 1/1/18	Business combinations	Acquisitions of minority interests (Note 5)	Capital increase expenses (Note 11.1)	Other changes	Balance at 12/31/18
Legal reserve	-	-	-	-	-	-
Reserves at consolidated companies	-	-	(161,093)	-	-	(161,093)
Voluntary reserves	-	-	-	(23,635)	-	(23,635)
	-	-	(161,093)	(23,635)	-	(184,728)
Retained earnings	-	(374,625)	-	-	-	(374,625)
TOTAL	**-**	**(374,625)**	**(161,093)**	**(23,635)**	**-**	**(559,353)**

The additions from the business combination in 2018 correspond to the formation of the Millenium Group on July 31, 2018 (Note 1).

Legal reserve

The balance of this heading corresponds entirely to the Parent. In accordance with the revised Spanish Corporate Enterprises Act, until the legal reserve exceeds the limit of 20% of share capital, it cannot be distributed to shareholders and can only be used to offset losses, if no other reserves are available for this purpose. This reserve can also be used to increase share capital by the amount exceeding 10% of the new capital after the increase.

Voluntary reserves

The balance of these reserves correspond entirely to the Parent and are freely distributable. However, at December 31, 2019 an amount of 57,770,640 euros is included in this reserve which can only be used under the same conditions required for capital reductions (Note 11.1).

11.4. Shares of the Parent company

On June 13, 2019, Millenium acquired 60,000 treasury shares with a nominal value of 5 euros each for a total of 300,000 euros.

Subsequently, during the year Millenium acquired 14,986 treasury shares at an average price of 5.14 euros per share, and sold 22,605 treasury shares at an average price of 5.20 euros per share. The difference between the cost price and the sales price for the shares, totaling a net amount of 3,845 euros (2018: 0 euros) was recognized under "Voluntary reserves" (Note 11.3).

At December 31, 2019, the Parent held 52,381 of its own shares, representing 0.1% of share capital (2018: 0 shares).

11.5. Unrealized gains (losses) reserve

The breakdown and movements in this heading are as follows:

(Euros)	Balance at 12/31/18	Income and expense recognized directly in consolidated equity	Tax effect of income (expense) (Note 14.2)	Transfers to the consolidated income statement	Tax effect of transfers (Note 14.2)	Balance at 12/31/19
Effective portion of cash flow hedges (Note 12.2)	(315,522)	(244,407)	(86,680)	147,745	(18,494)	(517,358)
TOTAL	**(315,522)**	**(244,407)**	**(86,680)**	**147,745**	**(18,494)**	**(517,358)**

(Euros)	Balance at 1/1/18	Business combinations (Note 5)	Transfers to the consolidated income statement	Tax effect of transfers (Note 14.2)	Balance at 12/31/2018
Effective portion of cash flow hedges (Note 12.2)	-	(224,225)	(91,297)	-	(315,522)
TOTAL	**-**	**(224,225)**	**(91,297)**	**-**	**(315,522)**

12. FINANCIAL LIABILITIES

The breakdown of financial liabilities by category and class is as follows:

	Bank borrowings (Note 12.1)		Derivatives and other		Total	
(Euros)	12/31/19	12/31/18	12/31/19	12/31/18	12/31/19	12/31/18
Non-current financial liabilities						
Loans and borrowings	86,794,275	31,046,255	580,624	655,909	87,374,899	31,702,164
Hedging derivatives	-	-	517,358	420,696	517,358	420,696
	86,794,275	31,046,255	1,097,982	1,076,605	87,892,257	32,122,860
Current financial liabilities						
Loans and borrowings	5,568,477	1,936,248	7,790,639	421,703	13,359,116	2,357,951
	5,568,477	1,936,248	7,790,639	421,703	13,359,116	2,357,951
TOTAL	**92,362,752**	**32,982,503**	**8,888,621**	**1,498,308**	**101,251,373**	**34,480,811**

These amounts are included in the following consolidated balance sheet headings:

(Euros)	Note	12/31/19	12/31/18
Non-current financial liabilities			
Bank borrowings	12.1	73,050,997	16,569,488
Finance lease liabilities	12.1	13,743,278	14,476,767
Derivatives	12.2	517,358	420,696
Other financial liabilities	12.3	580,624	655,909
		87,892,257	32,122,860
Current financial liabilities			
Bank borrowings	12.1	4,227,903	855,147
Finance lease liabilities	12.1	1,340,574	1,081,101
Other financial liabilities	12.3	1,417,111	191,040
Trade and other payables	12.4	6,373,528	230,663
		13,359,116	2,357,951
TOTAL		**101,251,373**	**34,480,811**

The carrying amounts of the financial liabilities do not differ significantly from their fair value.

The breakdown of maturities for financial liabilities at December 31, 2019, without taking into account debt arrangement expenses, is as follows:

(Euros)	Current	Non-current						Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total non-current	
Bank borrowings	4,227,903	4,759,654	4,998,593	5,029,187	5,060,244	54,232,564	74,080,242	78,308,145
Finance lease liabilities	1,340,574	1,393,411	1,417,665	1,313,747	1,356,954	8,261,501	13,743,278	15,083,852
Derivatives	-	229,328	99,333	88,474	77,125	23,098	517,358	517,358
Other financial liabilities	1,417,111	90,951	93,342	54,266	303,132	38,933	580,624	1,997,735
Trade and other payables	6,373,528	-	-	-	-	-	-	6,373,528
TOTAL	**13,359,116**	**6,473,344**	**6,608,933**	**6,485,674**	**6,797,455**	**62,556,096**	**88,921,502**	**102,280,618**

The breakdown of maturities for financial liabilities at December 31, 2018, without taking into account debt arrangement expenses, is as follows:

(Euros)	Current	Non-current						Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total non-current	
Bank borrowings	855,147	933,357	1,023,357	1,023,357	1,023,357	12,850,418	16,853,846	17,708,993
Finance lease liabilities	1,081,101	1,132,762	1,186,128	1,241,248	1,298,173	9,618,456	14,476,767	15,557,868
Derivatives	-	161,853	71,396	64,644	57,579	65,224	420,696	420,696
Other financial liabilities	191,040	88,618	90,951	93,342	50,516	332,482	655,909	846,949
Trade and other payables	230,663	-	-	-	-	-	-	230,663
TOTAL	**2,357,951**	**2,316,590**	**2,371,832**	**2,422,591**	**2,429,625**	**22,866,580**	**32,407,218**	**34,765,169**

12.1. Bank borrowings

The breakdown of bank borrowings at December 31, 2019 is as follows:

Type of debt	Currency	Nominal interest rate	Year of maturity	Outstanding balance	Non-current	Current
Mortgage loans				**78,242,089**	**74,080,242**	**4,161,847**
Hotel Eurostars Lucentum	Euro	2.25%	2030	11,853,846	11,010,489	843,357
Hotel Radisson Sevilla (Plaza Magdalena 1)	Euro	2.70%	2025	5,000,000	5,000,000	-
Hotel Radisson Sevilla (Rioja 26)	Euro	2.65%	2025	4,600,000	4,600,000	-
Hotel Radisson Bilbao	Euro	2.38%	2026	12,000,000	12,000,000	-
Hotel Carrera de San Jerónimo - loan 1	Euro	Euribor + 1.5%	2030	18,059,186	16,402,408	1,656,778
Hotel Carrera de San Jerónimo - loan 2	Euro	Euribor + 1.5%	2026	2,066,557	1,756,845	309,712
Hotel Meliá Bilbao - loan 1	Euro	Euribor + 2%	2036	6,400,000	6,048,000	352,000
Hotel Meliá Bilbao - loan 2	Euro	Euribor + 1%	2036	16,907,094	15,987,094	920,000
Hotel Meliá Bilbao - loan 3	Euro	Euribor + 1%	2036	1,355,406	1,275,406	80,000
Finance leases				**15,083,852**	**13,743,278**	**1,340,574**
Hotel Vía Castellana	Euro	Euribor +1.25%	2025	14,476,767	13,344,005	1,132,762
Buggies Golf	Euro	2.90%	2022	404,752	281,925	122,827
Golf machinery	Euro	2.90%	2023	91,657	67,022	24,635
Golf machinery	Euro	2.90%	2021	54,914	16,386	38,528
Golf machinery	Euro	2.90%	2022	55,762	33,940	21,822
Accrued interest payable				**64,944**	**-**	**64,944**
Debt arrangement expenses				**(1,029,245)**	**(1,029,245)**	**-**
Other				**1,112**	**-**	**1,112**
TOTAL				**92,362,752**	**86,794,275**	**5,568,477**

The breakdown of bank borrowings at December 31, 2018 is as follows:

Type of debt	Currency	Nominal interest rate	Year of maturity	Outstanding balance	Non-current	Current
Mortgage loans				**17,697,203**	**16,853,846**	**843,357**
Hotel Eurostars Lucentum	Euro	2.25%	2030	12,697,203	11,853,846	843,357
Hotel Radisson Sevilla (Plaza Magdalena 1)	Euro	2.70%	2025	5,000,000	5,000,000	-
Finance leases				**15,557,868**	**14,476,767**	**1,081,101**
Hotel Vía Castellana	Euro	Euribor +1.25%	2025	15,557,868	14,476,767	1,081,101
Accrued interest payable				**9,750**	**-**	**9,750**
Debt arrangement expenses				**(284,358)**	**(284,358)**	**-**
Other				**2,040**	**-**	**2,040**
TOTAL				**32,982,503**	**31,046,255**	**1,936,248**

During the year ended December 31, 2019, bank borrowings related to mortgage loans and finance leases accrued interest in the amount of 666,330 euros (2018: 662,640 euros; Note 16.4).

The mortgage loans in connection with the Hotel Radisson Sevilla (Plaza Magdalena 1 and Rioja 26), the Hotel Radisson Bilbao, and the Hotel Melía Bilbao (loan 2) require compliance with a series of financial covenants for the entire duration of the loans. The loans can be called ahead of maturity in the event of failure to meet the ratios.

12.2. Derivatives

At December 31, 2019 the Group had contracted an interest rate swap to cover the nominal pending amount of the finance lease contract (Note 12.1), fixing the interest rate applicable to the main transaction at 0.97% plus a spread of 1.25%, with a floor at 0%. This interest rate swap matures on April 30, 2025.

The swap was designated as a cash flow hedge to cover interest rate risk associated with said finance lease. Since the conditions for the hedging instrument and the hedged items are the same, the hedge is considered to be effective.

The Group recognized the hedging derivative at December 31, 2019 in the amount of 517,358 euros (2018: 420,696 euros), recognizing the unrealized gains (losses), net of the tax effect, under consolidated equity (Note 11.5).

In addition, during the year ended December 31, 2019 the Group transferred a negative amount of 147,745 euros (2018: 188,581 euros) from equity to the consolidated income statement due to the effect of the interest rate hedge (Note 11.5). These amounts were recognized under "Finance cost" together with the hedged item (Note 16.4).

12.3. Other financial liabilities

The breakdown of these headings is as follows:

(Euros)	12/31/19	12/31/18
Other non-current financial liabilities		
Security deposits received	276,999	263,667
Lease liabilities	303,625	392,242
TOTAL	**580,624**	**655,909**
Other current financial liabilities		
Security deposits received	968,000	-
Lease liabilities	88,618	86,340
Other	360,493	104,700
TOTAL	**1,417,111**	**191,040**

The non-current security deposits received at December 31, 2019 include those corresponding to the lease of the Hotel Vía Castellana in the amount of 263,667 euros (2018: 263,667 euros) and those corresponding to the contracts ceding rooftop space at the Hotel Meliá Bilbao, for installation of telecommunications antennae (Note 7.1), in the amount of 13,332 euros (2018: 0 euros). The maturities of said security deposits are the same as those for the corresponding lease agreements.

At December 31, 2018 the current security deposits received correspond to letters of credit received from the lessee of the Eurostars Lucentum Hotel in guarantee of rental payments (Note 8.1).

The lease liabilities relate to the right-of-use granted for the offices used by Millenium as well as the corridors of the building where the Hotel Vía Castellana is located (Note 6.1).

The balance recognized under "Other" mainly includes an amount of 300,000 euros corresponding to amounts withheld as a guarantee to the seller of the Carrera de San Jerónimo

Hotel.

12.4. Trade and other payables

The breakdown of financial liabilities included under this heading is as follows:

(Euros)	12/31/19	12/31/18
Suppliers and other payables	1,613,409	230,663
Remuneration pending payment to employees	4,316,365	-
Customer advances	443,754	-
TOTAL	**6,373,528**	**230,663**

The balance for suppliers and other payables mainly includes debts related to refurbishment work being carried out at various hotels. At December 31, 2018 said heading included an amount of 45,980 euros corresponding to the management commission charged by the related party Gestión de Inversiones Millenium, S.L.U. (Note 17.1).

"Remuneration pending payment to employees" includes an amount of 3,735,554 euros corresponding to the "Promote" incentive plan of 2019 (Note 4.17).

Customer advances correspond entirely to payments received in advance from clients of the golf courses at La Alcaidesa in connection with subscription fees for the coming year.

13. PROVISIONS

The heading for current provisions includes a provision covering a claim presented by a supplier, which the Group considers a likely payment and which was recognized in 2018 in connection with the business combination resulting from transfer of control of Varia Pza Magdalena, S.L.U. (Note 5). There were no other movements in this provision during 2019 and 2018.

14. TAXES

The breakdown of tax assets and tax liabilities is as follows:

(Euros)	12/31/19	12/31/18
Tax credits		
Deferred tax assets	-	167,780
Other receivables from public administrations		
VAT	5,822,367	420,120
TOTAL	**5,822,367**	**587,900**
Tax liabilities		
Deferred tax liabilities	5,708,722	3,503,401
Other payables to public administrations		
VAT	202,242	-
Withholdings	304,826	107,806
Social security	49,767	4,325
TOTAL	**6,265,557**	**3,615,532**

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by the tax authorities or until the four-year inspection period has expired. The Group companies are open to inspection of all taxes to which they are liable for the last four years. Millenium's directors and tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to transactions carried out by Group companies.

14.1. Income tax calculation

As stated in Note 1.1, the Parent and the C220 and Varia Group companies are subject to the special regime established in Law 11/2009 of October 26 for SOCIMIs. In accordance with said special tax regime for the SOCIMIs, the returns generated by their activities which fulfill the stipulated requirements are exempt from taxation.

The reconciliation of net income and expense for the year with the corporate income tax result is as follows:

	2019					
	Consolidated income statement			Income and expense recognized directly in consolidated equity		
(Euros)	**Increases**	**Decreases**	**Total**	**Increases**	**Decreases**	**Total**
Income and expense for the year	-	-	22,784,970	-	-	(6,337,007)
Corporate income tax	-	-	(33,538)	-	-	(105,174)
Income and expense for the year before tax			**22,818,508**			**(6,231,833)**
Permanent differences	-	(6,835,482)	(6,835,482)	-	-	-
Temporary differences	-	(20,148,865)	(20,148,865)	96,662	-	96,662
Taxable income (Tax results)			**(4,165,839)**			**(6,135,171)**

	2018					
	Consolidated income statement			Income and expense recognized directly in consolidated equity		
(Euros)	**Increases**	**Decreases**	**Total**	**Increases**	**Decreases**	**Total**
Income and expense for the year	-	-	1,584,202	-	-	(114,931)
Corporate income tax	-	-	(231,533)	-	-	-
Income and expense for the year before tax			**1,815,735**			**(114,931)**
Permanent differences	-	(179,048)	(179,048)	-	-	-
Temporary differences	-	(1,998,569)	(1,998,569)	23,635	-	23,635
	-	-	(526,251)	-	-	-
Taxable income (Tax results)			**(888,133)**			**(91,296)**

The permanent differences of 2019 correspond to the benefits obtained in the business combination described in Note 5.

The temporary differences recognized in the consolidated income statement mainly include the adjustments relating to application of the fair value method as per IAS 40 and accelerated depreciation of investment properties financed via finance lease agreements (Note 12.1), amounting to a negative total of 299 thousand euros (2018: a negative total of 427 thousand euros).

The temporary differences in income and expenses recognized directly in consolidated equity correspond to the measurement of the financial hedging instrument (Note 12.2).

No reconciliation of income tax expense (income) and the result of multiplying applicable tax rates to total income and expenses recognized is presented as the rate applicable to the Group companies for the year ended December 31, 2019 is 0%, except in the case of Alcaidesa Holding and Alcaidesa Golf, which contributed insignificant net results to the Group (24 thousand euros).

The breakdown of income tax expense (income) is as follows:

	2019		2018	
(Euros)	**Consolidated income statement**	**Recognized directly in consolidated equity**	**Consolidated income statement**	**Recognized directly in consolidated equity**
Current income tax	-	-	-	-
Change in deferred taxes	(33,538)	(105,174)	(231,567)	-
Other adjustments	-	-	34	-
TOTAL	**(33,538)**	**(105,174)**	**(231,533)**	**-**

14.2. Deferred tax assets and liabilities

The breakdown and movements of the items comprising “Deferred tax assets and liabilities” are as follows:

		Change in			
(Euros)	**Balance at January 1**	**Consolidated income statement**	**Consolidated equity (Note 11.5)**	**Business combinations (Note 5)**	**Balance at December 31**
2019					
Deferred tax assets					
Cash flow hedges	105,174	-	(105,174)	-	-
Tax loss carryforwards:	62,606	(62,606)	-	-	-
TOTAL	**167,780**	**(62,606)**	**(105,174)**	**-**	**-**
Deferred tax liabilities					
Valuation of investment properties	2,730,389	(29,068)	-	2,234,389	4,935,710
Depreciation of investment properties	773,012	-	-	-	773,012
TOTAL	**3,503,401**	**(29,068)**	**-**	**2,234,389**	**5,708,722**

(Euros)	Balance at January 1	Changes reflected in Consolidated income statement	Changes reflected in Consolidated equity (Note 11.5)	Business combinations (Note 5)	Balance at December 31
2018					
Deferred tax assets					
Cash flow hedges	-	-	30,432	74,742	105,174
Tax loss carryforwards	-	(124,765)	-	187,371	62,606
TOTAL	**-**	**(124,765)**	**30,432**	**262,113**	**167,780**
Deferred tax liabilities					
Valuation of investment properties	-	-	-	2,730,389	2,730,389
Depreciation of investment properties	-	106,802	-	666,210	773,012
TOTAL	**-**	**106,802**	**-**	**3,396,599**	**3,503,401**

The breakdown of tax loss carryforwards pending application is the following:

Year generated	12/31/19	12/31/18
2008	7,262,601	-
2009	7,879,643	-
2010	2,973,036	-
2011	6,044,112	-
2012	2,887,273	-
2013	16,743,104	-
2014	6,824,052	-
2015	1,308,452	-
2016	595,254	202,296
2017	432,852	20,936
2018	509,002	27,192
TOTAL	**53,459,381**	**250,424**

Of the tax loss carryforwards pending application at December 31, 2019, 53.2 million euros correspond to the business combination with Alcaidesa Holding and Alcaidesa Golf (Note 5).

The Group did not recognize the deferred tax asset corresponding to tax loss carryforwards pending application as the directors consider it unlikely that sufficient future taxable profits will be generated for their application under the special SOCIMI tax regime.

14.3. Disclosure requirements arising from the Parent's condition as a SOCIMI: Law 11/2009, modified by Law 16/2012 ("the SOCIMI Law")

In accordance with the provisions of article 11 of the SOCIMI Law, information is provided below with respect to the Group companies availing themselves of the special tax regime established in said law:

a) *Reserves arising from years prior to application of the tax regime established in Law 11/2009, modified by Law 16/2012 of December 27:*

Company	Reserves (euros)			
	Share Premium	Legal reserve	Voluntary reserves	Total
Millenium Hotels Real Estate SOCIMI, S.A.	-	-	-	-
Varia Pza Magdalena, S.L.U.	-	-	-	-
Millenium Hotels C220, S.L.U.	9,146,257	79,460	1,878,947	11,104,664

b) *Reserves arising from years in which the tax regime established in this Law was applied, differentiating the part which arises from revenue subject to a 0% tax rate or a 19% tax rate, with respect to those which, if applicable, were subject to the general tax rate.*

Company	Reserves (euros)			
	Share Premium	Legal reserve	Voluntary reserves	Total
Millenium Hotels Real Estate SOCIMI, S.A.	139,188,800	3,040,560	51,615,679	193,845,039
Varia Pza Magdalena, S.L.U.	-	-	-	-
Millenium Hotels C220, S.L.U.	-	-	-	-

The reserves of Millenium Hotels Real Estate SOCIMI, S.A. do not arise from income subject to no tax rate, but rather arise from the capital increase and capital reduction described in Note 11.1, carried out during 2019 when said company was already under the SOCIMI regime.

c) *Dividends distributed with a charge to profits for each year in which the tax regime established in this Law was applicable, differentiating the part which arises from revenue subject to a 0% tax rate and those to a 19% tax rate, with respect to those which, if applicable, were subject to a general tax rate.*

The Group companies subject to the special tax regime of the SOCIMI Law have not distributed dividends with a charge to profits subsequent to availing themselves of said tax regime.

d) *Should dividends be distributed against reserves, designation of the year from which the reserve applied arose and if they have been subject to a 0% tax rate, a 19% tax rate or the general tax rate.*

The Group companies subject to the special tax regime of the SOCIMI Law have not distributed dividends with a charge to reserves subsequent to availing themselves of said tax regime.

e) *Date of agreement for distribution of dividends to which the above letters c) and d) above refer.*

The Group companies subject to the special tax regime of the SOCIMI Law have not distributed dividends subsequent to availing themselves of said tax regime.

f) Acquisition date of the properties dedicated to leasing which generate returns that are treated under this special regime:

Acquisition date	Date on which tax regime was applied	Classification of the asset	Identification	Address	Use
4/29/2010	1/1/2019	Asset held under finance lease by the group company Millenium Hotels C220, S.L.U.	Building - Hotel Vía Castellana	Paseo de la Castellana nº 220, Madrid	Hotel business
2/16/2018	2/16/2018	Asset owned by the Parent	Building - Hotel Eurostars Lucentum	Avenida Alfonso X El Sabio, nº 11, Alicante	Hotel business
11/7/2019	11/7/2019	Asset owned by the Parent	Building - Hotel Eurostars Lucentum	Lehendakari Leizaola 29, Bilbao	Hotel business

g) Acquisition date of the interests held in the share capital of entities to which section 1 of article 2 of this Law refers.

Company	Acquisition date	Year for which SOCIMI regime was applied
Varia Pza Magdalena, S.L.U.	September 06, 2018	2019
Millenium Hotels C220, S.L.U.	July 31, 2018	2019
Alcaidesa Holding, S.A.U.	December 10, 2019	Not applied
Alcaidesa Golf, S.L.U.	December 10, 2019	Not applied
MHRE San Roque, S.L.U.	December 19, 2019	Not applied

h) Identification of the assets which are eligible for the 80% referred to in section 1 of article 3 of this Law.

See Note 7.

i) Reserves arising from years in which the special tax regime established in this Law was applicable, which were utilized during the tax period, which are not for distribution or offsetting losses, indicating the year in which said reserves arose.

None of the Group companies availing themselves of the special SOCIMI tax regime applied any reserves during the year ended December 31, 2019.

15. SEGMENT INFORMATION

Group management has categorized its activity in accordance with the business segments described below, based on the type of assets acquired and managed:

- Leasing of hotels: investment activities relating to properties leased for hotel businesses.
- Other activities: this segment includes the golf courses acquired on December 10, 2019 (Note 5).

Income and expenses which cannot be attributed to a business segment or which affect the Group in general are attributed to the Parent, as the "Corporate Unit."

The Management Team is responsible for taking decisions and monitors the operating results of its business units separately so as to be able to make decisions regarding allocation of resources and performance evaluation. Segment performance is evaluated based on profit or loss before taxes and is measured consistently with profit or loss before taxes in the consolidated financial statements. However, taxes on profits are managed at the Group level and are not assigned to operating segments.

The transfer prices amongst operating segments are similar to those applied to transactions with third parties.

Information by segment is provided below for the year ended December 31, 2019:

	Leasing of hotels	Other activities	Corporate Unit	Total
Revenue	4,267,656	271,338	-	4,538,994
Cost of sales	-	(34,241)	-	(34,241)
Other operating income	-	27,624	-	27,624
Employee benefits expense	-	(132,220)	(5,618,938)	(5,751,158)
Other operating expenses	(514,734)	(73,778)	(446,778)	(1,035,290)
Change in fair value of investment properties	19,046,629	-	-	19,046,629
Amortization and depreciation	-	(31,816)	(63,052)	(94,868)
Gains from business combinations	-	-	6,835,482	6,835,482
Other gains (losses)	-	-	(1,191)	(1,191)
OPERATING PROFIT	**22,799,551**	**26,907**	**705,523**	**23,531,981**
Finance income and expenses (net)	(701,998)	(2,853)	(8,622)	(713,473)
PROFIT BEFORE TAX	**22,097,553**	**24,054**	**696,901**	**22,818,508**

	Leasing of hotels	Other activities	Corporate Unit	Total
Total assets	**315,700,282**	**12,112,173**	**46,688,038**	**374,500,493**
Total liabilities	**99,077,047**	**3,833,472**	**4,691,528**	**107,602,047**
Other disclosures				
Acquisitions of PP&E	-	-	47,195	47,195
Acquisitions of investment properties	200,217,604	-	-	200,217,604

During 2018 the Group only performed its activities in the segment for investment activities relating to properties leased for hotel businesses.

16. REVENUE AND EXPENSES

16.1. Revenue

The amount recognized under this heading mainly corresponds to revenue received from leasing the hotels owned by the Group, amounting to 4,267,656 euros (2018: 2,564,453 euros; Note 7.1). Additional income was obtained in 2019 from the rendering of services, totaling 219,975 euros, and the sale of sports items, totaling 51,363 euros. Both amounts were generated as a result of operating two golf courses from the business combination arising upon acquisition of Alcaidesa Holding, S.A.U. and Alcaidesa Golf, S.L.U. on December 10, 2019 (Note 5).

The distribution of Group revenue by geographical markets is as follows:

(Euros)	2019	2018
Madrid	2,419,609	1,198,193
Alicante	1,617,095	1,366,260
Bilbao	230,952	-
Cádiz	271,338	-
TOTAL	**4,538,994**	**2,564,453**

16.2. Employee benefits expense

The breakdown of this heading is the following:

(Euros)	2019	2018
Wages and salaries	1,876,538	315,321
Promote (Note 4.17)	3,735,554	-
Social Security payable by the company	131,282	28,950
Other employee benefits expense	7,784	-
TOTAL	**5,751,158**	**344,271**

The breakdown by category of the Group's employees is as follows:

Categories	Number of persons employed at year end			Average number of persons employed at year end	Average number of persons with disability >33% employed during the year
	Men	Women	Total		
2019					
Chief Executive Officer	1	-	1	1	-
Remaining management team	4	1	5	4	-
Department directors	3	2	5	1	-
Other employees	35	20	55	5	-
TOTAL	**43**	**23**	**66**	**10**	**-**
2018					
Chief Executive Officer	1	-	1	1	-
Remaining management team	1	1	2	1	-
Department directors	-	-	-	-	-
Other employees	-	-	-	-	-
TOTAL	**2**	**1**	**3**	**2**	**-**

16.3. External services

The breakdown of this heading is as follows:

(Euros)	2019	2018
Leases and royalties	2,560	20,293
Repairs and maintenance	27,550	-
Independent professional services	367,719	233,126
Transportation	6,975	18
Insurance premiums	36,701	-
Banking and similar services	3,492	2,689
Advertising, publicity, and public relations	72,340	29,767
Supplies	77,321	44,406
Other services	96,377	318,746
TOTAL	**691,035**	**649,045**

16.4. Finance costs

The breakdown of this heading is as follows:

(Euros)	2019	2018
Interest on borrowings from credit entities (Note 12.1)	518,585	474,059
Interest on derivative instruments (Note 12.2)	147,745	188,581
Other finance costs	47,143	3,797
TOTAL	**713,473**	**666,437**

17. TRANSACTIONS WITH RELATED PARTIES

The table below lists the related parties with which the Group carried out transactions during 2019 and 2018 along with the nature of the relationship:

Related party	Nature of the relationship
2019	
Corporación Oudaloi, S.L.	Entity related to Board members
Gestión de Inversiones Millenium, S.L.U.	Entity related to Board members
Grupomillenium Investment Partners, S.L.	Entity related to Board members
Securities and Bonds, S.L.	Entity related to Board members
Tzar Rent a Car, S.L.	Entity related to Board members
Members of the Board of Directors of Millenium	Directors
President and CEO of Millenium	Senior management
Second vice-president of Millenium	Senior management
2018	
Gestión de Inversiones Millenium, S.L.U.	Entity related to Board members
Grupomillenium Investment Partners, S.L.	Entity related to Board members

The related party transactions correspond to normal Group business operations and are carried out on an arm's length basis in a manner similar to transactions with unrelated parties.

17.1. Related parties

The breakdown of the transactions undertaken with related parties at December 31, 2019 is as follows:

	Entities related to Board members	
(Euros)	**2019**	**2018**
Leases (Note 6.1)	60,000	45,000
Professional services	19,484	45,980
Share placement services	3,154,660	-
Transport	6,550	-
TOTAL	**3,240,694**	**90,980**

On December 2, 2018 the Group companies signed a management contract with the related party Gestión de Inversiones Millenium, S.L.U. with a view to delegating ordinary management of the Group to this entity. The duration of the contract was fixed at one year, tacitly renewable for one-year periods. However, on May 27, 2019 said contract was terminated by mutual agreement given that the Group at present has sufficient personnel to carry out these tasks.

The share placement services are related to the different capital increases carried out during the year (Note 11.1) and were recognized as a lower amount of reserves (Note 11.3).

The breakdown of the balances payable to and receivable from related parties at year end is as follows:

	Entities related to Board members	
(Euros)	**12/31/19**	**12/31/18**
Other payables (Note 12.4)	-	45,980
TOTAL	**-**	**45,980**

17.2. Directors and senior management

On May 10, 2019 the shareholders in their ordinary general meeting agreed to modify the governing body of Millenium, which was no longer to be managed under a sole director but rather a Board of Directors.

Subsequent to said date, the shareholders in the general meeting held on July 23, 2019 approved the nomination of IBERVALLES, S.L., represented by Mr. José Miguel Isidro Rincón, as a new member of Millenium's Board of Directors.
At December 31, 2019, Millenium's Board of Directors consisted of 6 members, 5 men and 1 woman. At December 31, 2018 the sole director was a man.

The breakdown of remuneration earned by members of the Millenium Board of Directors and its senior executives is as follows:

(Euros)	**2019**	**2018**
Directors		
Salaries	116,000	-
Per diems	43,500	-
	159,500	**-**
Senior management		
Salaries	845,276	-
Promote (Note 4.17)	3,081,832	-
	3,927,108	**-**
TOTAL	**4,086,608**	**-**

The Group had not contracted any commitments for pension plans or life insurance policies for its directors or senior management at December 31, 2019 and 2018.

At December 31, 2019 and 2018 the Group had not granted any loans or advances to Board members or senior management, nor had it pledged any guarantees on their behalf.

In 2019 and 2018, no premiums were paid on any civil liability insurance for the directors with respect to damages caused in the discharge of their duties.

For the purposes of article 229 of Spain's Corporate Enterprises Act, the directors have stated that they are not party to any conflicts with respect to the interests of Millenium.

18. RISK MANAGEMENT POLICIES

The Group manages its capital and financial structure with a view to ensuring it can meet current payment obligations, investment commitments, and debts, while maximizing returns generated for its shareholders.

The management policies for financial risk within the sector in which the Group operates are fundamentally determined by the analysis of investment projects, management of building occupancy, and the situation of financial markets:

- Credit risk: the Group's credit risk mainly arises from the risk of non-payment of rental installments by the tenants of their properties. The Group manages said risk by careful selection of tenants and requesting security deposits or guarantees in the contracts to be signed.

- Liquidity risk: this risk reflects the possibility that the Group will have insufficient funds or lack access to sufficient funds at an acceptable cost to meet its payment obligations at any point in time. At December 31, 2019 the Group has positive working capital amounting to 40.6 million euros (2018: 20.2 million euros), of which 46.3 million euros correspond to cash balances (2018: 20.5 million euros), so that it considers it has sufficient liquidity to meet future payment obligations.

- Market risks: this represents one of the main risks to which the Group is exposed as a consequence of low property occupancy or downward renegotiation of expiring lease agreements. Materialization of this risk would decrease Group revenue and negatively affect the valuation of assets. Based on the situation of the properties, the age of the lease agreements, and the low financing/asset value ratio, the directors consider this risk to be moderate.

- Interest rate risk: at December 31, 2019 approximately 37% of the debt held by the Group with credit entities is subject to a fixed interest rate (2018: 54%). The remaining debt with credit entities is referenced to the Euribor rate, so that given the stability of this reference rate and the fact that the finance lease of the Hotel Vía Castellana is fully covered by a derivative financial hedging instrument which converts variable rates to fixed rates (Note 12.2), the directors consider this risk to be moderate.

19. OTHER DISCLOSURES

19.1. Audit fees

The fees accrued during the year for services rendered by the Group's main auditor of accounts or other firms belonging to its network are broken down as follows:

(Euros)	2019	2018
Audit services	103,757	54,089
Other accounting review and verification work	17,079	-
Other non-audit services	83,582	17,935
TOTAL	**204,417**	**72,024**

The fees accrued during the year for services rendered by the other auditors of accounts who audit certain Group companies are broken down as follows:

(Euros)	2019	2018
Audit services	23,800	-
TOTAL	**23,800**	**-**

19.2. Information on average payment periods for suppliers. Third additional provision, "Disclosure requirements" of Law 15/2010 of July 5

The information on average supplier payment periods is broken down as follows:

(Days)	2019	2018
Average supplier payment period	4.7	2.05
Ratio of payments made	3.6	1.3
Ratio of transactions pending payment	34.9	18.1
(Euros)	**2019**	**2018**
Total payments made	44,355,785	26,405,160
Total pending payments	1,613,409	191,592

20. SUBSEQUENT EVENTS

No significant events took place requiring disclosure from December 31, 2019 to the date of authorization for issue of these consolidated financial statements.

Business performance and Group information

Firstly, at December 31, 2019 the Millenium Group achieved net equity totaling 267 million euros subsequent to carrying out three capital increases during the first half of 2019 under conditions of high market volatility. It captured approximately 191 million euros, which places it at the head of companies in the Spanish capital markets in terms of funds obtained during the last 24 months, and amongst the 15 largest Spanish SOCIMIs in terms of stock market capitalization.

Secondly, as a consequence of said capital increases, the number of shareholders increased up to more than 460, amongst whom there is a stable nucleus controlling 48% of share capital, with a firm and clear commitment towards the Group's strategy in the medium to long term.

Another significant milestone for the year was the inclusion of Millenium in the MAB on July 4, thus complying in a timely and proper manner with the obligation to be listed on a regulated market or a multilateral trading system within two years from the date on which the special tax regime for SOCIMIs was adopted.

In 2019 the Millenium Group obtained net results of 22.8 million euros, in part due to the change in fair values of real estate assets (19 million euros) and the profit obtained in the purchase of Alcaidesa Holding, S.A. (6.8 million euros; Note 5), as well as the fact that only three of its hotels, the Eurostars Lucentum in Alicante, the Vía Castellana in Madrid, and the Melía in Bilbao (acquired on November 7, 2019) were being operated as the rest of its assets were undergoing transformation and repositioning.

The Group's portfolio of real estate assets was significantly boosted, reaching a market value (GAV) of 319 million euros (considering 11.8 million euros for the golf courses of Alcaidesa accounted for at December 31, 2019 as PP&E and the advance payments on investment properties), as compared to the 74.5 million euros at 2018 year end. This was possible due to, on the one hand, the appreciation of assets held, and, on the other hand, the incorporation of 6 new properties together with the Alcaidesa golf courses.

Acquisitions in 2019 included a building at the Gran Vía of Bilbao (the future Hotel Radisson Bilbao), a building at calle Rioja no. 26 in Sevilla, enabling the number of rooms at the future Hotel Radisson Sevilla to be increased from 62 to 89, and two buildings next to the plaza San Francisco, to be transformed into the future Hotel Alma Sevilla, in addition to a building in the city of Cordoba which will be used as the future Hotel Palacetes de Córdoba, two buildings in the calle Carrera de San Jerónimo no. 9 and 11 in Madrid, which will be used for the future Hotel Carrera de San Jerónimo, the Hotel Meliá in Bilbao, and finally, via various complementary transactions, 90,000m2 of land for use in the hotel business, as well as two golf courses called "Alcaidesa Link" and "Alcaidesa Heathland," each including a club house, and a 50,000m2 plot of urban land for residential use, all at the seafront and in the municipality of San Roque, Cadiz.

The EPRA Net Asset Value (EPRA NAV) of the Group at year end, calculated as per the recommendations of the European Public Real Estate Association (EPRA) published in November 2016, amounts to 273 million euros (5.46 euros per share), broken down as follows:

(Euros)	12/31/19	12/31/18
EQUITY	**266,898,446**	**59,723,327**
Adjustments:		
Fair value of derivative financial instruments	517,358	315,522
Deferred tax related to investment properties	5,708,722	3,505,238
EPRA NAV	**273,124,526**	**63,544,087**
Total shares outstanding	50,000,000	59,014,000
EPRA NAV / share	**5.46**	**1.08**

At December 31, 2019 the ratio of financial debt to GAV stood at 29%, below the 50% limit established by the Millenium Group's Management Policy.

The main objective of the Millenium Group for the coming months is to complete the foreseen investments in order to ensure the portfolio is securely profitable within the next 18-24 months.

Description of the main risks and uncertainties facing the Group

The risk factors which can affect the Group, as well as the policies implemented to mitigate them, are described below:

- Credit risk: the Group's credit risk mainly arises from the risk of non-payment of rental installments by the tenants of their properties. The Group manages said risk by careful selection of tenants and requesting security deposits or guarantees in the contracts to be signed.

- Liquidity risk: this risk reflects the possibility that the Group will have insufficient funds or lack access to sufficient funds at an acceptable cost to meet its payment obligations at any point in time. At December 31, 2019 the Company has positive working capital amounting to 40.6 million euros, of which 46.3 million euros correspond to its cash balance, so that it considers it has sufficient liquidity to meet future payment obligations.

- Market risks: this represents one of the main risks to which the Group is exposed as a consequence of low property occupancy or downward renegotiation of expiring lease agreements. Materialization of this risk would decrease Group revenue and negatively affect the valuation of assets. Based on the situation of the properties, the age of the lease agreements, and the low financing/asset value ratio, the directors consider this risk to be moderate.

- Interest rate risk: at December 31, 2019 approximately 37% of the debt held by the Group with credit entities is subject to a fixed interest rate. The remaining debt with credit entities is referenced to the Euribor rate, so that given the stability of this reference rate and the fact that the finance lease of the Hotel Vía Castellana is fully covered by a derivative financial hedging instrument which converts variable rates to fixed rates (Note 12.2), the directors consider this risk to be moderate.

Research and development activities

The Group did not conduct any R&D activities during the year ended December 31, 2019.

Treasury shares

On June 13, 2019, Millenium acquired 60,000 treasury shares at a cost of 5 euros each, paying a total amount of 300,000 euros.

Subsequently, during the year Millenium acquired 14,986 treasury shares at an average price of 5.14 euros per share, and sold 22,605 treasury shares at an average price of 5.20 euros per share. The difference between the cost price and the sales price for the shares, totaling a net amount of 3,845 euros was recognized under "Voluntary reserves."

At December 31, 2019, the Parent held 52,381 of its own shares, representing 0.1% of share capital.

Average supplier payment period

During the year ended December 31, 2019, the average payment period for the suppliers of Group companies was 4.7 days.

Use of financial instruments

The Group carries out cash flow hedging transactions for the loans received at variable interest rates (Note 12.2).

Subsequent events

No significant events took place requiring disclosure from December 31, 2019 to the date of authorization for issue of these consolidated financial statements.

Authorization of the consolidated financial statements and consolidated management report for the year ended December 31, 2019.

At the meeting of the Board of Directors of MILLENIUM HOTELS REAL ESTATE I SOCIMI, S.A., on February 21, 2020, its members authorized the consolidated financial statements together with the consolidated management report of MILLENIUM HOTELS REAL ESTATE I SOCIMI, S.A. for the year ended December 31, 2019, consisting of the documents attached above, initialed by the Secretary of the Board of Directors for purposes of identification, with all of the members of the Board of Directors signing this last page.

F. Javier Illán Plaza
Chairman and CEO

IBERVALLES, S.L.
Represented by:
José Miguel Isidro Rincón
First vice-president and
Board member

Remigio Iglesias Surribas
Second vice-president and
Board member

José María Castellano Ríos
Board member

Jaime Montalvo Correa
Board member

María Isabel Dutilh Carvajal
Board member