MILLENIUM HOTELS REAL ESTATE I SOCIMI, S.A.

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

Balance sheet at December 31, 2019
(In euros)

ASSETS	Notes	12/31/2019	12/31/2018
NON-CURRENT ASSETS		**253,801,753**	**48,173,049**
Property, plant, and equipment	**5**	**43,824**	**-**
Plant and other PP&E items		43,824	-
Investment properties	**6**	**189,810,025**	**22,200,632**
Land		112,980,632	7,211,727
Buildings		76,829,393	14,988,905
Investments in group companies		**63,710,912**	**25,972,417**
Equity instruments	7	63,430,912	25,972,417
Loans to companies	8 and 15.1	280,000	-
Financial investments	**8**	**236,992**	**-**
Other financial assets		236,992	-
CURRENT ASSETS		**58,688,734**	**22,783,000**
Inventories	**9**	**8,438**	**33,870**
Trade and other receivables		**2,260,583**	**225,794**
Trade receivables	8	977,287	3,886
Trade receivables from group companies and associates	8 and 15.1	159,250	-
Receivable from public administrations	14	1,124,046	221,908
Investments in group companies	**8 and 15.1**	**11,025,030**	**2,006,299**
Loans to companies		11,025,030	2,006,299
Financial investments	**8**	**402,251**	**93,923**
Other financial assets		402,251	93,923
Accruals	**10**	**43,269**	**-**
Cash and cash equivalents	**11**	**44,949,163**	**20,423,114**
TOTAL ASSETS		**312,490,487**	**70,956,049**

The accompanying notes 1 to 19 are an integral part of the balance sheet at December 31, 2019.

Balance sheet at December 31, 2019
(In euros)

EQUITY AND LIABILITIES	Notes	12/31/2019	12/31/2018
EQUITY		**237,028,680**	**58,305,950**
Capital and reserves		**237,028,680**	**58,305,950**
Share capital	12.1	50,000,000	59,014,000
Share premium	12.2	139,188,800	-
Reserves	12.3	54,656,239	(23,635)
Own shares and own equity investments	12.4	(263,946)	-
Retained earnings	12.3	(684,415)	(374,625)
Profit for the year	3	(5,867,998)	(309,790)
NON-CURRENT LIABILITIES		**63,618,067**	**11,569,488**
Borrowings		**63,618,067**	**11,569,488**
Bank borrowings	13.1	63,604,735	11,569,488
Other financial liabilities	13.2	13,332	-
CURRENT LIABILITIES		**11,843,740**	**1,080,611**
Borrowings		**5,527,553**	**950,057**
Bank borrowings	13.1	4,209,553	845,357
Other financial liabilities	13.2	1,318,000	104,700
Trade and other payables		**6,284,104**	**130,554**
Suppliers	13.3	508,373	50,040
Other payables	13.3	168,053	33,993
Employee benefits payable	13.3	5,411,363	-
Payables to public administrations	14	196,315	46,521
Accruals	10	**32,083**	**-**
TOTAL EQUITY AND LIABILITIES		**312,490,487**	**70,956,049**

The accompanying notes 1 to 19 are an integral part of the balance sheet at December 31, 2019.

Statement of profit or loss for the year ended December 31, 2019

(Euros)

	Notes	12/31/2019	12/31/2018
CONTINUING OPERATIONS			
Revenue		**1,848,047**	**1,366,260**
Rental income	16.1	1,848,047	1,366,260
Work performed by the entity and capitalized	**16.2**	**1,117,209**	**483,234**
Other operating income		**13,044**	**-**
Employee benefits expense	**16.3**	**(6,739,604)**	**(344,271)**
Wages, salaries, et al		(6,635,174)	(315,321)
Social security costs, et al		(104,430)	(28,950)
Other operating expenses		**(1,681,354)**	**(1,390,465)**
External services	16.4	(1,479,630)	(891,519)
Taxes		(201,724)	(498,946)
Amortization and depreciation	**16.5**	**(403,690)**	**(265,808)**
OPERATING PROFIT		**(5,846,348)**	**(151,050)**
Finance income		**266,765**	**31,388**
From marketable securities & other financial instruments		266,765	31,388
From group companies and associates	15.1	266,765	31,334
Of third parties		-	54
Finance costs	**16.6**	**(654,031)**	**(291,907)**
Third-party borrowings		(654,031)	(291,907)
Impairment and gains (losses) on disposal of financial instruments		**77,495**	**101,779**
Impairment and losses	7	77,495	101,779
Other finance income and expenses		**288,121**	**-**
Inclusion of financial expenses in assets	6	288,121	-
FINANCE COST		**(21,650)**	**(158,740)**
PROFIT BEFORE TAX		**(5,867,998)**	**(309,790)**
Corporate income tax	14	-	-
PROFIT FOR THE YEAR	**3**	**(5,867,998)**	**(309,790)**

The accompanying notes 1 to 19 are an integral part of the income statement for the year ended December 31, 2019.

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

(Euros)

A) Statement of recognized income and expense for the year ended December 31, 2019

	Notes	12/31/2019	12/31/2018
Income for the year (I)	**3**	**(5,867,998)**	**(309,790)**
Income and expense recognized directly in equity			
From other adjustments	12.3	(6,135,171)	(23,635)
Total income and expense recognized directly in equity (II)		**(6,135,171)**	**(23,635)**
Amounts transferred to the income statement		-	-
Total amounts transferred to the income statement (III)		**-**	**-**
Total recognized income and expense (I+II+III)		**(12,003,169)**	**(333,425)**

The accompanying notes 1 to 19 are an integral part of the statement of recognized income and expense for the year ended December 31, 2019.

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

(Euros)

B) Statement of total changes in equity for the year ended December 31, 2019

	Share capital issued (Note 12.1)	Uncalled share capital	Share Premium (Note 12.2)	Reserves (Note 12.3)	Own shares and own equity instruments (Note 12.4)	Retained earnings (Note 12.3)	Profit (loss) for for the year	Total
Balance at December 31, 2017	**60,000**	**(45,000)**	**-**	**-**	**-**	**-**	**(374,625)**	**(359,625)**
Recognized income and expense	**-**	**-**	**-**	**(23,635)**	**-**	**-**	**(309,790)**	**(333,425)**
Transactions with partners or owners:	**58,954,000**	**45,000**	**-**	**-**	**-**	**-**	**-**	**58,999,000**
Capital increases (reductions) (Note 12.1)	58,954,000	-	-	-	-	-	-	58,954,000
Other transactions with partners or owners	-	45,000	-	-	-	-	-	45,000
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**(374,625)**	**374,625**	**-**
Balance at December 31, 2018	**59,014,000**	**-**	**-**	**(23,635)**	**-**	**(374,625)**	**(309,790)**	**58,305,950**
Recognized income and expense	**-**	**-**	**-**	**(6,135,171)**	**-**	**-**	**(5,867,998)**	**(12,003,169)**
Transactions with partners or owners:	**(9,014,000)**	**-**	**139,188,800**	**60,815,045**	**(263,946)**	**-**	**-**	**190,725,899**
Capital increases (reductions) (Note 12.1)	(9,014,000)	-	139,188,800	60,811,200	-	-	-	190,986,000
Transactions with treasury shares (net)	-	-	-	3,845	(263,946)	-	-	(260,101)
Other changes in equity	**-**	**-**	**-**	**-**	**-**	**(309,790)**	**309,790**	**-**
Balance at December 31, 2019	**50,000,000**	**-**	**139,188,800**	**54,656,239**	**(263,946)**	**(684,415)**	**(5,867,998)**	**237,028,680**

The accompanying notes 1 to 19 are an integral part of the statement of changes in equity for the year ended December 31, 2019.

Cash flow statement for the year ended December 31, 2019

(Euros)

	Notes	12/31/2019	12/31/2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**(5,867,998)**	**(309,790)**
Adjustments to profit		**425,340**	**424,547**
Amortization and depreciation	16.5	403,690	265,808
Impairment losses	7	(77,495)	(101,779)
Finance income	15.1	(266,765)	(31,389)
Finance costs	16.6	654,031	291,907
Other income and expenses	6	(288,121)	-
Changes in working capital		**4,773,007**	**(132,690)**
Inventories		25,432	(17,987)
Trade and other receivables		(1,444,789)	(221,229)
Other current assets		(43,269)	-
Trade and other payables		6,203,550	106,526
Other current liabilities		32,083	-
Other cash flows from operating activities		**(346,448)**	**(291,907)**
Interest paid		(346,448)	(291,907)
Cash flows from (used in) operating activities		**(1,016,099)**	**(309,840)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		**(214,342,227)**	**(48,085,239)**
Group companies and associates		(44,240,000)	(25,524,876)
Property, plant, and equipment	5	(47,194)	-
Investment properties	6	(169,809,713)	(22,466,440)
Other financial assets		(245,320)	(93,923)
Proceeds from disposals		**5,034**	**-**
Group companies and associates		5,034	-
Cash flows from investing activities		**(214,337,193)**	**(48,085,239)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from and payments on equity instruments		**184,590,728**	**58,975,366**
Issue of equity instruments	12.1	184,850,829	58,975,366
Acquisition of own equity instruments		(377,257)	-
Disposal of own equity instruments		117,156	-
Proceeds from and payments of financial liabilities		**55,288,613**	**4,160,845**
Issues		56,470,749	12,697,203
Bank borrowings		56,457,417	12,697,203
Other borrowings		13,332	-
Repayment and redemption of		(1,182,136)	(8,536,358)
Bank borrowings		(1,180,136)	-
Other borrowings		(2,000)	(8,536,358)
Cash flows from financing activities		**239,879,341**	**63,136,211**
Net foreign exchange difference		-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**24,526,049**	**14,741,132**
Cash and cash equivalents at beginning of period		20,423,114	5,681,982
Cash and cash equivalents at end of year	11	44,949,163	20,423,114

The accompanying notes 1 to 19 are an integral part of the statement of cash flows for the year ended December 31, 2019.

1. GENERAL INFORMATION

MILLENIUM HOTELS REAL ESTATE I SOCIMI, S.A. ("the Company" or "Millenium") is a company whose corporate purpose covers the following activities:

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

The Company is regulated by Law 11/2009 of October 26, modified by Law 16/2012 of December 27, regulating SOCIMIs (Note 1.1).

Given the Company’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 financial statements.
The Company is the head of a group of companies in accordance with the provisions of article 42 of the Spanish Commercial Code, and prepares its consolidated financial statements under International Financial Reporting Standards as approved by the European Union (IFRS-EE). Said consolidated financial statements are filed at the Madrid Mercantile Registry together with the corresponding audit report within the legally stipulated deadlines.

The Company's functional currency is the euro as this is the currency of the primary economic area in which it operates.

1.1. SOCIMI regime

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

At December 31, 2019 the Company is 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 Company started applying the SOCIMI tax regime from 2017 onwards.

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, should the SOCIMI belong to a group as established in article 42 of the Commercial Code. 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 belong to a group as per the criteria established in article 42 of the Commercial Code, regardless of residence and the obligation to prepare annual 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 Company fulfills all the requirements established in the SOCIMI Law.

2. BASIS OF PRESENTATION

2.1. Financial reporting framework applicable to the Company

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 Spanish General Accounting Plan (Spanish GAAP) approved by Royal Decree 1514/2007 of November 16, as amended in 2016 by Royal Decree 602/2016 of December 2;
- 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 accounting regulations.

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

2.2. Fair presentation

The financial statements have been prepared from the Company's auxiliary accounting records in accordance with prevailing accounting legislation to give a true and fair view of its equity, financial position and results, as well as changes in equity and cash flows corresponding to the year ended December 31, 2019.

The figures shown herein are expressed in euros, unless stated otherwise.

2.3. Critical issues regarding the measurement and estimation of uncertainty

The directors have prepared the financial statements using estimates to determine the carrying amount 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 Company to modify its estimates in subsequent years, prospectively if warranted.

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 14.2)

- Impairment of investment properties (Notes 4.2 and 6)

- Estimating the useful lives of investment properties (Note 4.2)

- Impairment losses on investments in the equity of group companies, jointly controlled entities, and associates (Notes 4.4 and 7).

2.4. Comparative information

In accordance with mercantile legislation, for comparative purposes, for each of the headings presented in the balance sheet, the income statement, the statement of changes in equity, and the cash flow statement, in addition to the figures for 2019, those for 2018 are also included. The notes to the financial statements also include quantitative information from the previous year, except when an accounting standard specifically establishes this as unnecessary.

3. APPROPRIATION OF PROFIT

The directors propose the following appropriation of profit for 2019, a proposal expected to be ratified by the shareholders in general meeting:

(Euros)	**2019**
Proposed appropriation	
Income statement (loss)	(5,867,998)
	(5,867,998)
Appropriation to:	
Offset losses from previous years	(5,867,998)
	(5,867,998)

3.1. Distribution of results and management of capital

As indicated in Note 1.1, the Company is 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. In accordance with said Law, the Company is 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 gains attributable to years in which the Company 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 adopted with the agreement to which the previous section refers.

The Company 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 12.3).

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

4. RECOGNITION AND MEASUREMENT POLICIES

The main accounting recognition and measurement policies used by the Company to prepare these 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 the assets, as well as maintenance expenses, are taken to the 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
Plant	3.5 years
Information technology equipment	4 years

The Company reviews the assets' residual values, useful lives, and depreciation methods at each year end, adjusting them prospectively where applicable.

4.2. Investment properties

The Company classifies as investment properties those non-current assets that are buildings which 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 Company equity. Likewise, properties which are under construction or being improved for future use as investment properties, are also classified as investment properties.

These assets are initially measured at cost, determined as either acquisition or production cost. Following initial measurement, they are stated at cost less accumulated amortization and, if applicable, any accumulated impairment losses recognized.

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 the assets, as well as maintenance expenses, are taken to the 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.

Once available for use, investment properties are depreciated on a straight-line basis over their estimated useful lives, determined to be 33-50 years.

At least at each semi-annual closing, the Company assesses whether any investment properties are impaired by comparing the carrying amounts to the recoverable amounts. The recoverable amount is the fair value less costs to sell. When the carrying amount exceeds its recoverable amount, the asset is considered impaired. Impairment losses and any reversals are recognized in the income statement. Impairment losses are reversed only if the originating circumstances have ceased to exist. Impairment is only reversed up to the limit of the carrying amount of the asset that would have been determined had the impairment loss not been recognized previously.

The fair value of investment properties is determined 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 Company 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 6 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.

Company 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 under the lease agreement is taken to the income statement in the period accrued using the effective interest rate method. Assets are depreciated, amortized, impaired, and derecognized using the same criteria applied to assets of a similar nature.

Operating lease payments are recognized in the income statement as they accrue.

Company as lessor

Rental income from operating lease payments are recognized in the income statement as accrued. Direct costs attributable to the operating lease increase the value of the leased asset and are recognized as expense over the term of the lease on the same basis as lease income.

At December 31, 2019 the Company is party to operating lease agreements for most of the hotels included in its investment properties, though only the Eurostars Lucentum and Meliá Bilbao hotels currently generate income (Notes 6.1 and 16.1).

4.4. Financial assets

Classification and measurement

The Company’s financial assets are classified into the following categories:

Loans and receivables

The Company recognizes trade and non-trade receivables under this heading, which includes financial assets with fixed or determinable payments not quoted on active markets and for which the Company expects to recover the full initial investment, except, where applicable, in cases of credit deterioration.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, deemed equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

The financial assets included in this category are subsequently measured at amortized cost.

Nevertheless, trade receivables which mature within less than one year with no contractual interest rate, as well as advances and loans to personnel, dividends receivable and called-up payments on equity instruments, the amount of which is expected in the short term, are carried at nominal value at both initial and subsequent measurement, when the effect of not discounting the cash flows is not significant.

In guarantees extended for operating leases, the difference between the fair value and amounts disbursed are considered as a prepayment and recognized in the income statement over the lease term. When assessing the fair value of guarantees, the minimum contractual term is considered as the remaining period.

Equity investments in group companies, jointly controlled entities, and associates

This category includes equity investments in companies over which the Company has control (group companies), joint control through a statutory or contractual arrangement with one or more partners (jointly controlled entities) or has significant influence (associates).

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, deemed equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

When an investment is newly classified as a group company, jointly controlled entity, or associate, the cost is deemed to be the investment's recognized carrying amount immediately prior to the company being classified as such. Where applicable, previous value adjustments associated with this investment recognized directly in equity will remain there until the investment is either sold or impaired.

Initial measurement includes any preemptive subscription rights or similar that have been acquired.

Subsequent to initial recognition, these financial assets are measured at cost, less any accumulated impairment losses.

When preemptive or similar rights are sold, or separated to be exercised, the carrying amount of the respective assets is reduced by the cost of the rights.

Cancellation

Financial assets are derecognized when the contractual rights to related cash flows have expired or when the assets are transferred, provided that the risks and rewards inherent to ownership are substantially transferred.

If the Company has not substantially transferred or retained the risks and rewards incidental to ownership of the financial asset, it is derecognized when control over the asset is not retained. If control over the asset is retained, the Company 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.

The difference between the consideration received, net of attributable transaction costs, including any new financial asset obtained less any liability assumed, and the carrying amount of the financial asset transferred plus any cumulative gain or loss recognized directly in equity, determines the gain or loss generated upon derecognition of the financial asset, and is included in the income statement of the year in which it is generated.

Interest income and dividends received from financial assets

Interest and dividends from financial assets accrued subsequent to acquisition are recognized as income in the income statement. Interest is recognized using the effective interest rate method and dividends are recognized when the right to receive them is established.

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.

In addition, when distributed dividends are unmistakably derived from profit generated prior to the date of acquisition because the amounts distributed exceed the profit generated by the investee since acquisition, they are not recognized as income but instead reduce the carrying amount of the investment.

Impairment of financial assets

The carrying amount of financial assets is corrected in the income statement when there is objective evidence of an impairment loss.

To determine impairment losses on financial assets, the Company assesses the potential loss of individual as well as groups of assets with similar risk exposure.

For financial assets measured at amortized cost, impairment loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the effective rate of interest prevailing upon initial recognition. For financial assets with variable interest rates, the effective interest rate at the balance sheet date is used.

In the case of equity investments in group companies, jointly controlled entities, and associates, impairment loss is measured as the difference between the carrying amount of the asset and the recoverable amount, which is the greater of the asset’s fair value, less costs to sell, and the present value of future cash flows derived from the investment. Unless better evidence is available, impairment is estimated taking into account the investee's equity adjusted for any unrealized capital gains existing on the measurement date.

The reversal of an impairment loss is recognized as income in the income statement. Such reversal is limited to the carrying amount of the financial asset that would have been recognized on the reversal date had no impairment loss been recognized.

4.5. Financial liabilities

Classification and measurement

Trade and other payables

This category includes financial liabilities arising on the purchase of goods and services in the course of the Company's trade transactions, and non-trade payables that are not derivative instruments.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, barring evidence to the contrary, is the transaction price, deemed equivalent to the fair value of the consideration received and adjusted by directly attributable transaction costs.

Subsequent to initial recognition, these financial liabilities are measured at amortized cost. Accrued interest is recognized in the income statement using the effective interest rate method.

Nevertheless, trade payables falling due within one year for which there is no contractual interest rate, as well as called-up payments on shares, payment of which is scheduled in the short term, are carried at their nominal value when the effect of not discounting the cash flows is not material.

In guarantees received for operating leases, the difference between the fair value and the amount disbursed is considered revenue received in advance for the lease and recognized in the income statement over the lease term. When assessing the fair value of guarantees, the minimum contractual term is considered as the remaining period.

Cancellation

The Company derecognizes a financial liability when the related obligation is extinguished.

When debt instruments are exchanged with a lender, insofar as the contractual terms of the new instruments are substantially different, the original financial liability is derecognized and the new financial liability is recognized. Financial liabilities whose contractual terms are substantially modified are treated in the same manner.

The difference between the carrying amount of a financial liability, or the part of that liability that has been derecognized, and the consideration paid, including attributable transaction costs, which also includes any asset transferred other than cash or liability assumed, is recognized in the income statement for the reporting period in which it arises.

When debt instruments are exchanged whose contractual terms are not substantially different, the original financial liability is not derecognized, and the commissions paid are recognized as an adjustment to the carrying amount. The new amortized cost of the financial liability is calculated using the effective interest rate, which is the discount rate that equates the carrying amount of the financial liability at the modification date to the cash flows payable under the new terms.

4.6. 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 Company's standard cash management policy.

4.7. 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 the Company pays 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 Company 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.

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 the Company distributes to its shareholders who hold more than 5% interest are exempt or file taxes at a rate less than 10%, the Company will be subjected to a special rate of 19%, which will be considered the rate for corporate income tax, on the amount of the dividend distributed to said shareholders. Should this be applicable, this special rate must be settled by the Company within twelve months from the dividend distribution date.

Deferred tax liabilities are recognized for all taxable temporary differences, except (i) to the extent that they arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit (tax loss), and (ii) for taxable temporary differences associated with investments in subsidiaries, associates, and jointly controlled entities for which the Company can control the timing of the reversal of the temporary difference and it is probable that it will not be reversed in the foreseeable future.

Deferred tax assets are only recognized to the extent that it is considered probable that the Company 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 in 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, unrecognized deferred income tax assets 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 Company 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.

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

Assets and liabilities are classified in the balance sheet as current and non-current. Accordingly, assets and liabilities are classified as current when they are associated with the Company’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.

4.9. 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 associated with the transaction will flow to the Company and the amount of income and costs incurred or to be incurred in connection with the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, less any trade discounts, rebates and similar items the Company may grant, and net of any interest on the nominal amount of loans if applicable. 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.

4.10. Related party transactions

Related party transactions are measured in keeping with the accounting standards described above, except for the following:

- • Non-monetary contributions of a business to a group company are generally measured at the carrying amount of the assets and liabilities delivered as reflected in the consolidated financial statements at the date on which the transaction takes place.

- In mergers and spin-offs, acquired items are generally recognized at the amount at which they are stated in the consolidated financial statements once the transaction is completed. Any resulting differences are recognized in reserves.

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

4.11. Treasury shares

Treasury shares are recognized in equity as a decrease in "Capital and reserves" when acquired. No loss or gain is shown in the income statement on sale or cancellation. Income and expenses incurred in connection with transactions with treasury shares are recognized directly in equity as a decrease in reserves.

4.12. Provisions and contingencies

Liabilities for which the amount and settlement date are uncertain are recognized as provisions when the Company has a present obligation (legal, contractual, constructive or tacit) arising from past events, the settlement of which is expected to result in an outflow of resources, the amount of which can be measured reliably.

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 each balance sheet date and adjusted to reflect the best current 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. If the risk has been legally or contractually externalized, and the Company is thereby not liable for the cost of settling the obligation, this reimbursement is deducted from the amount of the provision.

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company and present obligations that arise 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 for which the amount of the obligation cannot be measured with sufficient reliability. These liabilities are not recognized but are disclosed in the accompanying notes to the financial statements, unless the possibility of an outflow of resources is remote.

4.13. 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, the Company will settle 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.

4.14. Termination benefits

In accordance with prevailing labor legislation, the Company is required to pay indemnities to employees who are dismissed under certain circumstances. Reasonably quantifiable indemnity payments are recognized as an expense in the year in which the Company creates a valid expectation on the part of the affected third parties that the dismissals will occur.

5. PROPERTY, PLANT, AND EQUIPMENT

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

(Euros)	12/31/2018	Additions/Allowances	Derecognitions	Transfers	12/31/2019
Cost					
Plant	-	41,809	-	-	41,809
Data processing equipment	-	5,385	-	-	5,385
	-	47,194	-	-	47,194
Accumulated depreciation					
Plant	-	(2,584)	-	-	(2,584)
Data processing equipment	-	(786)	-	-	(786)
	-	(3,370)	-	-	(3,370)
Net carrying amount	**-**				**43,824**

The additions recognized under "Plant" during 2019 correspond to the refurbishment work performed on the offices which the Company leases from Grupomillenium Investment Partners, S.L. (Note 16.4).

6. INVESTMENT PROPERTIES

At December 31, 2019 the Company recognized the following investment properties:

Real estate investment	Location	Euros Cost	Accumulated depreciation	Net carrying amount	Fair value
Hotel Eurostars Lucentum	Avenida Alfonso el Sabio 11, Alicante	22,466,440	(570,902)	21,895,538	28,100,000
Hotel Alma Sevilla (*)	Plaza San Francisco 11-12, Sevilla	6,057,263	-	6,057,263	6,330,000
Hotel Radisson Bilbao (*)	Gran Vía Don Diego López de Haro 4, Bilbao	24,801,876	-	24,801,876	24,800,000
Hotel Carrera de San Jerónimo (*)	Carrera de San Jerónimo 9-11, Madrid	84,271,719	-	84,271,719	91,000,000
Hotel Meliá Bilbao	Lehendakari Leizaola 29, Bilbao	49,748,373	(95,226)	49,653,147	50,000,000
Hotel Palacetes de Córdoba (*)	Cabezas 19, Córdoba	1,503,249	-	1,503,249	1,617,000
TOTAL		**188,848,920**	**(666,128)**	**188,182,792**	**201,847,000**

(*) Hotel under development

At December 31, 2018 the Company recognized the following investment properties:

Real estate investment	Location	Euros Cost	Accumulated depreciation	Net carrying amount	Fair value
Hotel Eurostars Lucentum	Avenida Alfonso X El Sabio 11, Alicante	22,466,440	(265,808)	22,200,632	23,900,000
TOTAL		**22,466,440**	**(265,808)**	**22,200,632**	**23,900,000**

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 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% - 6.50%	6.75% - 8.50%

December 31, 2018	*Net exit yields*	*Discount rate*
Hotels being operated	6.00%	7.75%

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

	12/31/2019			
(Euros)	**Net carrying amount**	**Fair value**	**-0,25% in net exit yields**	**+0,25% in net exit yields**
Hotel Eurostars Lucentum	21,895,538	28,100,000	28,900,000	27,400,000
Hotel Meliá Bilbao	49,653,147	50,000,000	51,400,000	48,700,000

	12/31/2018			
(Euros)	**Net carrying amount**	**Fair value**	**-0.25% in net exit yields**	**+0,25% in net exit yields**
Hotel Eurostars Lucentum	22,200,632	23,900,000	25,000,000	23,000,000

A change in two and a half percentage points in the estimated construction costs for the hotels under development has the following impact on the valuations used by the Company for determining their recoverable amounts:

	12/31/2019			
(Euros)	**Net carrying amount**	**Fair value**	**-2.5% in construction costs**	**+2.5% in construction costs**
Hotel Alma Sevilla	6,057,263	6,330,000	6,437,000	6,224,000
Hotel Radisson Bilbao	24,801,876	24,800,000	25,090,000	24,514,000
Hotel Carrera de San Jerónimo	84,271,719	91,000,000	91,300,000	90,100,000
Hotel Palacetes de Córdoba	1,503,249	1,617,000	1,672,000	1,562,000

The breakdown of this heading and movements at December 31, 2019 and 2018 are as follows:

(Euros)	12/31/2018	Additions/Allowances	Derecognitions	Transfers	12/31/2019
Cost					
Land	7,211,727	102,276,244	-	3,492,661	112,980,632
Buildings	15,254,713	59,876,235	-	737,340	75,868,288
Advances	-	7,657,234	(1,800,000)	(4,230,001)	1,627,233
	22,466,440	169,809,713	(1,800,000)	-	190,476,153
Accumulated depreciation					
Buildings	(265,808)	(400,320)	-	-	(666,128)
	(265,808)	(400,320)	-	-	(666,128)
Net carrying amount	**22,200,632**				**189,810,025**

(Euros)	12/31/2017	Additions/Allowances	Derecognitions	Transfers	12/31/2018
Cost					
Land	-	7,211,727	-	-	7,211,727
Buildings	-	15,254,713	-	-	15,254,713
	-	22,466,440	-	-	22,466,440
Accumulated depreciation					
Buildings	-	(265,808)	-	-	(265,808)
	-	(265,808)	-	-	(265,808)
Net carrying amount	**-**				**22,200,632**

On February 16, 2018 the Company acquired Hotel Eurostars Lucentum in Alicante for 22,000,000 euros. The expenses associated with this acquisition amounted to 466,440 euros.

On March 27, 2019 the Company 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 26, 2019 the Company 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 the Company 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 the Company 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 the Company 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, the Company made two advance payments, each amounting to 900,000 euros, for the purchase of land in the province of Cadiz. However, these advance payments were derecognized in December 2019 as the Company assigned its position in the purchase option agreement to its subsidiary MHRE San Roque, S.L.U. (Note 7).

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 work for various hotels, amounting to 1,405,330 euros, of which 1,117,209 euros correspond to work performed on the investment properties (Note 16.2) and 288,121 euros to finance expenses.

At December 31, 2019 the investment properties were mortgaged with different financial entities in guarantee of loans for an amount totaling 68,642,089 euros (2018: 12,697,203 euros; Note 13.1).

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

6.1. Operating leases

The Company has leased the investment properties listed below to third parties via operating leases:

- 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 the Company 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.

- With respect to the future Radisson Bilbao Hotel, on March 20, 2019 the 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 Alma Sevilla Hotel, on May 14, 2019 the 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.

- 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 the Company was subrogated at the moment of acquiring said property (Note 6) is fixed and referenced to annual CPI.

In addition, with respect to the Melía de Bilbao Hotel, the Company 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 1,848,047 euros for the year ended December 31, 2019 (2018: 1,366,260 euros; Note16.1). The expenses associated with these income-generating investment properties are broken down as follows:

(Euros)	12/31/2019	12/31/2018
Depreciation (Note 16.5)	400,320	265,808
Supplies	50,651	41,557
Taxes	64,238	58,916
Other operating expenses	7,337	6,262
TOTAL	**522,546**	**372,543**

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)	12/31/2019	12/31/2018
Within one year	4,281,954	1,562,500
Between one and five years	16,231,419	1,200,000
More than 5 years	1,168,749	-
TOTAL	**21,682,122**	**2,762,500**

7. EQUITY INVESTMENTS IN GROUP COMPANIES, JOINTLY CONTROLLED ENTITIES, AND ASSOCIATES

The breakdown and movements for the different items under this heading in 2019 are shown below:

(Euros)	12/31/2018	Additions/Allowances	Derecognitions/Reversals	12/31/2019
Non-current equity instruments				
Cost	26,049,912	37,381,000	-	63,430,912
Impairment losses	(77,495)	-	77,495	-
Net carrying amount	**25,972,417**	**37,381,000**	**77,495**	**63,430,912**

On December 10, 2019 the Company acquired 100% of the shares of Alcaidesa Holding, S.A. for an amount of 15,200,000 euros, fully disbursed at said date.

Likewise, 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 Company. Subsequently, on December 27, 2019 the Company made a contribution to MHRE San Roque, S.L.U., without increasing share capital, amounting to 22,178,000 euros, of which 20,000,000 euros were in cash, with the remaining amount corresponding to the account receivable from MHRE San Roque, S.L.U. for the cession carried out by the Company of its position in a purchase option contract for land (Note 6).

Further, at year end the Company reversed the impairment losses recognized in prior years on the interests held in Varia Pza Magdalena, S.L.U., taking into account the equity of said investee, adjusted by the capital gains existing at the measurement date and related to the valuation of the investment properties carried out by an independent expert.

The breakdown and movements for the different items under this heading in 2018 are shown below:

(Euros)	12/31/2017	Additions/Allowances	Derecognitions/Reversals	12/31/2018
Non-current equity instruments				
Cost	2,500,000	23,549,912	-	26,049,912
Impairment losses	(179,273)	-	101,778	(77,495)
Net carrying amount	**2,320,727**	**23,549,912**	**101,778**	**25,972,417**

On September 06, 2018 the Company acquired the remaining 50% of the shares of Varia Pza Magdalens, S.L. for an amount of 3,010,299 euros, fully subscribed and paid in at that date. Thus, the Company acquired control over the entire share capital of Varia Pza Magdalena, S.L.U.

Likewise, on July 31, 2018 the Company acquired 92.86% of the participation units of Millenium Hotel C220, S.L. and on October 11, 2018 it acquired the remaining 7.14%, with the total cost for both transactions amounting to 20,539,612 euros.

Further, in 2018 the Company reversed part of the impairment losses recognized in prior years on the interests held in Varia Pza Magdalena, S.L.U., taking into account the equity of said investee, adjusted by the capital gains existing at the measurement date and related to the valuation of the investment properties carried out by an independent expert.

The information relating to group companies and associates at December 31, 2019 and 2018 is as follows:

Company	Registered address	Activity
Millenium Hotels C220, S.L.U.	Pº Castellana 102, Madrid	Acquisition and promotion of urban investment properties for leasing activities
Varia Pza Magdalena, S.L.U.	Pº Castellana 102, Madrid	Acquisition and promotion of urban investment properties for leasing activities
Alcaidesa Holding, S.A.U.	Club de Golf Alcaidesa. Avenida Pablo Cerezo S/N, San Roque, Cádiz	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.
MHRE San Roque, S.L.U.	P. Castellana 102, Madrid	Acquisition and promotion of urban investment properties for leasing activities

(Euros)	Net carrying amount	% of direct ownership interest	Capital	Reserves	Profit (loss) for the year	Total equity	Operating profit (loss)	Dividends received during the year
2019								
Varia Plaza Magdalena, S.L.U.	5,510,300	100%	505,400	4,397,446	(413,944)	4,488,902	105,328	-
Millenium Hotels C220, S.L.U.	20,539,612	100%	60,120	12,980,843	93,243	12,616,848	479,957	-
Alcaidesa Holding, S.A.U.	15,200,000	100%	13,639,455	28,212,952	(6,589,269)	35,263,138	(410,511)	-
MHRE San Roque, S.L.U.	22,181,000	100%	3,000	22,178,000	(21)	22,180,979	(21)	-
	63,430,912							**-**
2018								
Varia Plaza Magdalena, S.L.U.	5,432,805	100%	505,400	4,136,053	261,393	4,902,846	606,104	-
Millenium Hotels C220, S.L.U.	20,539,612	100%	60,120	12,265,850	714,993	12,725,440	1,280,120	-
	25,972,417							**-**

The earnings of the group companies, jointly controlled entities, and associates shown in the table above correspond in their entirety to continuing operations. None of the above companies is listed on the stock exchange.

8. FINANCIAL ASSETS

The breakdown of financial assets, excluding equity investments in group companies, jointly-controlled entities, and associates (Note 7), by categories and class, is as follows:

	Debt securities		Loans, derivatives, and other		Total	
(Euros)	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Non-current financial assets						
Loans and receivables	-	-	516,992	-	516,992	-
	-	-	516,992	-	516,992	-
Current financial assets						
Loans and receivables	-	-	12,563,818	2,104,108	12,563,818	2,104,108
	-	-	12,563,818	2,104,108	12,563,818	2,104,108
TOTAL	**-**	**-**	**13,080,810**	**2,104,108**	**13,080,810**	**2,104,108**

These amounts are included in the following balance sheet headings:

	Debt securities		Loans, derivatives, and other		Total	
(Euros)	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Non-current financial assets						
Investments in group companies (Note 15.1)	-	-	280,000	-	280,000	-
Financial investments (Note 8.2)	-	-	236,992	-	236,992	-
	-	-	516,992	-	516,992	-
Current financial assets						
Trade receivables (Note 8.1)	-	-	977,287	3,886	977,287	3,886
Trade receivables from group companies and associates (Note 15.1)	-	-	159,250	-	159,250	-
Investments in group companies (Note 15.1)	-	-	11,025,030	2,006,299	11,025,030	2,006,299
Financial investments (Note 8.2)	-	-	402,251	93,923	402,251	93,923
	-	-	12,563,818	2,104,108	12,563,818	2,104,108
TOTAL	**-**	**-**	**13,080,810**	**2,104,108**	**13,080,810**	**2,104,108**

The carrying amount of these financial assets does not differ significantly from their fair value.

8.1. Trade receivables

The breakdown of this heading is as follows:

(Euros)	12/31/2019	12/31/2018
Clients	4,287	3,886
Invoices pending issue	5,000	-
Trade bills	968,000	-
TOTAL	**977,287**	**3,886**

Trade bills correspond to letters of credit received from the lessee of the Eurostars Lucentum Hotel in guarantee of rental payments (Note 13.2).

8.2. Current and non-current financial investments

The breakdown of these headings is as follows:

(Euros)	12/31/2019	12/31/2018
Non-current financial investments		
Guarantees	236,992	-
TOTAL	**236,992**	**-**
Current financial investments		
Deposits	392,750	92,750
Guarantees	9,501	1,173
TOTAL	**402,251**	**93,923**

9. INVENTORIES – ADVANCES TO SUPPLIERS

The balance of this heading at December 31, 2019 amounted to 8,438 euros (2018: 33,870 euros), corresponding to advance payments made to suppliers for services which will be rendered in future periods.

10. ACCRUALS

The balance included in assets at December 31, 2019 amounted to 43,269 euros (2018: 0 euros), corresponding to expenses invoiced in advance which will be settled in future periods.

The balance included under liabilities at December 31, 2019 amounted to 32,083 euros (2018: 0 euros), corresponding to income from the cession of rooftop space at the Melía Bilbao Hotel for installation of telecommunications antenna (Note 6.1), which was invoiced in advance and which will be settled in future periods.

11. CASH AND CASH EQUIVALENTS

This heading records the current accounts held by the Company, bearing market interest rates. The corresponding balances at December 31, 2019 amounted to 44,949,163 euros (2018: 20,423,114 euros). There are no restrictions on these balances.

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

12. EQUITY

The breakdown and movements in equity are presented in the statement of changes in equity.

12.1. Share capital

The Company 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 a capital increase of 12,590,000 euros was ratified by public deed. It 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 the Company 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 for the minimum requirements established for capital reduction, in the amount of 57,770,640 euros. Further, the decision was taken to increase the nominal value of the Company'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 the Company, 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 12.2). 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 12.3).

At December 31, 2019 the Company's share capital consisted of 50,000,000 shares (2018: 59,014,000 shares) with a nominal value of 1 euro each. All shares belong to the same class and carry identical rights.

On July 4, 2019 the shares of the Company were admitted to trading on the Alternative Stock Exchange and are listed in the SOCIMI segment.

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

Shareholder	**% of ownership interest**
Ibervalles, 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 the Company 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.	11.87%
Coblilac, S.L.	8.48%
Mutua Médica MPS	8.48%
Liquid Investments, S.L.	6.79%

12.2. 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 (Note 12.1), filed at the Mercantile Registry of Madrid on June 21, 2019.

12.3. Reserves

The breakdown and movements in the different items comprising reserves are as follows:

(Euros)	Balance at 12/31/2018	Appropriation of results	Capital reduction (Note 12.1)	Capital increase expenses (Note 12.1)	Other changes (Note 12.4)	Balance at 12/31/2019
Legal reserve	-	-	3,040,560	-	-	3,040,560
Voluntary reserves	(23,635)	-	57,770,640	(6,135,171)	3,845	51,615,679
	(23,635)	-	60,811,200	(6,135,171)	3,845	54,656,239
Retained earnings	(374,625)	(309,790)	-	-	-	(684,415)
TOTAL	**(398,260)**	**(309,790)**	**60,811,200**	**(6,135,171)**	**3,845**	**53,971,824**

(Euros)	Balance at 12/31/2017	Appropriation of results	Capital increase expenses (Note 12.1)	Balance at 12/31/2018
Legal reserve	-	-	-	-
Voluntary reserves	-	-	(23,635)	(23,635)
	-	-	(23,635)	(23,635)
Retained earnings	-	(374,625)	-	(374,625)
TOTAL	**-**	**(374,625)**	**(23,635)**	**(398,260)**

Legal reserve

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 this reserve is freely distributable. However, 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 12.1).

12.4. Company shares

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

Subsequently, during the year the Company 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 12.3).

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

13. FINANCIAL LIABILITIES

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

(Euros)	Bank borrowings (Note 13.1)		Derivatives and other		Total	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Non-current financial liabilities						
Trade and other payables	63,604,735	11,569,488	13,332	-	63,618,067	11,569,488
	63,604,735	11,569,488	13,332	-	63,618,067	11,569,488
Current financial liabilities						
Trade and other payables	4,209,553	845,357	7,405,789	188,733	11,615,342	1,034,090
	4,209,553	845,357	7,405,789	188,733	11,615,342	1,034,090
TOTAL	**67,814,288**	**12,414,845**	**7,419,121**	**188,733**	**75,233,409**	**12,603,578**

These amounts are included in the following balance sheet headings:

(Euros)	Note	12/31/2019	12/31/2018
Non-current financial liabilities			
Bank borrowings	13.1	63,604,735	11,569,488
Other financial liabilities	13.2	13,332	-
		63,618,067	11,569,488
Current financial liabilities			
Bank borrowings	13.1	4,209,553	845,357
Other financial liabilities	13.2	1,318,000	104,700
Trade and other payables	13.3	6,087,789	84,033
		11,615,342	1,034,090
TOTAL		**75,233,409**	**12,603,578**

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	4,209,553	4,406,854	4,652,993	4,683,587	4,714,644	46,022,164	64,480,242	68,689,795
Other financial liabilities	1,318,000	-	-	3,750	2,500	7,082	13,332	1,331,332
Trade and other payables	6,087,789	-	-	-	-	-	-	6,087,789
TOTAL	**11,615,342**	**4,406,854**	**4,652,993**	**4,687,337**	**4,717,144**	**46,029,246**	**64,493,574**	**76,108,916**

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	845,357	843,357	843,357	843,357	843,357	8,480,418	11,853,846	12,699,203
Other financial liabilities	104,700	-	-	-	-	-	-	104,700
Trade and other payables	84,033	-	-	-	-	-	-	84,033
TOTAL	**1,034,090**	**843,357**	**843,357**	**843,357**	**843,357**	**8,480,418**	**11,853,846**	**12,887,936**

13.1. 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				**68,642,089**	**64,480,242**	**4,161,847**
Hotel Eurostars Lucentum	Euro	2.25%	2030	11,853,846	11,010,489	843,357
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
Accrued interest payable				**46,594**	**-**	**46,594**
Debt arrangement expenses				**(875,507)**	**(875,507)**	**-**
Other				**1,112**	**-**	**1,112**
TOTAL				**67,814,288**	**63,604,735**	**4,209,553**

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				**12,697,203**	**11,853,846**	**843,357**
Hotel Eurostars Lucentum	Euro	2.25%	2030	12,697,203	11,853,846	843,357
Debt arrangement expenses				**(284,358)**	**(284,358)**	**-**
Other				**2,000**	**-**	**2,000**
TOTAL				**12,414,845**	**11,569,488**	**845,357**

During the year ended December 31, 2019, bank borrowings related to mortgage loans accrued interest in the amount of 578,463 euros (2018: 260,277 euros; Note 16.6).

13.2. Other financial liabilities

Non-current

The non-current financial liabilities recognized include guarantees received in connection with contracts for use of rooftop space at the Melía Bilbao Hotel for installation of telecommunications antenna (Note 6.1).

Current

At December 31, 2019, current financial liabilities include an amount of 968,000 euros corresponding to letters of credit received from the lessee of Eurostars Lucentum Hotel in guarantee of rental payments (Note 8.1) and 350,000 euros mainly corresponding to amounts withheld as a guarantee with respect to the seller of the Carrera de San Jerónimo Hotel. The balance at December 31, 2018 corresponds to interest payable on loans from third parties which were capitalized in 2018.

13.3. Trade and other payables

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

(Euros)	12/31/2019	12/31/2018
Suppliers	508,373	50,040
Other payables	168,053	33,993
Employee benefits payable	5,411,363	-
TOTAL	**6,087,789**	**84,033**

The balance for suppliers mainly includes debts related to refurbishment work being carried out at various hotels.

The balance for other payables at December 31, 2019 includes amounts corresponding to independent professional services. At December 31, 2018 said heading included an amount of 29 thousand euros corresponding to the management commission charged by the related party Gestión de Inversiones Millenium, S.L.U. (Note 15.1).

"Employee benefits payable" includes an amount of 4,856,220 euros corresponding to the "Promote" incentive plan of 2019 (Note 4.13).

14. TAXES

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

(Euros)	12/31/2019	12/31/2018
Tax credits		
Other receivables from public administrations		
VAT	1,124,046	221,908
TOTAL	**1,124,046**	**221,908**
Tax liabilities		
Other payables to public administrations		
Withholdings	185,405	42,197
Social security	10,910	4,324
TOTAL	**196,315**	**46,521**

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 Company is open to inspection of all taxes to which it is liable since 2017, the year of its incorporation. The Company's directors and tax advisors believe there are no material tax contingencies that could give rise to significantly different interpretations of the tax regulations applicable to the Company's activities in the event of an inspection.

14.1. Income tax calculation

As stated in Note 1.1, the Company is subject to the special regime established in Law 11/2009 of October 26, for SOCIMIs. In accordance with the special tax regime for the SOCIMIs, the returns generated by their activities which fulfill the stipulated requirements are exempt.

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

	2019					
	Income statement			Income and expense recognized directly in equity		
(Euros)	Increases	Decreases	Total	Increases	Decreases	Total
Income and expense for the year	-	-	(5,867,998)	-	-	(6,135,171)
Corporate income tax	-	-	-	-	-	-
Income and expense for the year before tax			**(5,867,998)**			**(6,135,171)**
Permanent differences	-	(77,495)	(77,495)	-	-	-
Temporary differences	-	-	-	-	-	-
Taxable income (Tax results)			**(5,945,493)**			**(6,135,171)**

	2018					
	Income statement			Income and expense recognized directly in equity		
(Euros)	Increases	Decreases	Total	Increases	Decreases	Total
Income and expense for the year	-	-	(309,790)	-	-	(23,635)
Corporate income tax	-	-	-	-	-	-
Income and expense for the year before tax			**(309,790)**			**(23,635)**
Permanent differences	-	(101,779)	(101,779)	-	-	-
Temporary differences	-	-	-	-	-	-
Taxable income (Tax results)			**(411,569)**			**(23,635)**

The permanent differences correspond to the reversal of the impairment losses recognized on stakes held in the equity instruments of group companies (Note 7).

The tax expense, for both 2019 and 2018, totaled 0 euros. The reconciliation between income tax expense (income) and the result of multiplying total recognized income and expenses by applicable tax rates is not presented given that the tax rate applicable to the Company in 2019 and 2018 is 0%.

14.2. Disclosure requirements for SOCIMIs: 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 Company or Group, as applicable:

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:*

There are no reserves arising from years prior to application of the special tax regime established in the SOCIMI Law.

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.*

There are no reserves arising from revenue.

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 Company has not distributed dividends with a charge against profits since it availed itself of the special tax regime established in the SOCIMI Law.

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 Company has not distributed dividends with a charge against reserves since it availed itself of the special tax regime established in the SOCIMI Law.

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

The Company has not distributed dividends since it availed itself of the special tax regime established in the SOCIMI Law.

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

Acquisition/ incorporation date	Classification of the asset	Identification	Address	Town	Use
2/16/2018	Asset owned by the Company	Building - Hotel Eurostars Lucentum	Avenida Alfonso X El Sabio, nº 11	Alicante	Hotel business
11/7/2019	Asset owned by the Company	Building - Hotel Eurostars Lucentum	Lehendakari Leizaola 29, Bilbao	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
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 6.

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.*

No reserves were utilized during the period.

15. TRANSACTIONS WITH RELATED PARTIES

The related parties with which the Company carried out transactions in 2019 and 2018, as well as the nature of the relationship, were as follows:

Related party	Nature of the relationship
2019	
Alcaidesa Golf, S.L.U.	Group company
MHRE San Roque, S.L.U.	Group company
Millenium Hotels C220, S.L.U.	Group company
Varia Pza Magdalena, S.L.U.	Group company
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	
Millenium Hotels C220, S.L.U.	Group company
Varia Pza Magdalena, S.L.U.	Group company
Gestión de Inversiones Millenium, S.L.U.	Entity related to Board members
Grupomillenium Investment Partners, S.L.	Entity related to Board members

Related party transactions relate to the Company's normal trade operations and are carried out on an arm's length basis, similar to transactions with unrelated parties.

15.1. Related parties

The breakdown of the transactions undertaken with related parties is as follows:

	Group companies		Entities related to Board members		Total	
(Euros)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Income from management services	12,000	-	-	-	12,000	-
Income from reimbursement of expenses	1,044	-	-	-	1,044	-
Leases (Note 16.4)	-	-	(60,000)	(45,000)	(60,000)	(45,000)
Professional services	-	-	(9,742)	(24,000)	(9,742)	(24,000)
Share placement services	-	-	(3,154,660)	-	(3,154,660)	-
Transport	-	-	(6,550)	-	(6,550)	-
Interest income	266,765	31,334	-	-	266,765	31,334

On December 2, 2018 the Company signed a management contract with the related party Gestión de Inversiones Millenium, S.L.U. with a view to delegating ordinary management of the Company 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 Company has sufficient personnel at present to carry out these tasks.

The share placement services are related to the different capital increases carried out during the year (Note 12.1) and were recognized as a lower amount of reserves (Note 12.3).

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

(Euros)	Group companies		Entities related to Board members		Total	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Trade receivables (Note 8)	159,250	-	-	-	159,250	-
Trade payables (Note 13.3)	-	(29,040)	-	-	-	(29,040)
Non-current borrowing facilities granted (Note 8)	280,000	-	-	-	280,000	-
Current borrowing facilities granted (Note 8)	11,025,030	2,006,299	-	-	11,025,030	2,006,299

The Company granted the group company Varia Pza Magdalena, S.L.U. various loans which at December 31, 2019 amounted to a total of 10,727,000 euros (2018: 1,970,000 euros). These loans are to be repaid by the end of one year and bear interest at a nominal annual rate of 4%.

The interest accrued and pending payment on said loans at December 31, 2019 amounts to 298,030 euros (2018: 36,299 euros). This interest must be settled at the maturity of each of the corresponding contracts. However, on February 7, 2020 the Company decided not to demand repayment of any amounts until after June 30, 2021 but rather agree upon a new repayment schedule with the counterparty, starting at that date. The new repayment schedule is to be in line with the generation of cash flows by Varia Pza Magdalena, S.L.U. (Note 19)

Likewise, on December 27, 2019 the Company granted the group company Alcaidesa Golf, S.L.U. a loan amounting to a maximum amount of 500,000 euros, of which 280,000 euros had been drawn down at December 31, 2019. The amounts utilized from this loan bear interest at a 4% nominal annual rate, which must be settled at maturity. This loan matures on December 31, 2021.

15.2. Directors and senior management

On May 10, 2019 the shareholders in their ordinary general meeting agreed to modify the governing body of the Company, 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 the Company's Board of Directors.

At December 31, 2019, the Company'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 Company's Board of Directors and 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 4.13)	4,006,382	-
	4,851,658	**-**
TOTAL	**5,011,158**	**-**

The Company 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 Company 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 Company's interests.

16. REVENUE AND EXPENSES

16.1. Rental income

The amount recognized under this heading corresponds entirely to the revenue received from leasing the hotels owned by the Company (Note 6.1). The breakdown by geographical markets is as follows:

(Euros)	2019	2018
Alicante	1,617,095	1,366,260
Bilbao	230,952	-
TOTAL	**1,848,047**	**1,366,260**

16.2. Work performed on investment properties

During the year, the Company incurred expenses which were capitalized in the following investment properties:

(Euros)	2019	2018
Hotel Radisson Bilbao	821,170	-
Hotel Alma Sevilla	192,314	-
Hotel Carrera de San Jerónimo	103,725	-
Hotel Eurostars Lucentum	-	483,234
TOTAL	**1,117,209**	**483,234**

16.3. Employee benefits expense

The breakdown of this heading is the following:

(Euros)	2019	2018
Wages and salaries	1,778,954	315,321
Promote (Note 4.13)	4,856,220	-
Social Security payable by the company	104,430	28,950
TOTAL	**6,739,604**	**344,271**

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

	Number of persons employed at year end			Average persons employed	Average number persons with disability >33% employed during
Categories	**Men**	**Women**	**Total**	**at year end**	**for the year**
2019					
University degree	4	1	5	3	-
Secondary education	- -	2	2	2	-
TOTAL	**4**	**3**	**7**	**5**	**-**
2018					
University degree	2	1	3	2	-
Secondary education	-	-	-	-	-
TOTAL	**2**	**1**	**3**	**2**	**-**

16.4. External services

The breakdown of this heading is as follows:

(Euros)	2019	2018
Leases and royalties	61,982	45,293
Repairs and maintenance	10,589	-
Independent professional services	1,228,967	442,835
Transportation	6,758	-
Insurance premiums	17,853	6,279
Banking and similar services	1,764	-
Advertising, publicity, and public relations	66,745	-
Supplies	56,172	41,557
Other services	28,800	355,555
TOTAL	**1,479,630**	**891,519**

The Company has leased its offices in Madrid from Grupomillenium Investment Partners, S.L. until March 23, 2023 (Note 5). Subsequently, this contract will automatically be renewed for one-year periods unless the lessee (the Company) expressly states otherwise.

The Company recognized 60,000 euros for the corresponding lease expense at December 31, 2019 (2018: 45,000 euros; Note15.1).

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

(Euros)	12/31/2019	12/31/2018
Within one year	60,000	60,000
Between one and five years	135,000	195,000
More than 5 years	-	-
TOTAL	**195,000**	**255,000**

The expenses recognized under "Independent professional services" and "Other services" are mainly related to work performed on the hotels (Note 16.2).

16.5. Depreciation

The breakdown of this heading is as follows:

(Euros)	2019	2018
Depreciation of PP&E (Note 5)	3,370	-
Depreciation of investment properties (Note 6)	400,320	265,808
TOTAL	**403,690**	**265,808**

16.6. Finance costs

The breakdown of this heading is as follows:

(Euros)	2019	2018
Interest on borrowings from credit entities (Note 13.1)	578,463	260,277
Other finance costs	75,568	31,630
TOTAL	**654,031**	**291,907**

17. RISK MANAGEMENT POLICIES

The Company 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 Company operates are fundamentally determined by the analysis of investment projects, management of building occupancy, and the situation of financial markets:

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

- Liquidity risk: this is the risk that the Company will have a shortage of funds or lack access to sufficient funds at an acceptable cost to meet its payment obligations at all times. At December 31, 2019 the Company has positive working capital amounting to 47 million euros (2018: 22 million euros), of which 45 million euros correspond to cash balances (2018: 20 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 Company is exposed as a consequence of low property occupancy or downward renegotiation of the lease agreements when they expire. Materialization of this risk would decrease Company 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 35% of the debt held by the Company with credit entities is subject to a fixed interest rate (2018: 100%). The remaining debt owed to credit entities is referenced to Euribor, so that given the stability of this reference rate, the directors consider this risk as moderate.

18. OTHER DISCLOSURES

18.1. Audit fees

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

(Euros)	2019	2018
Audit services	67,098	27,475
Other accounting review and verification work	17,079	-
Other non-audit services	56,500	14,348
TOTAL	**140,677**	**41,823**

18.2. 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	2.4	1.2
Ratio of payments made	2.4	1.2
Ratio of transactions pending payment	5.3	3.0

(Euros)	2019	2018
Total payments made	39,983,939	24,294,174
Total pending payments	676,426	83,995

19. SUBSEQUENT EVENTS

On February 7, 2020 the Company decided not to demand repayment of any amounts related to the loans granted to Vaira Pza Magdalena, S.L.U. (Note 15.1) until after June 30, 2021, instead agreeing with said subsidiary on a new repayment schedule starting from that date, in line with the cash flows generated by Varia Pza Magdalena, S.L.U.

Business performance and current situation

Firstly, at December 31, 2019 the Company achieved net equity totaling 237 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 440, amongst whom there is a stable nucleus controlling 48% of share capital, with a firm and clear commitment towards the Company's strategy in the medium to long term.

Another significant milestone for the year was the inclusion in 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 Company obtained negative results of 5,867,998 euros given that only two of its hotels, Eurostars Lucentum in Alicante and Melía in Bilbao (acquired on November 7, 2019) were being operated as the remaining assets are undergoing transformations and being repositioned.

The Company's real estate portfolio saw a notable increase until reaching a market value of 203.5 million euros (GAV), as compared to the 23.9 million euros with which it closed 2018. This was possible due to, on the one hand, the appreciation of assets held, and, on the other hand, the incorporation of 5 new properties.

During 2019 the Company acquired a building located at Gran Vía in Bilbao (the future Radisson Bilbao Hotel), two buildings in Seville next to the plaza San Francisco, which will be converted into the Hotel Alma Sevilla, a building in the city of Cordoba which will become the future Hotel Palacetes de Córdoba, two buildings in the calle Carrera de San Jerónomi no. 9 and 11 in Madrid, which will become the future Hotel Carrera de San Jerónimo, and finally the Hotel Melía de Bilbao.

At December 31, 2019 the ratio of financial debt to GAV stood at 34%, below the limit established by the Company's Management Policy of 50%.

The main objective of the Company 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 Company

The risk factors which can affect the Company, as well as the policies implemented to mitigate them, are broken down as follows:

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

- Liquidity risk: this is the risk that the Company will have a shortage of funds or lack access to sufficient funds at an acceptable cost to meet its payment obligations at all times. At

December 31, 2019 the Company has positive working capital amounting to 47 million euros, of which 45 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 Company is exposed as a consequence of low property occupancy or downward renegotiation of the lease agreements when they expire. Materialization of this risk would decrease Company 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 35% of the debt held by the Company with credit entities is subject to a fixed interest rate (2018: 100%). The remaining debt owed to credit entities is referenced to Euribor, so that given the stability of this reference rate, the directors consider this risk as moderate.

Research and development activities

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

Treasury shares

On June 13, 2019, the Company acquired 60,000 treasury shares with a par value of 5 euros each, paying a total amount of 300,000 euros.

Subsequently, during the year the Company 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 Company 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 supplier payment period was 2.4 days.

Use of financial instruments

The Company did not contract any financial instruments during the 2019.

Subsequent events

No events occurred subsequent to year end other than those described in Note 19 to the accompanying financial statements.

Authorization of the financial statements and 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 financial statements and 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