PESTANA

GRUPO PESTANA,S.G.P.S.,S.A.
CONSOLIDATED ANNUAL REPORT

2016

THE TIME OF YOUR LIFE

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Consolidated Management Report for 2016

CONSOLIDATED MANAGEMENT REPORT FOR 2016

Dear Shareholders,

In the terms established by the Corporate Law, we have the honor to submit for your appreciation and approval the Consolidated management report and the Consolidated financial statements for the year ended as at 31 December 2016.

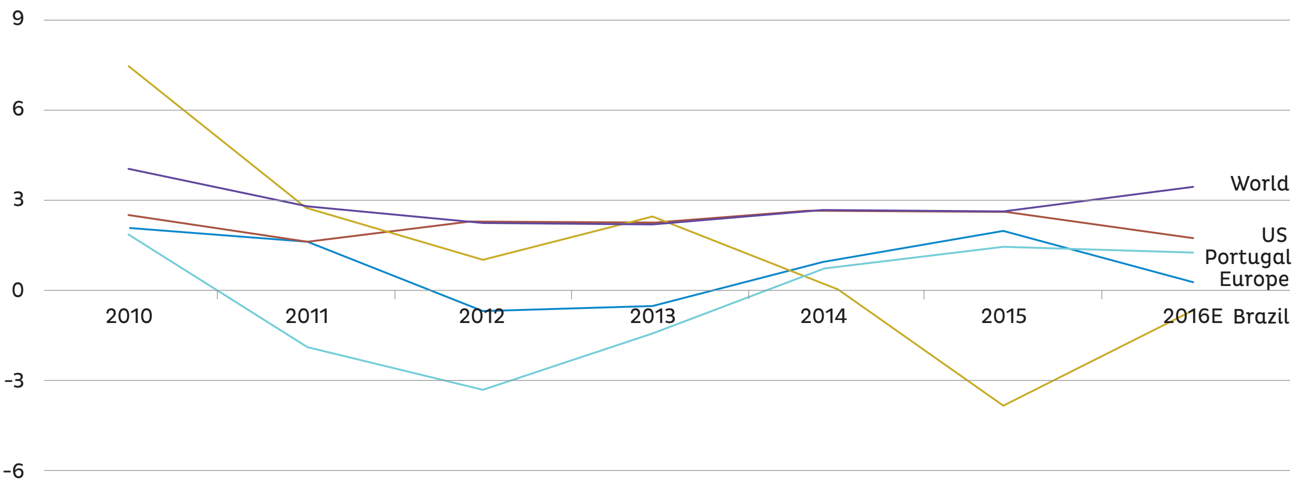
01

OVERVIEW OF THE WORLD ECONOMY ECONOMIC BACKGROUND

1.1 GDP growth

The world economy revealed signs of recovery in 2016 that allowed for a nominal GDP growth of 3.2%, which is higher than the 2.6% verified in 2015. This slight increase was essentially due to the emerging economies, with the developed countries maintaining modest growths. Inflation paralleled this slight increase, with an expected average above 2.5%.

Table 1 - GDP Growth Rate (%)



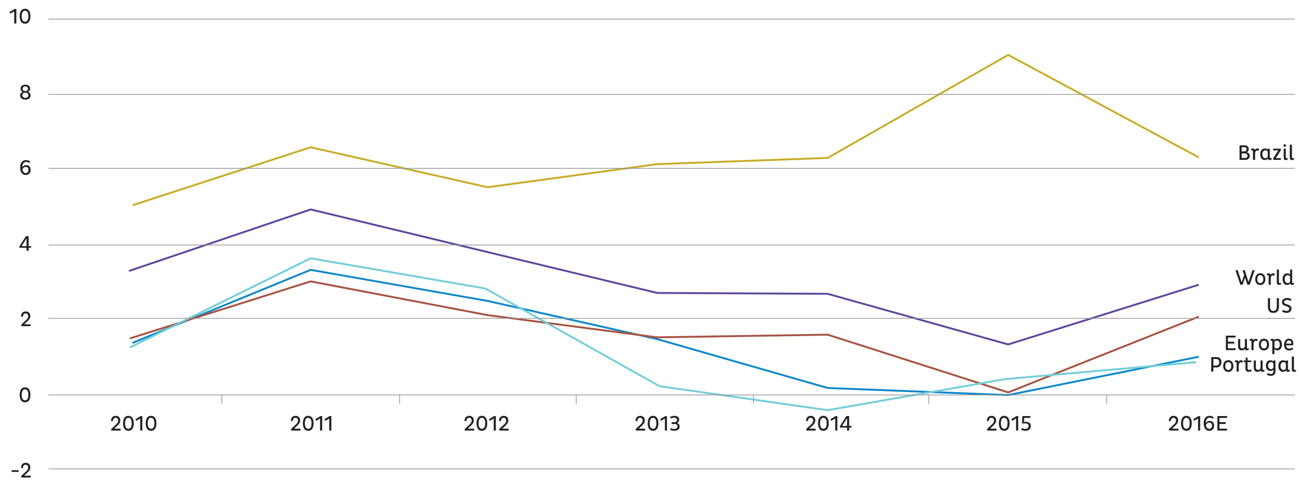
Source: World Bank

The USA economy, responsible for circa 25% of world GDP, grew 2.6%, largely due to the performance observed in the first half of the year. This growth continued to be supported by a modest consumption increase and by the lesser vitality of the domestic investment. Inflation remained close to 2.1%, but above the figure recorded in 2015 (close to 0.1%). 2016 was marked by the election of a new President who has sought to create an environment of confidence in the economic agents that permits the sustainment of other levels of economic growth, although a lot of uncertainty remains regarding the manner in which he will conduct USA's international policy.

The Eurozone also achieved a weak GDP nominal growth and it is estimated that it will have recorded a growth of under 1%, reflecting the reduced growth of internal demand (largely due to the maintenance of a high unemployment rate), the continuing frailty of the banking sector and the uncertainties regarding European integration resulting from Brexit. The fact that oil prices remained at low levels and that the currency depreciated against the US Dollar was still insufficient to support a sustainable recovery of the Eurozone, where some countries continue to be hampered by excessive debt. Inflation has remained below the 2% target set by the ECB, and it is estimated that it will be close to 1.1%. The liquidity policy implemented by the ECB continued, with the Central Bank injecting liquidity into the market through the repurchase of sovereign debt of various Member States.

On the other hand, the average growth rate of the BRIC economies improved, despite continued geopolitical uncertainties. The recession abated in Brazil and Russia, and China should present a slightly higher real growth than that of the previous year (circa 1%). The Pestana Hotel Group's exposure to these countries is centred solely in Brazil, where inflation decreased slightly and the unemployment rate revealed signs of decrease, despite investment continuing to be below desired levels. Commodity prices increased, although these are still insufficient to support an economic recovery.

Table 2 – Inflation, annual %)

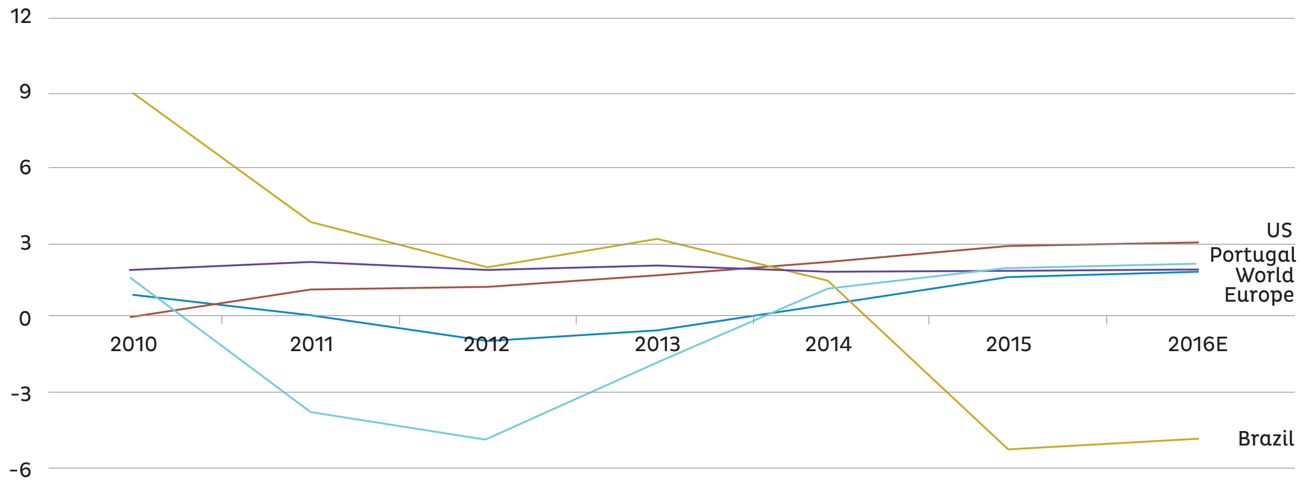


Source: World Bank, Trandingeconomics.com, EUROSTAT

Average world consumption continued to grow in 2016 at a pace slightly higher than that of the previous year. Europe continued to benefit from the generalised conflicts which remain active in the northern Africa and in Syria with an important impact on Turkey. With effect, tourism flows, and related investment continued to shift to the more stable western countries where the environment is perceived to be safer (despite some localised terrorist attacks), which to some extent contributed to the sustainment of the consumption level in Europe.

Amongst the countries that most benefitted from this fact were Greece, Italy, Spain and Portugal. These countries also presented some recovery in household income that helped improve the confidence of economic agents.

Table 3 - Final consumption expenditure (annual % growth)



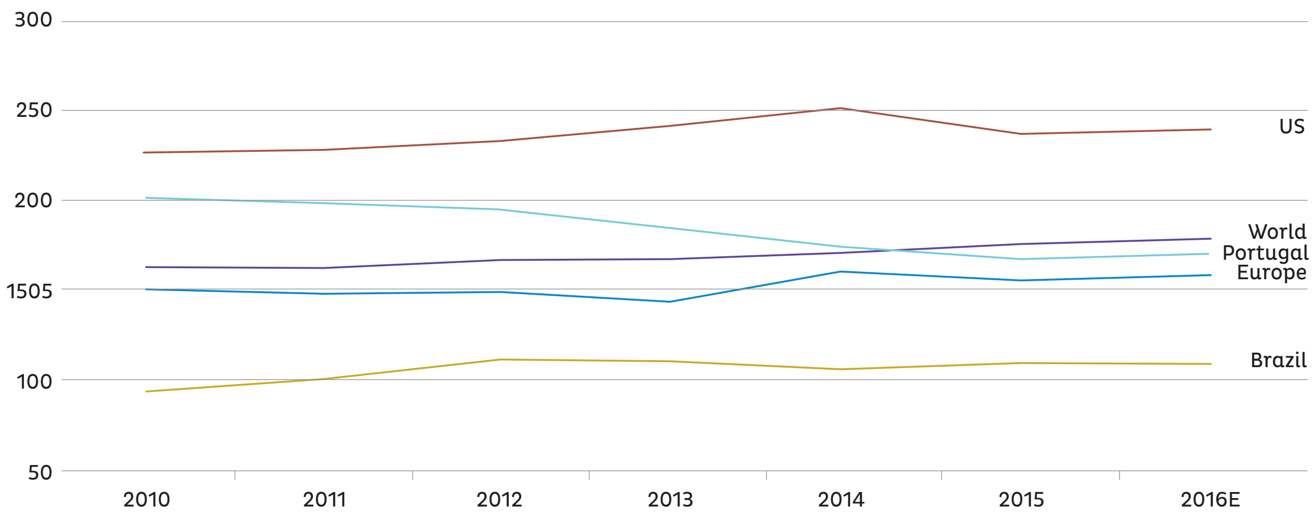
Source: World Bank. For 2016 same trend were applied based on indicative figures of Banco de Portugal, FMI

1.2 Liquidity and cost of funds

Liquidity levels in the USA remained adequate, following the elimination, in 2015, of the liquidity flexibility policy. In Europe, however, the ECB continued to inject liquidity during 2016 through the acquisition of sovereign debt of the member States, as sustainable growth levels had not yet been reached, with inflation still below the desired level. As such, most of the economies also maintained adequate levels of liquidity.

Although presenting a positive trend, the granting of domestic credit in the USA and Europe continued limited by the counterparties' risk, the analysis of which has been progressively more stringent on the part of the banking entities that are conditioned by demands of higher equity levels, of the supervisory authorities.

Table 4 - Domestic credit provided by banking sector (% of GDP)

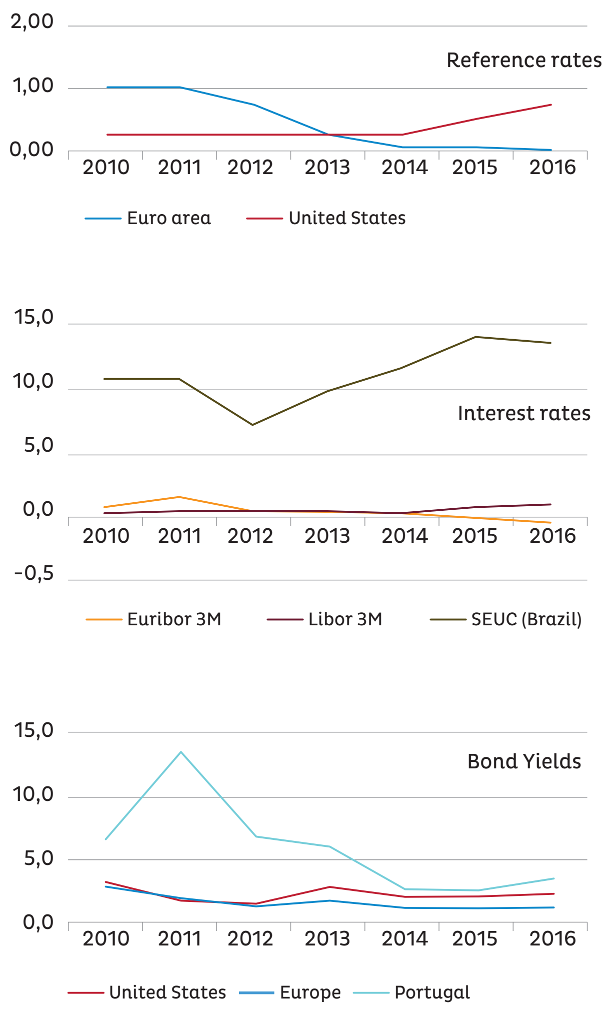


Source: World Bank. For 2016 same trend were applied based on indicative figures of Banco de Portugal, FMI

In Brazil, the scenario of liquidity and credit restriction continued, due to the maintenance of the reference interest rate that continued at very high levels, despite having decreased at the end of the year in line with the decrease in inflation.

Reference interest rates continued to record historical minimum figures, with the reference rate in the USA having undergone a new increase to 0.75%, which did not alter the global scenario. For Pestana Hotel Group this led to a decrease in its average cost of financing.

Table 5 - Reference rates; Bond yields; Interest rates



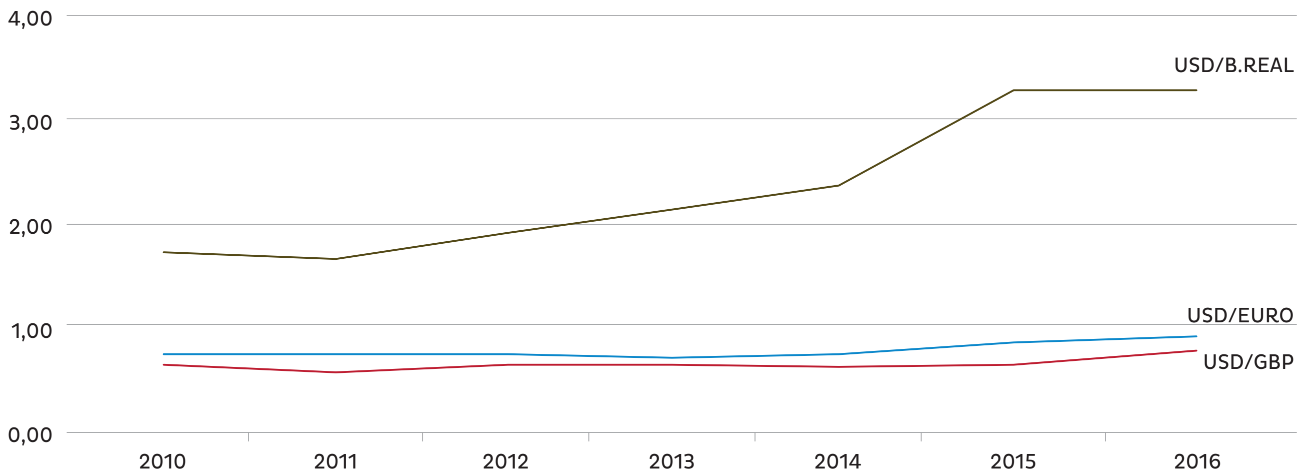
Source: World Bank; Euribor-rates.eu; BdP

Risk premiums in 2016 presented positive evolutions in most of the western countries, with rare exceptions such as Portugal, where the debt CDS 5Y increased from 170.5 bps to 272.3 bps, although the expectation of most of the economic agents is that the Country will comply with the stability pact as contracted with the EU.

1.3 Exchanges rates

The USD appreciated against the GDP and the Euro, consequence of the macroeconomic scenario described above. The Latin-American currencies of the countries where the Pestana Hotel Group is present (Argentina, Venezuela and Brazil) continued to depreciate albeit less sharply than in 2015.

Table 6 - Official exchange rate



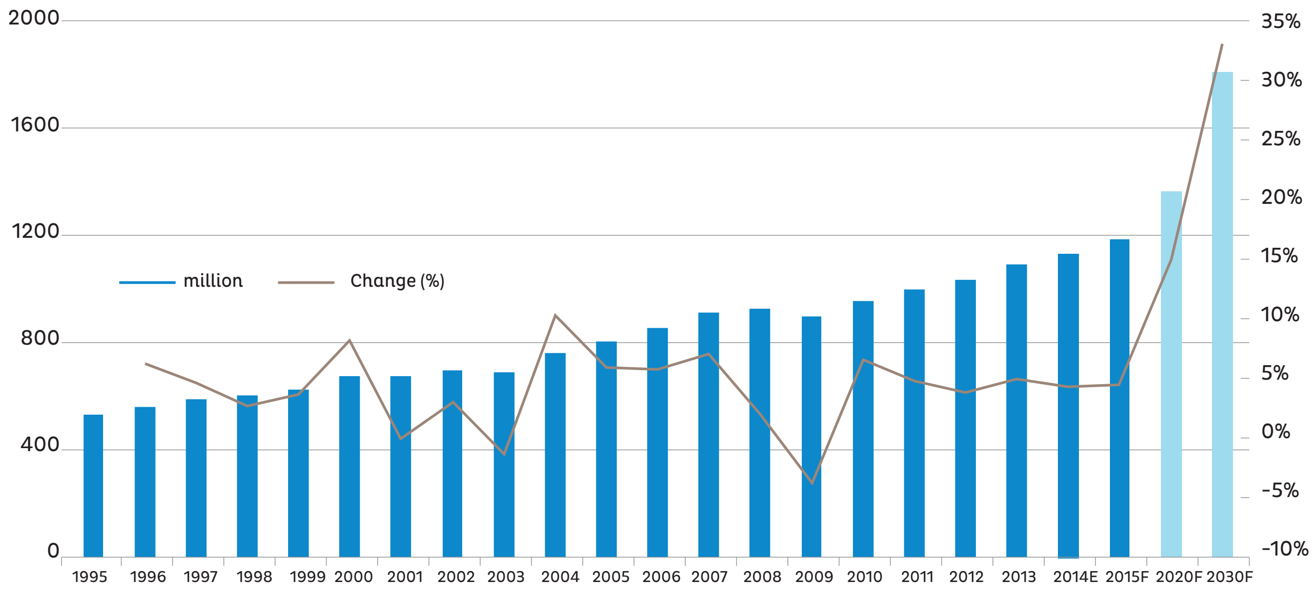
Source: World Bank

02
TOURISM

2.1 World trend

The tourism activity in global terms has been recording successive growths over the last 7 years, a preponderant factor for the growth of some countries in southern Europe. The arrival of international tourists reached 1,200 million in 2015, an increase of circa 5% compared with the previous year, according to the latest Global Tourism Barometer of the UNWTO ("World Tourism Organization") that reveals an admirable forecast for 2030, surpassing 1,800 million tourists.

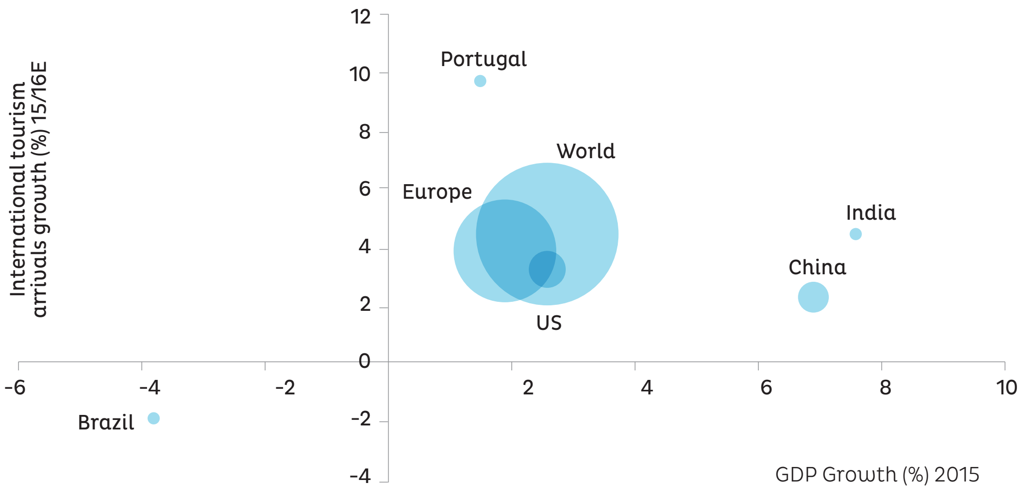
Table 7 - International Tourist arrivals



Source: World Tourism Organization (UNWTO)

The growth of international tourists' income is expected to reach close to 4.5% in 2016. Hence, and according to the latest UNWTO data, the tourism sector should represent almost 10% of world GDP, 1/11 of employment and 1.5 billion USD of exports, an amount equivalent to 7% of international trade and 32% of service exports.

Table 8 - Number of International Tourist arrivals



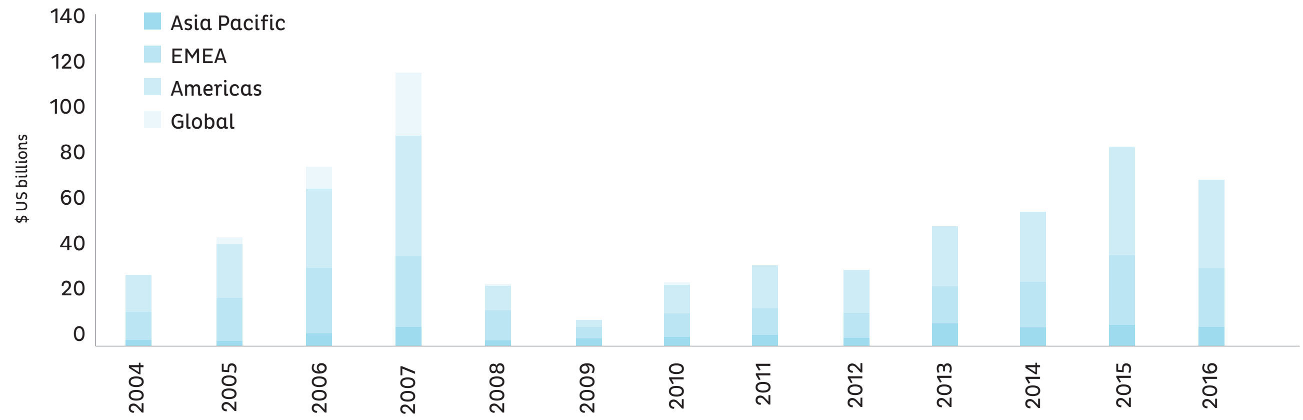
Source: World Bank; (UNWTO)

The economic growth observed in the main regions of the globe, accompanied by the sustainable growth of the tourism flow, has permitted a notable recovery of the global investment in this sector. The investment in hotels (according to the last report - Hotel Investment Outlook 2016 – produced by the consultant Jones Lang LaSalle – Hotels & Hospitality) foresees that, despite the decrease in the volume of global transactions compared with 2015, the year 2016 should be a very positive one. “2015 marked the second-best year in the history of hotel transactions, recording a growth of 50% over the previous year, an amount far exceeding that observed in other real estate sectors. With global operations reaching 85 billion USD in 2015, the year was marked by a new record: the transaction volume for a single deal, in the amount of 47 billion USD, was the highest ever realised”, said JLL.

For 2016, JLL expects another good year in terms of transactions, although expectations regarding purchases by investors are more moderate.

In Europe, sales will continue to be boosted by operations realised by stand-alone assets, with a greater focus on secondary markets. Although yield growth was a reality during 2016, in order to increase returns “investors should look beyond the stable markets”, expanding their focus to urban assets in secondary cities in Germany, the United Kingdom and Spain.

Table 9 - Global hotel transaction volume 2004 – 2016F



Source: Jones Lanh LaSalle em “Hotel Investment Outlook 2015 - A Yera of upward momentum

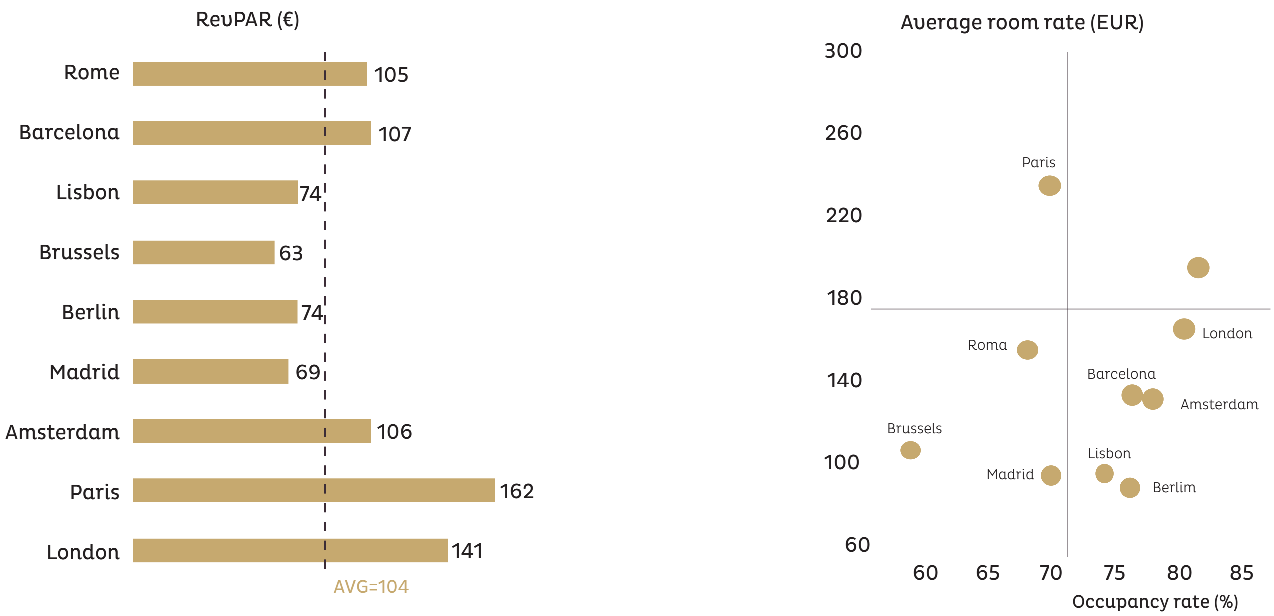
2.2 Europe

In Europe, and following the world trend, tourism growth may also reach some 4% in 2016. The strongest markets in terms of tourism demand continue to be Spain and France, with the former (similar to what has occurred in Portugal) having revealed a very strong demand over the last few years due to the impact that terrorism and social unrest have had on destinations in the northern Africa, and the Middle and Far East, including Turkey. In addition to the security offered by Spain and Portugal, the accessibility and value created for the tourist (price vs. quality) are very important factors.

According to the report by the European Travel Commission of the third quarter of 2016 – Trends and Prospects, Europe continued to reveal a strong growth performance. Despite the challenges in terms of security, the majority of the destinations presented excellent growth rates in the number of tourists during the summer. The regions of Southern Europe/Mediterranean, as is the case of Portugal (+12%), Serbia, Slovenia and Spain (all with +10%) also presented significant increases.

On the other hand, and following a decade of sustained growth, Turkey continues to fall (-32%), consequence of the diplomatic tensions, terrorism threats and weakening of relations with its strongest market, Russia.

Table 10 - Revpar, Average Room Rate and Occupancy rates 2016



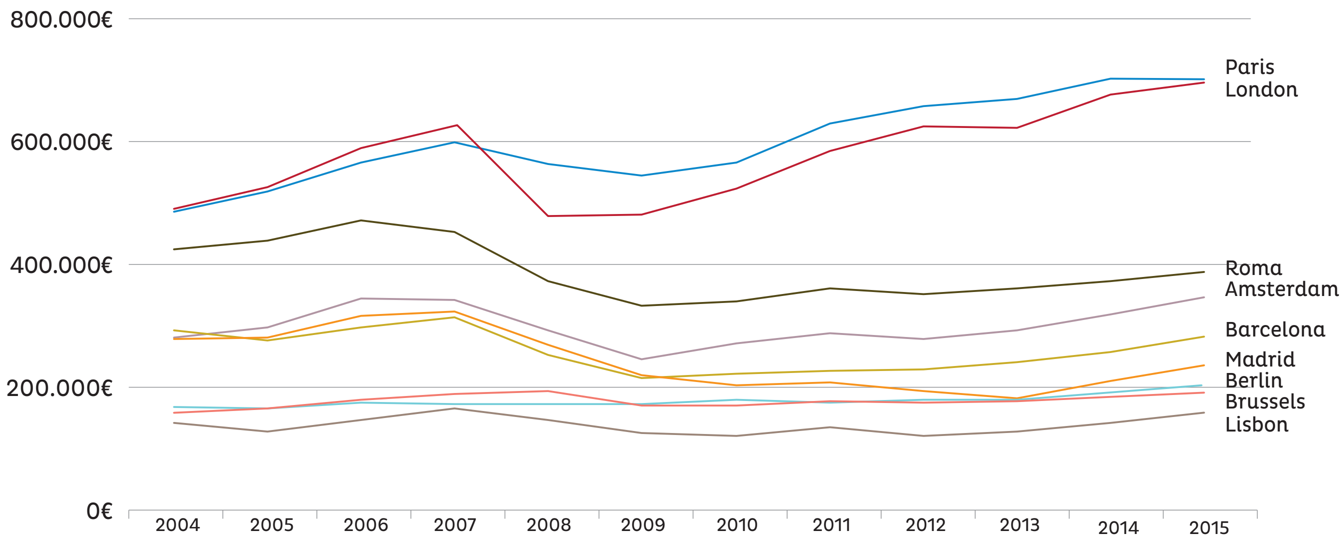
Source: STR Global

The main cities of Europe, in terms of revenue per room were once again Paris and London. The European cities where the Pestana Hotel Group is present or developing projects, in addition to London, are Amsterdam, Barcelona, Madrid, Berlin and Lisbon, with the latter city having recorded a RevPAR growth (revenue per available room) of 8.1% compared with 2015.

These successive performance growths by Lisbon over the last few years, have come to be reflected in an increase, since 2012, in the amount of the investment per room. This increase in RevPAR in 2016 was brought about primarily by the increase in the average price charged to the client (ADR) that increased 7.1% compared with the previous year.

In those cities, the evolution of the average room rate presented a consistent growth, with Paris and London leading the ranking and the other cities being well-positioned, with Lisbon closing the rank in this group, despite its very positive evolution.

Table 11 - Values per Room



Source: HVS – "European Hotel Valuation"

2.3 Portugal

As referred previously, tourism in Portugal is undergoing a very positive moment, justified by the increase in overnight stays and the number of visitors, income and in RevPAR in the domestic and international markets. The markets of origin are mainly European, as presented in the table below.

Table 12 - Portuguese tourism highlights

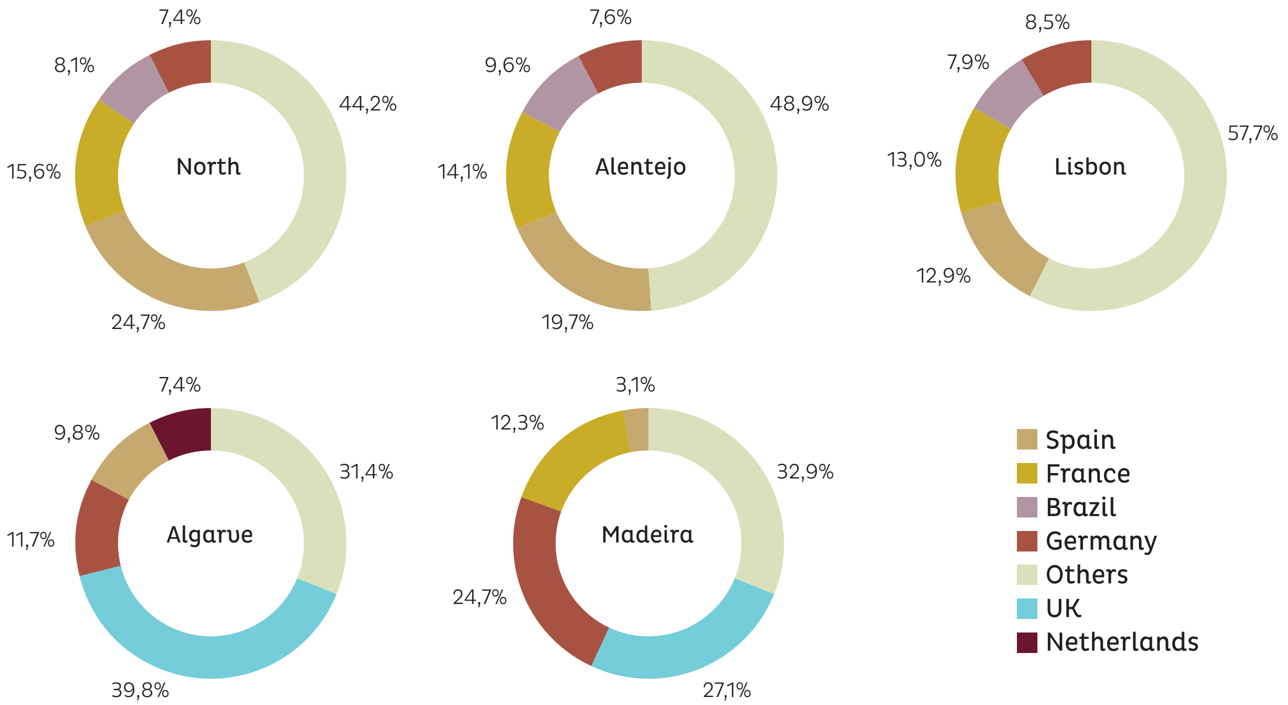
	2016E	2015	△15/14	2014
Domestic visitors ('000)	7.600	7.218	5%	6.776
International visitors ('000)	11.418	10.141	13%	9.316
Overnights by international visitors ('000)	38.300	34.425	11%	32.349
Revenue (milhões €)	12.800	11.451	12%	10.393
RevPAR (€)	42,00	37,80	11%	33,00

Feeder Markets (by number of visitors) ('000)	2016	2015	Weight	2014
UK	2.248	1.723	20%	1.580
Spain	1.650	1.542	14%	1.442
Germany	1.200	1.104	11%	984
France	1.350	1.140	12%	1.000
Brazil	570	556	5%	579
Others	4.400	4.076	39%	3.730
Total	**11.418**	**10.141**	**100%**	**9.316**

Source: Turismo de Portugal; INE, BdP

The main tourist regions are Algarve and Madeira in the resorts segment, and the cities of Lisbon and Oporto (where the visitors of the North region concentrate) in the urban segment (city breaks and MICE). All these destinations presented a strong demand based on foreign markets. The domestic market continued the recovery initiated in 2014 and recorded an increase of 5% in terms of visitors, when compared with the previous year. With effect, the economic recovery (GDP continues to grow supported by a trade balance surplus, to which the tourism sector has strongly contributed) helped invert the negative trend of private consumption in tourism spending and in related tourist activities, as occurred in previous years.

Table 13 – Portuguese feeder markets by region (number of visitors)



Source: Turismo de Portugal

The increase in demand observed in the main national tourist markets, was accompanied by a growth in the offering in 2016, namely in the main Portuguese destinations (as per the following praph). Since this growth in the offering has been lower than the increase in demand, tourism in Portugal has been growing in a consistent and sustainable manner, recovering from the difficult years lived between 2009 and 2013.

Table 14 – Evolution of number of rooms

Source: INE

2.3.1 Madeira

The Autonomous Region of Madeira is one of the main Portuguese tourist destinations, revealing great vitality, be it in terms of demand as well as offering, with some hotels having re-entered the market. To support this trend, during 2016, many hotels undertook considerable remodelling, and new tourist animation companies appeared, helping, in this manner, to maintain the quality and sustainability of the destination Madeira. This greater vitality is the result of the growing performance of the market that, this year, grew circa 10% in terms of overnight stays.

Demand continued to originate from Germany, the United Kingdom and France, which together represented approximately 60% of the total overnight stays in 2016.These countries recorded a growth of 9.8%, reinforcing their market share. The Spanish market, which had recorded a growth of 4% in 2015, should decrease some 17% in overnight stays, in 2016. As for the Portuguese domestic market, there was a significant increase, of some 23% in 2016, increasing its market share in this region.

Table 15 – Evolution and structure of overnight stays in Madeira

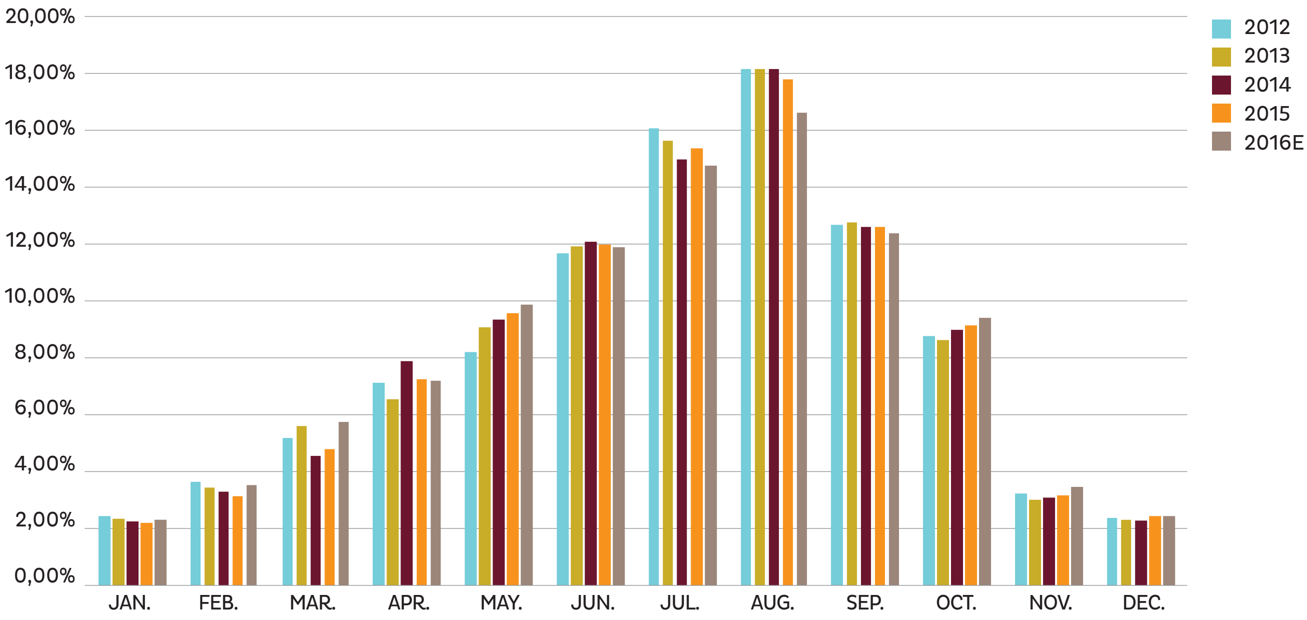
Madeira - Overnigh stays by feeder market ('000)						Weight				
Origin	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
Germany	1.779	1.545	1.377	1.280	1.081	25,8%	24,7%	23,1%	22,6%	20,7%
UK	1.706	1.532	1.413	1.310	1.250	24,8%	24,5%	23,8%	23,1%	24,0%
Top 2	3.485	3.077	2.790	2.590	2.332	50,6%	49,3%	46,9%	45,8%	44,7%
France	613	656	657	633	572	8,9%	10,5%	11,0%	11,2%	11,0%
Netherlands	290	223	210	208	215	4,2%	3,6%	3,5%	3,7%	4,1%
Spain	156	194	488	194	193	2,3%	3,1%	3,2%	3,4%	3,7%
Top 5	4.544	4,150	3.844	3.625	3.312	66,0%	66,4%	64,6%	64,1%	63,5%
Scandinavia	551	528	530	479	450	8,0%	8,5%	8,9%	8,5%	8,6%
Others	1.046	956	939	971	903	15,2%	15,8%	15,8%	17,2%	17,3%
Foreign markets	6.140	5.643	5.313	5.075	4.664	89,2%	90,3%	89,3%	89,7%	89,4%
Portugal	745	604	636	584	551	10,8%	9,7%	10,7%	10,3%	10,6%
Total	6.885	6.247	5.949	5.659	5.216	100%	100%	100%	100%	100%

Source: INE. Data from January to November

2.3.2 Algarve

The most sought for resort destination in Portugal continued to represent the greatest hotel offering at the national level, with an average annual growth in terms of overnight stays of close to 5% over the last 4 years. Tourism in this region remains very marked by the seasonality of demand, which is concentrated in the summer months, although spring and autumn have registered a good evolution. A programme was also launched during the year 2016, by Turismo de Portugal, I.P., "Programa Algarve" which aims to mitigate the seasonality and boost employment through greater appreciation of artisans and artists and the promotion of tourism, reinforcing and qualifying the cultural programming of the region. This programme will almost certainly produce results during 2017, allied with the product "golf" that has an important (even though insufficient) role in overcoming these challenges. As such, and as in previous years, the summer months, despite the good results, recorded a loss in relative weight in terms of total demand.

Table 15 –Seasonal evolution of overnights in Algarve (%)



Source: Turismo de Portugal, I.P; INE

As with the previous year, the growth of the demand for hotel units in Algarve in 2016, in terms of overnight stays, is essentially sustained by the growth of the United Kingdom (+9%), German (+9%), Dutch (+8%) and Irish (+10%) markets.

Table 16 – Evolution and structure of overnight stays in Algarve

Algarve - Overnight stays by feeder market ('000)						Weight				
Origin	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
UK	5.930	5.433	5.198	4.768	4.406	33,6%	33,5%	32,5%	32,9%	31,4%
Germany	1.766	1.614	1.553	1.499	1.364	10,0%	10,0%	9,7%	10,3%	9,7%
Top 2	7.696	7.048	6.751	6.267	5.770	43,6%	43,5%	42,17%	43,2%	41,2%
Netherlands	1.371	1.274	1.309	1.343	1.392	7,8%	7,9%	8,2%	9,3%	9,9%
Ireland	1.092	990	953	899	788	6,2%	6,1%	6,0%	6,2%	5,6%
Spain	820	819	853	677	707	4,6%	5,1%	5,3%	4,7%	5,0%
Top 5	10.980	10.130	9.866	9.186	8.657	62,2%	62,5%	61,6%	63,4%	61,7%
Scandinavia	406	343	393	366	352	2,3%	2,1%	2,5%	2,5%	2,5%
Other	2.509	1.962	1.814	1.605	1.569	14,2%	12,1%	11,3%	11,0%	11,2%
Foreign markets	13.895	12.436	12.073	11.157	10.578	78,70%	76,8%	75,4%	77,0%	75,4%
Portugal	3.756	3.762	3.935	3.326	3.443	21,3%	23,2%	24,6%	23,0%	24,6%
Total	**17.650**	**16.198**	**16.008**	**14.483**	**14.021**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: INE. Data from January to November

2.3.3 Lisbon

During 2016, overnight stays in Lisbon grew by more than 6.7%. Being the Portuguese city with the greatest international projection in terms of business tourism, it concentrates more than half of the events realized in the country. This aspect, allied with the growing interest attracted by the capital in the international market in terms of leisure tourism, translated into a demand spanning the entire year that contributed to the mitigation, or even inexistence in some units, of the seasonality issues affecting other important Portuguese destinations.

France was once again the most important market for the destination Lisbon (+18%), in line with what had already happened in 2015. Spain continued to be the second most important market in terms of overnight stays. The German, English and American markets also recorded important increases, contrary to the Brazilian market that recorded a slight decrease, with the appreciation of the USD and the depreciation of the Real against the Euro explaining, likewise, part of the changes in these last markets.

Table 17 – Evolution and structure of overnight stays in Lisbon

Lisboa - Overnight stays by feeder market ('000)						Weight				
Origin	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
France	1.278	1.082	976	744	642	10,3%	9,3%	9,0%	7,8%	7,2%
Spain	1.160	1.048	1.089	979	1.011	9,4%	9,0%	10,0%	10,3%	11,3%
Top 2	2.438	2.130	2.066	1.722	1.653	19,7%	18,4%	19,0%	18,1%	18,5%
Germany	896	886	755	674	575	7,2%	7,6%	6,9%	7,1%	6,4%
Brazil	782	746	781	711	687	6,3%	6,4%	7,2%	7,5%	7,7%
UK	728	672	628	474	453	5,9%	5,8%	5,8%	5,0%	5,1%
Top 5	4.844	4.434	4.229	3.581	3.367	39,2%	38,3%	38,9%	37,7%	37,7%
US	599	517	444	442	394	4,8%	4,5%	4,1%	4,6%	4,4%
Scandinavia	447	478	446	429	371	3,6%	4,1%	4,1%	4,5%	4,2%
Others	3.675	3.400	3.640	2.781	3.487	29,7%	29,3%	33,4%	29,3%	27,8%
Foreign markets	9.565	8.829	8.759	7.233	6.618	77,3%	76,2%	76,4%	76,1%	74,1%
Portugal	2.803	2.758	2.570	2.274	2.312	22,7%	23,8%	23,6%	23,9%	25,9%
Total	**12.368**	**11.587**	**11.329**	**9.507**	**8.930**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: INE. Dados de Janeiro a Novembro

03

ACTIVITY OF GRUPO PESTANA, S.G.P.S., S.A.

3.1 General activity

Four years ago, Pestana Hotel Group started a significant reorganization of its participation's structure in order to enhance the management of the different business areas of the Group, which has been substantially concluded in 2016. This restructuring also allowed for an improvement in the reading of Group's financial statements and its allocation to the different geographies.

In January 2015, the participation held in Pestana Inversiones, SL (48.5%) was disposed of to Pestana International Holdings, S.A. for 19,500,000 euros, which generated a capital gain amounting to 9,838,326 Euros (as a result of the transfer of Other reserves to Profit for the period, corresponding to the realization of the accumulated impact of equity accounting in the measurement of this investment, as foreseen in IAS 28 – Investment in Associates and Joint ventures).

During 2016, Grupo Pestana, S.G.P.S., S.A.'s subsidiaries still held a small participation in Salvintur and held, classified as non-current assets held for sale, the participations in Wild Break and Convento do Carmo. In September 2016, the participation held in Convento do Carmo, S.A. was sold to Brasturinvest Investimentos Turísticos, S.A. for the amount of 5,000 euros, which generated a capital gain amounting to 3.729.733 euros. Additionally, in November 2016, the participation held in Wild Break, including shareholders' loans, was sold for the amount of 2,650,000 euros, resulting in a capital gain amounting to 322,512 euros, after the impairment charge recognised in 2015 of 2,923,357 euros. Finally, in December 2016, the participation held in Salvintur, including shareholders' loans, was sold for the amount of 23,900,000 euros, which generated a capital gain of 789,952 euros, after the recognition in 2015 of an impairment charge reversal amounting to 7,234,956 euros.

In December 2015, a Framework Joint Venture Agreement has been signed between Pestana Hotel Group and Mr. Cristiano Ronaldo Aveiro with the aim of promoting, developing and exploring several hotel units under the brand "Pestana CR7". Pestana CR7 – Madeira Hotel Investimentos Turísticos,S.A. was incorporated in April 2016, and Pestana CR7 – Lisboa Hotel Investimentos Turísticos, S.A. was incorporated in May 2016, both held in 50% by the group, the first two "Pestana CR7" hotel units located in Madeira and in Lisbon. In the scope of this agreement were defined a set of decisions over the relevant activities that require the consent of both parties, namely: approval of the business plan, the strategic plan and the annual budget; appointment of entity's representative to participate in general meetings of its subsidiaries and determination of the entity's vote; acquisition, disposal and charge of assets and contracting of bank financing of an amount higher than the predefined amount and not made within the ordinary course of business and not provided for in the annual budget; delegation of powers within the ordinary course of business to one or more directors or to an executive committee; incorporation of subsidiaries, creation of branches and creation of, or participation in, other forms of representation or corporate cooperation; subscription, acquisition and disposal of shareholdings or membership interests in other companies; approval and modification of any reward schemes, profit participation; the extension of the entity's business purpose to other activities other than the operation of the Project; and advance of profits, among others.

During June 2016, as a result of Pestana Group's participation structure reorganization strategy, all participations held in entities located in the Autonomous Region of Madeira and of Azores were concentrated on M&J Pestana – Sociedade de Turismo da Madeira, S.A., therefore the single quota of Empresa de Cervejas da Madeira, Sociedade Unipessoal, Lda was acquired from Pestana International Holdings, S.A. for an amount of 17,500,000 euros, resulting in the recognition of goodwill in the amount of 17,000,000 euros.

At year-end 2016, Grupo Pestana, S.G.P.S., S.A. consolidates all Pestana business units incorporated in Europe (including Portugal) and North America. The Company manages, through its subsidiaries, 58 hotel units (22 of which are own property and the remaining, including all the hotels that are part of the "Pousadas" network, are under management) which offer a diversified range of services in hospitality through the brand names "Pestana Hotels & Resorts", "Pestana CR7","Pestana Pousadas Portugal" and "Pestana Collection".

The Group offering is complemented by the management of 12 establishments related to the vacation club – Pestana Vacation Club (11 own property), 6 golf courses (5 own property), the gambling concession in Madeira and also touristic entertainment establishments and touristic real estate.

The main investments in 2016 were as follows:

- Conclusion of the requalification works in Hotel Bahía Pestana, in São Miguel Island in Azores and in Hotel Pestana Alvor Praia, the most emblematic hotel of the Group in Algarve, in May;
- Beginning of the project to construct a 5 star hotel in Amsterdam, which is expected to be concluded by the end of the current year;
- At year-end, the project related with the construction of the Pestana hotel unit in New York, in the iconic neighbourhood of Manhattan, was started;
- Construction started on another project in New York with the aim of expanding the brand "Pestana CR7", to open in early 2018;
- The building where Hotel Pestana Atlantic Gardens is located was acquired;
- Throughout the year, Pestana Group continued its rehabilitation program for several hotel units, having made various replacement and upgrade works, to maintain assets under management in their ideal condition to optimize their management. As part of this programme for 2016, we should highlight the renewals that were made in Pousada hotel units that are located in Alentejo;

- In May 2016, Pestana Group negotiated a lease contract with "Sindicato Nacional dos Quadros Tecnicos Bancários" for the hotel held by this entity in Porto Santo Island, having started to explore it under the designation of "Pestana Ilha Dourada".

- In August 2016, Pestana Group started to manage "Pestana Race", a 5 star hotel unit near Autódromo do Algarve, after signing a management contract with Parkalgar.

Pestana Group through its subsidiary Pestana Management – Serviços de Gestão, S.A. is structuring a Shared services center, in Portugal, that provides commercial and back-office activities to the different business units of the group. As in previous years, in 2016, the number of countries and business units that benefit from these services grew.

The objective of Pestana Group is to have in Portugal one of the most efficient shared service centers of the tourism industry, with a center of expertise and volume that allows it to operate and recover the investments that are required today, to maintain the competitiveness of a tourism group mainly based on the hospitatity business.

As such, simultaneously with the replacement investments and increase in offerings, Pestana Group has made significant investments in new technologies and implementation of centers of expertise in the digital area such as: e-commerce, on-line and direct sales channels; revenue management; channel management and booking.

3.2 Results

Pestana Group presented revenues of 302.2 million euros, which represents an annual increase of 18%.

This revenue increase of 46.5 million euros is explained by the growth of touristic activity in some 20.6 million euros and of non-touristic activity of some 25.9 million euros, the latter as a result of the integration of ECM – Empresa de Cervejas da Madeira, Lda in the consolidaton perimeter of Grupo Pestana S.G.P.S., S.A. In the touristic activity, the referred revenue growth allowed for an increase in gross operating profit ("GOP") of 17.7 million euros, which corresponded to the conversion into additional free cash flows of 85% of the increase in revenues. The most significant contribution for these positive results was the increase of the GOP margin over revenues of 43%, 4 basis points higher than in the previous year.

Other performance indicators had also a positive growth from which we highlight the EBITDA of 101 million euros, being the first time that Pestana Group reaches an amount above 100 million euros.

The hotel units in Algarve registered an average growth in GOP of 37%, even though a quarter of this growth was due to Pestana Alvor South Beach that had its first complete year of activity. The hotel units of Sintra and Cascais presented significant increases in GOP and Pestana Bahia Praia in Azores, after renovation, had a good performance although still below its potential.

In Madeira, the headquarters of Pestana Group, GOP increased more than 28% when compared to the previous year, bearing in mind that prior year also had a very good performance. In Porto Santo Island, the increase was lower, slightly above 8%. Also, the "Pousadas de Portugal" network has presented an excellent recovery with significant growth, above 30% in a "like for like" analysis and above 50% if we consider that this was the first complete year of activity for Pousada de Lisboa.

Lisbon and Oporto were the tourist destinations where the group had a better performance and higher growth.

Regarding feeder markets, besides the good performance of traditional markets like UK, Germany, France and Scandinavia, the positive trend of the internal market, initiated in 2014, continued in 2016, and for some destinations like main Cities and "Pousadas", there was a good increase of the North American market.

The hotels in Europe have globally maintained the performance of the previous year, being the profit obtained slightly lower due to the depreciation of the British Pound compared to Euro. There was a positive evolution in Barcelona that compensated the slight decrease of the hotel in Berlin. As for the hotel in Miami, the only one operating in North America, it had a slight improvement in its performance.

Pestana Vacation Club had different performances in accordance with the destinations in which the Group operates. If in Madeira the results continued to increase although very slightly, in Algarve due to the lack of inventory (available rooms) during the high season, the sales decreased.The Golf business had a very good performance in the year. Turnover grew 10% and cash flows 20%, when compared with the previous year. Touristic real estate also had a good performance when compared with the previous year, highlighting the good performance of results in Tróia and Algarve, where a market recovery was verified.

Additionally, in 2016, Pestana Group sold to a real estate investment fund Pestana Viking hotel, for an amount of 17,900,000 Euros obtaining a capital gain of 2,775,340 Euros. In 2015, Pestana Group had sold to real estate investment funds the hotels Pestana Carlton Madeira and Pestana Dom João II, for the amounts of 31,500,000 Euros and 34,990,000 Euros, respectively, having the Group obtained a capital loss of 4,355,638 euros and a capital gain of 9,217,348 euros, respectively, with the group maintaining the management of both hotel units for the next years.

Consequently, expenses with rents have increased approximately 5 million euros in 2016, with no reduction in depreciations, due to the high level of investments made by the Pestana Group.

The 2016 evolution of GOP, EBITDA and EBITDAR, compared with the previous year, was positive in 18%, 15% and 18% respectively. The Profit for the year reached some 47.5 million euros which reflects an increase of 14% when compared to 2015.

Besides the significant improvement in operating profit, an improvement of 1 million of euros was obtained in financial results, despite the increase in exchange rates losses of 1.8 million euros, explained mainly by the financial investments that the Group had in British Pounds.

Table 19 – Financial Data

	2016	2015
Rooms (Total keys)	7.195	6.857
Hotel Units	62	57

(Amounts expressed in million Euros)		
Revenue	302,2	255,7
Touristic activity	267,0	246,4
Non-touristic activity	35,2	9,3
GOP of touristic activity (a)	114,6	96,9
EBITDAR	115,0	97,8
Rents paid to owners and concessions	-14,0	-9,8
EBITDA (b)	101,0	88,0
Depreciation and amortization	-30,6	-32,9
EBIT	70,4	55,1
Paid interest net (inclued fees)	-17,4	-18,8
Paid Income taxes (c)	-5,5	-4,6
Net profit including non-controlling interests	47,5	41,6
GOP margin (%)	43%	39%
EBITDAR margin (%)	38%	38%
EBITDA (%)	33%	34%
EBIT margin (%)	23%	22%
ROE (%)	11,8%	11,2%
EPS	0,58	0,51
EBITDA/Net interest (..x)	-5,8	-4,7
Average cost of debt (%)	5,0%	5,3%

Notes:
(a) “gross operating profit” - management accounts (uniform system of accounts) only includes fully consolidated companies
(b) includes income and expenses from financial investments
c) includes gambling tax paid by Casino

3.3 The structure of the Consolidated statement of financial position ("Balance sheet")

Pestana Group has invested capital in place of 756 million Euros, which reflects its strategy of owning a significant part of the assets (hotels, golf courses and land) where the business units that the Group manages are installed. Thus, the investment in fixed assets represents 93% of of the total invested capital in place, being most of the assets measured at historical cost and consequently at a lower value than their market value.

The total amount of non remunerated funds: equity added to the cash flows obtained from the activities of Pestana Vacation Club (that in the balance sheet are presented in Liabilities as Deferred revenue) cover 53% of the adjusted assets, reflecting a good debt-to-equity ratio.

Permanent capital finances all capital expenditure, considering that short term financial liabilities at year-end are lower than cash and cash equivalents.

Currently, Pestana Group has a debt service aligned with its estimated cash generating capacity, with corporate debt representing some 30% of total debt, with refinancing risks duly managed. The Group has available credit lines in the 12 main financial institutions with which it works in the several regions in which it operates, representing more than 25% of its total debt.

As referred in the previous caption, during 2015 and 2016 the Group sold three hotels, although maintaining their management.

The fulfillment of these operations and the increase in operating results, allowed for the reduction of the Debt / EBITDA ratio from 5.95 to 3.78 in 2015 and to 3.48 in 2016, which represents a very positive evolution.

Table 20 – Capital structure

(Amounts expressed in million Euros)

Net Assets	2016	% TOT	Var 16/15	2015	% TOT	Var 15/14	2014
Investments - Fixed assets	704,0	93%	6%	666,9	92%	-4%	693,3
Deferred tax liabilities	-37,7	-5%	7%	-35,3	-5%	-2%	-35,9
Total adjusted fixed assets	666,3	88%	5%	631,6	87%	-4%	657,4
Investment - Financial assets	24,6	3%	-44%	43,7	6%	9%	40,3
Other non-current assets	18,2	2%	-18%	22,1	3%	35%	16,4
Current Assets - Current liabilities	46,9	6%	52%	30,9	4%	-28%	42,7
Total Adjusted Assets	756,0	100%	4%	728,4	100%	-4%	756,8

Funding origins	2016	% TOT	Var 16/15	2015	% TOT	Var 15/14	2014
Equity	280,6	37%	8%	258,6	36%	-1%	262,1
Collected deferred revenue [(a)]	178,3	24%	2%	175,6	24%	-2%	179,9
Deferred sales costs [(a)]	-57,6	-8%	-8%	-62,6	-9%	19%	-52,8
Total non-remunerated funding	401,3	53%	8%	371,6	51%	-5%	389,3
Long term financial debt	373,5	49%	7%	349,9	48%	13%	308,5
Other non-current liabilities	3,4	0%	-39%	5,6	1%	-18%	6,9
Total non-current funding	778,2	103%	7%	727,1	100%	3%	704,6
Short term financial debt	60,5	8%	-17%	73,1	10%	-27%	100,7
Cash + Financial assets available for sale	-82,7	-11%	15%	-71,8	-10%	48%	-48,6
Net current debt	-22,2	-3%	-1807%	1,3	0%	-98%	52,1
Total funding origins	756,0	100%	4%	728,4	100%	-4%	756,8
Net debt [(b)]	351,3		0%	351,2		-3%	360,7
EBITDA	101,0		15%	88,0		45%	60,6
Working capital	46,9		52%	30,9		-28%	42,7
Net capex [(c)]	22,6		81%	12,5		-39%	20,5
Net debt ratio	46%		-4%	48%		1%	48%
Net debt / EBITDA ratio	3,48		-13%	3,99		-33%	5,95
Net debt / Equity ratio	0,88		-7%	0,94		2%	0,93
Net debt / Total Assets ratio (%)	46%		-4%	48%		1%	48%
Liquidity ratio (%)	19%		13%	17%		44%	12%

(a) Collected sales of Holiday Club ("timeshare")
(b) Includes 16.9M of the entrance of Rauchastrasse 22, S.à.r.l. in the consolidation perimeter in 2014
(c) Includes 31,5M Euros and 34,99M Euros, respectively, for disposals of Pestana Carlton Madeira and Pestana D. João II to asset funds.
Also Includes 15,8M Euros for the acquisition of Atlantic Bay Ocean.

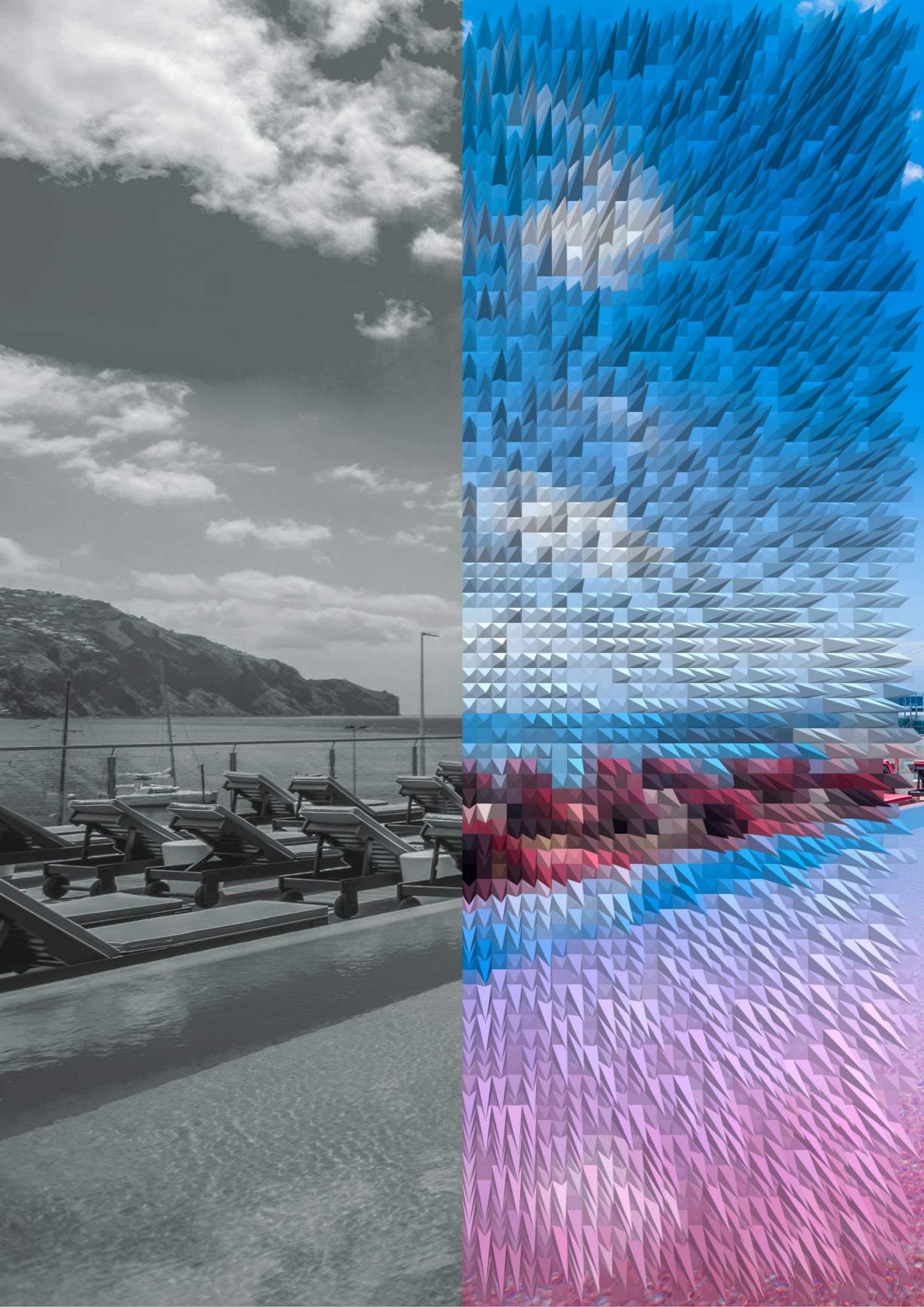
04

OTHER RELEVANT FACTS OCCURRED IN THE YEAR

The General Shareholders meeting of the subsidiary Salvor - Sociedade de Investimento Hoteleiro, S.A., held on 28 May of 2015, approved the determination of the loss of its public company status, in accordance with Securities Code article 27, 1 (b). On 8 July 2016, Salvor - Sociedade de Investimento Hoteleiro, S.A. filed a request to the market securities regulator, the Comissão de Mercado de Valores Mobiliários (CMVM) for the loss of its public company status, having the Company, as its major shareholder assumed the obligation to acquire, under the terms foreseen in the law, the 77,245 shares belonging to the remaining shareholders.

CMVM decided to require that the Institute of Statutory Auditors in Portugal designate an independent auditor to determine the minimum consideration to be paid for the shares, having been designated for that purpose the auditor Rosa, Correia e Associados, SROC, S.A., that on 27 December 2016, sent to CMVM its report, in which it determined the minimum consideration to be paid by the Company for each share to be 18 Euros (eighteen euros).

On 16 January 2017, CMVM decided favorably the loss of public company status of Salvor - Sociedade de Investimento Hoteleiro, S.A., becoming effective on that date, having the Company issued a permanent purchase order for the 77,245 shares of Salvor - Sociedade de Investimento Hoteleiro, S.A, through BPI Bank, that will be active up to 17 April 2017.



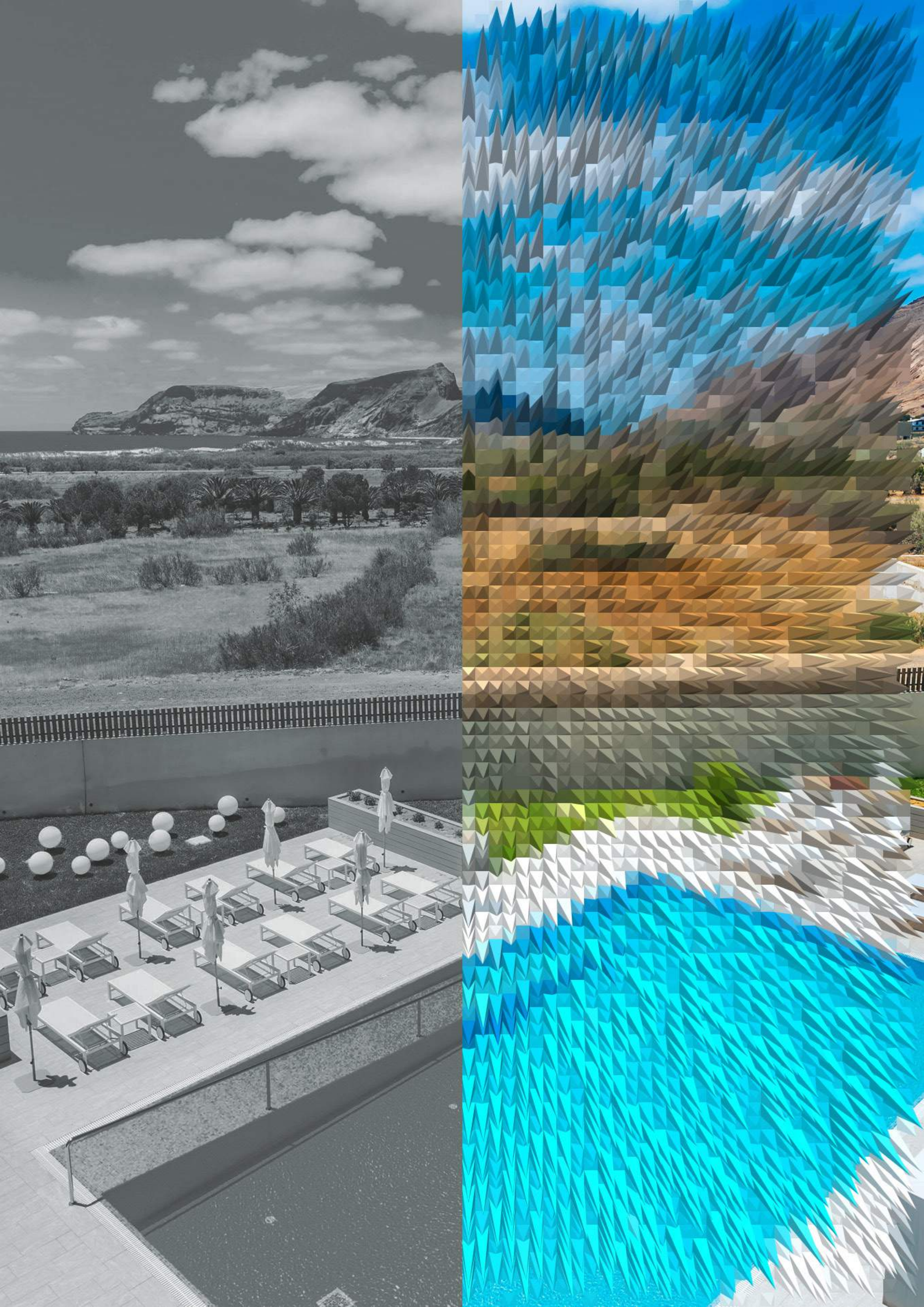
05

OBJECTIVES AND POLICIES OF PESTANA GROUP REGARDING FINANCIAL RISK

Pestana Group's operations are exposed to a variety of financial risk factors, including the effects of changes in market prices: credit risk, liquidity risk and cash flow risk associated with the interest rate, among others.

Pestana Group risk management is controlled by the finance department in accordance with policies approved by the Board of Directors. Accordingly, the Board of Directors has defined global risk management principles as well as specific policies that mitigate those risks.

The management of these policies is described in the Notes to the consolidated financial statements which are appended.



06

RELEVANT ISSUES THAT OCCURRED AFTER THE YEAR END

The special tax regime for pure Holding Companies (with legal status of "S.G.P.S."), in effect until 31 December 2013, foresaw that capital gains or losses arising from the sale, under specified conditions, of equity shares held by these Companies, would not concur for the calculation of taxable profit. On the other hand, this regime did not allow for the tax deduction of financial expenses associated with the acquisition of the said equity shares.

However, this regime was revoked on 1 January 2014, without the creation of any transitional regime.

Thus, S.G.P.S. companies may have an amount of financial expenses, the deductibility of which was not allowed for at the same time that no tax exemption could be applied for capital gains or losses obtained under the regime, and for which it will not be possible to benefit from in the future since this tax regime was revoked.

In this context, the Group filed in March 2017, a gracious grievance requesting the recovery of the financial expenses, the deductibility of which was not allowed for, as referred above, at the same time that no tax exemption could be applied for capital gains or losses obtained under the regime, and for which it will not be possible to benefit from in the future since this tax regime was revoked.

07

THE FUTURE

The estimates of touristic demand for the next years, confirmed by market behaviour in the first monthes of 2017, are positive in relation to several destinations in Portugal.

The recovery of the internal market, and the positive evolution of British, German and French markets in general, and Nordic countries' in winter, allows us to foresee a good touristic year, even more because Brasilian and North America markets are showing positive signs.

Thus, Pestana Group expects that for Portuguese destinations, the very good performance of the year 2016 continues for 2017, and that this impacts positively in the results of the group.

This positive trend should not divert us from the limitations that can occur, namely, in air transportation affecting mainly Lisbon, whose airport infrastructure is in its maximum capacity, and the airports of the Autonomous Region of Madeira, that need new and more routes of the existing and new airliners.

Out of Portugal the hotels in London, Berlin, Barcelona and Miami shall improve the performances already achieved, considering group's accumulated experience in those markets that are very qualified and competitive.

Regarding the expansion projects, those that are under contruction will be continued: in the international area, in Amsterdam, New York and Madrid; and in Portugal, in Madeira, Algarve and Oporto.

With these projects the Group will sustain its leading position in the tourism sector in Portugal and obtain the scale of transactions, necessary to develop the projects in the "digital era" that revealed to be indispensable to maintain the competitiveness of the group and its operations.

At a corporate level, Pestana Group will continue to focus on the fundamental pillars of its strategy, based on flexibility and operational efficiency continuous improvement, in investing to grow and to improve existing units, paying special attention to innovation and technologies, in reinforcing the connection with the different stakeholders and in permanent commitmment to its employees and the communities surrounding the Group.

08

RECOGNITIONS

The members of the Board of Directors want to express their thanks to all public and private entities that, directly or indirectly, have supported and worked together with the Pestana Group.

We show gratitude and note with high esteem the trusted relationship that our customers, suppliers and financial institutions have honored us with throughout the development of our activities.

We appreciate the support and cooperation of the governing bodies of the group companies, members of the General Assembly and of Supervising Bodies, in carrying out their duties.

Finally, and we cannot stress enough, it is worthy of recognition the high spirit of professionalism and sense of duty of our employees. Their effort and dedication are the reason that makes possible the creation of value in the Pestana Group.

Please find attached a list drawn up pursuant to and for the purposes of article 448º, no. 4 of the Portuguese Corporate Law.

Funchal, 6 March 2017

The Board of Directors

Dionísio Fernandes Pestana
President

José Alexandre Lebre Theotónio
Member

José de Melo Breyner Roquete
Member

Hermanus Roelof Willem Troskie
Member

APPENDIX
LIST TO THE CONSOLIDATED ANNUAL REPORT

(Pursuant to and for the purposes of article 448°, no. 4 of the Portuguese Corporate Law)

Shareholders that on 31 December 2016 hold more than half, more than one-third and more than one tenth of the share capital:

Name	%
Pestana International Holdings S.A.	99,00%
Dionísio Fernandes Pestana	1,00%

Funchal, 6 March 2017

The Board of Directors

Dionísio Fernandes Pestana

President

José Alexandre Lebre Theotónio

Member

José de Melo Breyner Roquete

Member

Hermanus Roelof Willem Troskie

Member

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated statement of financial position

(Amounts express in Euros)	Notes	31 December 2016	2015
Assets			
Non-current			
Tangible fixed assets	6	724.928.689	708.404.776
Intangible assets	7	28.919.790	13.088.308
Investment properties	8	7.709.982	8.011.151
Investments in associates	9	11.735.124	11.345.137
Investments in joint ventures	10	5.067.351	-
Other financial investments	11	7.784.442	32.387.528
Deferred tax assets	12	7.069.797	7.357.068
Financial assets available for sale	13	95.044	158.031
Trade and other receivables	15	11.150.458	14.775.691
		804.460.677	795.527.690
Current			
Inventories	16	75.955.693	67.500.574
Trade and other receivables	15	60.806.243	44.846.439
Income tax receivable	17	523.869	286.569
Cash and cash equivalents	18	82.603.973	71.684.700
Non-current assets held for sale	19	-	11.336.421
		219.889.778	195.654.703
Total assets		1.024.350.455	991.182.394
Equity			
Capital	20	150.420.973	152.420.973
Other reserves	21	11.350.393	4.788.723
Retained earnings	22	49.005.894	37.710.118
Profit for the period attributable to shareholders		43.054.092	38.502.997
Non-controlling interests	23	26.797.531	25.223.946
Total equity		**280.628.883**	**258.646.758**
Liabilities			
Non-current			
Provisions	24	455.783	122.287
Borrowings	25	353.382.099	329.468.276
Derivatives	26	2.928.884	5.472.185
Deferred tax liabilities	12	37.654.005	35.289.598
Deferred revenue	27	152.500.297	152.422.383
Trade and other payables	28	20.151.976	20.395.900
		567.073.045	543.170.629
Current			
Provisions	24	3.253.862	227.516
Borrowings	25	56.684.378	68.940.481
Deferred revenue	27	25.757.859	23.135.885
Trade and other payables	28	90.517.315	83.890.534
Current tax liabilities	17	435.112	4.957.704
Non-current liabilities held for sale	19	-	8.212.888
		176.648.527	189.365.007
Total liabilities		**743.721.571**	**732.535.636**
Total equity and liabilities		**1.024.350.455**	**991.182.394**

The following notes form an integral part of the Consolidated statement of financial position concerning the period ended 31 December 2016

Consolidated income statement

(Amounts express in Euros)	Notes	Period 2016	Period 2015
Revenue	29;30	302.172.128	255.737.725
Cost of goods sold	16	(38.336.143)	(32.154.908)
External services and supplies	31	(94.959.922)	(75.987.270)
Personnel expenses	32	(72.379.791)	(63.090.774)
Charges on depreciations and amortizations	6;7;8	(32.216.084)	(31.514.310)
(Charges)/Reversals of impairment over depreciable/ amortizable assets	6	1.654.387	(1.337.013)
Impairment of receivables	15	(654.037)	(53.756)
(Charges)/Reversals of impairment over inventories	16	(99.031)	22.148
Provisions	24	81.489	(15.349)
Other income	33	14.114.523	18.776.539
Other expenses	34	(13.171.425)	(16.917.274)
Gains/ (Losses) of investments in associates, other financial investments and non-current assets held for sale	35	(943.417)	14.850.409
Operating profit		65.262.676	68.316.168
Financial expenses	36	(21.142.988)	(20.983.551)
Financial income	36	3.697.786	2.213.165
Profit before tax		47.817.474	49.545.782
Income tax	37	(4.000.700)	(3.135.185)
Profit from continued operations		43.816.774	46.410.597
Discontinued operations			
Profit/ (Loss) from discontinued operations	38	3.729.733	(4.804.956)
Profit for the period		47.546.507	41.605.641
Profit for the period attributable to:			
Shareholders		43.054.092	38.502.997
Non-controlling interests		4.492.414	3.102.644
		47.546.507	**41.605.641**
Earnings per share		0,58	0,51
Earnings per share from continued operations		0,54	0,57
EBITDA		100.974.467	88.012.841
EBITDAR		114.954.781	97.818.432

The following notes form an integral part of the Consolidated income statement for the period ended 31 December 2016.

Consolidated statement of the comprehensive income

(Amounts express in Euros)	Notes	Period 2016	Period 2015
Profit for the period		47.546.507	41.605.641
Itens that are recycled through profit or loss			
Other gains and losses recognized directly in equity resulting from investments in associates	21	-	(86.356)
Foreign currency translation differences	21/22/23	357.766	(205.213)
Changes in fair value of the financial assets available	13	-	(29.572)
Changes in fair value of hedging derivatives	26	2.521.824	1.565.106
Tax impact in items booked directly in equity	12	(520.000)	(374.338)
Other comprehensive income for the period - net of income tax		2.359.590	869.627
Total comprehensive income for the period		**49.906.096**	**42.475.268**
Comprehensive income attributable to:			
Shareholders		45.413.682	39.372.624
Non-controlling interests		4.492.414	3.102.644
		49.906.096	42.475.268

The following notes form an integral part of the Consolidated statement of the comprehensive income for the period ended 31 December 2016.

Consolidated statement of changes in equity

	Attributable to shareholders							
(Amounts express in Euros)	Share capital	Equity instruments	Share premium	Other reserves	Retained earnings	Profit for the period	Non-controlling interests	Total
At 1 January 2016	81.530.000	37.200.000	33.690.973	4.788.723	37.710.118	38.502.997	25.223.946	258.646.757
Changes in the period								
Profit for the period application				2.113.373	36.389.624	(38.502.997)	-	-
Changes in the consolidation perimeter				376.972	(376.972)	-	1.584.462	1.584.462
Other changes recognized in equity	-	-	-	566.335	(493.824)	-	(2.429.067)	(2.356.556)
	-	**-**	**-**	**3.056.680**	**35.518.828**	**(38.502.997)**	**(844.605)**	**(772.094)**
Changes in fair value reserve (hedging derivatives)				2.001.824	-	-	-	2.001.824
Foreign currency impact				423.805	(37.134)	-	(28.905)	357.766
Other gains and losses recognized directly in equity resulting from investments in associates				1.079.361	(1.079.361)	-	-	-
Profit for the period				-	-	43.054.092	4.492.414	47.546.506
Comprehensive income				3.504.990	(1.116.495)	43.054.092	4.463.509	49.906.096
				6.561.670	**34.402.333**	**4.551.095**	**3.618.904**	**49.134.002**
Transactions with shareholders in the period								-
Capital increases	-	-	-	-	-	-	-	-
Share premium paid	-	-	-	-	-	-	-	-
Distributions	-	(2.000.000)	-	-	(23.106.557)	-	(2.045.319)	(27.151.876)
Contributions to cover losses	-	-	-	-	-	-	-	-
Other operations	-	-	-	-	-	-	-	-
	-	(2.000.000)	-	-	(23.106.557)	-	(2.045.319)	(27.151.876)
At 31 December 2016	**81.530.000**	**35.200.000**	**33.690.973**	**11.350.393**	**49.005.894**	**43.054.092**	**26.797.531**	**280.628.883**

The following notes form an integral part of the Consolidated statement of changes in equity for the period ended 31 December 2016.

(Amounts express in Euros)	Share capital	Equity instruments	Share premium	Other reserves	Retained earnings	Profit for the period	Non-controlling interests	Total
	Attributable to shareholders							
At 1 January 2015	81.530.000	37.200.000	33.690.973	13.724.120	65.326.126	7.867.547	22.798.537	262.137.303
Changes in the period								
Changes in accounting policies				-	-	-	-	-
Profit for the period application				763.256	7.104.291	(7.867.547)	-	-
Changes in the consolidation perimeter				215.903	2.109.300	-	25.055	2.350.258
Other changes recognized in equity	-	-	-	(10.071.190)	(4.390.402)	-	4.873.364	(9.588.228)
	-	-	-	(9.092.031)	4.823.189	(7.867.547)	4.898.419	(7.237.970)
Changes in fair value reserve (hedging derivatives)				1.190.768	-	-	-	1.190.768
Changes in fair value reserve (financial assets available-for-sale)				(29.572)	-	-	-	(29.572)
Effect of changes in tax rates				-	-	-	-	-
Foreign currency impact				(790.356)	-	-	-	(790.356)
Other gains and losses recognized directly in equity resulting from investments in associates				(86.356)	-	-	-	(86.356)
Profit for the period						38.502.997	3.102.644	41.605.641
Comprehensive income				284.484	-	38.502.997	3.102.644	41.890.125
				(8.807.547)	4.823.189	30.635.450	8.001.063	34.652.155
Transactions with shareholders in the period								
Capital increases	-	-	-	-	-	-	-	-
Share premium paid	-	-	-	-	-	-	-	-
Distributions	-	-	-	(127.850)	(32.439.197)	-	(5.575.654)	(38.142.701)
Contributions to cover losses	-	-	-	-	-	-	-	-
Other operations	-	-	-	-	-	-	-	-
	-	-	-	(127.850)	(32.439.197)	-	(5.575.654)	(38.142.701)
At 31 December 2015	81.530.000	37.200.000	33.690.973	4.788.723	37.710.118	38.502.997	25.223.946	258.646.757

The following notes form an integral part of the Consolidated statement of changes in equity for the period ended 31 December 2016.

Consolidated statement of cash flows

		Period ended 31 December	
(Amounts express in Euros)	Notes	2016	2015
Cash flow from operating activities			
Receipts from customers		300.979.920	257.667.689
Payments to suppliers		(147.177.390)	(117.297.484)
Payments to personnel		(70.798.199)	(63.618.664)
Cash generated from operations		**83.004.331**	**76.751.541**
Income tax received/ (paid)		(11.026.894)	(3.252.794)
Other receipts/ (payments)		(2.448.856)	(798.666)
Net cash from operating activities		**69.528.581**	**72.700.081**
Cash flow from investing activities			
Receipts related to:			
Cash flow from entries in consolidation perimeter		575.524	302.518
Tangible and intangible assets		38.726.292	51.271.630
Financial investments		22.249.876	44.001
Investment grants		1.996.031	-
Interest income and similar		446.521	1.038.977
Payments related to:			
Tangible and intangible assets		(47.247.998)	(35.315.141)
Financial investments		(25.296.189)	(23.965.402)
Other assets		-	(7.302)
Net cash from investing activities		**(8.549.943)**	**(6.630.719)**
Cash flow from financing activities			
Receipts related to:			
Borrowings obtained		147.357.309	147.113.318
Payments related to:			
Borrowings obtained		(131.495.874)	(134.074.911)
Interest expenses and similar		(20.040.973)	(18.862.742)
Dividends		(25.151.876)	(35.724.821)
Share capital and other equity instruments decrease		(2.000.000)	-
Other financing operations		-	(1.372.243)
Net cash from financing activities		**(31.331.414)**	**(42.921.399)**
Changes in cash and cash equivalents		**29.647.224**	**23.147.963**
Effects of exchange differences		(2.691.305)	1.356.504
Cash and cash equivalents at beginning of the period	18	52.564.659	28.060.192
Cash and cash equivalents at end ot the period	18	**79.520.578**	**52.564.659**

The following notes form an integral part of the Consolidated statement of cash flows for the period ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Pestana Hotel Group which origin dates back to 1972, with the establishment of M & J Pestana - Sociedade de Turismo da Madeira, S.A., to invest in the currently denominated Pestana Carlton Madeira, develops its activity mainly in the Tourism sector. The Group is led by its majority shareholder Mr. Dionísio Pestana, son of the founder of the Group.

In the late 90s the Group started its internationalization efforts, primarily in Africa and then in South America.

In 2003, Pestana Group won the tender to manage the concession of the network "Pousadas de Portugal", taking the operation of "Pousadas" in the national territory and promoting its internationalization.

In 2010, the group initiated its expansion in Europe, opening the Chelsea Bridge Hotel, in London, having, in 2013, initiated its expansion in North America with the opening of the hotel of Miami.

Nowadays, Pestana group is by far the largest Portuguese group in the tourism sector, with an operation focused in hotels, but complemented by other activities such as timeshare, residential tourism, golf, touristic entertainment and retail. It also includes some investments in Industry and Financial services.

Through the promotion of two brands (PHR - Pestana Hotels & Resorts and "Pousadas de Portugal") as well as the launch in 2016 of the brand "Pestana CR7" Pestana Hotel group currently operates 70 units of touristic lodging totaling approximately 9.412 rooms, which makes it the largest network with Portuguese origin, being in the top 25 of the European hotels networks ranking and in the top 75 worldwide.

In the leisure area, Pestana group currently holds, besides 30 hotels (13 in Madeira, 8 in Algarve, 4 in Lisbon/Cascais/Sintra, 1 in Oporto, 1 in London, 1 in Berlin, 1 in Miami and 1 in Barcelona), 8 units of Vacation Club, 6 golf courses, 4 real estate/touristic resorts, 1 casino gambling concession in Madeira, 1 travel agency, 1 tour operator and the management of the 28 "Pousadas de Portugal", including those in Cascais and in Lisbon. These numbers include the 2 new hotels opened in 2016, resulting from the joint venture between Pestana Group and Cristiano Ronaldo, namely Pestana CR7 Lisboa and Pestana CR7 Madeira.

In order to structure the Group investments, Grupo Pestana, S.G.P.S., S.A. (designated in this document as "Pestana Group") was established in 2003, essentially to aggregate the investments in Europe and the United States.

These consolidated financial statements were approved by the Board of Directors in the meeting held on 6 March 2017. The Board of Directors believes that these consolidated financial statements give a true and fair view of the performance of the consolidated operations of the group, as well as its consolidated financial position and its consolidated cash flows, including the following business units:

Units	Location	Units	Location
Pestana Carlton Madeira [a]	Madeira	Pestana Beloura Golf Resort	Sintra
Pestana Madeira Beach Club	Madeira	Pousadas de Portugal (Rede)	Lisboa
Pestana Casino Park Hotel	Madeira	Pousada de Cascais	Cascais
Pestana Grand	Madeira	Pestana CR/ Lisboa [d]	Lisboa
Pestana Grand Vacation Club	Madeira	Pestana Tróia Eco Resort	Tróia
Grand Private Collection	Madeira	Pestana Alvor Praia	Algarve
Pestana Porto Santo	Madeira	Pestana Alvor Beach Club [e]	Algarve
Pestana Colombos [a]	Madeira	Alvor Private Collection	Algarve
Pestana Ilha Dourada [b]	Madeira	Pestana Dom João II [c]	Algarve
Pestana Promenade	Madeira	Pestana Dom João II Beach Club	Algarve
Pestana Promenade Vacation Club	Madeira	Pestana Delfim [a]	Algarve
Pestana Miramar	Madeira	Pestana Viking [a]	Algarve
Pestana Miramar Vacation Club	Madeira	Pestana Viking Vacation Club	Algarve
Pestana Village	Madeira	Pestana Alvor Atlantico	Algarve
Pestana Village Vacation Club	Madeira	Pestana Alvor South Beach	Algarve
Pestana Palms	Madeira	Pestana Porches Praia	Algarve
Pestana Palms Vacation Club	Madeira	Pestana Porches Praia Vacation Club	Algarve
Palms Private Collection	Madeira	Pestana Gramacho Golf Resort	Algarve
Pestana Bay	Madeira	Pestana Vale da Pinta Golf Resort	Algarve
Pestana Atlantic Gardens	Madeira	Pestana Silves Golfe Resort	Algarve
Madeira Magic	Madeira	Pestana Alto Golfe Resort	Algarve
Casino da Madeira	Madeira	Pestana Vilasol Golfe Resort [b]	Algarve
Centro Intern. Neg. Madeira	Madeira	Pestana Vilasol Hotel Resort [b]	Algarve
Pestana CR7 Madeira [c]	Madeira	Pestana Race [a]	Algarve
Pestana Palace	Lisbon	Pestana Londres	United Kingdom
Pousada de Lisboa	Lisbon	Pestana Berlim	Germany
Pestana Porto	Porto	Pestana Miami	U.S.A.
Pestana Cascais [a]	Cascais	Pestana Arena Barcelona [d]	Spain
Pestana Sintra Golf	Sintra	Hotel Bahia Palace	Azores

(a) – Management contract / Lease contract
(b) – Leased since June 2016
(c) – Opened in June 2016
(d) – Opened in August 2016

Grupo Pestana's consolidated financial statements and related notes are presented in Euros.

2. Accounting standards used in the preparation of the financial statements

The consolidated financial statements are prepared by Pestana Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and effective as at 1 January 2016. IFRS include standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor Board. IFRS were adopted by Grupo Pestana for the first time in the year ended 31 December 2010.

The accounting policies presented were applied consistently to all periods presented in the consolidated financial statements.

These consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and financial assets available for sale, measured at fair value.

The preparation of the consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and critical judgments in the process of determining the accounting policies to be adopted by Pestana Group, with significant impact on the book value of assets and liabilities, as well as on income and expenses of the reporting period.

Although these estimates are based on the best experience of the Board of Directors and its best expectations in relation to the current and future actions and events, current and future events may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are presented in Note 5 (Main accounting estimates and judgments).

New standards

a) The impact of the adoption of the standards that became effective on 1 January 2016 is the following:

- **IAS 1** (amendment), 'Disclosure initiative'. This amendment provides guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, the disclosure of accounting policies and the presentation of Other Comprehensive Income arising from investments measured at equity method. This amendment did not impact significantly the Pestana Group financial statements.

- **IAS 16 and IAS 38** (amendment), 'Acceptable methods of depreciation and amortisation calculation'. This amendment clarifies that the use of revenue-based methods to calculate the depreciation/ amortization of an asset is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an asset. It shall be applied prospectively. This amendment did not impact the Pestana Group financial statements.

- **IAS 19** (amendment), 'Defined benefit plans – Employee contributions'. This amendment applies to contributions from employees or third parties to defined benefit plans and aims to simplify the accounting when contributions are not associated to the number of years of service. This amendment did not impact the Company's financial statements.

- **IAS 27** (amendment), 'Equity method in separate financial statements'. This amendment allows entities to use the equity method to measure investments in subsidiaries, joint ventures and associates in the separate financial statements. This amendment applies retrospectively. This amendment does not apply to consolidated financial statements]

- **Amendment to IFRS 10, 12 and IAS 28**, 'Investment entities: applying consolidation exception'. This amendment clarifies that the exemption from the obligation to prepare consolidated financial statements by investment entities applies to an intermediate parent which is a subsidiary of an investment entity. The policy choice to apply the equity method, under IAS 28, is extended to an entity which is not an investment entity, but has an interest in an associate, or joint venture, which is an investment entity.This amendment does not apply to Pestana Group financial statements.

- **IFRS 11** (amendment), 'Accounting for the acquisition of interests in joint operations'. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that qualifies as a business, through the application of IFRS 3's principles. This amendment did not impact Pestana Group consolidated financial statements.

- **Annual Improvements 2010 – 2012**. The 2010-2012 annual improvements affects: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38, and IAS 24, which did not impact Pestana Group financial statements.

- **Annual Improvements 2012 - 2014**. The 2012-2014 annual improvements affects: IFRS 5, IFRS 7, IAS 19 and IAS 34, which did not impact Pestana Group financial statements.

b) The following standards and amendments to existing standards have been published and are mandatory for the accounting periods beginning on or after 1 January 2018, but that the Group has not early adopted:

- **IFRS 9** (new), 'Financial instruments'. IFRS 9 replaces the guidance in IAS 39, regarding: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of credit impairment (through the expected credit losses model); and (iii) the hedge accounting requirements and recognition. Pestana Group will apply IFRS 9, in the period which becomes effective.

- **IFRS 15** (new), 'Revenue from contracts with customers'. This new standard, applies only to contracts with customers to provide goods or services to a client, and requires an entity to recognise revenue when the contractual obligation to deliver the goods or services is satisfied and by the amount that reflects the consideration the entity is expected to be entitled to, following a five step approach. Pestana Group will apply IFRS 15 in the period which the IFRS becomes effective, not being expected significant impacts in the consolidated financial statements.

c) Standards (new and amendments) and interpretations that have been published and are mandatory for the accounting periods beginning on or after 1 January 2017, but are not yet endorsed by the EU:

- **IAS 7** (amendment), 'Cashflow statement – Disclosure initiative' (effective for annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment introduces an additional disclosure about the changes in liabilities arising from financing activities, disaggregated between cash changes and non-cash changes and how it reconciles with the reported cash flows from financing activities, in the Cash Flow Statement. Pestana Group will adopt this amendment in the period it becomes effective.

- **IAS 12** (amendment),'Income taxes – Recognition of deferred tax assets for unrealised losses' (effective for annual periods beginning on or after 1 January 2017). This amendment is still subject to endorsement by the European Union. This amendment clarifies how to account for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when temporary deductible differences exist and how to assess recoverability of deferred tax assets when restrictions exist in the tax law. Pestana Group will adopt this amendment in the period it becomes effective.

- **IAS 40** (amendment), 'Transfers of Investment property' (effective for annual periods beginning on or after 1 January 2018). This amendment is still subject to endorsement by the European Union. This amendment clarifies when assets are transferred to, or from investment properties, the evidence of the change in use is required. A change of management intention by itself is not enough to support the transfer. Pestana Group will adopt this amendment in the period it becomes effective.

- **IFRS 16** (new), 'Leases' (effective for annual periods beginning on or after 1 January 2019). This standard is still subject to endorsement by European Union. This new standard replaces IAS 17 with a significant impact on the accounting by lessees that are now required to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for all lease contracts, except for certain short-term leases and for low-value assets. The definition of a lease contract also changed, being based on the "right to control the use of an identified asset". Pestana Group will adopt this new standard in the period it becomes effective.

- **Annual Improvement 2014 - 2016**, (generally effective for annual periods beginning on or after 1 January 2017). These improvements are still subject to endorsement by the European Union. The 2014-2016 annual improvements impacts IAS 28 and IFRS 12 not being expected to impact the Pestana Group financial statements.

- **IFRIC 22 (new)**, 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 January 2018). This interpretation is still subject to endorsement by the European Union. An Interpretation of IAS 21 'The effects of changes in foreign exchange rates' refers to the determination of the "date of transaction" when an entity either pays or receives consideration in advance for foreign currency denominated contracts". The date of transaction determines the exchange rate used to translate the foreign currency transactions. The company will adopt this change in the period it becomes effective.

3. Main accounting policies

The main accounting policies applied in the preparation of the financial statements are described below. These policies were consistently applied to all years presented.

3.1 Consolidation

3.1.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which Pestana Group has control. Pestana Group controls an entity when it is exposed to, or has rights over, the variable returns generated as a result of their involvement with the entity, and has the ability to affect those returns through the power it exerts on the relevant activities of the entity.

Subsidiaries are consolidated from the date the control is transferred to Pestana Group and are excluded from consolidation from the date that control ceases. Entities that qualify as subsidiaries are listed in Note 42.

The acquisition of subsidiaries is recorded under the purchase method. The cost of an acquisition is measured at fair value of assets delivered, equity instruments issued and liabilities incurred or assumed on the date of acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value on the acquisition date, independently of the existence of non-controlling interests.The surplus of the acquisition cost over the fair value of identifiable net assets acquired is registered as goodwill. If the acquisition cost is less than the fair value of identifiable net assets acquired, the difference is directly recognized in the consolidated income statement.

In the case of acquisitions of and dilutions to non-controlling interests without change of control, the differences resulting between the purchase price and non-controlling interests acquired / disposed of are recorded against retained earnings.

Transactions, balances and unrealized gains in transactions with group companies are eliminated. Unrealized losses are also eliminated except if considered as an impairment indicator of the transferred asset.

The losses registered by subsidiaries are attributed to non-controlling interests in the proportion of their share in the capital of the respective subsidiary of the Pestana Group.

The accounting policies of the subsidiaries are changed, whenever needed, to ensure the consistent application by all Group companies.

3.1.2 Associates

Associates are entities in which Pestana Group owns between 20% and 50% of the voting rights or over which Pestana Group has significant influence in the definition of the financial and operating policies.

The surplus of the acquisition cost over the proportion of the fair value of identifiable net assets acquired, goodwill, is recognized as part of the financial investment in the associate. If the acquisition cost is less than the fair value of acquired net assets, the difference is directly recognized as a gain in the consolidated income statement.

In the consolidated financial statements, investments in associates are measured by the equity method. Under this method, the financial statements include Pestana Group's share of the gains and losses recognized from the date that significant influence begins until the date it ends.

Dividends received from associates are deducted from the carrying amount of the investment in the consolidated statement of financial position. The accounting policies of the associates are changed, whenever needed, to ensure the consistent application by all Group companies.

When the Group's share of losses of an associate exceeds its interest in the associate, additional losses are provided for, only to the extent that the Group has incurred in obligations or made payments on behalf of the associate that are estimated as non-recoverable.

Entities that qualify as Associates are listed in Notes 9 and 42.

3.1.3 Joint ventures

The group recognizes an investment in a joint venture when it is contractually agreed to share the control over a business or an entity, and it only exists when the strategic financial and operacional decisions over that business or entity are taken by all investors unanimously. The investment in this kind of entities is supported by shareholder agreements signed with the other investors.

The classification as joint venture ceases when the group starts to control the entity, which can happen when: i) the other investor's share is acquired ceasing the shareholders agreement; or ii) when it has acquired an unconditional right to buy (call option) the share of the other investors, even if it has not exercised the option but has the ability to exercise it at any time.

In the consolidated financial statements, investments in joint ventures are measured by the amount resulting from applying the equity method. Under this method, the financial statements include Pestana Group's share of the gains and losses recognized from the date that joint control begins until the date it ends.

Dividends received from joint ventures are deducted from the carrying amount of the investment in the consolidated statement of financial position.The accounting policies of the joint ventures are changed, whenever needed, to ensure the consistent application by all Group companies.

Entities that qualify as Joint ventures are listed in Notes 10 and 42.

3.1.4 Other financial investments

Other financial investments correspond to investments in entities in which Pestana Group holds less than 20% of the voting rights or over which Pestana Group has no significant influence in the definition of the financial and operating policies.

The investments in these entities correspond to available for sale financial assets for which it is not possible to reliably determine fair value, being measured at the acquisition cost less impairment losses, if any, and dividends are recognized as gains in the year in which they are assigned.

Entities that qualify as Other financial investments are listed in Notes 11 and 42.

3.2 Business combinations under common control

Business combinations under common control refer to transactions between companies of the same group or companies controlled by the same shareholder, and might consist in a merger or acquisition.

Pestana Group records the transactions of acquisition of shares / businesses between entities under common control, which configure obtaining control over a business, in accordance with the principles associated with the application of the purchase method as foreseen in IFRS 3 - Business combinations. Thus, the entity identified as the acquirer in the transaction shall allocate the fair value of the consideration paid / delivered to the fair value of assets, liabilities and contingent liabilities acquired and any excess is recognized as goodwill. If the resulting difference is negative, a gain is recognized in the period.

3.3 Foreign currency translation

i. Functional and presentation currency

The consolidated financial statements and related notes are presented in Euros, the functional currency of Pestana Group.

ii. Transactions and balances

Transactions in currencies other than Euro are translated into the functional currency using the exchange rates at the dates of the transactions. The exchange rate gains or losses resulting from payments / receipts as well as from the conversion using the exchange rate on the financial reporting date, of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated income statement, under finance expenses if related with loans, or under other income / expenses for all other balances / transactions.

iii. Foreign Operating Units

The results and financial position of the foreign operating units of Pestana Group which have a functional currency other than Euro and which are not in the currency of a hyperinflationary economy, are translated into the presentation currency as follows:

(a) assets and liabilities of each statement of financial position presented are translated at the closing rate on the reporting date;

(b) income and expenses of the statement of comprehensive income are translated at the average exchange rate and;

(c) all exchange rate differences are recognized as a separate component in equity.

The results and financial position of the foreign operating units of Pestana Group which have a functional currency other than Euro and which are in the currency of a hyperinflationary economy, such as Venezuela, are translated into the presentation currency at the closing exchange rate of the reporting period, after correcting the inflation effect.

On the disposal of investments in foreign subsidiaries, foreign exchange differences associated with that investment recorded in equity are recognized in the income statement.

iv. Exchange rates used

The exchange rates used to translate balances in foreign currencies were as follows:

Currency	31-12-2016	31-12-2015
AUD - Australian dollar	1,4596	1,4897
ARS - Argentine peso	16,7064	14,1124
BRL - Brazilian real	3,4305	4,3117
CAD - Canadian dollar	1,4188	1,5116
CHF - Swiss franc	1,0739	1,0835
DKK - Danish krone	7,4344	7,4626
GBP - Sterling pound	0,8562	0,7340
MAD - Moroccan dirame	10,6746	10,7895
NOK - Norwegian krone	9,0863	9,6030
SEK - Swedish krone	9,5525	9,1895
USD - United States dollar	1,0541	1,0887
VEF - Venezuelan bolívar	709,6058	216,3231

3.4 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. This cost includes: (a) the “deemed cost” determined at the date of transition to the IFRS, which in the case of land and buildings allocated to the hotel business, timeshare and golf, were almost all measured at their revalued amount, whereas, for all other assets, these were measured at the net amount carried over from the previous GAAP, including legal revaluations, and (b) the acquisition cost of assets acquired or constructed after that date.

The acquisition cost comprises the purchase price of the asset, costs directly attributable to the acquisition and costs incurred in preparing the asset to be in the intended condition of use. The financial costs incurred with loans obtained for the construction of tangible assets are recognized as part of the construction cost of the asset.

For buildings allocated in part or in whole to the timeshare business, initial direct costs incurred in negotiating and accepting these contracts, such as commissions paid to promoters, were added to the carrying amount of the leased asset, in accordance with IAS 17 - Leases.

Subsequent costs incurred with renovations and major repairs which result in increased lifetime or in the ability to generate further economic benefits are recognized in the carrying amount of the asset.

The cost of repairs and maintenance of a recurring nature are recognized in the income statement as incurred.

Depreciations are calculated on a straight line basis, using estimated useful lives. The most significant are as follows:

	Years
Buildings and other constructions	
Hotels and timeshare	40 years
Golf	20 years
Other	Between 40 and 50 years
Basic equipment	Between 10 and 20 years
Transport equipment	Between 4 and 8 years
Tools	Between 4 and 10 years
Administrative equipment	Between 3 and 10 years
Other tangible assets	Between 10 and 20 years

Initial direct costs incurred in negotiating timeshare contracts, added to buildings leased, are recognized as an expense over the lease term on the same basis as the lease income, as required in IAS 17, and this period varies between 3 to 35 years.

Pestana Group estimates the residual value of tangible fixed assets at zero, since the expectation of management is to use all the assets over all of their economic life.

Tangible fixed assets associated with the concession of Pousadas de Portugal and of Gambling concession (Casino da Madeira), are reversible at the end of the contract, free of charge. Therefore, their useful life corresponds to the economic life of the assets or the concession term, whichever is lower.

Useful lives of assets are reviewed at each financial reporting date, so that depreciation is charged in accordance with the consumption patterns of the assets. Changes to the useful lives, if any, are treated as a change in an accounting estimate and are applied prospectively.

3.5 Intangible assets

Intangible assets are recognized only when: i) they are identifiable, ii) it is probable that economic benefits will arise from them in the future, and iii) the cost can be reliably measured.

When purchased individually, intangible assets are recognized at cost, which comprises: i) the purchase price, including costs related to intellectual property rights and fees after deducting any discounts, and ii) any costs directly attributable to preparing the asset for its intended use.

When purchased as part of a business combination, separate from goodwill, intangible assets are valued at fair value, as determined in the scope of the application of purchase method, as foreseen by IFRS 3 – Business Combinations.

Internally generated assets, including internal development costs are recorded as an expense when incurred if it is not possible to distinguish the research phase from the development phase, or if it is not possible to reliably determine costs incurred in the development phase or it is unlikely that there will be future economic benefits for Pestana Group.

Expenditures on research and evaluations conducted during the course of operating activities are recognized in the income statement of the period in which they are incurred.

Besides goodwill, the intangible assets of Pestana Group refer mainly to concessions, websites and software.

Concession rights are related to the amounts paid for the acquisition of the right to explore the hotel units of Pousadas network and the gambling license in Autonomous Region of Madeira.

Goodwill refers to the difference between the acquisition cost of the investments in subsidiaries or businesses and the fair value of the acquired assets and liabilities of those companies or businesses as at the date of purchase. Goodwill is a residual amount and, therefore, it has no useful life, and corresponds to (a) the net value of the goodwill carried over from the previous GAAP, tested for impairment as at the transition date and in the subsequent annual periods, and (b) the goodwill resulting from acquisitions occurred after the transition date, subject to annual impairment tests.

Goodwill is allocated to the cash generating units to which it belongs, for impairment test purposes, which are performed at least once a year and during the month of December. Impairment losses on goodwill are not reversible.

The website refers to the expenditures incurred in the development of internet sites to carry out bookings / services sales. The capitalized amount refers to costs incurred with the development of the application infrastructure, graphical design and contents.

Subsequent expenditures on the development of contents to promote Pestana Group and its services are registered in the income statement as incurred.

Amortization is calculated on a straight line basis, using estimated useful lives. The most significant are as follows:

	Years
Concessions	Between 20 and 70 years
Website	6 years

The assets which, by their nature, do not have a defined useful life are not amortized and are subject to annual impairment tests or whenever impairment indicators are identified.

3.6 Investment properties

Investment properties are real estate assets (land, buildings or parts of buildings) held for the purpose of capital appreciation, obtaining rental income, or both and, therefore, not used in Pestana Group's operating activity. On the date of transition to IFRS, investment properties were valued at their revalued cost or the value carried from the previous standards. Subsequently, the Company continued to apply the cost model, which is applied to all assets classified as investment properties.

Properties that are still under construction or development and which are intended to be used as investment properties are recorded under this caption.

Depreciation is calculated on a straight line basis, using estimated useful lives, which are similar to the ones applied to Tangible fixed assets.

3.7 Impairment of non-financial assets

Assets with indefinite useful lives are not subject to depreciation / amortization and are subject to annual impairment tests. Pestana Group performs impairment tests every year, in December, and whenever events or changes in surrounding conditions indicate that the book value may not be recoverable.

An impairment loss is recognized related to the excess of the book value of the asset compared to its recoverable amount. The recoverable amount is the highest between the fair value of an asset less costs to sell and its value in use. For the determination of impairment, assets are allocated to the lowest level for which separate identifiable cash flows exist (cash generating units).

Non-financial assets other than goodwill, for which an impairment loss has been recognized, are reassessed, at each reporting date, regarding the possible reversal of impairment losses.

When an impairment loss or its reversal is recognised, the depreciation / amortization of the related assets are recalculated prospectively in accordance with the recoverable amount adjusted by the impairment loss.

3.8 Income Tax

The income tax for the period comprises current tax and deferred tax. The income taxes are recorded in the consolidated income statement, except when they relate to items recognized directly in equity. The amount of current tax payable is determined based on profit before tax, adjusted in accordance with the applicable tax rules, effective as at the date of the consolidated statement of financial position.

Deferred taxes are recognized using the liability method based on the consolidated statement of financial position, considering temporary differences resulting from the difference between the tax basis of assets and liabilities and their amounts in the consolidated financial statements.

Deferred taxes are calculated based on the enacted tax rate, or already officially announced at the financial reporting date, that is expected to apply in the period when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits are available for the use of the temporary difference. Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from: i) the initial recognition of goodwill; or ii) the initial recognition of an asset or liability in a transaction which is not a business combination and that, at the time of the transaction, affects neither accounting profit nor taxable profit (loss). However, for taxable temporary differences associated with investments in equity intruments, deferred tax liabilities should not be recognized to the extent that: i) the parent company Grupo Pestana is able to control the timing of the reversal of the temporary difference; and ii) it is probable that the temporary difference will not reverse in the foreseeable future.

3.9 Financial assets

The Board of Directors determines the classification of financial assets on the date of initial recognition, according to the purpose of their acquisition, re-evaluating this classification at each reporting date.

Financial assets can be classified as:

(i) Financial assets at fair value through profit or loss - includes non-derivative financial assets held for trading with respect to short-term investments and assets at fair value through profit or loss at the time of initial recognition;

(ii) Loans and receivables - includes non-derivative financial assets with fixed or determinable payments not listed in an active market;

(iii) Investments held to maturity - includes non-derivative financial assets with fixed or determinable payments and fixed maturities that the entity has the intention and ability to hold to maturity;

(iv) Available -for-sale financial assets - includes non-derivative financial assets that are designated as available for sale at initial recognition or do not fit the above categories. They are recognized as non-current assets unless there is intent to sell them within 12 months following the reporting date date.

As at 31 December 2016 and 2015, the Company only presents financial assets classified as available for sale financial assets, and loans and receivables.

Purchases and sales of financial assets are recorded on the transaction date, which means, the date on which the Company commits to purchase or sell the asset.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs. In subsequent periods they are measured at fair value and the change in fair value is recognized in the fair value reserve in equity. Investments in equity instruments can be measured at cost when the fair value cannot be reliably determined. Dividends and interest earned on available-for-sale financial assets are recognized in the income statement, under other operating gains, when the right to receive is established.

Loans granted and receivables are classified in the statement of financial position as Trade and other receivables and are recognized at amortized cost using the effective interest rate method, less any impairment loss. The impairment loss of receivables is registered when there is objective evidence that Pestana Group will not receive the amounts due under the original terms of the transaction that originated them.

Financial assets are derecognized when the contractual rights to the cash flows expire or are transferred, as well as all risks and rewards associated to their ownership.

3.10 Fair value of assets and liabilities

In determining the fair value of a financial asset or liability, if there is an active market, the market price is applied. This is the first level of the hierarchy of fair value.

In case there is no active market, generally accepted valuation techniques are used, based on market assumptions. This is the second level of the hierarchy of fair value.

Pestana Group applies valuation techniques for non-listed financial instruments, such as derivatives and available-for-sale financial assets. The valuation models that are most often used are discounted cash flows models and option valuation models that incorporate, for example, the interest rate curves and market volatility.

For some types of assets and liabilities, valuation models are used considering data and assumptions that are not directly observable in the market, for which the Group uses internal estimates and assumptions. This is the third level of the hierarchy of fair value.

3.11 Trade and other receivables

Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost, less impairment adjustments, where applicable. Impairment losses of trade and other receivables are recorded whenever there is objective evidence that they are not recoverable under the terms of the initial transaction. Identified impairment losses are recorded in the consolidated income statement under Impairment of receivables caption and are subsequently reversed through the income statement when impairment triggers reduce or cease to exist.

3.12 Inventories

Inventories refer to goods, finished goods and work in progress and the materials used in the activities of rendering services and construction.

Inventories are measured at acquisition cost, which includes all direct expenditure incurred with the purchase. Subsequently, inventories are valued at the lower of cost and net realizable value.

Acquisition cost refers to all costs of purchase and other direct costs incurred in bringing inventories to their present location and condition. On the other hand, the net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

As part of construction activities, finished goods refer to developed land for future sale and houses built for sale. Land and houses are valued at the lower of cost of acquisition / construction and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the cost to complete the work and the selling expenses.

The products under construction refer to land under development (in the process of approval and allotment), houses, apartments and townhouses under construction, measured at the construction cost. The construction cost includes land acquisition costs, costs incurred in obtaining permits and licenses and the costs of materials and labor incorporated in construction works.

Inventories also include materials, raw materials and consumables which are initially measured at the purchase price plus costs directly related to the acquisition.

The cost formula used for registering the consumption / sale of inventories is, in general, the weighted average cost. However, land, housing, apartments and townhouses are recognized at their specific cost.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other short-term investments of high liquidity, with initial maturities of up to 3 months and subject to insignificant risk of value change.

Bank overdrafts are presented in the consolidated statement of financial position as current liabilities, under the caption Borrowings, and are considered in the preparation of the consolidated cash flow statement as Cash and cash equivalents.

3.14 Non-current assets and liabilities (or disposable groups) held for sale

Non-current assets and liabilities (or disposable groups) are classified as assets held for sale when their carrying amount is intended to be recovered mainly through a sale transaction rather than continued use, and there is a decision of the Board of Directors defining the price and the search for a buyer that makes it possible to classify the sale as highly probable within a period of up to 12 months.

These assets and liabilities are measured at the lower of the carrying amount and fair value less costs to sell, on the date of classification as held for sale. Assets with finite useful lives are no longer depreciated / amortized from the date of classification as held for sale until the date of sale.

Discontinued operations are a group of assets held for sale that constitute a reportable operating segment. Their related transactions are presented in the consolidated income statement in a separate caption from continuing operations.

Regarding the classification of investments as held for sale:

(i) subsidiaries continue to be consolidated until the date of their disposal, with all of their assets and liabilities classified as held for sale and measured at the lower of book value and fair value less costs to sell, no longer recording depreciation/ amortization;

(ii) associates and joint ventures measured using the equity method, will be measured at the lower of book value and fair value less costs to sell, no longer applying the equity method.

When Pestana Group decides to abandon an activity, the presentation of non-current assets or groups of assets and liabilities does not change to 'held for sale'. Although, when they qualify as a reportable operating segment, the transactions in the year of the abandonment are presented separately from continued operations in the consolidated income statement.

3.15 Capital

Ordinary shares are classified as equity. Costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of taxes, to the amount resulting from the issuance.

3.16 Provisions

Provisions are recognized when Pestana Group has: i) a present legal or constructive obligation resulting from past events; ii) for which it is more probable than not that an outflow of internal resources will be necessary to settle the obligation; and iii) the amount can be reasonably estimated. Whenever one of the criteria is not met or the existence of the obligation is conditional on the occurrence (or non-occurrence) of a certain future event, Pestana Group discloses this fact as a contingent liability, unless the assessment of the outflow of resources for the payment thereof is considered remote.

Provisions related to Legal proceedings brought against the Company are recognized in accordance with the assessment of the Group's internal legal department, supported by the lawyers in charge for the processes.

Pestana Group recognizes a provision for estimated costs to be incurred in the future with the construction warranty given over the houses and apartments sold. This provision is recorded on the date of sale, affecting the gain obtained. At the end of the legal warranty period, the remaining amount of the provision is reversed in the consolidated income statement.

Provisions are measured at the present value of estimated costs to settle the obligation using a pre-tax rate that reflects the market assessment for the discount period and the risk of the provision.

3.17 Financial liabilities

Financial liabilities are classified into two categories:

(i) Financial liabilities at fair value through profit or loss;

(ii) Other financial liabilities.

Other financial liabilities include Borrowings and Trade and other payables. Liabilities classified as Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost in accordance with the effective interest rate.

Financial liabilities are derecognized when the underlying obligations are extinguished by payment, are cancelled or expire.

3.18 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost, being the difference between nominal amount and the initial fair value recognized in the consolidated income statement during the loan term, using the effective interest rate method.

Borrowings are classified as current liabilities unless Pestana Group has an unconditional right to defer the payment of the liability for at least 12 months after the reporting date, in which case they are classified as non-current liabilities.

3.19 Derivatives

Derivative financial instruments are initially recorded at fair value on the transaction date being subsequently measured at fair value. The method for recognizing gains and losses in fair value depends on the designation of the derivatives. When dealing with trading derivatives, gains and losses in fair value are recognized in the income statement for the period under finance income or finance expenses. When designated as hedging derivatives, the recognition of gains and losses in fair value depends on the nature of the hedged item, which may correspond to a fair value hedge or a cash flow hedge.

In a fair value hedge of an asset or liability (“fair value hedge”), the value of that asset or liability, determined based on the respective accounting policy, is adjusted to reflect the change in fair value attributable to the hedged risk. Changes in fair value of hedging derivatives are recognized in the income statement, together with the changes in fair value of the hedged assets or liabilities attributable to the hedged risk.

In hedging the exposure to variability in future highly probable cash flows (“cash flow hedge”), the effective portion of changes in fair value of the hedging derivative is recognized in hedging reserves in equity, being transferred to the income statement when the hedged item affects the income statement. The ineffective portion of the hedging relationship is recorded in the income statement.

3.20 Leases

Leases of tangible fixed assets, for which Pestana Group retains substantially all the risks and benefits incidental to ownership of the asset are classified as finance leases. They are also classified as finance leases agreements when the analysis of one or more particular situations of the contract, lead to that assessment. All other leases are classified as operating leases.

Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased asset and the present value of minimum lease payments, each determined at the date of commencement of the contract. The debt resulting from a financial lease is recorded net of finance charges, under the caption Trade and other payables. Financial charges included in the rent and depreciation of leased assets, are recognized in the consolidated income statement in the period to which they relate to.

In operating leases, the rents payable are recognized as cost in the consolidated income statement on a straight-line basis over the lease period.

Contracts referring to the lease of an asset that has been sold by the group (sale & leaseback contract) are analysed considering if there is a true sale, and if that is the case, if the lease is classified as an operating or finance lease. The accounting treatment applied is as described above, depending on the classification.

3.21 Government grants and incentives

Pestana Group recognizes the grants of the Portuguese State, the European Union or similar entities ("Government") at fair value when there is reasonable certainty that the grant will be received.

Operating grants are recognized as income in the consolidated income statement in the same period in which the related costs are incurred and recorded.

The support of the Government in the form of repayable borrowings at a reduced interest rate are discounted on the date of initial recognition based on the market interest rate at grant date, with the difference between the repayable borrowing and the discounted amount constituting the grant. The grant shall be amortized over the period of the borrowing or the useful life of the asset that the grant was used to acquire.

Non-reimbursable subsidies granted to Grupo Pestana to acquire tangible assets are recorded in the statement of financial position as deferred income and recognized in the consolidated income statement in proportion to the depreciation of the subsidized tangible fixed assets.

3.22 Income and expenses

Income and expenses are recorded in the period to which they relate, regardless of the payment or receipt, according to the accrual basis. The differences between the amounts received and paid and the corresponding income and expenses are recognized as assets or liabilities, if they qualify as such.

3.23 Revenue

Revenue is the fair value of the amount received or receivable on the sale of products and / or services in the ordinary course of business of Pestana Group. Revenue is recorded net of any taxes, trade discounts and assigned financial discounts.

Revenue from product sales is recognized when: i) the amount of revenue can be reliably estimated, ii) it is probable that economic benefits will flow to Pestana Group, and iii) a significant part of the risks and rewards have been transferred to the buyer.

Revenue from services is recognized in accordance with the percentage of completion or based on the length of the contract when the service is not associated with the execution of specific activities, but to the continuous provision of the service.

(i) Hotel business

In the hotel business, the revenue corresponds mainly to accomodation services, and sales related to the consumption of food and drinks in bars, restaurants and mini-bars, which are recorded on the date of consumption. For other hotel services the revenue is recorded on the day of the service.

Pestana Group has in force a loyalty program, denominated as PPG - Pestana Priority Guest, according to which regular customers may obtain discounts and offers in future services. When recording transactions that qualify for the awarding of points, there is a segregation of the amount invoiced to the client between the revenue of product or services and the value of points awarded, based on the fair value of each element. Thus, the revenue of the product sold or service rendered is recognized immediately in the income statement, and the value allocated to the points is deferred until the date the customer uses the points in the purchase of a product / service, as agreed in the loyalty program, or until the date the points expire.

(ii) *Vacation club*

Pestana Group recognizes revenue from the sale of timeshare contracts, depending on the transfer of risks and rewards associated to each contract.

In general, the sale of timeshare contract gives the buyer the right to use a building or part of a building during a defined period (weeks), which is repeated annually over a number of years, ranging from 3 to 30 years.

In this case, the revenue from the sale of the timeshare contract is deferred for the period of the contract on a straight line basis, as Pestana Group retains all the risks and rewards related with the underlying asset (the building) in addition to maintaining its active management (possibility of lease to third parties during the period not sold as timeshare).

In the cases of sale of "Options" contracts, in which the customer acquires the right to use the accommodation without having to determine at that time which specific hotel to use, this right is represented in points. The revenue associated with these points is recognized based on usage and its validity term.

When the receipt from a timeshare sale occurs at a later date, i.e., credit is granted, and no interest is charged, the amount of revenue to defer is calculated based on the present value of the receivable. When interest is charged the amount of revenue is recorded at its nominal value.

Maintenance costs on timeshare periods sold are charged to buyers of the timeshare, regardless of the use of the asset in the period established, and recognized annualy as revenue.

(iii) Touristic real estate business

The revenue refers primarily to the sale of land and apartments, also including recognized revenue from rents on investment properties and management services for condominiums and touristic resorts.

Revenue from the sale of land and apartments is recognized when: i) the amount of revenue can be reliably estimated, ii) it is probable that economic benefits will flow to Grupo Pestana, and iii) a significant part of the risks and rewards have been transferred to the buyer.

In the case of land, the sales revenue is generally recognized on the date that the deed of sale is signed. However, when certain conditions are met, revenue can be recognized at the date of signing the promissory sale agreement, such as: i) revenue received is significant, which by rule must exceed 50% of the total value ii) the buyer starts the construction works, evidencing a commitment to purchase, and iii) the costs and revenues can be estimated reliably.

In the case of houses, apartments and townhouses, built at the risk of Pestana Group, for sale to third parties, revenue is recognized only when the deed on the property is signed, even if full payment has been previously received, date on which all the risks and rewards are considered transferred to the buyer.

Revenue from management services for condominiums is recognized in the period corresponding to the service. Revenue to be recognized corresponds to the commission negotiated and does not include the recharge of costs ineherent to the building / resort management to the owners.

(iv) Touristic entertainment

Revenue from gambling, both table games and gaming machines, is determined daily and recognized as revenue in the income statement under Services rendered, for the difference between the bets placed and the prizes won less the estimated premiums payable and accrued gambling tax.

(v) Management contracts

Management services represent fees received for managing hotels owned by third parties and managed by Pestana Group, usually agreed under long-term contracts.

Revenue normally corresponds to a percentage of the hotel revenue plus a payment of incentives that tend to be calculated by applying a percentage (fixed or variable) to the revenues and / or to the gross operating profits of the hotel (G.O.P.).

3.24 Construction contracts

Pestana group companies engaged in real estate activity negotiate contracts with clients to build assets (for example, houses), the duration of which spans more than a year. The revenue of these contracts does not constitute the sale of an asset and is recognized based on percentage of completion over the period of construction.

The percentage of completion is determined based on costs incurred in each period versus the budgeted total cost of the contract, with the recognition of the estimated margin for the contract. In rare cases where it is not possible to reliably estimate the margin of the contract, Grupo Pestana records an amount of revenue equal to the costs incurred, not recognizing any margin.

The price adjustments are only considered as revenue when they have been accepted by the client.

Whenever it is estimated that the costs associated with the construction services rendered exceeds the agreed revenue, Pestana Group recognizes a provision for onerous contracts.

In what refers to the warranty of construction, the potential estimated liability is recorded during the construction phase of the contract, constituting a component of the budgeted costs for the purposes of determining the percentage of completion of the contract. The calculation of this responsibility is carried out contract by contract, and any remaining amount is reversed at the end of warranty period of each contract.

3.25 Subsequent events

Events after the reporting period that provide additional information about conditions that existed at the end of the reporting period (adjusting events or events after the reporting period that give rise to adjustments) are reflected in the consolidated financial statements. Events after the reporting period that provide information on conditions occurring after the end of the reporting period (non-adjusting events or events after the statement of financial position date that do not lead adjustments) are disclosed in the consolidated financial statements, if considered to be material.

4. Financial risk management policies

4.1 Financial risk factors

Pestana Group's operations are exposed to a variety of financial risk factors, including the effects of changes in market prices: exchange rate risk, credit risk, liquidity risk and cash flow risk associated with interest rate, among others.

The Pestana Group's risk management is controlled by the finance department under policies approved by the Board of Directors. Accordingly, the Board of Directors has defined the global risk management principles as well as specific policies for some areas.

The Board of Directors sets the principles for risk management as a whole and policies that cover specific areas, such as exchange rate risk, credit risk and interest rate risk, the use of derivatives and other non-derivative financial instruments, as well as the investment of liquidity surplus.

i. Exchange rate risk

The exchange rate risk refers to assets or liabilities denominated in currencies other than in Pestana Group functional currency, the Euro.

Pestana Group´s operating activity is mainly developed in the country in which it operates, Portugal, and, therefore, the vast majority of its transactions are made in this country's currency. The policy covering this specific risk is to avoid, when possible, contracts expressed in foreign currencies.

In the case of the investments in foreign countries, cash flows are mainly generated by operations in the currency of the country each subsidiary, having the respective funding also been obtained in that currency. Thus, a natural hedge to exchange rate risk over cash flows is obtained. Pestana Group's consolidated financial statements, being presented in Euros, are subject to exchange rate impact caused by the periodic revaluation of its debt which will tend to fade away in the long term.

Sensitivity analysis of financial results to changes in exchange rates

Regarding the financial instruments that result in an exchange rate risk exposure, a fluctuation of 10% in the exchange rate of the following currencies in relation to Euro, as at 31 December 2016 and 31 December 2015, would result in an increase/ decrease of Pestana Group financial expenses/ income as follows:

	31-12-2016		31-12-2015	
	Consolidated income statement		Consolidated income statement	
Currency	+10%	-10%	+10%	-10%
USD	1.274.017	(1.557.132)	1.345.266	(1.644.214)
GBP	-	-	2.350.874	(2.873.290)
	1.274.017	**(1.557.132)**	**3.696.140**	**(4.517.504)**

This analysis assumes that all other variables, namely the interest rates, remain unchanged.

ii. Credit risk

Pestana Group's credit risk mainly arises from corporate customers and tour operators and from the other remaining receivables from third parties. The follow up of credit risk is made centrally by the finance department of Pestana Group, overseen by the Board of Directors, by proper risk assessment conducted prior to the acceptance and the regular monitoring of credit limits assigned to each customer against the amounts due.

There are indicators of impairment in receivables accounts balances when the balances are overdue for more than six month, debtor's financial difficulties are observed and a bankruptcy is probable. Each situation is assessed on a case by case basis.

iii. Liquidity risk

The cash needs are managed centrally by the finance department of Pestana Group, overseen by the Board of Directors, managing the liquidity surpluses and deficits of each of the group companies. The specific needs of cash are covered, first by the existing funds available in other Group's companies and then by maintaining lines of credit negotiated with financial institutions.

The liquidity risk can occur if the sources of financing, such as operating cash flows, disinvestment cash flows and cash flows from funding operations, do not meet the liquidity needs, such as the cash outflows for operating and financing activities, for investments, for shareholders remuneration and debt repayment.

Regular analysis are carried out over cash flows estimated for short term and for medium and long term, to determine the type and amount of appropriate financing.

The following table analyzes Pestana Group's financial liabilities and derivative financial instruments, on a net basis, by relevant maturity groups, based on the remaining period to the contractual maturity, at the date of the financial reporting. The amounts in the table are undiscounted contractual cash flows:

31 December 2016	Less than 1 year	Between 1 and 5 years	More than 5 years
Borrowings:	62.438.157	253.047.986	93.975.738
- bank loans	38.442.310	114.807.400	71.750.720
- bond loans	-	92.500.000	15.000.000
- commercial paper	10.000.000	18.500.000	-
- bank overdrafts	3.083.395	-	-
- undiscounted interests payable until maturity	10.912.452	27.240.586	7.225.018
Trade and other payables - non-group	88.517.755	7.596.393	12.555.583
Derivatives	945.453	1.010.954	15.035

31 December 2015	Less than 1 year	Between 1 and 5 years	More than 5 years
Borrowings:	81.286.204	252.266.732	136.285.324
- bank loans	47.186.739	142.268.358	77.881.883
- bond loans	-	65.000.000	42.500.000
- commercial paper	-	5.000.000	-
- bank overdrafts	19.120.041	-	-
- undiscounted interests payable until maturity	14.979.424	39.998.374	15.903.441
Trade and other payables - non-group	80.708.049	6.651.251	13.744.648
Derivatives	2.335.747	4.818.138	313.683

iv. Interest rate risk

The risk associated with fluctuating interest rate impacts the debt service. The interest rate risks are primarily related with the interest charges incurred with several loans with variable interest rates.

For long-term borrowings, and as a way to mitigate a possible change in long-term interest rates, Pestana Group negotiates, whenever appropriate, derivative financial instruments to hedge the respective cash flows (interest rate swaps), which represent hedgings for those long-term borrowings. The Group has also the option, under certain circumstances, to choose to fix the interest rate in the first years of the borrowings and analyze, later, the possibility to negotiate interest rate swaps to cover the cash flows of the remaining period of the financing.

Sensitivity analysis of the financial expenses to changes in interest rate:

A sensitivity analysis was performed, based on Pestana Group total debt deducted of the cash and cash equivalents as at 31 December 2016 and 2015.

Considering Pestana Group net debt as at 31 December 2016, an increase of 0.25% in the interest rate would result in the increase in the net finance expenses for the year of approximately 815,000 Euros (31 December 2015: 815,000 Euros).

4.2 Capital risk management

Grupo Pestana's goal in relation to capital management, which is a broader concept than the capital reflected in the statement of financial position, is to maintain an optimal capital structure, through the prudent use of debt.

The negotiation of financing is periodically analyzed through the weighting of such factors as the cost of financing and the needs for investment.

In general, borrowings are obtained in order to leverage the investments, being directly allocated to them. However, there is always a concern to ensure that the estimated investment cash flows ensure their sustainability in the long term, being sufficient to meet the debt service and compensate the capital invested by the Shareholder.

Before the beginning of each year, detailed budgets are prepared by business unit which, after being approved, will guide management during the year. The results generated by operations are monitored on a regular and detailed basis to ensure that the expected results are met or exceeded.

The gearing ratios as at 31 December 2016 and 2015 were as follows:

	31-12-2016	31-12-2015
Total borrowings	410.066.477	398.408.757
Less: cash and cash equivalents	82.603.973	71.684.700
Net debt	327.462.503	326.724.057
Equity	280.628.884	258.646.758
Total capital	608.091.388	585.370.815
Gearing	**54%**	**56%**

If we consider the deferred revenue from timeshare sales (Note 26) as a component of equity and not as liability, since they do not represent future cash payments, the gearing would be as follows:

	31-12-2016	31-12-2015
Total borrowings	410.066.477	398.408.757
Less: cash and cash equivalents	82.603.973	71.684.700
Net debt	327.462.503	326.724.057
Equity	438.702.298	420.414.736
Total captal	766.164.802	747.138.793
Adjusted Gearing	**43%**	**44%**

4.3 Accounting for derivative financial instruments

As at 31 December 2016 and 2015, and whenever appropriate, Pestana Group has hedged its economic exposure to cash flows from existing borrowing through the negotiation of interest rate swaps. If no hedge designation is made to a derivative financial instrument, it is classified as trading.

It is noteworthy that the loans subject to hedging have implicit spreads much lower than the ones that are being currently practiced in the market. Consequently, the total cost of the loans that are being penalized by these derivatives is not higher than the other loans of the group.

5. Main accounting estimates and judgments

The estimates and judgments that have an impact on Pestana Group's consolidated financial statements are continuously assessed, representing at each reporting date the best estimate of the Board of Directors, taking into account the historical performance, the accumulated experience and the expectations about future events considered reasonable under the circumstances.

The intrinsic nature of estimates may lead to the actual impact of situations under estimation, for financial reporting purposes, being different from the estimated amounts. The key estimates and judgments that have a significant risk of causing a material adjustment to the net book value of assets and liabilities in the following year are as follows:

5.1 Entities included in the consolidation perimeter

To determine the entities that must be included in the consolidation perimeter, Pestana Group assesses the extent of its exposure to, or rights over, the variability of returns from the involvement with each entity and if it has the ability to take control over it through the power exercised over the entity ("de facto" control).

This assessment requires the use of judgement, assumptions and estimates to determine at which extent it is exposed to the variability of returns and if it has the ability to access those returns through the control exercised over the entity.

Other judgement could lead to the definition of a different consolidation perimeter, with impact in the consolidated financial statements.

5.2 Tangible fixed assets

The determination of the useful lives of assets, as well as the depreciation method to apply is crucial to determine the amount of depreciations to be recognized each year in the consolidated income statement.

These two parameters are defined in accordance with the best judgment of the Board of Directors for the specific assets and businesses, also considering the practices adopted by other companies in the same sector worldwide.

5.3 Impairment

The determination of whether a potential impairment loss exists may be triggered by the occurrence of various events, many of which are beyond Pestana Group's control, such as: the future availability of financing, the cost of capital, as well as for any other changes, either internal or external to the Group.

The identification of impairment indicators, the estimate of future cash flows and the computation of the fair value of assets imply a high degree of judgment by the Board of Directors regarding the identification and evaluation of different impairment triggers, expected cash flows, applicable discount rates and useful lives. Grupo Pestana's results obtained in this sector, during the last 40 years, are, however, a good indicator to assess the estimates that have been used.

5.4 Provisions

Pestana Group periodically reviews potential liabilities arising from past events and that should be recognized or disclosed in the consolidated financial statements.

The inherent subjectivity in determining the probability and amount of internal resources necessary to settle the obligations may lead to adjustments, either by changes in assumptions or future recognition of provisions previously disclosed as contingent liabilities.

5.5 Leases

The classification of sale & leaseback contracts negotiated over group assets is assessed on a case by case basis, considering management's intention and the substance of the conditions agreed in terms of transfer of risks and rewards associated to the property title and managent of the assets.

Sale & leaseback contracts are classified as asset true sales followed by an operating lease, when the contract terms do not foresee the retention of a significant part of the risks and benefits over the assets, by Pestana Group.

Management considers that the existence of contractual conditions such as: i) the existence of a call option at a bargain price; ii) the use of a substantial part (+75%) of the remaining useful life of the asset; or iii) the discounted value of the rentals payable corresponding to more than 90% of the fair value of the asset, are indicators that the substance of the leasing contact is a financing. When none of these conditions are foreseen in the leasing contract, it is considered to be an operating lease.

5.6 Income taxes

The group is subject to income taxes in several jurisdictions. Judgement is required to estimate the income tax charge of the group. For some transactions the ultimate tax rate to be applied is uncertain, requiring judgement for the accounting and disclosure of uncertain positions.

Deferred tax assets regarding carry forward losses are analysed considering the existence of deferred tax liabilities and/ or future taxable profit within the same tax authority, as well as the existence of restrictions to its deductibility.

6. Tangible fixed assets

During the period ended as at 31 December 2016 and 2015 the movements occurred in Tangible fixed assets were as follows:

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Tools	Other tangible assets	Assets under construction	Total
1 January 2016									
Acquisition cost	143.342.118	795.780.459	219.424.445	3.099.654	18.910.120	733.714	2.063.711	86.136.529	1.269.490.749
Accumulated depreciation	–	(374.548.084)	(154.353.012)	(2.819.878)	(17.581.922)	(614.122)	(1.790.790)	–	(551.707.807)
Accumulated impairment	(399.936)	(8.308.726)	–	–	(3.855)	–	–	(665.649)	(9.378.166)
Net book value	142.942.181	412.923.649	65.071.434	279.776	1.324.344	119.592	272.920	85.470.879	708.404.776
Changes in 2016									
Perimeter entries - acquisition cost	792	13.047.035	21.502.750	2.222.894	2.262.831	–	8.459.988	22.836	47.519.126
Perimeter entries - accumulated depreciation	–	(9.070.313)	(8.920.113)	(2.012.803)	(2.183.828)	–	(6.388.966)	–	(28.576.023)
Additions	120.000	15.255.971	7.087.616	42.147	323.640	27.914	295.401	29.204.499	52.357.189
Disposals - accquisition cost	(4.902.548)	(30.083.753)	(3.287.794)	(224.434)	–	–	(845.850)	(10.500.900)	(49.845.279)
Disposals - depreciation	–	20.129.745	2.104.630	272.822	-	-	615.488	-	23.122.684
Foreign currency translation - acquisition cost	229.705	298.350	(518.773)	1.035	(71.382)	(13.798)	-	823.571	748.707
Foreign currency translation - depreciation	–	(102.152)	266.137	(1.378)	81.284	65.418	33	-	309.341
Transfers and regularizations - acquisition cost	–	1.796.459	551.643	(17.556)	41.268	1.040	25.143	(2.492.095)	(94.098)
Depreciation	–	(20.499.218)	(8.926.644)	(158.576)	(515.925)	(87.456)	(484.299)	-	(30.672.119)
Impairment - increases	(38.698)	(360.931)	(54.182)	–	(964)	(22)	–	–	(454.797)
Impairment - reversals	–	2.109.184	–	–	–	–	–	–	2.109.184
Net book value	138.351.432	405.444.026	74.876.703	403.926	1.261.268	112.688	1.949.855	102.528.791	724.928.689
31 december 2016									
Acquisition cost	138.790.066	796.094.520	244.759.887	5.123.740	21.466.478	748.870	9.998.391	103.194.441	1.320.176.393
Accumulated depreciation	–	(384.090.022)	(169.829.002)	(4.719.814)	(20.200.391)	(636.160)	(8.048.535)	–	(587.523.924)
Accumulated impairment	(438.635)	(6.560.472)	(54.182)	-	(4.819)	(22)	-	(665.649)	(7.723.779)
Net book value	138.351.432	405.444.026	74.876.703	403.926	1.261.268	112.688	1.949.855	102.528.791	724.928.689

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Tools	Other tangible assets	Assets under construction	Total
1 January 2015									
Acquisition cost	156.909.023	852.533.128	213.036.910	3.158.580	18.519.115	712.057	1.014.512	55.829.322	1.301.712.648
Accumulated depreciation	–	(398.931.792)	(148.212.005)	(2.754.188)	(17.169.230)	(601.191)	(945.199)	–	(568.613.605)
Accumulated impairment	(395.436)	(7.149.829)	–	–	(3.855)	–	–	(344.049)	(7.893.170)
Net book value	156.513.587	446.451.505	64.824.905	404.393	1.346.031	110.866	69.314	55.485.273	725.205.873
Changes in 2015									
Perimeter entries - acquisition cost	1.934.500	3.327.416	–	–	–	–	1.049.199	12.889.841	19.200.955
Perimeter entries - accumulated depreciation	–	(387.765)	–	–	–	–	(772.574)	–	(1.160.339)
Perimeter entries - impairment	(4.500)	(1.661.875)	–	–	–	–	–	(321.600)	(1.987.975)
Additions	4.094.734	22.541.176	7.802.964	676	303.683	37.022	–	33.324.869	68.105.125
Disposals - accquisition cost	(18.475.000)	(86.078.077)	(1.802.279)	(52.779)	(58.756)	–	–	–	(106.466.891)
Disposals - depreciation	–	43.026.844	595.409	55.118	(18.534)	(2.554)	–	–	43.656.283
Foreign currency translation	722.801	875.667	276.412	2.651	80.669	4.051	–	8.285	1.970.536
Transfers and write-offs	358.059	13.406.364	1.544.271	–	119.103	226	–	(15.865.071)	(437.048)
Transfers to intangible assets	–	–	–	–	–	–	–	(49.801)	(49.801)
Transfers to non-current assets held for sale - acquisition cost	(2.202.000)	(10.825.217)	(1.433.833)	(9.475)	(53.694)	(19.643)	–	(916)	(14.544.778)
Transfers to non-current assets held for sale - accumulated depreciation	–	3.117.780	1.242.371	9.475	53.396	19.643	–	–	4.442.665
Depreciation	–	(21.373.147)	(7.978.786)	(130.283)	(447.554)	(30.019)	(73.019)	–	(30.032.808)
Impairment - Transfers from investment properties	–	36.348	–	–	–	–	–	–	36.348
Impairment - Reversal	–	466.630	–	–	–	–	–	–	466.630
Net book value	142.942.181	412.923.649	65.071.434	279.776	1.324.344	119.592	272.920	85.470.879	708.404.776
31 December 2015									
Acquisition cost	143.342.118	795.780.459	219.424.445	3.099.654	18.910.120	733.714	2.063.711	86.136.529	1.269.490.749
Accumulated depreciation	–	(374.548.084)	(154.353.012)	(2.819.878)	(17.581.922)	(614.122)	(1.790.790)	–	(551.707.807)
Accumulated impairment	(399.936)	(8.308.726)	–	–	(3.855)	–	–	(665.649)	(9.378.166)
Net book value	142.942.181	412.923.649	65.071.434	279.776	1.324.344	119.592	272.920	85.470.879	708.404.776

Changes in the consolidation perimeter

The changes in the consolidation perimeter in 2016 refer to the entry of the factory and the related equipments of subsidiary Empresa de Cervejas da Madeira, Sociedade Unipessoal, Lda (Note 43). In 2015, it refers to the entry of golf courses and projects under development of the subsidiary Eurogolfe, SA (Note 43).

Additions, excluding assets under construction

Additions for 2016 refer mainly to renovation works in hotel Pestana Alvor Praia and hotel Pestana Bahia Praia, for the amounts of 6,200,000 Euros and 2,500,000 Euros, respectively, and the acquisition of the hotel Pestana Atlantic Gardens, in September 2016, for the amount of 5,000,000 Euros, which was previously leased up to that date.

Additions for 2015 refer mainly to the acquisition of the hotel Pestana Atlantic Bay Ocean for the amount of 15,800,000 Euros, which was previously leased up to that date.

Additionally, in August 2015, the hotel Pestana Alvor South Beach Resort opened, a 4 star hotel located in the Alvor beach, which extends for several kilometers, fully integrated with the local natural resources and the facilities of a modern hotel. It is a hotel with 80 rooms with a cost of 8,180,000 Euros, having the 2015 additions amounted to approximately 5,400,000 Euros.

Also in 2015, the Group opened the hotel Pousada de Lisboa, a project that comprises 1,769.1 square meters of land and 1,628 square meters of construction and a capacity for 86 rooms corresponding to 171 beds, as well as an area for restaurant/ bar with capacity for 60-80 people, meeting & event rooms, gym, solarium and inner pool. The additions during 2015 amounted to 3,600,000 Euros, having been transferred from assets under construction an amount of approximately 5,250,000 Euros, corresponding to 2014 additions.

At the beginning of August 2015, the 52 new rooms in hotel Pestana Carlton Porto became available, as a result of the expansion works performed during approximately 2 years. Also in 2015, the renovation of the 48 rooms, included in the original building of hotel Pestana Porto Carlton, began as well as the construction works for 6 new rooms to be built in the the area of the former restaurant.The additions in 2015, amounted to approximately 3,300,000 Euros having been transferred from assets under construction an amount of approximately 4,300,000 Euros, corresponding to 2014 additions.

The remaining additions as at 31 December 2016 and 2015 relate to refurbishment and renovations in hotels, timeshare contracts acquisition costs (Note 3.4) and works on remodeling houses.

Disposals

In 2016, the decrease in the captions Land and Buildings and other constructions refers to the sale of hotel Pestana Viking to a real estate investment fund, for the amount of 17,900,000 Euros obtaining a capital gain of 2,775,340 Euros (Note 33). Pestana Group has leased the hotel maintaining its management, against the payment of a monthly rent (Note 31). Additionally, it has sold a building in Lisbon, as well as the existing equipments, for an amount of 14,500,000 Euros, obtaining a capital gain of 2,049,948 Euros (Note 33).

In 2015, the reduction verified in the captions Land and Buildings and other constructions refers to the sale of "Pestana Carlton Madeira" and "Hotel Pestana Dom João II" to real estate investment funds, for the amount of 31,500,000 Euros and 34,990,000 Euros, respectively, generating a capital loss of 4,355,638 Euros (Note 34) and a capital gain of 9,217,348 Euros (Note 33), respectively. Both hotels have been subsequently leased with Pestana Group maintaining their management.

Depreciation

The 2016 depreciation of the Tangible fixed assets of the entity that was included in the consolidation perimeter, Empresa de Cervejas da Madeira, Sociedade Unipessoal, Lda, amounted to 1,861,993 Euros.

Impairment losses

In 2016, Pestana Group reversed all the impairment booked against hotel Pestana Sintra Golfe, in the amount of 2,109,184 Euros, as a result of the significant improvement in the operational result generated by the exploration of this asset, a situation that was verified consistently in the last years. Thus, considering the estimated future cash flows and the discount rate applied, the recoverable amount of the asset is now higher than its net book value, allowing the reversal of the impairment recognized. Additionally, an impairment charge over the golf course "Beloura Golfe" and the respective Club house was recognized, in the amount of 399,262 Euros, as a result of the recoverable amount calculated based on estimated future cash flows and an adequate discount rate, being lower than the net book value.

In 2015, Pestana Group reversed part of the impairment losses recognized regarding the golf course "Alto Golfe" and the respective Club house, as a result of the significant improvement in the operational result generated by these assets. Considering the estimated cash flows and the discount rate, the value in use of these assets was considered to be higher than the net book value, having the impairment losses recorded for these assets, in the amount of 466,630 Euros, been reversed.

Assets under construction

The most significant items included in Assets under construction are related to the following projects:

	2016	2015
Pestana Amsterdam project	27.328.993	9.285.570
Pestana Manhattan project	25.913.934	23.776.700
Quinta da Amoreira project (Algarve)	15.981.106	15.981.106
Tróia project(note 16)	12.781.988	12.635.539
Hotel Silves project	4.894.000	4.894.000
North of Gramacho land (Algarve)	2.158.698	2.125.063
Madeira Beach Club	2.106.027	1.306.739
D. Fernando land (Algarve)	1.926.288	1.926.288
Lisbon downtown project	1.850.925	–
Project in Silves area (Algarve)	1.215.396	1.215.396
Golf course project (Algarve)	1.199.852	1.199.852
Alvor Beach Club	789.811	–
Pestana Madrid project	763.015	687.649
Sines golf course project (Algarve)	500.001	500.001
Royal Bay project	500.000	–
Praia Alvor - urban intervention plan (Algarve)	382.277	354.676
Vale do Pinta adjacent lands (Algarve)	354.900	354.900
Lisbon downtown building (Rua do Comércio)	–	6.107.952
Funchal port project (Praça do Mar)	–	613.106
Pousada Flor da Rosa (improvements)	–	266.978
Pousada de Arraiolos (improvements)	–	255.949
Others	1.881.580	1.983.415
	102.528.791	**85.470.879**

Pestana Amsterdam project refers to "Pestana Raadhuishotel", a 5 star hotel with 157 rooms. It will be located in the Amsterdam-Zuid district in the west bank of Amstel River and at 15 minutes away by public transport from the main attractions of the city of Amsterdam. It is located in a residential neighborhood, very sought after with access to restaurants, cafes and shops. This 5 star hotel will be composed by 3 buildings, one ancient and historical building and two modern buildings, in accordance with a project developed by Dutch architects, the construction of which started in 2016. This project will also comprise one parking lot with 60 places.The investment in this new hotel will amount to 35 million Euros with its opening date foreseen for the third quarter of 2017. In 2016, an amount of 4,541,077 Euros relating with the deferral of the amount paid by the subsidiary Amesteldijk Hotel Ontwkkeling, B.V in the negotiation of the ground lease, was transferred from "Trade and other receivables" (Note 15).

Pestana Manhattan project refers to a 4 star hotel in the North American city of New York, with a total of 176 rooms. It is located on the 39th Avenue, in the West Site, between the 8th and 9th. It is nearby the referred areas of Time Square, the NY Convention Center, and the Hudson Yards, and is the major development project of the Group in the USA, with a total of 176 rooms. This new hotel will correspond to an investment of 50 million Dollars and the opening date is expected for 2017. This line item includes the amount of 20,301,779 Euros that correspond to the net present value of the miminum lease payments of the ground lease signed in 2015 for a 99 year period, since it was considered that under IAS 17 – leases, all the risks and rewards inherent to property ownership of the assets were transferred to Pestana Group (Note 28).

Quinta da Amoreira project refers to a 4-star tourist resort with a low density of construction, consisting of a block of flats and a set of villas and bungalows, in a total of 860 beds.

Tróia project consists of the construction of one Aparthotel and an area of shopping / services, including the land for the construction of the aparthotel as well as the expenses incurred with permits, licenses and allotment and also the study and development of the general infrastructures.

Hotel Silves project corresponds to the allotment of the "touristic area 1" already approved by the City Hall of Silves, and for which the infrastructure construction licence was approved in January 2015.

The land North of Gramacho, with a total area of approximately 100 hectares, also known as 'Quinta de S. Pedro', is a project still in an early stage of development, where it is foreseen the construction of an 18-hole golf course as well as a real estate area.

The amounts related to Madeira Beach Club and Alvor Beach Club refer to timeshare contract's acquisition costs (Note 3.4) that will be utilized in these two units from 2017 onwards, the date on which these will be available for use.

D.Fernando project is being developed on a plot of land with a total area of 30 hectares, where the Group has the intention to construct one hotel and a 9-hole golf course.

The Lisbon downtown project consists of a vacant building in Lisbon downtown acquired in 2016, being the group still assessing the possible future use, including urban accommodation.

The project in Silves area, Algarve, refers to a set of plots of land where the Group intends to develop a tourism project to focus on nature, with walking paths, bird watching areas and specific areas for hunting, and for which Pestana Group is developing a series of actions, together with the City Hall of Silves.

The Golf course project is related to a 20 hectares land, which the Group owns, surrounding Pestana Alvor Praia hotel and Pestana Delfim. Given its location, near Alvor beach, and aiming towards the diversification of services offered, the group intends to construct in the future a 9 hole golf course.

Pestana Madrid project refers to the construction of a new 5 star hotel in the center of Madrid, with the opening foreseen for 2017. This hotel will have 70 rooms, spa and gym. Pestana Group will increase its presence in Spain, being in Barcelona since October 2013.

Assets reversible to the State

Grupo Pestana has recognized in its financial statements assets related with gambling activities and with the concession of the network of Pousadas de Portugal, which are reversible to the State at the end of the respective concessions without the right to any consideration. The net value of these assets as at 31 December 2016 is 8,249,071 Euros (31 December 2015: 9,084,585 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is lower.

Tangible fixed assets acquired through finance leases

	2016	2015
Acquisition cost	34.934.294	35.035.531
Accumulated depreciation	(2.528.761)	(4.579.773)
	32.405.533	**30.455.758**

7. Intangible assets

During the period ended as at 31 December 2016 and 2015 the movements occurred in intangible assets were as follows:

	Goodwill	Software	Concessions	Website	Total
1 January 2016					
Acquisition cost	–	1.470.267	27.198.811	807.490	29.476.567
Accumulated amortization	–	(884.012)	(14.408.897)	(460.926)	(15.753.836)
Accumulated impairment	–	–	(634.423)	–	(634.423)
Net book value	**–**	**586.255**	**12.155.490**	**346.563**	**13.088.308**
Additions	–	89.037	–	390.140	479.177
Disposals	–	–	–	–	–
Perimeter entries - acquisition cost	17.000.000	-	-	-	17.000.000
Write-offs - acquisition cost	-	(154.401)	-	-	(154.401)
Write-offs - accumulated amortization	-	154.401	-	-	154.401
Amortization	-	(209.889)	(1.117.101)	(114.633)	(1.441.624)
Amortization - transfers and write-offs	-	-	(206.070)	-	(206.070)
Impairment - charge	-	-	-	-	-
Impairment - reversal	-	-	-	-	-
Net book value	**17.000.000**	**465.403**	**10.832.318**	**622.070**	**28.919.790**
31 December 2016					
Acquisition cost	17.000.000	1.404.903	27.198.811	1.197.630	46.801.344
Accumulated amortization	-	(939.501)	(15.732.070)	(575.560)	(17.247.130)
Accumulated impairment	-	-	(634.423)	-	(634.423)
Net book value	**17.000.000**	**465.403**	**10.832.318**	**622.070**	**28.919.790**

	Goodwill	Software	Concessions	Website	Total
1 January 2015					
Acquisition cost	-	1.309.930	28.782.620	441.812	30.534.362
Accumulated amortization	-	(699.409)	(14.576.995)	(371.162)	(15.647.566)
Accumulated impairment	-	-	(634.423)	-	(634.423)
Net book value	**-**	**610.521**	**13.571.202**	**70.650**	**14.252.373**
Additions	-	110.536	-	365.678	476.214
Disposals	-	-	(87.416)	-	(87.416)
Transfers from tangible assets	-	49.801	-		49.801
Disposals - acquisition cost	-	-	(1.496.394)	-	(1.496.394)
Amortization	-	(174.434)	(1.111.222)	(89.765)	(1.375.421)
Amortization - transfers and write-offs	-	(10.169)	1.279.320	-	1.269.151
Impairment - charge	-	-	-	-	-
Impairment - reversal	-	-	-	-	-
Net book value	**-**	**586.255**	**12.155.490**	**346.563**	**13.088.308**
31 December 2015					
Acquisition cost	-	1.470.267	27.198.811	807.490	29.476.567
Accumulated amortization	-	(884.012)	(14.408.897)	(460.926)	(15.753.836)
Accumulated impairment	-	-	(634.423)	-	(634.423)
Net book value	**-**	**586.255**	**12.155.490**	**346.563**	**13.088.308**

In June 2016, following the corporate reorganization of Pestana Hotel Group, for the concentration in subsidiary M&J Pestana, S.A. of all the participations held in entities located in the Autonomous Region of Madeira, the single quota of Empresa de Cervejas da Madeira, Sociedade Unipessoal, Lda was acquired from Pestana International Holdings, S.A. for an amount of 17,500,000 Euros, resulting in the recognition of a goodwill in the amount of 17,000,000 Euros.

The recoverability of goodwill is tested annually by reference to 31 December, irrespective of the existence of impairment indicators. The recoverable amount was determined based on the value in use, calculated using discounted cash flows methodology considering market conditions, management approved budgets and using a discount rate that Pestana Group believes that reflects the best estimate of the associated risks. As at 31 December 2016 it was determined that the recoverable amount of the assets was higher than its net book value.

The caption “Concessions” includes:

- The right to operate the network “Pousadas de Portugal”, from 2003 until 2023 inclusive, obtained under the Operation Assignment Agreement of “Rede de Pousadas”, signed on 8 August 2003 with Enatur - Empresa Nacional de Turismo, S.A..

- The gambling license rights, including the operation of games of chance in the permanent area of Funchal, until 2023 inclusive, representing the capitalized amount of the total amount paid to the Regional Government of Madeira.

- The concession right of “Palácio do Freixo”, for a period of 50 years, obtained through a contract with the City Hall of Oporto, where “Pousada” of Oporto operates since October 2010.
- The concession right of “Cidadela de Cascais”, for a period of 70 years, through a contract signed on 26 November 2009 with Fortaleza de Cascais, E.M., where “Pousada” of Cascais operates since March 2012.

8. Investment properties

During the period ended as at 31 December 2016 and 2015 the movements occurred in investment properties were as follows:

	2016	2015
1 January		
Acquisition cost	11.408.968	9.865.436
Accumulated depreciation	(2.720.077)	(2.622.292)
Accumulated impairment	(677.740)	(641.392)
Net book value	**8.011.151**	**6.601.752**
Additions	69.592	330.000
Disposals - acquisition cost	(657.289)	–
Disposals - accumulated depreciation	143.860	–
Disposals - accumulated impairment	245.006	–
Impairment - transfers from tangible assets	–	(36.348)
Transfers and write-offs	–	13.669
Perimeter entries - acquisition cost	–	1.199.863
Depreciation	(102.339)	(106.081)
Depreciation - transfers, disposals and write-offs	–	8.296
Impairment - charge	–	–
Impairment - reversal	–	–
	(301.169)	**1.409.399**
31 December		
Acquisition cost	10.821.271	11.408.968
Accumulated depreciation	(2.678.555)	(2.720.077)
Accumulated impairment	(432.734)	(677.740)
Net book value	**7.709.982**	**8.011.151**

Investment properties are intended, mainly, to be leased and can be detailed as follows:

	2016	2015
Commercial properties leased to third parties, Algarve	3.067.221	3.273.582
Funchal land, Madeira	1.269.455	1.199.863
S. Gonçalo houses, Madeira	1.182.731	1.209.499
Angra dos Reis land, Brasil	962.902	962.902
Other	1.227.673	1.365.306
	7.709.982	**8.011.151**

The entries in the consolidation perimeter in 2015 refers to a plot of land in Funchal belonging to the subsidiary Mandreal (Note 43).

As at 31 December 2016 and 2015, the fair value of each one of the assets classified as Investment properties is not less than its carrying amount.

9. Investments in associates

The movement in Investments in associates during the years 2016 and 2015 is as follows:

	2016	2015
January	11.345.137	10.266.745
Gains /(losses) from equity accounting (Note 35)	389.987	1.078.392
31 December	**11.735.124**	**11.345.137**

As at 31 December 2016, Investment in associates relates to the following entities:

		Financial investment			Loans granted				
Entity	% Owned	Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total (Note 42)	Total investment	Goodwill included
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A. (i)	3,75%	274.601	–	274.601	–	–	–	274.601	–
Enatur - Empresa Nacional de Turismo, S.A.	49,00%	9.695.656	–	9.695.656	1.190.593	–	1.190.593	10.886.249	3.837.382
Albar - Sociedade Imobiliária do Barlavento, S.A.	49,81%	574.274	–	574.274	–	–	–	574.274	–
		10.544.531	**–**	**10.544.531**	**1.190.593**	**–**	**1.190.593**	**11.735.124**	**3.837.382**

As at 31 December 2015, Investment in associates relates to the following entities:

		Financial investment			Loans granted				
Entity	% Owned	Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total (Note 42)	Total investment	Goodwill included
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A. (i)	3,75%	322.444	–	322.444	–	–	–	322.444	–
Enatur - Empresa Nacional de Turismo, S.A.	49,00%	9.251.036	–	9.251.036	1.190.593	–	1.190.593	10.441.629	3.837.382
Albar - Sociedade Imobiliária do Barlavento, S.A.	49,81%	581.064	–	581.064	–	–	–	581.064	–
		10.154.544	**–**	**10.154.544**	**1.190.593**	**–**	**1.190.593**	**11.345.137**	**3.837.382**

(i) SDM – Sociedade de Desenvolvimento da Madeira, S.A. is only owned in 15% by Grupo Pestana, S.G.P.S., S.A., that considers that it exercises control over this entity via the shareholder agreement signed with Mr. Dionisio Pestana for the assignment of voting rights corresponding to 55% of the voting rights of the entity. Therefore, Grupo Pestana holds 25% of the voting rights of SDEM – Sociedade de Desenvolvimento Empresarial da Madeira, S.G.P.S., S.A.

The summary of the separate financial stataments of these associates is presented in Note 42.

10. Investments in joint ventures

The movements occurred in Investments in joint ventures during 2016 are as follows:

	2016
1 January	-
Gains /(losses) from equity accounting (Note 35)	(182.437)
Acquisitions	5.249.788
31 December	**5.067.351**

On December 2015, a Framework Joint Venture Agreement has been signed between Pestana Hotel Group and Mr. Cristiano Ronaldo Aveiro with the aim of promoting, developing and exploring several hotel units under the brand “Pestana CR7”. In April 2016, Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A. was incorporated and in May 2016 Pestana CR7 – Lisboa Hotel Investimentos Turísticos, S.A. was incorporated, both held in 50% by the Pestana group, promoting the “Pestana CR7” partnership in Madeira and Lisbon.

A set of decisions over the relevant activities that require the consent of both parties were defined, namely: approval of the business plan, the strategic plan and the annual budget; appointment of entity’s representative to participate in general meetings of its subsidiaries and determination of the entity’s vote; acquisition, disposal and charge of assets and contracting of bank financing of an amount higher than the predefined amount and not made within the ordinary course of business and not provided for in the annual budget; delegation of powers within the ordinary course of business to one or more directors or to an executive committee; incorporation of subsidiaries, creation of branches and creation of, or participation in, other forms of representation or corporate cooperation; subscription, acquisition and disposal of shareholdings or membership interests in other companies; approval and modification of any reward schemes, profit participation; the extension of the entity’s business purpose to other activities other than the operation of the Project; and advance of profits, among others.

In June 2016, the group acquired a share, corresponding to 50% of Solpor – Sociedade de Turismo de Porto Santo, Lda. share capital, as well as accessory contributions of capital that the seller had in the entity, for a total amount of 3,163,341 Euros, recognizing an impairment loss of 487,635 Euros for the goodwill determined in the acquisition of this investment (Note 35).

As at 31 December 2016, the investments in joint ventures refer to the following entities:

		Acquisition cost			Loans granted			31-12-2016	
Entity	% Owned	Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total	Total investment	Goodwill included
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	50,00%	798 595	-	798 595	-	-	-	798 595	-
Solpor - Sociedade de Turismo do Porto Santo Lda.	50,00%	2 672 365	-	2 672 365	-	-	-	2 672 365	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	50,00%	1 596 391	-	1 596 391	-	-	-	1 596 391	-
		5 067 351	**-**	**5 067 351**	**-**	**-**	**-**	**5 067 351**	**-**

The summarized information of the financial statements of these jointly controlled entities is presented in Note 42.

11. Other financial investments

The movements occurred in Other financial investments during 2016 and 2015 are as follows:

	2016	2015
1 January	32.387.528	30.072.760
Perimeter entries	40.652	(4.544.400)
Acquisitions	2.500	–
Loans granted/ (repaid)	247.500	–
Disposals	(23.111.924)	(42.166)
Decrease in acquisition cost	–	(14.151.815)
Use of impairment losses	–	14.151.815
Impairment losses	(1.781.814)	(333.622)
Impairment reversal	–	7.234.956
31 December	**7.784.442**	**32.387.528**

In 2016, the group sold a 5.74% share, as well as the total amount of shareholders loan, held in Salvintur – Sociedade de Investimentos Turísticos, S.G.P.S., S.A., the participation in Norgarante – Soc. Garantia Mútua, S.A., for the amount of 23,900,000 Euros and 1,876 Euros, resulting in a capital gain of 789.952 Euros (Note 35) and a capital loss of 16 Euros (note 35), respectively. The sale of Salvintur share and related shareholders loans, was based on a valuation performed by an international reckowned entity in this area.

The impairment losses in the 2016 and 2015 periods fully refer to the devaluation of the market value of Imóveis Brisa – F.I.I.F. participation units, based on public listed prices as issued by the Portuguese Securities Market Commission (Note 35).

In 2015, the entry in the consolidation perimeter refers only to Eurogolfe, S.A., which was consequently derecognized from Other financial investment after the Group acquired 85,71% of its share capital from Pestana International Holdings, S.A.(Note 43).

In November 2015, the Accessory contribution of capital without remuneration and term, held by Salvor, S.A. in Salvintur, S.G.P.S., S.A. were converted to cover accumulated losses in the amount of 14,151,815 Euros, having this Accessory contribution of capital a previously booked impairment loss in the same amount. As a consequence of the effort of Salvor, S.A. to concentrate its operations in Portugal and more specifically in Algarve, this subsidiary Salvor, S.A. did not enter in the share capital increase of Salvintur, S.G.P.S., S.A., resulting in the decrease of the percentage of shares held, from 19.00% to 5.74%, which associated to some improvement in the estimated cash flows of Salvintur's subsidiaries, when comparing with those initialy estimated, the remaining impairment loss was reversed, after covering of accumulated losses, in the amount of 7,234,956 Euros (Note 35).

As at 31 December 2016, Other financial investments relates to the following entities:

		Acquisition cost			Accessory contributions			Loans granted			
Entity	% owned	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total (Note 42)	Total investment
Imóveis Brisa - F.I.I.F.	-	9.338.481	2.096.359	7.242.122	-	-	-	-	-	-	7.242.122
Others	-	612.861	328.516	284.345	-	-	-	257.975	-	257.975	542.320
		9.951.342	**2.424.875**	**7.526.467**	**-**	**-**	**-**	**257.975**	**-**	**257.975**	**7.784.442**

As at 31 December 2015, Other financial investments relates to the following entities:

		Acquisition cost			Accessory contributions			Loans granted			
Entity	% owned	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total (Note 42)	Total investment
Imóveis Brisa - F.I.I.F.	-	9.338.481	314.544	9.023.937	-	-	-	-	-	-	9.023.937
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	5,74%	241.683	-	241.683	5.320.000	-	5.320.000	17.548.365	-	17.548.365	23.110.048
Others	-	536.047	292.979	243.068	-	-	-	10.475	-	10.475	253.544
		10.116.211	**607.523**	**9.508.688**	**5.320.000**	**-**	**5.320.000**	**17.558.840**	**-**	**17.558.840**	**32.387.528**

The summary of the separate financial statements of the entities concerning to Other investments is presented in Note 42.

12. Deferred tax assets and liabilities

As at 31 December 2016 and 2015, the balances recognized as Deferred taxes are presented in the Statement of financial position at their gross value.

The impact of movements occured in deferred tax items for the years presented was as follows:

	2016	2015
Impact in Income statement		
Deferred tax assets	4.899	(360.094)
Deferred tax liabilities	2.274.280	5.056.521
	2.279.179	**4.696.427**
Impact from changes in the perimeter		
Deferred tax assets	202.067	336.310
Deferred tax liabilities	(2.500.318)	(4.437.467)
	(2.298.251)	**(4.101.157)**
Impacts in equity		
Deferred tax assets	(520.000)	(374.338)
Deferred tax liabilities	-	-
	(520.000)	**(374.338)**
Net impact of deferred taxes	**(539.072)**	**220.932**

During 2016 and 2015, the main change in deferred taxes results from the decrease in deferred tax liabilities and it is mainly explained by the sale of hotel Pestana Viking in 2016 and the sale of hotel Pestana Dom João II in 2015, as both included revaluations not accepted for tax purposes.

The movements occurred in Deferred tax assets for the years presented are as follows:

	Impairment losses on trade receivables	Changes in fair value	Hedging reserves	Impairment losses on tangible fixed assets	Tax losses	Loyalty program (PPG)	Others (ii)	Total
1 January 2016	155.247	81.266	958.693	1.299.426	1.553.128	569.235	2.740.073	7.357.068
Perimeter entries (Note 43)	17.580	-	-	-	-	-	184.487	202.067
Exchange differences	-	-	-	-	30.755	-	(4.992)	25.763
Constitution/ reversal through equity	-	-	(520.000)	-	-	-	-	(520.000)
Reversal through profit or loss	(35.427)	-	-	(402.825)	(141.268)	-	(448.303)	(1.027.823)
Constitution/ reversal through equity	76.043	392.507	2.794	12.548	220.545	44.414	283.871	1.032.722
Changes on period	58.196	392.507	(517.206)	(390.277)	110.032	44.414	15.063	(287.271)
31 December 2016	**213.443**	**473.773**	**441.487**	**909.149**	**1.663.160**	**613.649**	**2.755.134**	**7.069.797**

	Impairment losses on trade receivables	Changes in fair value	Hedging reserves	Impairment losses on tangible fixed assets (i)	Tax losses	Loyalty program (PPG)	Others (ii)	Total
1 January 2015	210.668	758.084	1.199.639	1.503.300	1.176.502	579.003	2.278.649	7.705.845
Perimeter entries (Note 43)	-	-	-	336.310	-	-	-	336.310
Exchange differences	-	-	-	-	49.343	-	-	49.343
Constitution/ reversal through equity	-	-	(374.338)	-	-	-	-	(374.338)
Reversal through profit or loss	(92.192)	(744.444)	(1.247)	(543.492)	(268.086)	(9.768)	(84.729)	(1.743.958)
Constitution through profit or loss	36.771	67.627	134.638	3.308	595.369	-	546.153	1.383.866
Changes on period	(55.421)	(676.818)	(240.946)	(203.874)	376.626	(9.768)	461.424	(348.778)
31 December 2015	**155.247**	**81.266**	**958.693**	**1.299.426**	**1.553.128**	**569.235**	**2.740.073**	**7.357.068**

(i) This includes also the impairment over tangible fixed assets classified as Non-current assets held for sale.
(ii) The caption Others includes the deferred tax asset related to Provisions and to the write-off of intra-group margins.

The movements occurred in Deferred tax liabilities for the years presented are as follows:

	Deemed cost (IFRS 1)	Revaluation reserve (previous GAAP)	Changes in fair value	Others	Total
1 January 2016	33.247.441	329.475	149.889	1.562.792	35.289.598
Perimeter entries (Note 43)	2.129.487	-	-	370.831	2.500.318
Transfers	-	-	-	2.136.511	2.136.511
Exchange differences	1.858	-	-	-	1.858
Constitution through profit or loss	-	-	-	29.203	29.203
Reversal through profit or loss	(2.064.199)	(160.702)	-	(78.582)	(2.303.483)
Changes on period	67.146	(160.702)	-	2.457.963	2.364.407
31 December 2016	**33.314.587**	**168.773**	**149.889**	**4.020.755**	**37.654.005**

	Deemed cost (IFRS 1)	Revaluation reserve (previous GAAP)	Changes in fair value	Others	Total
1 January 2015	30.958.070	331.751	3.473.812	1.136.555	35.900.189
Perimeter entries (Note 43)	4.437.467	-	-	-	4.437.467
Exchange differences	4.154	-	-	4.309	8.463
Constitution through profit or loss	-	-	-	500.499	500.499
Reversal through profit or loss	(2.152.250)	(2.276)	(3.323.923)	(78.571)	(5.557.020)
Changes on period	2.289.371	(2.276)	(3.323.923)	426.237	(610.591)
31 December 2015	**33.247.441**	**329.475**	**149.889**	**1.562.792**	**35.289.598**

The revaluations performed under the previous accounting framework (POC), denominated as tax revaluations, result from updating the assets' value based on Governmental regulations where coefficients of currency devaluation are defined. The effect of this deferred tax reflects the non-deductibility for tax purposes of 40% of these revaluations.

13. Available-for-sale financial assets

As at 31 December 2016 and 2015, Pestana Group has participation units in some listed entities valued at 95,044 Euros and 158,031 Euros, respectively.

The available-for-sale financial assets are recorded at fair value, with valuation changes since the date of acquisition recognized against Hedging reserve – Available-for-sale financial assets (Note 21), net of impairment. In the case of a significant or continued decline in the fair value (+20%) or below their cost, this is considered as an impairment indicator, and fair value changes are recorded in profit or loss (Note 3.9).

The variations in Available-for-sale financial assets are as follows:

	2016	2015
1 January	158.031	202.053
Impairment losses (Note 35)	(62.986)	–
Fair value change (Note 21)	–	(44.022)
Changes on period	**–**	**(44.022)**
31 December	**95.044**	**158.031**

The fair value of the participation units was determined as at 31 December 2016 and 2015 based on market prices, which correspond to the first level of the hierarchy of fair value, according to the accounting policy described in Note 3.10..

14. Financial assets and liabilities

The accounting policies for measuring financial instruments in accordance with IAS 39 were applied to the following financial assets and liabilities:

31 December 2016	Cash and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/ liabilities	Total
Financial assets					
Cash and cash equivalents	82.603.973	-	-	-	82.603.973
Trade and other receivables	50.206.422	-	-	21.750.279	71.956.701
Available-for-sale financial assets	-	95.044	-	-	95.044
	132.810.395	**95.044**	**-**	**21.750.279**	**154.655.719**
Financial liabilities					
Borrowings	–	–	410.066.477	–	410.066.477
Derivatives	–	–	2.928.884	–	2.928.884
Trade and other payables	–	–	60.584.113	50.085.178	110.669.291
	–	**–**	**473.579.474**	**50.085.178**	**523.664.652**

31 December 2015	Cash and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/ liabilities	Total
Financial assets					
Cash and cash equivalents	71.684.700	–	–	–	71.684.700
Trade and other receivables	34.237.203	–	–	25.384.927	59.622.130
Available-for-sale financial assets	–	158.031	–	–	158.031
	105.921.903	**158.031**	**–**	**25.384.927**	**131.464.861**
Financial liabilities					
Borrowings	–	–	398.408.757	–	398.408.757
Derivatives	–	–	5.472.185	–	5.472.185
Trade and other payables	–	–	65.069.059	39.217.375	104.286.434
	–	**–**	**468.950.000**	**39.217.375**	**508.167.375**

According to IFRS 13 requirements, Grupo Pestana establishes the way it obtains the fair value of its financial assets and liabilities measured at fair value. The levels used are presented in Note 3.10..

	31-12-2016			31-12-2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 2
Financial assets						
Available-for-sale financial assets	95.044	-	-	158.031	-	-
	95.044	**-**	**-**	**158.031**	**-**	**-**
Financial liabilities						
Derivatives	-	2.928.884	-	-	5.472.185	-
	-	**2.928.884**	**-**	**-**	**5.472.185**	**-**

15. Trade and other receivables

As at 31 December 2016 and 2015, Trade and other receivables is detailed as follows:

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables (i)	34.359.033	-	34.359.033	28.423.281	-	28.423.281
Other receivables (ii)	15.262.902	-	15.262.902	5.251.869	-	5.251.869
Prepayments (iii)	5.480.471	11.150.458	16.630.929	4.262.996	14.775.691	19.038.687
Accrued income	584.487	-	584.487	562.052	-	562.052
Taxes receivable	5.119.350	-	5.119.350	6.346.241	-	6.346.241
	60.806.243	**11.150.458**	**71.956.701**	**44.846.439**	**14.775.691**	**59.622.130**

Current receivables presented have no significant difference between their carrying amount and fair value.

Trade receivables and Other receivables captions regarding the subsidiary that entered in the consolidation perimeter in 2016, amount to 5,040,611 Euros as at 31 December 2016 (at the entry date: 4,804,783 Euros) (Note 43).

i) Trade receivables

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables - group (Note 44)	9.935.039	-	9.935.039	7.423.904	-	7.423.904
Trade receivables - other	24.423.994	-	24.423.994	20.999.378	-	20.999.378
Doubtful debtors	12.717.552	-	12.717.552	10.003.782	-	10.003.782
	47.076.585	-	47.076.585	38.427.063	-	38.427.063
Impairment of trade receivables	(12.717.552)	-	(12.717.552)	(10.003.782)	-	(10.003.782)
	34.359.033	**-**	**34.359.033**	**28.423.281**	**-**	**28.423.281**

In 2016, the caption Trade receivables – group includes an amount of 3,965,000 Euros to be received from Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A., relating to the subconcession agreement for the private use of the dominial infrastructure of Praça do Mar (Note 6).

Impairment – movements of the year:

	2016	2015
1 January	10.003.782	11.368.570
Perimeter entries	1.683.782	–
Increases	924.826	1.361.745
Reversals	(274.203)	(1.130.388)
Utilizations	-	(1.231.728)
Reclassifications to other receivables	-	(364.417)
Reclassifications from other receivables	379.365	–
31 December	**12.717.552**	**10.003.782**

ii) Other receivables

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Other receivables - group (Note 44)	4.376.950	-	4.376.950	3.054.376	-	3.054.376
Other receivables - other	11.097.741	-	11.097.741	2.749.387	-	2.749.387
Personnel	17.176	-	17.176	6.220	-	6.220
Impairment	(228.965)	-	(228.965)	(558.114)	-	(558.114)
	15.262.902	**-**	**15.262.902**	**5.251.869**	**-**	**5.251.869**

As at 31 December 2016, the caption Other receivables – other includes an amount of 6,500,000 Euros to be received from Imóveis Brisa – F.I.I.F. (Fundo Brisa) and an amount of 1.304.021 Euros to be received from the Autonomous Region of Açores in the scope of Portugal 2020, being related to a grant for investment already approved by the referred entity, for the renovation of the Group's hotel in Azores.

Impairment – movements of the year:

	2016	2015
1 January	558.114	371.298
Perimeter entries	46.802	-
Increases	3.414	15.734
Reversals	-	(193.335)
Utilizations	(379.365)	-
Reclassifications from/ (to) trade receivables	-	364.417
31 December	**228.965**	**558.114**

iii) Prepayments

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Commissions	1.016.813	11.068.940	12.085.753	763.387	10.234.614	10.998.001
Rentals	1.736.320	-	1.736.320	1.088.730	4.541.077	5.629.807
Insurances	185.701	-	185.701	280.238	-	280.238
Other services	2.541.638	81.518	2.623.156	2.130.641	-	2.130.641
	5.480.471	**11.150.458**	**16.630.929**	**4.262.996**	**14.775.691**	**19.038.687**

As at 31 December 2016 and 2015, Commissions refers in full to the deferral of costs associated with sales of Timeshare – Options (Note 3.23 ii).

In 2015, the caption Rentals included an amount of 4,541,077 Euros relating to the amount paid at the inception of the ground lease contract of the subsidiary Amesteldijk Hotel Ontwkkeling, B.V. having this value been transferred to tangible fixed assets in 2016 (Note 6).

iv) Taxes receivable

As at 31 December 2016 and 2015, this caption is mainly related to VAT receivable.

16. Inventories

As at 31 December 2016 and 2015, Inventories is detailed as follows:

	2016	2015
Goods	5.021.505	3.780.130
Raw and subsidiary materials	2.765.510	619.009
Finished goods	10.876.073	4.597.881
Work in progress	57.578.064	58.592.885
	76.241.153	67.589.905
Impairment of inventories	(285.459)	(89.329)
	75.955.693	**67.500.574**

The inventories as at 31 December 2016 regarding the subsidiary that entered the consolidation perimeter amounted to 3,210,456 Euros (at the entry date: 2,674,848 Euros) (Note 43).

The variation in inventories is mainly related to the delay in the licencing and subsequent registration process that was only concluded by the end of 2016, which prevented the signing of the expected number of deeds.

The amounts regarding finished goods and work in progress included in Inventories refer to:

	2016	2015
Tróia project	30.239.607	25.380.686
Touristic resort project	20.245.934	20.052.597
North of Gramacho land (Note 6)	7.904.681	7.866.691
Abrunheira project	6.291.949	6.291.949
V. Pinta adjacent land (Note 6)	1.783.941	2.207.224
Beverages and packaging	707.856	-
Apartments	372.956	878.007
Work in progress	907.212	513.612
	68.454.137	**63.190.766**

The Tróia project is mainly related to the construction of houses and the infrastructures of the touristic village. The change occurred is related to the construction development.

The project Touristic Village is associated to the development of a touristic project that will comprise two 4 star touristic resorts and 232 accomodation units. This project should begin its development during 2017.

The land North of Gramacho relates to a real estate project under development, having been acquired in 2015 a new adjoining plot of land for 800,000 Euros, which will allow a better use of the existing area.

The Abrunheira project is related to a development project in a land with gross area of approximately 450 hectares, which will be composed by a set of 10 touristic villages with houses and flats, framed within the typical environment of Portalegre. During 2016, the City Hall of Portalegre has approved some modifications to the project, as well as the specialties, which will allow the issuance of the licence and the marketing or reservation of the land for the first touristic resort.

The adjoining land to Vale da Pinta corresponds to plots of land for construction that are for sale.

In 2016, the Cost of goods sold totaled 38,336,143 Euros (31 December 2015: 32,154,908 Euros). The cost of goods sold in 2016 regarding the subsidiaries that entered the consolidation perimeter amounted to 8,616,334 Euros.

The movements in Impairment of inventories are as follows:

	2016	2015
1 January	89.329	112.459
Perimeter entries	104.790	-
Increases	136.710	-
Reversals	(37.679)	(22.148)
Utilization	(7.690)	(982)
31 December	**285.459**	**89.329**

17. Corporate income tax

During the years ended 31 December 2016 and 31 December 2015, the balances related to current corporate income tax are as follows:

	31-12-2016		31-12-2015	
	Debtor	Creditor	Debtor	Creditor
Current income tax	523.869	435.112	286.569	4.957.704
	523.869	**435.112**	**286.569**	**4.957.704**

The balance of Current income tax is detailed as follows:

	2016	2015
Advance payments	6.220.994	278.750
Withholding tax	246.541	7.819
Current income tax estimate	(6.378.778)	(4.957.704)
	88.757	**(4.671.135)**

Since 2012, Grupo Pestana, S.G.P.S, S.A. is taxed under the Special Taxation Regime for Groups (RETGS). Consequently, the current income tax is calculated based on the taxable profit of the companies included in the consolidation and in this regime, according to RETGS rules (Note 37).

As at 31 December 2016, the current income tax is presented as follows:

Entities	2016
Grupo Pestana, S.G.P.S., S.A.	5.088.947
Salvor - Sociedade de Investimento Hoteleiro, S.A.	2.610.502
Djebel, S.G.P.S., S.A.	473.131
Mundo da Imaginação - Projectos de Animação Turística, S.A.	61.822
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	23.842
Natura XXI Unipessoal, Lda.	8.732
Amoreira - Aldeamento Turístico, Lda.	8.583
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	(124)
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	(1.053)
Rolldown Golfe, S.A.	(6.510)
Sociedade de Investimento Hoteleiro D. João II, S.A.	(23.322)
Pestana Segurança - Serviços de Segurança e Vigilância, Lda.	(31.377)
Cota Quarenta, S.A.	(31.629)
Intervisa, S.A.	(49.682)
Eurogolfe, S.A.	(60.627)
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	(85.203)
Carvoeiro Golfe Sociedade Mediação Imobiliaria, Lda.	(113.099)
Beloura Hotel e Golfe - Invest. Turísticos, S.A.	(164.307)
Pestana Cidadela - Investimentos Turisticos, S.A.	(182.185)
Pinheiro Mar, S.A.	(200.450)
Hotéis do Atlântico, S.A.	(220.070)
Pestana Management, S.A.	(347.779)
Viquingue - Sociedade Turística, S.A.	(627.373)
Carvoeiro Golfe, S.A.	(712.243)
Carlton Palácio, S.A.	(1.675.637)
M & J Pestana, S.A.	(3.312.173)
Companies in the tax consolidation perimeter	430.716
Porto Carlton - Soc. de Construção e Exploração Hoteleira, S.A.	**(233.166)**
Ponta da Cruz - Soc. Imobiliária e de Gestão de Hotéis, S.A.	**(155.903)**
ITI - Soc. de Investimentos Turísticos na Ilha da Madeira, S.A.	**(44.006)**
Pestana Berlin, S.À.R.L	-
Herdade da Abrunheira, S.A.	**4.000**
Indústria Açoreana Turistico - Hoteleira (I.A.T.H.), S.A.	**10.888**
SDM - Soc. Desenvolvimento da Madeira, S.A.	**22.643**
Hotel Rauchstrasse 22, S.a.r.l.	**26.228**
Desarrollos Hoteleros Barcelona 2004, S.A.	**27.356**
Other companies	(341.959)
Total current income tax	**88.757**

18. Cash and cash equivalents

The detail of Cash and cash equivalents as at 31 December 2016 and 2015 is as follows:

	31-12-2016	31-12-2015
Cash	1.387.857	1.061.882
Bank deposits	81.216.116	70.622.818
	82.603.973	**71.684.700**

The detail of the amount considered as final balance in Cash and cash equivalents for the purposes of the preparation of the Consolidated statement of cash flows for the year ended 31 December 2016 and 2015 is presented as follows:

	31-12-2016	31-12-2015
Cash	1.387.857	1.061.882
Bank overdrafts	(3.083.395)	(19.120.041)
Bank deposits	81.216.116	70.622.818
	79.520.578	**52.564.659**

The balances of Cash and cash equivalents as at 31 December 2016 regarding the subsidiary that entered the consolidation perimeter amounted to 1,309,870 Euros (at the entry date: 575,524 Euros) (Note 43).

19. Non-current assets held for sale

As at 31 December 2016 and 2015, Non-current assets and liabilities held for sale are presented as follows:

	2016	2015
Group of assets held for sale		
Pestana Alvor Park hotel and business (i)	-	8.298.468
Investment in Wildbreak 29 (PTL), Lda. (ii)	-	2.721.829
Group of assets of Convento do Carmo, S.A. (iii)	-	316.124
	-	11.336.421
Pestana Alvor Park hotel and business (i)	-	(3.298.121)
Group of liabilities of Convento do Carmo, S.A. Held for sale (iii)	-	(4.914.767)
	-	(8.212.888)
	-	**3.123.533**

(i) Pestana Alvor Park Hotel and related business

The Group, after the deliberation of the Board of Directors of Salvor – Sociedade de Investimento Hoteleiro, S.A., in December 2015, decided to dispose of Pestana Alvor Park hotel transferring the all business attached to this unit for the amount of 5,000,000 Euros, having this transaction been concluded in 2016 with a capital loss of 177,477 Euros. Since, as at 31 December 2015, the negotiations for the sale of the hotel were already in place and, there was already an estimate of the sales price, an impairment loss was recognized for the difference between the carrying amount of the assets to be transferred and the estimated consideration to be received, which amounted to 1,803,643 Euros. The unit´s related assets were also reclassified to Non-current assets held for sale (Note 6) and the deferred revenue to Non-current liabilities held for sale.

(ii) Wildbreak 29 (PTL), Ltd.

In 2016, following up on the corporate reorganization of Pestana Hotel Group, to concentrate all the investments held in Africa in the respective holding company, investment held in Wild Break 29(PTY) Ltd was sold for an amount of 2,650,000 Euros, resulting in a capital gain of 322,512 Euros (Note 35).

During 2015, an internal valuation was prepared based on discounted estimated cash flows, appropriate discount rate and the impact of foreign currency differences between the South African Rand and the Euro at the assessment date, which are deteriorating significantly, having been recognized an impairment loss of 2,923,357 Euros (Note 35).

(iii) Convento do Carmo

Following up on the corporate reorganization of Pestana Hotel Group, in 2016, the disposal of Convento do Carmo, S.A. to Brasturinvest, S.A. was recognized, thus concentrating the activities of the group in Brazil, an operation that was finally possible to accomplish due to the departure of the non-controlling interest.

The group sold all the shares and shareholders loans for the amount of 5,000 Euros, having this transaction generated a capital gain of 3,729,733 Euros (Note 38) given the deficitary situation presented by this entity in the last years, reflecting a negative contribution to Pestana Group.

20. Capital

As at 31 December 2016 and 2015, Capital is as follows:

	2016	2015
Share capital (i)	81.530.000	81.530.000
Other equity instruments:		
Accessory contribution capital (ii)	35.200.000	37.200.000
Share premium (iii)	33.690.973	33.690.973
	150.420.973	**152.420.973**

(i) Share capital

As at 31 December 2016 and 2015, share capital of Grupo Pestana, S.G.P.S., S.A., of 81,530,000 Euros, was fully subscribed and paid up, and was represented by 81,530,000 shares of 1 Euro each.

As at 31 December 2016 and 2015, Share capital is detailed as follows:

Shareholders	Number of shares	Share capital
Pestana International Holdings S.A.	80.714.700	80.714.700
Dionísio Fernandes Pestana	815.300	815.300
	81.530.000	**81.530.000**

(ii) Accessory contributions

As at 31 December 2016 and 2015, the accessory contributions of capital were granted by the two shareholders of Grupo Pestana, S.G.P.S., S.A. in the following amounts: 32,700,000 Euros paid up by Mr. Dionisio Pestana (2015: 34,700,000 Euros) and 2,500,000 Euros paid up by Pestana International Holdings, S.A. (2015: 2,500,000 Euros).

The accessory contributions of capital cannot be reimbursed if, after their reimbursement, equity will become lower than the sum of the share capital and legal reserve in the separate financial statements of the Company.

(iii) Share premium

This caption relates to the excess of fair value of the assets delivered to Grupo Pestana, S.G.P.S., S.A., by its shareholders at the time of the share capital realization. This balance can only be used for incorporation into future share capital increases.

21. Other reserves

Other reserves had the following movements during the period ended 31 December 2016 and 2015:

	Legal reserve (i)	Free reserves	Fair value reserve C.F.H (ii)	Fair value reserve A.F.S. (iii)	Equity method (iv)	Currency translation differences (v)	Total
1 January 2015	15.487.022	460.317	(4.369.515)	(23.704)	1.524.304	645.695	13.724.120
Perimeter entries (Nota 42)	78.710	(2.812)	–	–	–	140.005	215.903
Profit for the period application	763.256	–	–	–	–	–	763.256
Other gains and losses recognized directly in equity resulting from associates - Equity accounting (Note 9)	–	–	–	–	(86.356)	–	(86.356)
Foreign currency impact	–	–	–	–	–	(790.356)	(790.356)
Changes in other reserves (cash flow hedge) net of income tax	–	–	1.190.768	–	–	–	1.190.768
Changes in the fair value reserve (available-for-sale financial assets) net of income tax (Note 12)	–	–	–	(29.572)	–	–	(29.572)
Dividends	–	(127.850)	–	–	–	–	(127.850)
Others	–	(133.326)	–	–	–	(25)	(133.351)
Transfers to Retained earnings	–	–	–	–	–	(99.512)	(99.512)
Transfers to profit for the period (Note 35)	–	–	–	–	(9.838.326)	–	(9.838.326)
31 December 2015	**16.328.988**	**196.329**	**(3.178.747)**	**(53.276)**	**(8.400.378)**	**(104.193)**	**4.788.723**
Profit for the period application	2.129.673	(16.300)	–	–	–	–	2.113.373
Foreign currency impact	–	–	–	–	–	423.805	423.805
Changes in other reserves (cash flow hedge) net of income tax	–	–	2.001.824	–	–	–	2.001.824
Others	–	–	–	23.704	-	542.631	566.335
Transfers to Retained earnings	–	–	–	–	1.079.361	-	1.079.361
Transfers to profit for the period (Note 35)	–	–	–	-	–	376.972	376.972
31 December 2016	**18.458.661**	**180.029**	**(1.176.923)**	**(29.572)**	**(7.321.017)**	**1.239.215**	**11.350.393**

(i) Legal reserve

In accordance with the applicable commercial law, in Portugal, as well as in a few other countries, at least 5% of net profit for the year, if positive, must be set aside in a legal reserve until that reserve is equal to at least 20% of the Company's issued share capital. This reserve is not available for distribution until the Company's liquidation but may be used to absorb losses, after all other available reserves have been extinguished, and to increase share capital.

(ii) Fair value reserve C.F.H. (Cash flow hedge)

This reserve includes the effective portion of changes in fair value of hedging derivatives (Note 26). This reserve also includes the deferred tax impact related to the changes in fair value that are not tax deductible, at the reporting date.

(iii) Fair value reserve A.F.S. (Available-for-sale financial assets)

Cumulative changes in fair value net of impairment losses existing at the Statement of financial position date, relating to available for sale financial assets, are recorded in this caption (Note 13).

(iv) Equity method

This caption includes all changes occurred in equity of the Associates owned by the group related to the items that are recycled through profit of the year, namely those presented in the Statement of comprehensive income. The accumulated values, by Associate, are presented as follows, being the changes occurred related to the application of the prior year Profit for the period:

	2016	2015
Enatur – Empresa Nacional de Turismo, S.A.	(6.312.430)	(7.393.319)
Albar - Sociedade Imobiliária do Barlavento, S.A.	(1.008.587)	(1.007.059)
	(7.321.017)	**(8.400.378)**

(v) Cumulative translation adjustment

The differences arising from the conversion of the Income statement and the conversion of the Statement of financial position of the subsidiaries that have a functional currency other than the Euro, as described in Note 3.3.iii), are recognized under this caption. The accumulated translation differences, by currency, are presented as follows:

	2016	2015
USD - United states dollar	1.269.119	621.056
BRL - Brazilian real	-	(919.601)
GBP - Sterling pound	(29.904)	194.352
	1.239.215	**(104.193)**

22. Retained earnings

As at 31 December 2016 and 2015, Retained earnings presented the following movements:

	Total
1 January 2015	65.326.126
Dividends	(32.439.197)
Profit for the period applicaiton	7.104.291
Changes in the perimeter (Note 43)	2.360.300
Transfers from Non-controlling interests (Note 23)	(4.949.183)
Foreign currency impact	99.224
Transfers from Other reserves (Note 21)	99.512
Acquisition of shares and accessory contribution capital from non-controlling interests	(251.000)
Others	360.045
31 December 2015	**37.710.118**
Dividends	(23.106.557)
Profit for the period applicaiton	36.389.624
Changes in the perimeter (Note 43)	(376.972)
Transfers from Non-controlling interests (Note 23)	2.199.957
Foreign currency impact	(37.134)
Transfers from Other reserves (Note 21)	(1.621.992)
Acquisition of shares and accessory contribution capital from non-controlling interests	(1.990.235)
Others	(160.915)
31 December 2016	**49.005.894**

23. Non-controlling interests

Non-controlling interests' movements are as follows:

	2016	2015
1 January	25.223.946	22.798.537
Changes in the perimeter	1.584.462	25.055
Dividends	(2.045.319)	(3.175.654)
Profit for the period	4.492.414	3.102.643
Reimbursement of acccessory contribution capital to non-controlling interests	-	(2.400.000)
Others	(229.110)	(75.819)
Transfers to retained earnings	(2.199.957)	4.949.183
Foreign currency impact	(28.905)	-
31 December	**26.797.531**	**25.223.946**

In 2016 and 2015, dividends were distibuted by SDM - Sociedade de Desenvolvimento da Madeira, S.A..

In 2016, the amount transferred to Retain Earnings results from the change in the investment held, through the acquisition from non-controlling interests, of shares in the subsidiaries Salvor, S.A., Ponta da Cruz, S.A., Hotel Rauchstrasse S.à.r.l. and Pestana Berlin S.à. r.l. and the disposal of shares to non-controlling interests, of the subsidiaries Hotel Rauchstrasse S.à.r.l. and Pestana Management UK.

In 2015, it results from the change in the investment held, through the acquisition from non-controlling interests, of shares in the subsidiaries Grupo Pestana Pousadas de Portugal – Inv. Tur., S.A., Pinheiro Mar, S.A., Mundo da Imaginação, S.A. and Indústria Açoreana Turístico - Hoteleira, S.A..

In December 2015, it was proposed, by the Board of Directors to shareholders, the reimbursement of accessory contributions of capital, having the shareholders deliberated at the meeting held on 4 January 2016 the reimbursement to the shareholder of the subsidiary Ponta da Cruz, the company AJJ, S.G.P.S, S.A., in the amount od 2,400,000 Euros (Note 28).

As at 31 December 2016 and 2015 Mr. Dionísio Pestana, the ultimate shareholder of Pestana International Holdings, S.A., owns directly 10,340.812 Euros and 10.168.488 Euros of Non-controlling interests, as follows:

	31-12-2016		31-12-2015	
	% held	Value	% held	Value
SDM - Sociedade de Desenvolvimento da Madeira, S.A.	55,00%	10.321.967	55,00%	10.149.784
Hoteis Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	0,08%	18.846	0,08%	18.704
		10.340.812		**10.168.488**

Non-controlling interests refers to the following investments:

	31-12-2016		31-12-2015	
	% held	Value	% held	Value
SDM - Sociedade de Desenvolvimento da Madeira, S.A.	85,00%	15.952.130	85,00%	15.646.370
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	48,00%	6.156.668	48,17%	5.235.969
Porto Carlton - Sociedade de Construção e Exploração Hoteleira, S.A.	40,00%	2.016.580	40,00%	1.333.623
Salvor - Sociedade de Investimento Hoteleiro, S.A.	0,99%	1.557.559	1,01%	1.439.909
Hotel Rauchstrasse 22, S.A.R.L.	7,29%	892.058	26,56%	3.669.294
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	4,32%	252.155	4,32%	296.038
Pestana Management UK, Limited	25,06%	158.379	0,08%	(1.824)
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	0,08%	19.464	0,08%	18.704
Desarollos Hoteleros de Barcelona	0,08%	394	0,08%	277
ITI - Sociedade de Investimentos Turísticos na Ilha da Madeira, S.A.	0,01%	134	0,01%	138
Pestana USA	0,08%	-	0,08%	(168)
Convento do Carmo, S.A.	0,00%	-	25,00%	(1.732.761)
Amesteldijk Hotel Ontwkkeling B.V.	0,08%	(18)	0,08%	(5)
Pestana Manhattan	0,08%	(26)	0,08%	(4)
Pestana NY East Side 39	0,08%	(41)	-	–
Global Mandalay	0,08%	(69)	0,08%	(20)
Pestana Holland Holding	0,08%	(185)	0,08%	(224)
Pestana Miami LLC	0,08%	(355)	0,08%	(268)
Pestana Berlim S.A.R.L.	0,08%	(1.319)	26,56%	(218.172)
Herdade da Abrunheira - Projectos de Desenv.Turístico e Imobiliário, S.A.	33,33%	(205.975)	33,33%	(462.931)
		26.797.531		**25.223.946**

The effect of the changes in the perimeter in Non-controlling interests is presented in Note 43.

24. Provisions

The changes in Provisions are as follows:

	Litigation and claims in progress (i)	Customer guarantees (ii)	Other provisions	Total
1 January 2016	77.787	173.797	98.219	349.803
Perimeter entries (Note 43)	2.755.052	-	747.145	3.502.197
Increases	5.750	-	-	5.750
Decreases	(57.239)	(30.000)	-	(87.239)
Utilizations	-	-	(60.867)	(60.867)
Changes on period	2.703.564	(30.000)	686.278	3.359.842
31 December 2016	**2.781.351**	**143.797**	**784.496**	**3.709.645**
Current balance	2.781.351	28.909	443.602	3.253.862
Non-current balance	-	114.889	340.895	455.783
	2.781.351	**143.797**	**784.497**	**3.709.645**

	Litigation and claims in progress (i)	Customer guarantees (ii)	Other provisions	Total
1 January 2015	116.408	135.486	158.720	410.614
Utilizations	-	-	-	-
Increases	1.288	38.311	-	39.599
Decreases	(12.250)	-	(12.000)	(24.250)
Utilizations	(26.160)	-	(50.000)	(76.160)
Transfers	(1.499)	-	1.499	-
Changes on period	(38.621)	38.311	(60.501)	(60.811)
31 December 2015	**77.787**	**173.797**	**98.219**	**349.803**
Current balance	77.787	51.510	98.219	227.516
Non-current balance	-	122.287	-	122.287
	77.787	**173.797**	**98.219**	**349.803**

The detail of Provisions accounted for and main reasons for the movements occurred are as follows:

(i) Litigation and claims

There are lawsuits and arbitration proceedings ongoing against certain companies of the Group classified as probable losses. These provisions were recorded based on the opinion of internal and external legal advisors, in order to address the probable outflow of resources from Grupo Pestana with these claims.

The subsidiary, Empresa de Cervejas da Madeira, Lda (ECM) received, following an inspection carried out by Customs in Lisbon related to Special Tax on Consumption (IEC) for the years 2002, 2003, and the first half of 2004, an officious liquidation in the amount of 2,433,782 Euros added up of 321,270 Euros of compensatory interest. Until 2014, this claim was on hierarchical court appeal and the subsidiary ECM had constituted bank guarantees, and no outflow was expected to occur based on the oipinion of specialized external advisors. However in 2015, the court has taken its decision which was unfavourable to ECM. Despite the extraordinary judicial administrative appeal that was immediately sumitted, considering the development occurred in the process, Pestana Group recognized a provision on the total amount of 2,755,052 Euros. No further developments regarding the appeal occurred in 2016.

(ii) Provisions for guarantees

Based on the history and type of works developed, this provision includes the estimated costs to be incurred in the future under the guarantee that has been given on the construction of houses and apartments sold.

(iii) Other provisions

As at 31 December 2016 and 2015, the balance of Other provisions results from ordinary and business related risks.

25. Borrowings

The classification of Borrowings concerning the term (current and non-current) and nature, at the end of the year, is as follows:

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	38.442.310	186.558.120	225.000.429	47.186.739	220.150.241	267.336.980
Group loans	2.928.491	44.595.466	47.523.957	-	-	-
Bank overdrafts	3.083.395	-	3.083.395	19.120.041	-	19.120.041
Commercial paper	10.000.000	18.500.000	28.500.000	-	5.000.000	5.000.000
Bond loans	-	107.500.000	107.500.000	-	107.500.000	107.500.000
	54.454.196	357.153.586	411.607.781	66.306.780	332.650.241	398.957.021
Interests payable - accrual	2.467.556	157.689	2.625.245	2.720.234	157.689	2.877.923
Interests paid - deferral	(237.374)	(3.929.175)	(4.166.548)	(86.534)	(3.339.654)	(3.426.188)
	56.684.378	**353.382.099**	**410.066.477**	**68.940.481**	**329.468.276**	**398.408.757**

The balances of Borrowings as at 31 December 2016 regarding the subsidiary that entered the consolidation perimeter amounted to 7,870,740 Euros (at the entry date: 12,825,971 Euros) (Note 43).

Bank loans have as collateral mortgages over some assets of Grupo Pestana (Note 41).

Relating to financing operations engaged by group companies, there are some clauses that require specific covenants to be accomplished such as: i) the maintenance of the subsidiaries share capital inside the group; ii) maintenance of ratios related to the capital structure and others. As at 31 December 2016, no exceptions have been identified in any of these covenants.

The future payments of the outstanding commercial paper, bonds and bank loans, by currency of denomination as at 31 December 2016 and 2015 are as follows:

	2017	2018	2019	2020	2021	Following years	Total
Bank loans							
Euro	38.442.310	36.083.661	33.336.398	22.469.001	19.066.474	75.602.585	225.000.429
	38.442.310	**36.083.661**	**33.336.398**	**22.469.001**	**19.066.474**	**75.602.585**	**225.000.429**
Commercial paper							
Euro	10.000.000	1.888.889	1.444.444	2.944.444	10.444.444	1.777.778	28.500.000
	10.000.000	**1.888.889**	**1.444.444**	**2.944.444**	**10.444.444**	**1.777.778**	**28.500.000**
Bond loans							
Euro	-	-	-	65.000.000	27.500.000	15.000.000	107.500.000
	-	-	-	65.000.000	27.500.000	15.000.000	107.500.000
	48.442.310	**37.972.550**	**34.780.843**	**90.413.445**	**57.010.919**	**92.380.363**	**361.000.429**

	2016	2017	2018	2019	2020	Following years	Total
Soft loans							
Euro	1.109.085	1.296.722	1.340.654	971.904	425.944	994.700	6.139.009
	1.109.085	**1.296.722**	**1.340.654**	**971.904**	**425.944**	**994.700**	**6.139.009**
Bank loans							
Euro	44.711.699	37.312.511	34.247.556	30.131.988	31.017.903	42.165.598	219.587.255
British Pound	361.187	390.695	406.308	421.064	1.986.364	11.410.222	14.975.840
American Dollar	1.004.768	1.072.888	1.141.008	1.183.583	22.232.629	-	26.634.876
	46.077.654	**38.776.094**	**35.794.872**	**31.736.635**	**55.236.896**	**53.575.820**	**261.197.971**
Commercial paper							
Euro	-	-	-	5.000.000	-	-	5.000.000
	-	**-**	**-**	**5.000.000**	**-**	**-**	**5.000.000**
Bond loans							
Euro	-	-	-	-	65.000.000	42.500.000	107.500.000
	-	-	-	-	65.000.000	42.500.000	107.500.000
	47.186.739	**40.072.816**	**37.135.526**	**37.708.539**	**120.662.840**	**97.070.520**	**379.836.980**

Loans presented in the table above are subject to variable interest rate of 12M, 6M, 3M and 1M Euribor and Libor plus spread.

In May 2016, Pestana Group entered into a financing contract with Pestana International Holdings, S.A., amounting to 25,433,185 Euros, being remenerated at LIBOR+Spread, to be repaid in 32 quarterly installments. In June 2016, the group entered in another contract, also with Pestana International Holdings, S.A., amounting to 23,375,000 Euros, with a fixed annual interest rate, and to be repaid also in 32 quarterly installments.

In 2016, the group negotiated a commercial paper programme in the total amount of 23,500,000 Euros.

In July 2015, the Company entered into a paying agent service contract with BBVA (Banco Bilbao Viscaia Argentaria) for the issuing of 150 bond by private subscription, represented by transferable securities in book-entry form and bearer with a nominal value of 100,000 Euros, amounting to EUR 15,000,000 called “Grupo Pestana 2015/2022”. This operation was issued and placed in that same month, the registering entity of which is the Centralized System Securities managed by Interbolsa.

In December 2015, the Company entered into a paying agent service contract with BCP bank for the issuing of 2,750 bond by private subscription, represented by transferable securities in book-entry form and bearer with a nominal value of 10,000 Euros, amounting to EUR 27,500,000 called “Obrigações Grupo Pestana 2015/2021”. This operation was issued and placed in that same month, the registering entity of which is the Centralized System Securities, managed by Interbolsa.

Also in December 2015, the Company repaid in one installment the amount of 20,000,000 Euros relating to the private subscription issuance of bonds occurred in 2012 with BCP (Banco Comercial Portugues S.A.), entitled “Obrigações Grupo Pestana 2012/2015”.

Pestana Group holds, as at 31 December 2016, a set of unused contracted credit lines in Financial Institutions with a total amount of 100,500,000 Euros. This amount includes a commercial paper programme not used of 21,500,000 Euros, being the remaining related to authorized credit lines and overdrafts of 79,000,000 USD.

26. Derivatives

As at 31 December 2016 and 2015, Grupo Pestana had interest rate swaps (hedging derivatives) as follows:

	31-12-2016		31-12-2015	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap - non-current	-	2.928.884	-	5.472.185
Interest rate swap - current	-	-	-	-
	-	**2.928.884**	**-**	**5.472.185**

Detailed information about the characteristics and fair value of the swaps:

Subsidiary	IAS 39 classification	Reference amount	Maturity	Payment period	Rate receivable/ payable	Fair value at 31-12-2016	Fair value at 31-12-2015	Change on period
Grupo Pestana S.G.P.S., S.A.	Hedging	10.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	(253.933)	(406.271)	152.338
Grupo Pestana S.G.P.S., S.A.	Hedging	15.000.000	30-12-2016	Semiannual	Eur 6M / 2,71%	–	(62.807)	62.807
Grupo Pestana S.G.P.S., S.A.	Hedging	10.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	(256.155)	(527.769)	271.614
M & J Pestana, S.A.	Hedging	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	(126.966)	(203.136)	76.169
M & J Pestana, S.A.	Hedging	5.000.000	18-12-2019	Semiannual	Eur 6M / 3,08%	(128.078)	(263.884)	135.807
M & J Pestana, S.A.	Hedging	8.750.000	02-07-2017	Semiannual	Eur 6M / 0,88%	(3.145)	(23.318)	20.173
ITI Soc.Inves. Tur. Ilha Madeira, S.A. (i)	Proportional hedge	7.000.000	26-09-2022	Semiannual	Eur 6M / 4,82%	(559.234)	(709.171)	149.936
ITI Soc.Inves. Tur. Ilha Madeira, S.A.	Hedging	6.000.000	10-10-2016	Semiannual	Eur 6M / 4,74%	–	(21.861)	21.861
Hoteis Atlantico, S.A. (ii)	Hedging	11.000.000	28-05-2020	Quarterly	Libor GBP 3M / 3,43%	–	(1.058.929)	1.058.929
Carlton Palácio, S.A.	Hedging	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	(126.966)	(203.136)	76.169
Carlton Palácio, S.A.	Hedging	6.000.000	30-12-2016	Semiannual	Eur 6M / 2,71%	–	(25.123)	25.123
Carlton Palácio, S.A.	Hedging	5.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	(128.078)	(263.884)	135.807
Beloura Hotel e Golfe - Investimento Turísticos, S.A.	Hedging	9.600.000	30-07-2019	Semiannual	Eur 6M / 4,77%	(174.531)	(306.568)	132.037
Salvor, S.A.	Hedging	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	(126.966)	(203.392)	76.426
Salvor, S.A.	Hedging	7.000.000	30-12-2016	Semiannual	Eur 6M / 2,71%	–	(29.310)	29.310
Salvor, S.A.	Hedging	5.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	(128.490)	(263.884)	135.394
Intervisa Viagens Turismo, S.A.	Hedging	500.000	13-03-2017	Quarterly	Eur 3M / 4,16%	(127)	(2.153)	2.026
Hotel Rauchstrasse 22, S.à r.l. (iii)	Trading	11.500.000	16-06-2025	Semiannual	Eur 6M / 2,10%	(916.214)	(897.589)	(18.625)
						(2.928.884)	**(5.472.185)**	**2.543.301**

(i) This derivative is only designated as a hedge instrument in a ratio of 75%. The remaining 25% are considered as trading with the respective variation in fair value recorded in the income statement (Note 36).
(ii) This derivative was early settled during 2016, with the repayment by Hotéis Atlântico, S.A.of the hedged Borrowing that was denominated in British Pounds.
(iii) This derivative was signed as part of the renegotiation of the borrowings of Hotel Rauchstrasse 22, S.à. r.l.. However, it is classified as trading, and, as such, its fair value variations were recognized in the income statement (Note 36).

The change in fair value of the derivative financial instruments in 2016 and 2015, were as follows:

	2016	2015
1 January	5.472.185	6.768.136
Hedging derivatives - fair value changes	(1.303.117)	(799.245)
Trading derivatives - fair value changes (Note 36)	(42.155)	248.466
Settlement	(1.198.030)	(745.172)
31 December	**2.928.884**	**5.472.185**

The changes in the fair value reserve related to cash flow hedges in 2016 and 2015, were as follows:

	2016	2015
1 January	(3.178.747)	(4.369.515)
Hedging derivatives - fair value changes	1.323.794	819.934
Deferred taxes (Note 12)	(520.000)	(374.338)
Settlement	1.198.030	745.172
31 December	**(1.176.923)**	**(3.178.747)**

Derivative financial instruments classified as trading are financial instruments contracted to hedge economic risks of Pestana Group (Note 4) but which are not eligible under IFRS for the application of hedge accounting and so the changes in fair value are recognized in the income statement.

The fair value of the interest rate swaps corresponds to the mark-to-market value determined based on the agreed terms and the estimated interest rate yields as at the statement of financial position date, which corresponds to level 2 on the hierarchy of fair value (Note 14).

Pestana Group recognizes derivative financial instruments in accordance with IAS 39. However, it is noteworthy that the borrowings subject to hedging have implicit spreads much lower than the ones that are being currently practiced in the market.

27. Deferred revenue

As at 31 December 2016 and 2015, the detail of Deferred revenue is as follows:

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Pestana Vacations Club – D.R.H.P. (i)	12.610.077	108.698.782	121.308.860	12.878.482	115.773.387	128.651.869
Pestana Vacations Club – Options (ii)	3.097.632	33.666.922	36.764.555	2.218.432	30.897.677	33.116.109
Government grants (iii)	1.766.374	7.058.700	8.825.075	1.691.145	5.751.319	7.442.464
Customer loyalty program (PPG) (iv)	2.727.323	-	2.727.323	2.529.933	-	2.529.933
Others (v)	5.556.451	3.075.893	8.632.344	3.817.892	-	3.817.892
	25.757.859	**152.500.297**	**178.258.156**	**23.135.885**	**152.422.383**	**175.558.268**

The balances of deferred income as at 31 December 2016 regarding the subsidiary that entered the consolidation perimeter amounted to 1,152,720 Euros (at the entry date: 1,211,993 Euros) (Note 43).

(i) Pestana Vacations Club - Timeshare

This balance refers to values obtained from the sale of timeshare rights, which are deferred over the period of the awarded right of use of hotels and apartments at Pestana Group (Note 3.23 ii)), which will end between 2017 and 2039.

(ii) Pestana Vacations Club – Options

This item refers to the sale of the program timeshare Options, the revenue of which is recognized based on usage and its expiring date (Note 3.23 ii)). The customer acquires the right to use accommodation without having to choose the specific hotel at that time, which is represented in points.

(iii) Government grants

This balance relates to grants obtained, the revenue of which is recognized throughout the useful life of the subsidized assets.

(iv) Customer loyalty program (PPG)

This item refers to the customer loyalty program of Pestana Group, named PPG - Pestana Priority Guest. The program consists of points earned in consumption and accomodation in hotels of the Pestana Group, enabling the exchange of points for accommodation in hotels of the Group and direct discounts at restaurants and bars as well as other benefits by the customers. The revenue is recognized when the customer uses the points to purchase a product / service, as agreed in the loyalty program, or when the points expire.

(v) Other

The variation in caption "Other" refers, mainly, to the amount invoiced to Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A. relating to the subconcession agreement for the private use of the dominial infrastructure of Praça do Mar, for the period of 28 years.

28. Trade and other payables

As at 31 December 2016 and 2015, the detail of Trade and other payables is as follows:

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Trade suppliers						
Suppliers (i)	23.168.268	-	23.168.268	24.807.307	-	24.807.307
Other payables						
Other payables (ii)	2.227.044	-	2.227.044	4.133.611	-	4.133.611
Other payables - intercompany (Note 44)	519.713	-	519.713	1.291.432	-	1.291.432
Suppliers of tangible assets (iii)	3.820.723	20.151.976	23.972.699	4.202.449	20.395.900	24.598.347
Advances from customers (iv)	32.613.670	-	32.613.670	24.061.360	-	24.061.360
Taxes payable (v)	5.329.852	-	5.329.852	4.497.990	-	4.497.990
Accrued expenses						
Holiday and subsidy pay	12.141.656	-	12.141.656	10.658.025	-	10.658.025
Others	10.696.389	-	10.696.388	10.238.361	-	10.238.361
	90.517.315	**20.151.976**	**110.669.291**	**83.890.534**	**20.395.900**	**104.286.434**

Current payables presented have no significant difference between carrying amount and fair value.

(i) Suppliers

	31-12-2016			31-12-2015		
Description	Current	Non-current	Total	Current	Non-current	Total
Suppliers - group (Note 44)	1.479.847	-	1.479.847	1.890.514	-	1.890.514
Other suppliers	21.688.421	-	21.688.421	22.916.793	-	22.916.793
	23.168.268	**-**	**23.168.268**	**24.807.307**	**-**	**24.807.307**

(ii) Other payables

As at 31 December 2015 this balance includes 2,400,000 Euros to be paid to AJJ, S.G.P.S., S.A. regarding the reimbursement of accessory contributions of capital (Note 23).

(iii) Suppliers of tangible assets

In 2016 and 2015, this caption includes an amount of 16,971,078 Euros and 20,301,779 Euros, respectively, regarding the net present value of the 99 year ground lease contract negotiated by the subsidiary Pestana Manhattan 39 LLC, since it was considered, that in accordance with IAS 17 – Leases, all the risks and rewards similar to the ownership of the related asset were transferred to Pestana Group.

This caption includes also, among others, the liabilities associated to the financing lease contracts, negotiated by the group, which are presented as follows:

	31-12-2016	31-12-2015
Less than 1 year	1.740.588	1.059.948
Between 1 and 5 years	7.596.393	6.651.251
More than 5 years	12.555.583	13.744.648
	21.892.564	**21.455.848**

(iv) Advances from customers

Refers mainly to the amounts received along the construction works, amounting to a total amount of 24,044,447 Euros (31 December 2015: 14,822,647 Euros), the maintenance costs charged in advance under timeshare contracts amounting to 5,406,271 Euros (31 December 2015: 6,127,867 Euros) and the amounts received when touristic real estate promissory sales agreements are signed. The remaining amount refers to reservations made by tour operators.

(v) Taxes payable

	31-12-2016			31-12-2015		
Description	Current	Non-current	Total	Current	Non-current	Total
Personnel income tax withheld	771.434	-	771.434	765.780	-	765.780
Value added tax (VAT)	3.136.379		3.136.379	2.545.053		2.545.053
Social security contributions	1.293.810		1.293.810	1.110.743		1.110.743
Others	128.229	-	128.229	76.414	-	76.414
	5.329.852	**-**	**5.329.852**	**4.497.990**	**-**	**4.497.990**

29. Revenue

The amount of Revenue recognized in the income statement is detailed as follows:

	2016	2015
Hotel business and Food & beverages	197.199.787	173.514.147
Timeshare	30.331.702	29.823.854
Beverages (Note 43)	25.512.610	-
Real estate sale and management services	13.182.582	20.821.880
Golf	10.495.083	9.230.839
Entertainment	7.974.773	10.006.637
Others	17.475.591	12.340.368
	302.172.128	**255.737.725**

The caption Real estate and management services, includes construction contracts (Note 30).

The revenues regarding the subsidiary that entered in the consolidation perimeter in 2016, amounted to 25,512,610 Euros (Note 43).

The detail of services rendered in Hotel business and Timeshare by country of origin of the customers, for 2016 and 2015, is as follows:

	Hotel business	
Country	2016	2015
Portugal	25,8%	24,8%
United Kingdom	25,6%	25,9%
Germany	12,2%	12,6%
France	4,6%	5,0%
United States of America	3,9%	3,5%
Spain	3,7%	3,4%
Switzerland	2,1%	2,0%
Brazil	2,1%	2,8%
Netherlands	2,1%	2,2%
Belgium	1,6%	1,7%
Irland	1,6%	1,5%
Sweden	1,6%	1,7%
Italy	1,2%	1,3%
Denmark	1,2%	1,2%
Norway	1,0%	1,2%
Russia	0,8%	0,9%
Others	8,9%	8,3%
	100%	**100%**

	Vacations Club	
Country	2016	2015
United Kingdom	56,3%	57,2%
Portugal	10,8%	10,7%
Germany	9,4%	8,6%
Finland	7,7%	7,6%
Sweden	3,3%	3,3%
Others	12,5%	12,6%
	100%	**100%**

30. Construction contracts

As at 31 December 2016 and 2015, all revenue from Construction contracts was recognized according to the stage of completion of existing contracts at those dates, applying the percentage of completion method.

For all Construction contracts in progress it was possible to make a reliable estimate of their outcome. Accordingly, the following costs incurred and revenue were recognized:

Description of the agreement	Costs incurred 2016	Costs incurred 2015	Revenue recognized 2016	Revenue recognized 2015
Construction contracts	4.100.149	6.736.627	4.637.871	7.390.434
	4.100.149	**6.736.627**	**4.637.871**	**7.390.434**

31. External services and supplies

The detail of External services and supplies is as follows:

	2016	2015
Subcontracts	5.469.854	2.708.252
Rents	19.026.505	13.826.967
Maintenance and repair	6.263.151	5.257.995
Advertising	7.185.375	4.220.121
Insurance	1.171.596	1.154.623
Professional fees	16.815.096	15.178.088
Energy	11.029.600	10.056.080
Hygiene/Cleaning	15.210.194	13.965.754
Commissions	7.261.136	4.742.137
Others	5.527.415	4.877.253
	94.959.922	**75.987.270**

External services and supplies costs regarding the subsidiary that entered in the consolidation perimeter in 2016, amount to 8,586,721 Euros (Note 43).

In accordance with Corporate Law, article 66º A, paragraph 1, b), we inform that the statutory audit fees for 2016 charged by the Statutory Auditor were 175,530 Euros.

Detail of Rentals as at 31 December 2016 and 2015 is as follows:

	2016	2015
Leases	11.158.875	7.518.496
Concession	2.994.096	2.644.321
Other operating rents	4.873.534	3.664.150
	19.026.505	**13.826.967**

The captions Leases and Concessions include the amounts regarding the medium and long term lease contracts and the concession of Pousadas network. The variation versus the prior year refers mainly to the rentals of the hotels that have been disposed of and subsequently leased by the Group, during 2016 and 2015, namely the hotels Pestana Dom João II, Pestana Carlton Madeira and Pestana Viking.

32. Personnel expenses

Personnal expenses incurred in 2016 and 2015 are as follows:

	2016	2015
Board of Directors		
Wages and salaries	2.243.110	2.873.006
Social security contributions	421.306	517.076
	2.664.416	**3.390.082**
Staff		
Wages and salaries	54.563.932	47.267.397
Social security contributions	11.212.450	9.936.947
Other	3.938.993	2.496.348
	69.715.375	59.700.692
	72.379.791	**63.090.774**

The personnel expenses regarding the subsidiary that entered in the consolidation perimeter in 2016, amounted to 6,072,303 Euros (Note 43).

The average number of employees of the companies included in the consolidation perimeter of Pestana Group in 2016 was 3,156 (consolidation perimeter of 2015: 2,885).

Personnel expenses include, in 2016, 2,649,960 Euros of estimated costs with profit sharing for the year (2015: 1,427,698 Euros).

Caption Staff – others are includes expenses for termination of employment contracts, negotiated by mutual agreement, of 1,719,993 Euros (31 December 2015: 877,330 Euros).

33. Other income

The detail of Other income is presented as follows:

	2016	2015
Foreign currency exchange gains	1.521.639	2.837.689
Supplementary income	4.110.268	4.046.293
Government grants amortization	613.421	754.055
Gains on disposal of tangible fixed assets	6.928.264	10.219.434
Others	940.931	919.068
	14.114.523	**18.776.539**

As at 31 December 2016, the caption Gains on disposal of tangible fixed assets mainly relates to the disposal of Pestana Viking hotel, a building in Lisbon and apartments from Pestana Alvor Atlântico, with a gain in the amount of 2,775,340 Euros, 2,049,848 Euros and 1,768,067 Euros, respectively (Note 6). As at 31 December 2015, the caption Gains on disposal of tangible fixed assets mainly relates to the disposal of Pestana D. Joao II hotel, with a gain of 9,217,348 Euros (Note 6).

The Other income regarding the subsidiary that entered in the consolidation perimeter in 2016, amounted to 1,298,925 Euros (Note 43).

34. Other expenses

The detail of Other expenses is presented as follows:

	2016	2015
Taxes	6.883.333	6.984.885
Commissions on credit cards	1.221.098	1.316.594
Losses in inventories	204.592	-
Disposal of tangible fixed assets	171.999	4.408.430
Disposal of investment properties	23.155	-
Foreign currency exchange losses	2.487.929	2.235.761
Inventory offers and samples	900.085	-
Fair value decreases in financial instruments	-	647.560
Others	1.279.234	1.324.044
	13.171.425	**16.917.274**

The caption Taxes refers mainly to the payment of property taxes (IMI and similar), and for 2016 it also includes the amount of VAT to be paid as a result of the disposal of the Pestana Viking hotel, in the amount of 1,283,158 Euros (2015: Pestana Dom João II hotel in the amount of 1,139,555 Euros).

The variation in the caption of Losses on disposal of tangible fixed assets refers mainly to the disposal of Pestana Carlton Madeira hotel in 2015 with a loss amounting to 4,355,638 Euros (Note 6).

The Other expenses regarding the subsidiary that entered in the consolidation perimeter in 2016, amounted to 1,114,736 Euros (Note 43).

35. Gains and losses in investments in associates, joint ventures, other financial investments and non-current assets held for sale

Gains and losses in investments in associates, joint ventures, other financial investments and non-current assets held for sale are detailed as follows:

	2016	2015
Disposal of investments held:		
Salvintur (Note 11)	789.952	-
Wildbreak (Note 19)	322.512	-
Pestana Inversiones, S.L. (Note 21)	-	9.838.326
Gains/ (Losses) from equity accounting (Notes 9 and 10):		
Enatur - Empresa Nacional de Turismo, S.A.	444.619	1.129.767
Solpor, Lda.	(3.341)	-
Albar - Sociedade Imobiliária do Barlavento, S.A.	(6.791)	(1.528)
SDEM - Soc. de Desenv. Empr. da Madeira, S.G.P.S., S.A.	(47.842)	(49.847)
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	(76.405)	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	(102.691)	-
Changes in the fair value of financial assets available for sale	(86.690)	(44.023)
Goodwill write-off Solpor, Lda. (Note 10)	(487.635)	-
Impairment loss - Imóveis Brisa - F.I.I.F. (Note 11)	(1.781.814)	(333.622)
Impairment reversal - Salvintur accessory contribution capital (Note 11)	-	7.234.956
Impairment losses - investment in Wildbreak (Note 19)	-	(2.923.357)
Others	92.709	(263)
	(943.417)	**14.850.409**

36. Finance expenses and income

Finance expenses and income is detailed as follows:

	2016	2015
Finance expenses		
Interest expenses	13.017.630	14.433.119
Interest rate swaps	2.989.655	2.525.670
Foreign currency exchange losses	3.969.951	2.124.642
Commissions and guarantee fees	1.147.127	1.603.514
Changes in swaps' fair value	18.625	296.607
	21.142.988	**20.983.551**
Finance income		
Interest income	400.629	622.523
Interest rate swaps	11.583	149.948
Foreign currency exchange gains	3.209.168	1.343.152
Changes in swaps' fair value	60.780	48.141
Others	15.626	49.401
	3.697.786	**2.213.165**

Changes in swaps fair value refers to the changes in the fair value of the derivatives or part of the derivatives designated as held for trading (Note 26).

Foreign currency exchange losses mainly relates to the exchange rate adjustment of the deposits denominated in British Pounds and USD, by Grupo Pestana, S.G.P.S., S.A..

Finance expenses and income of the subsidiary that entered the consolidation perimeter in 2016 amount to 493,203 Euros (Note 43).

37. Income tax

The detail of Income tax for the year recognized in the financial statements is as follows:

	2016	2015
Current income tax:		
Current period income tax	(6.378.778)	(7.976.761)
Prior years' excesses/(insuficiencies)	98.899	(34.182)
	(6.279.879)	**(8.010.943)**
Deferred income tax:		
Origin and reversal of temporary differences	2.279.179	4.875.757
	2.279.179	4.875.757
	(4.000.700)	**(3.135.186)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2016
Profit before tax	**47.916.373**
Tax calculated at domestic tax rates applicable to profits in the respective countries	5.882.614
Tax effects of:	
Income not subject to tax	(4.192.592)
Expenses not deductible for tax purposes (i)	2.602.462
Utilisation of prevously unrecognize tax losses	(379.527)
Adjustments in respect of prior years	(96.734)
Others	184.478
	4.000.700

Since 2012, Grupo Pestana, S.G.P.S, S.A. is taxed under the Special Taxation Regime for Groups ("RETGS"). Consequently, the current income tax is calculated based on the taxable profit or loss of the companies included in the tax consolidation perímeter, according to RETGS rules.

RETGS includes all subsidiaries directly or indirectly in which Pestana Group holds at least 75% of the share capital and other companies that are controlled by the intermediate parent in Luxembourg, that are resident in Portugal, as well as taxed under the Portuguese Corporate Income Tax.

Under de terms of article 69-A of the Code of Taxation of Income and Gains of Collective Persons (CIRC), it was decided to extend the concept of the Special Taxation Regime for Groups, to Pestana International Holdings S.A. located in Luxembourg, assuming Grupo Pestana, S.G.P.S., S.A. the role defined in the number 3 of article 69-A, namely in what refers to the responsibility over the fulfilment of all obligations that are attributable to the dominant entity.

For companies not covered by the special tax rules, current income tax is calculated based on their respective taxable profit or loss, according to the tax rules in the country of each company.

The statutory income tax rates applicable in each country Pestana Group operates, for 2016 and 2015, are as follows:

	2016	2015
Germany	29,72%	29,72%
Brazil	n.a.	34%
Spain	25%	28%
United States of America	40%	40%
Netherlands	25%	25%
Luxembourg	27,08%	28,72%
Portugal	21% - 22,5%	21% - 22,5%
United Kingdom	20%	20%

The group companies are taxed, whenever possible, on a consolidated basis as allowed by the tax legislation of the respective countries.

38. Discontinued operations

The Board of Directors of the subsidiary Grupo Pestana Pousadas, S.A. have approved the sale of Convento do Carmo, S.A. which was completed in 2016. Thus, as this hotel unit corresponded to a separate reportable segment within Pestana Group, in 2015, this operation is presented as discontinued.

Considering the disposal of this subsidiary in 2016, as explained in Note 19 – Non-current assets and liabilities held for sale, the impacts in the Consolidated Income statement, by caption, are as follows:

	Year	
	2016	2015
Revenue	–	1.615.062
Cost of goods sold	–	(228.814)
External services and supplies	–	(792.070)
Personnel expenses	–	(600.288)
Provisions	–	(685.963)
Other income	3.729.733	43.657
Other expenses	-	(3.696.969)
Operating result	3.729.733	(4.345.406)
Financial expenses	-	(463.676)
Financial income	-	4.125
Profit before tax	3.729.733	(4.804.956)
Income tax	-	–
Result of discontinued operations	3.729.733	(4.804.956)

Considering that the sale was made to Brasturinvest, S.A., a related party, the exit from the consolidation perimeter occurred as at 1 January 2016.

39. Dividends per share

Dividends paid to shareholders during 2016 amount to 25,151,876 Euros, corresponding to 0,31 Euros per share (2015: 38,142,701 Euros, corresponding to 0,47 Euros per share).

40. Commitments

The group is performing the renovation works on structures, redevelopments of facilities and features as well as the maintenance of the network of “Pousadas de Portugal” fulfilling the requirement in the Management Assignment Agreement. Consequently, by the end of 2016 it has spent an annual amount of not less than 3 million euros.

Since 1987 a supplementary pension plan is in place for the employees of ECM, Lda, that were at service on that date and until 31 December 2007, that qualifies as a defined benefit plan. To cover this liability a pension fund was incorporated being managed autonomously by the insurance company SGF. As at 31 December 2016, the fund amounts to 1,374,375 Euros.

In 2008, ECM changed the pension plan established by public deed on 21 December 1987, transforming the defined benefit plan into a defined contributory plan, with a contractual annual contribution of 2,5% of the Profit for the year, of the previous year.

Commitments with future minimum lease payments of operating leases, by maturity, are as follows:

31 December 2016	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Future rents of operating leases	14.974.546	79.666.594	136.567.364	**231.208.503**

The values presented refer to the last amounts paid and are, in their vast majority, updated with the inflation rate.

41. Contingencies

Pestana Group has the following contingent liabilities arising from bank guarantees provided:

	2016	2015
Mortgages		
Mortgages over hotel units	185.685.985	211.752.097
Mortgages over land	8.977.730	10.748.025
	194.663.715	**222.500.122**
Guarantees		
Guarantees and liability coverages	7.060.056	1.014.301
Bank guarantees	35.492.711	35.521.012
	42.552.767	**36.535.313**

Contingent Assets

Apart from the disclosed in Note 45 – Subsequent events, as at 31 December 2016, there are no other contingent assets deemed to be relevant.

Contingent liabilities

As at 31 December 2016, Pestana Group had contingent liabilities of approximately 957,207 Euros arising from the ordinary course of business (31 December 2015: 601,796 Euros).

42. Consolidation perimeter

The subsidiaries included in the consolidation perimeter (full consolidation) as at 31 December 2016 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit / (Loss)	% Interest	% Control
Amesteldijk Hotel Ontwkkeling B.V.	Netherlands	Hotel business	31-12-2016	10.221.775	41.533.527	31.311.753	–	(16.043)	99,92%	99,92%
Amoreira - Aldeamento Turístico, Lda.	Portugal	Real estate	31-12-2016	4.843.720	6.356.622	1.512.902	–	(32.332)	99,01%	99,01%
Beloura Hotel e Golfe - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2016	7.065.657	15.226.355	8.160.698	3.586.847	2.058.698	100,00%	100,00%
Carlton Palácio - Sociedade de Construção e Exploração Hoteleiras, S.A.	Portugal	Hotel business	31-12-2016	42.921.333	64.223.805	21.302.472	19.843.153	10.370.075	100,00%	100,00%
Carvoeiro Golfe Sociedade Mediação Imobiliaria, Lda.	Portugal	Real estate	31-12-2016	437.285	5.961.391	5.524.106	893.332	424.025	99,01%	99,01%
Carvoeiro Golfe, S.A.	Portugal	Golf and real estate	31-12-2016	56.747.876	106.078.507	49.330.631	24.989.878	3.375.461	99,01%	99,01%
Cota Quarenta - Gestão e Administração de Centros Comercias, S.A.	Portugal	Real estate	31-12-2016	5.276.331	21.733.837	16.457.506	1.122.677	143.587	100,00%	100,00%
Desarollos Hoteleros de Barcelona	Espanha	Hotel business	31-12-2016	5.746.965	14.464.995	8.718.029	2.871.760	142.109	99,92%	99,92%
ECM – Empresa Cervejas da Madeira, Sociedade Unipessoal, Lda.	Portugal	Beverage	31-12-2016	6.464.557	28.138.528	21.673.970	26.415.035	(274.301)	100,00%	100,00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2016	11.092.514	12.044.790	952.276	567.156	282.269	99,01%	99,01%
Global Mandalay S.L.	Spain	Hotel business	31-12-2016	16.951	867.939	850.988	–	(62.328)	99,92%	99,92%
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2016	32.151.436	68.328.501	36.177.065	35.380.431	2.416.370	95,68%	95,68%
Herdade da Abrunheira - Projectos de Desenv.Turístico e Imobiliário, S.A.	Portugal	Real estate	31-12-2016	482.078	6.514.385	6.032.308	–	(329.101)	66,67%	66,67%
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hotel business	31-12-2016	47.288.634	103.024.267	55.735.633	4.232.156	88.333	99,92%	99,92%
Hotel Rauchstrasse 22, S.A.R.L.	Luxembourg	Hotel business	31-12-2016	6.817.839	19.477.718	12.659.878	1.610.966	264.952	92,71%	92,71%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hotel business	31-12-2016	3.033.308	7.717.999	4.684.690	1.441.357	(454.165)	100,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit / (Loss)	% Interest	% Control
Intervisa Viagens e Turismo, Lda.	Portugal	Distribution	31-12-2016	556.579	2.713.250	2.156.671	1.260.467	189.953	100,00%	100,00%
ITI - Sociedade de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hotel business and entertainment	31-12-2016	42.777.632	68.611.757	25.834.125	32.857.459	8.655.240	100,00%	100,00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hotel business and timeshare	31-12-2016	115.052.007	337.161.681	222.109.674	58.000.638	16.424.420	100,00%	100,00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Entertainment	31-12-2016	1.214.302	3.422.229	2.207.927	687.631	(50.526)	100,00%	100,00%
Natura XXI, Lda.	Portugal	Real estate	31-12-2016	1.441.812	1.452.591	10.779	180	(13.426)	99,01%	99,01%
Pestana Berlim S.A.R.L.	Luxembourg	Hotel business	31-12-2016	484.717	2.447.829	1.963.112	5.837.245	303.837	99,92%	99,92%
Pestana Cidadela - Investimentos Turisticos, S.A.	Portugal	Hotel business	31-12-2016	7.336.545	17.331.344	9.994.799	5.978.856	623.378	100,00%	100,00%
Pestana NY East Side 39	USA	Hotel business	31-12-2016	1.000.100	1.082.267	82.167	-	-	99,92%	99,92%
Pestana Holland Holding B.V.	Netherlands	Hotel business	31-12-2016	12.624.057	15.162.287	2.538.229	-	(42.772)	99,92%	99,92%
Pestana Management UK, Limited	United Kingdom	Hotel business	31-12-2016	455.285	2.109.631	1.654.347	10.205.812	333.323	74,94%	74,94%
Pestana Management - Serviços de Gestão, S.A.	Portugal	Services	31-12-2016	2.742.622	12.816.426	10.073.803	24.915.865	878.342	100,00%	100,00%
Pestana Manhattan 39 LLC	USA	Hotel business	31-12-2016	9.465.611	8.865.465	(600.146)	-	(29.389)	99,92%	99,92%
Pestana Miami LLC	USA	Hotel business	31-12-2016	4.425.469	20.761.319	16.335.850	4.820.910	(259.827)	99,92%	99,92%
Pestana Segurança - Serviços de Segurança e Vigilância, Lda.	Portugal	Services	31-12-2016	237.865	588.728	350.863	1.314.160	9.803	100,00%	100,00%
Pestana USA Inc	USA	Hotel business	31-12-2016	14.212.959	13.396.544	(816.415)	-	(45.563)	99,92%	99,92%
Pinheiro Mar, S.A.	Portugal	Hotel business	31-12-2016	1.044.340	5.202.765	4.158.425	8.769.064	992.821	100,00%	100,00%
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hotel business and timeshare	31-12-2016	12.826.392	28.461.773	15.635.381	8.811.146	1.941.753	52,00%	52,00%
Porto Carlton - Sociedade de Construção e Exploração Hoteleira, S.A.	Portugal	Hotel business	31-12-2016	5.041.450	15.070.902	10.029.452	6.075.452	1.707.392	60,00%	60,00%
Rolldown Golfe, Lda.	Portugal	Golf	31-12-2016	1.192.892	5.640.245	4.447.353	1.371.640	83.033	99,01%	99,01%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hotel business and timeshare	31-12-2016	151.635.868	193.929.827	42.293.958	30.079.133	12.360.314	99,01%	99,01%
SDM - Sociedade de Desenvolvimento da Madeira, S.A.	Portugal	Services	31-12-2016	19.594.585	23.262.161	3.667.577	9.614.027	3.244.003	15,00%	70,00%
Sociedade de Investimento Hoteleiro D. João II, S.A.	Portugal	Hotel business and timeshare	31-12-2016	1.271.640	3.810.149	2.538.509	713.146	88.431	99,01%	99,01%
Viquingue, Sociedade Turística, S.A.	Portugal	Hotel business and timeshare	31-12-2016	13.606.105	19.205.580	5.599.475	4.807.339	2.750.501	99,01%	99,01%

a) Only 15% of the Company is owned by Grupo Pestana, S.G.P.S., S.A., who, however, controls the entity via the shareholder agreement signed with Mr. Dionísio Pestana, who transferred to Grupo Pestana 55% of the voting rights over the company.

Subsidiaries included in the consolidation perimeter (full consolidation) as at 31 December 2015 are presented as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit / (Loss)	% Interest	% Control
Amesteldijk Hotel Ontwkkeling B.V.	Netherlands	Hotel business	31-12-2015	(6.324)	33.308.726	33.315.050	–	(7.323)	99,92%	99,92%
Amoreira - Aldeamento Turístico, Lda.	Portugal	Real estate	31-12-2015	4.876.052	6.385.214	1.509.162	–	(40.020)	98,99%	98,99%
Beloura Hotel e Golfe - Invest. Turísticos, S.A.	Portugal	Hotel business	31-12-2015	4.904.630	14.017.556	9.112.926	3.083.527	(202.030)	100,00%	100,00%
Carlton Palácio - Soc. Const. e Explor. Hoteleira, S.A.	Portugal	Hotel business	31-12-2015	34.153.325	52.871.415	18.718.090	16.207.482	1.829.211	100,00%	100,00%
Carvoeiro Golfe Soc. Mediação Imobiliária, Lda.	Portugal	Real estate	31-12-2015	477.637	734.317	256.680	820.171	464.376	98,99%	98,99%
Carvoeiro Golfe, S.A.	Portugal	Golf and real estate	31-12-2015	55.869.269	97.336.244	41.466.975	31.390.275	2.496.854	98,99%	98,99%
Convento do Carmo, S.A.	Brazil	Hotel business	31-12-2015	(8.599.924)	223.305	8.823.229	1.676.229	(4.249.151)	71,56%	71,56%
Cota Quarenta - Gestão e Administração Centros Comerciais, S.A.	Portugal	Real estate	31-12-2015	6.344.808	21.665.635	15.320.827	32.057.213	1.238.026	100,00%	100,00%
Desarrollos Hoteleros Barcelona 2004, S.A.	Spain	Hotel business	31-12-2015	5.504.856	14.656.651	9.151.795	2.634.822	(50.013)	99,92%	99,92%
Eurogolfe, S.A.	Portugal	Golf	31-12-2015	11.008.038	12.005.986	997.948	518.484	208.203	98,99%	98,99%
Global Mandalay S.L.	Spain	Hotel business	31-12-2015	(20.721)	735.872	756.593	–	(21.507)	99,92%	99,92%
Grupo Pestana Pousadas - Invest. Turísticos, S.A.	Portugal	Hotel business	31-12-2015	30.717.185	71.104.829	40.387.644	32.220.463	(2.704.462)	95,68%	95,68%
Herdade da Abrunheira - Projectos de Des. Tur. e Imob. S.A.	Portugal	Real estate	31-12-2015	811.179	6.506.864	5.695.684	–	(284.789)	66,67%	66,67%
Hotéis Atlântico - Soc. Imob. e de Gest. de Hotéis, S.A.	Portugal	Hotel business	31-12-2015	46.369.042	93.728.409	47.359.367	5.327.174	782.398	99,92%	99,92%
Hotel Rauschtrasse 22, S.A.R.L.	Luxembourg	Hotel business	31-12-2015	6.552.888	19.993.154	13.440.266	1.639.999	(212.233)	73,44%	73,44%
Industria Açoreana Turistico Hoteleira IATH, S.A.	Portugal	Hotel business	31-12-2015	987.473	4.496.819	3.509.346	1.176.163	(446.242)	100,00%	100,00%
Intervisa - Viagens e Turismo, S.A.	Portugal	Distribution	31-12-2015	567.350	2.414.771	1.847.420	1.041.343	76.723	100,00%	100,00%
ITI - Soc. de Invest. Turísticos na Ilha da Madeira, S.A.	Portugal	Hotel business and entertainment	31-12-2015	44.068.973	73.926.681	29.857.708	30.314.429	7.080.893	100,00%	100,00%
M. & J. Pestana - Soc. de Turismo da Madeira, S.A.	Portugal	Hotel business and timeshare	31-12-2015	129.303.904	322.425.159	193.121.256	52.642.267	10.858.553	100,00%	100,00%
Mandreal - Consultadoria, S.A.	Portugal	Services	31-12-2015	1.188.277	1.208.177	19.899	–	7.150	100,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit / (Loss)	% Interest	% Control
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Entertainment	31-12-2015	1.264.829	3.647.034	2.382.205	712.855	(97.966)	100,00%	100,00%
Natura XXI, Lda.	Portugal	Real estate	31-12-2015	1.455.238	1.468.034	12.796	225	(31.234)	98,99%	98,99%
Pestana Berlin S.À.R.L	Luxembourg	Hotel business	31-12-2015	(819.120)	2.211.580	3.030.699	5.762.453	69.920	73,44%	73,44%
Pestana Cidadela - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2015	6.713.168	17.894.074	11.180.907	5.646.537	634.552	100,00%	100,00%
Pestana Holland B.V.	Netherlands	Hotel business	31-12-2015	3.030.466	15.261.550	12.231.084	–	(174.534)	99,92%	99,92%
Pestana Management UK, Ltd.	United Kingdom	Hotel business	31-12-2015	1.392.320	3.241.344	1.849.024	14.654.952	453.222	99,92%	99,92%
Pestana Management - Serviços de Gestão, S.A.	Portugal	Services	31-12-2015	4.143.746	14.242.573	10.098.827	24.141.973	723.445	100,00%	100,00%
Pestana Manhattan 39 LLC	USA	Hotel business	31-12-2015	7.271.988	7.337.425	65.437	–	(4.507)	99,92%	99,92%
Pestana Miami, LLC	USA	Hotel business	31-12-2015	4.424.364	20.066.875	15.642.511	4.389.010	280.677	99,92%	99,92%
Pestana Segurança, Serviços de Vigilância Segurança, Unipessoal, Lda.	Portugal	Services	31-12-2015	228.062	454.967	226.905	1.132.035	(21.938)	100,00%	100,00%
Pestana USA, Inc.	USA	Hotel business	31-12-2015	7.514.040	7.551.632	37.592	–	(37.388)	99,92%	99,92%
Pinheiro Mar, S.A.	Portugal	Hotel business	31-12-2015	436.518	4.536.695	4.100.177	7.675.014	380.301	100,00%	100,00%
Ponta da Cruz - Soc. Imob. e de Gest. de Hotéis, S.A.	Portugal	Hotel business and timeshare	31-12-2015	10.884.639	33.719.952	22.835.312	8.101.993	1.659.692	51,83%	51,83%
Porto Carlton - Soc. Constr. e Explor. Hoteleira, S.A.	Portugal	Hotel business	31-12-2015	3.334.058	13.200.962	9.866.905	3.150.391	451.674	60,00%	60,00%
Rio de Prata - Consultadoria e Participações, S.A.	Portugal	Services	31-12-2015	(13.057)	9.600.719	9.613.776	466.306	(42.869)	100,00%	100,00%
Rolldown Golfe, Lda.	Portugal	Golf	31-12-2015	1.109.859	5.902.854	4.792.994	1.184.702	384.223	98,99%	98,99%
Salvor - Soc. de Investimento Hoteleiro, S.A.	Portugal	Hotel business and timeshare	31-12-2015	139.088.678	208.731.471	69.642.793	26.634.877	16.126.202	98,99%	98,99%
SDM - Soc. Desenvolvimento da Madeira, S.A. a)	Portugal	Services	31-12-2015	19.110.117	22.261.404	3.151.285	9.340.560	2.853.762	15,00%	70,00%
Soc. de Investimento Hoteleiro D. João II, S.A.	Portugal	Hotel business and timeshare	31-12-2015	1.246.529	3.910.768	2.664.239	796.406	107.924	98,99%	98,99%
Viquingue, Soc. Turística, S.A.	Portugal	Hotel business and timeshare	31-12-2015	10.855.604	15.808.449	4.952.846	4.452.652	533.642	98,99%	98,99%

Associates and interests in jointly controlled entities included in consolidation by the equity method, as at 31 December 2016 and 2015, are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit / (Loss)	% Interest	% Control
Albar - Sociedade Imobiliária do Barlavento, S.A.	Portugal	Real estate	31-12-2016	1.152.954	1.183.945	30.990	-	(13.633)	49,81%	49,81%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Hotel business	31-12-2016	70.852.908	96.392.801	25.539.893	2.500.220	907.387	46,88%	46,88%
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	Portugal	Services	31-12-2016	1.101.574	1.759.779	658.204	29.672	(164.788)	3,75%	25,00%
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2016	1.597.190	5.851.626	4.254.437	892.052	(152.810)	50,00%	50,00%
Solpor - Sociedade de Turismo do Porto Santo Lda.	Portugal	Real estate	31-12-2016	982.699	988.231	5.532	48.560	36.587	50,00%	50,00%
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2016	7.294.618	14.873.837	7.579.219	901.774	(205.382)	50,00%	50,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit / (Loss)	% Interest	% Control
Albar - Soc. Imobiliária do Barlavento, S.A.	Portugal	Real estate	31-12-2015	1.166.588	1.186.899	20.311	-	(3.067)	49,81%	49,81%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Hotel business	31-12-2015	71.949.845	100.364.730	28.414.885	2.251.544	2.305.651	46,88%	46,88%
SDEM - Soc. Des. Empr. da Madeira, S.G.P.S., S.A.	Portugal	Services	31-12-2015	1.289.774	1.523.416	(201.528)	29.672	(164.788)	3,75%	25,00%
Wild Break 29 (PTY), Ltd.	South Africa	Hotel business	31-12-2015	1.854.205	2.999.545	1.145.340	1.644.168	228.000	50,00%	50,00%

The main financial indicators of Other financial investments included in the consolidation, at cost less impairment losses, if any, as at 31 December 2016 and 2015, are presented as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit / (Loss)	% Interest	% Control
Salvintur, Soc. de Investimentos Turísticos, S.G.P.S., S.A.	Portugal	Hotel business	31-12-2015	20.729.574	39.252.047	18.522.473	60.000	133.665	5,74%	5,74%

43. Changes in the consolidation perimeter

In 2016, Pestana Group acquired and included in the consolidation perimeter the subsidiary Empresa de Cervejas da Madeira, Sociedade Unipessoal, Lda.

Ths entity was acquired from Pestana International Holdings, S.A., with the entry date in consolidation perimeter on 1 January 2016.

The statement of financial position of these subsidiaries as at the date of entry in the consolidation perimeter is as follows:

	ECM, Lda.
Purchase price	**17.500.000**
Assets	
Tangible fixed assets	18.943.103
Other financial investments	40.652
Deferred tax assets	202.067
Trade and other receivables	4.804.783
Inventories	2.674.848
Cash and cash equivalents	575.524
Total Assets acquired at fair value	**27.240.977**
Liabilities	
Provisions	3.502.197
Loans and borrowings	12.825.971
Deferred tax liabilities	2.500.318
Deferred revenue	1.211.993
Trade and other payables	6.700.498
Total Liabilities acquired at fair value	**26.740.977**
Net assets	**500.000**
% acquired	**100,00%**
Goodwill	**17.000.000**

The Income statement of the entity included in the consolidation perimeter from the respective entry date and up to 31 December 2016 is as follows:

	ECM, Lda.
Revenue	25.512.610
Cost of goods sold	(8.616.334)
External services and supplies	(8.586.721)
Personnel expenses	(6.072.303)
Charges of depreciations and amortizations	(1.861.993)
Impairment of receivables	(50.466)
Impairment of inventories	(95.278)
Other income	1.298.925
Other expenses	(1.114.736)
Operating profit	**413.703**
Financial expenses	(493.203)
Financial income	-
Profit before tax	**(79.500)**
Income tax	
Profit for the period	**(35.442)**
Profit for the period attributable to:	
Shareholders	(35.442)
Non-controlling interests	-
	(35.442)

During 2016, Pestana Group incorporated Pestana NY East Side 39 LLC and included it in the consolidation perimeter. The aim of this entity is to own and develop a hotel in New York.

As a consequence of the corporate reorganization of Pestana Group, in 2016, the group ceased to include in the consolidation perimeter the subsidiaries Mandreal – Consultoria, S.A. due to its merger into Cota Quarenta, S.A. and the subsidiary Rio de Prata - Consultadoria e Participações, S.A. due to its merger into Carlton Palácio, S.A..

In 2015, Pestana Group acquired and included in the consolidation perimeter the following subsidiaries:

- Eurogolfe, S.A.;
- Mandreal – Consultadoria, S.A.;
- Amesteldijk Hotel Outwikkeling, B.V..

The statement of financial position of these subsidiaries as at the date of entry in the consolidation perimeter is as follows:

	Eurogolfe, S.A.	Mandreal - Consultadoria, S.A.	Ameseldijk Hotel Ontwkkeling B.V.	Total
Purchase price	17.000.000	1.200.000	5.513.531	23.713.531
Assets				
Tangible fixed assets	8.878.753	1.199.863	7.173.889	17.252.505
Other financial investments	150.000	-	-	150.000
Deferred tax assets	336.310	-	-	336.310
Trade and other receivables	40.812	19.886	46.967	107.664
Current tax assets	-	1.000	-	1.000
Inventories	20.123.165	-	-	20.123.165
Cash and cash equivalents	250.268	2.103	50.146	302.518
Total Assets acquired at fair value	**29.779.308**	**1.222.852**	**7.271.002**	**38.273.162**
Liabilities				
Loans and borrowings	770.080	-	-	770.080
Deferred tax liabilities	4.452.916	-	-	4.452.916
Deferred revenue	-	22.851	-	22.851
Trade and other payables	299.182	-	1.757.471	2.056.653
Shareholder loans	4.400.000	-	-	4.400.000
Current tax liabilities	22.805	-	-	22.805
Total Liabilities acquired at fair value	**9.944.982**	**22.851**	**1.757.471**	**11.725.305**
Net assets	19.834.325	1.200.000	5.513.531	26.547.856
% acquired	85,71%	100,00%	100,00%	
Goodwill	-	-	-	-

The Income statement of this subsidiary included in the consolidation perimeter from the respective entry date and up to 31 December 2015 is as follows:

	Eurogolfe, S.A.	Mandreal - Consultadoria, S.A.	Amesteldijk Hotel Ontwkkeling B.V.	Total
Cost of goods sold	(685)	-	-	(685)
External services and supplies	(9.059)	(2.948)	-	(12.007)
Personnel expenses	(185.368)	-	-	(185.368)
(Charges)/ reversals of depreciations and amortizations	(154.114)	-	-	(154.114)
Other income	677.651	12.299	-	689.951
Other expenses	(16.736)	(622)	(7.323)	(24.681)
Operating profit	**311.688**	**8.730**	**(7.323)**	**313.095**
Finance expenses	(15.675)	-	-	(15.675)
Finance income	-	-	-	-
Profit before tax	**296.013**	**8.730**	**(7.323)**	**297.420**
Income tax	(87.810)	(1.580)	-	(89.390)
Profit for the period	**208.203**	**7.150**	**(7.323)**	**208.030**
Profit for the period attributable to:				
Shareholders	206.100	7.150	(7.317)	205.933
Non-controlling interests	2.103	-	(6)	2.097
	208.203	**7.150**	**(7.323)**	**208.030**

In 2015, Pestana Group ceased to include in the consolidation perimeter the subsidiary Sociedade Investimento Imobiliário Eira da Loba, Lda, as a consequence of the liquidation of this entity.

44. Related parties

As at 31 December 2016 and 2015, Grupo Pestana is owned and controlled by Pestana International Holdings, S.A., which holds 99% of the share capital. The ultimate owner, Mr. Dionísio Pestana, holds the remaining part of the share capital.

Board of Directors' remuneration

The members of the Boards of Directors of the companies that comprise Pestana Group were considered, in accordance with IAS 24, as the only key management personnel of the group. During the years ended 31 December 2016 and 2015 the remuneration received by the Board of Directors is described in Note 32.

Transactions and balances with related parties
During the year 2016, Grupo Pestana carried out the following transactions with those entities:

	Acquisition of shares	Services obtained	Interest expenses	Services rendered	Interest obtained	Sale of shares
Shareholder	**17.500.000**	**18.294**	**1.103.247**	**30.397**	**–**	**23.900.000**
Pestana International Holdings S.A.	17.500.000	18.294	1.103.247	30.397	–	23.900.000
Associates	**–**	**2.575.307**	**–**	**23.978**	**17.859**	**–**
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	–	5.243	–	–	–	–
Enatur - Empresa Nacional de Turismo, S.A.	–	2.570.064	–	23.552	17.859	–
Albar - Sociedade Imobiliária do Barlavento, S.A.	–	–	–	425	–	–
Interests in joint ventures	**–**	**20.522**	**–**	**429.677**	**–**	**–**
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	–	8	–	240.523	–	–
Solpor - Sociedade de Turismo do Porto Santo Lda.	–	–	–	46	–	–
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	–	20.514	–	189.108	–	–
Other related parties	**–**	**427.148**	**–**	**1.789.644**	**–**	**2.655.000**
Djebel, S.G.P.S., S.A.	–	-	–	21.245	–	–
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	–	-	–	20.330	–	–
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	–	-	–	213.252	–	2.650.000
Salvor Hotéis Moçambique, Investimentos Turísticos, S.A.R.L.	–	-	–	203.464	–	–
Wildbreak 29 (PTL), Lda.	–	-	–	117.817	–	–
Bazaruto Limited	–	-	–	11.326	–	–
Empreendimentos Turísticos, Lda.	–	-	–	197.594	–	–
Afrotours, S.A.R.L.	–	-	–	294.642	–	–
Rotas de África, Lda.	–	566	–	69.250	–	–
São Tomé Investimentos, S.A.	–	-	–	49.518	–	–
Pestana Marrocos, s.a.r.l.	–	286	–	467.799	–	–
Brasturinvest Investimentos Turísticos, S.A.	–	166.112	–	69.534	–	5.000
Argentur Inversiones Turisticas SA	–	190.591	–	409	–	–
Inversiones Vistalparque C.A.	–	66.905	–	20.424	–	–
Surinor, S.A.	–	-	–	12.285	–	–
Carolgud, S.A.	–	-	–	6.672	–	–
Atlantic Holidays Ltd	–	2.689	–	14.084	–	–
Key management personnel	**–**	**–**	**–**	**–**	**–**	**–**
	17.500.000	**3.041.271**	**1.103.247**	**2.273.696**	**17.859**	**26.555.000**

During the year 2015, Grupo Pestana carried out the following transactions with those entities:

	Acquisition of shares	Services obtained	Interest expenses	Services rendered	Interest obtained	Sale of shares
Shareholder	**17.000.000**	**17.390**	**37.500**	**30.557**	**–**	**19.500.000**
Pestana International Holdings S.A.	17.000.000	17.390	37.500	30.557	–	19.500.000
Associates	**–**	**2.426.271**	**–**	**25.596**	**23.806**	**–**
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	–	6.956	–	245	–	–
Enatur - Empresa Nacional de Turismo, S.A.	–	2.419.315	–	25.351	23.806	–
Other related parties	**–**	**578.982**	**1.069**	**2.889.989**	**54.156**	**–**
Djebel, S.G.P.S., S.A.	–	–	–	20.294	–	–
CapeGreen - Consultadoria Económica e Participações, S.A.	–	–	–	18.719	–	–
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	–	4.284	–	15.940	–	–
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	–	–	–	179.212	–	–
Salvor Hotéis Moçambique, Investimentos Turísticos, S.A.R.L.	–	23.930	–	231.998	–	–
Wildbreak 29 (PTL), Lda.	–	–	–	81.388	–	–
Bazaruto Limited	–	–	–	7.397	–	–
Empreendimentos Turísticos, Lda.	–	–	–	178.064	–	–
Afrotours, S.A.R.L.	–	3.893	–	265.735	–	–
Rotas de África, Lda.	–	–	–	63.555	–	–
São Tomé Investimentos, S.A.	–	–	–	44.979	–	–
Pestana Marrocos, s.a.r.l.	–	–	–	432.439	–	–
Brasturinvest Investimentos Turísticos, S.A.	–	274.846	–	429.043	–	–
Argentur Inversiones Turisticas SA	–	211.343	–	–	–	–
Praia do Marceneiro PH, Ltda	–	15.615	1.069	–	–	–
Surinor, S.A.	–	–	–	5.028	–	–
Carolgud, S.A.	–	–	–	4.868	–	–
Atlantic Holidays Ltd	–	45.071	–	911.330	–	–
Pestana Inversiones, S.L.	–	–	–	–	54.156	–
Key management personnel	**–**	**–**	**–**	**–**	**–**	**–**
	17.000.000	**3.022.643**	**38.569**	**2.946.142**	**77.962**	**19.500.000**

At the end of 2016 and 2015, the balances arising from loans and borrowings with related parties are as follows:

	31-12-2016		31-12-2015	
	Borrowings obtained	Loans granted	Borrowings obtained	Loans granted
Shareholder	47.343.939	-	-	-
Pestana International Holdings S.A.	47.343.939	-	-	-
Associates	-	1.190.593	-	1.190.593
Enatur - Empresa Nacional de Turismo, S.A.	-	1.190.593	-	1.190.593
Other related parties	-	-	-	17.548.365
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	-	-	-	17.548.365
Key management personnel	-	-	-	-
	47.343.939	**1.190.593**	**-**	**18.738.958**

At the end of 2016, the balances arising from transactions with related parties are as follows:

	Trade receivables current	Trade receivables non-current	Impairment of trade receivables	Net trade receivables	Trade payables current	Trade payables non-current	Total trade payables
Shareholder	**3.900.000**	**-**	**-**	**3.900.000**	**309.606**	**-**	**309.606**
Pestana International Holdings S.A.	3.900.000	-	-	3.900.000	309.606	-	309.606
Associates	**159.257**	**-**	**-**	**159.257**	**1.712**	**-**	**1.712**
Enatur - Empresa Nacional de Turismo, S.A.	133.257	-	-	133.257	1.712	-	1.712
Albar - Sociedade Imobiliária do Barlavento, S.A.	26.000	-	-	26.000	-	-	-
Interests in joint ventures	**4.416.164**	**-**	**-**	**4.416.164**	**26.430**	**-**	**26.430**
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	4.041.981	-	-	4.041.981	13.969	-	13.969
Solpor - Sociedade de Turismo do Porto Santo Lda.	46	-	-	46	-	-	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	374.137	-	-	374.137	12.461	-	12.461
Other related parties	**5.836.568**	**-**	**-**	**5.836.568**	**1.661.812**	**-**	**1.661.812**
Djebel, S.G.P.S., S.A.	810.981	-	-	810.981	473.475	-	473.475
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	2.802	-	-	2.802	-	-	-
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	139.796	-	-	139.796	8.205	-	8.205
Salvor Hotéis Moçambique, Investimentos Turísticos, S.A.R.L.	542.575	-	-	542.575	11.985	-	11.985
Wildbreak 29 (PTL), Lda.	84.811	-	-	84.811	3.552	-	3.552
Bazaruto Limited	27.484	-	-	27.484	526	-	526
Empreendimentos Turísticos, Lda.	21.892	-	-	21.892	121	-	121
Afrotours, S.A.R.L.	52.166	-	-	52.166	9.451	-	9.451
Rotas de África, Lda.	13.735	-	-	13.735	2.595	-	2.595
São Tomé Investimentos, S.A.	6.616	-	-	6.616	-	-	-
SOHEOTUR, S.A.	5.717	-	-	5.717	-	-	-
Pestana Marrocos, s.a.r.l.	246.231	-	-	246.231	7.857	-	7.857
Brasturinvest Investimentos Turísticos, S.A.	3.161.861	-	-	3.161.861	736.742	-	736.742
Argentur Inversiones Turisticas SA	64.896	-	-	64.896	136.743	-	136.743
Inversiones Vistalparque C.A.	484.017	-	-	484.017	47.186	-	47.186
Surinor, S.A.	5.174	-	-	5.174	-	-	-
Carolgud, S.A.	2.634	-	-	2.634	-	-	-
Atlantic Holidays Ltd	50.834	-	-	50.834	159	-	159
Pestana Inversiones, S.L.	112.347	-	-	112.347	223.216	-	223.216
Key management personnel	-	-	-	-	-	-	-
	14.311.989	-	-	14.311.989	1.999.560	-	1.999.560

At the end of 2015, the balances arising from transactions with related parties are as follows:

	Trade receivables current	Trade receivables non-current	Impairment of trade receivables	Net trade receivables	Trade payables current	Trade payables non-current	Total trade payables
Shareholder	1.280	-	-	1.280	-	-	-
Pestana International Holdings S.A.	1.280	-	-	1.280	-	-	-
Associate	954.480	-	-	954.480	799.728	-	799.728
Enatur - Empresa Nacional de Turismo, S.A.	939.182	-	-	939.182	799.728	-	799.728
Ibar - Sociedade Imobiliária do Barlavento, S.A.	15.298	-	-	15.298	-	-	-
Other related parties	9.522.520	-	-	9.522.520	2.382.218	-	2.382.218
Djebel, S.G.P.S., S.A.	2.404.837	-	-	2.404.837	1.017.459	-	1.017.459
CapeGreen - Consultadoria Económica e Participações, S.A.	8.735	-	-	8.735	38.557	-	38.557
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	69.275	-	-	69.275	373.399	-	373.399
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	88.194	-	-	88.194	73.205	-	73.205
Salvor Hotéis Moçambique, Investimentos Turísticos, S.A.R.L.	264.354	-	-	264.354	17.643	-	17.643
Wildbreak 29 (PTL), Lda.	33.187	-	-	33.187	192.396	-	192.396
Bazaruto Limited	20.332	-	-	20.332	353	-	353
Empreendimentos Turísticos, Lda.	37.612	-	-	37.612	1.115	-	1.115
Afrotours, S.A.R.L.	1.504.180	-	-	1.504.180	22.059	-	22.059
Rotas de África, Lda.	231.039	-	-	231.039	1.131	-	1.131
São Tomé Investimentos, S.A.	142.007	-	-	142.007	106	-	106
SOHEOTUR, S.A.	5.717	-	-	5.717	-	-	-
Pestana Marrocos, s.a.r.l.	210.263	-	-	210.263	3.568	-	3.568
Brasturinvest Investimentos Turísticos, S.A.	2.783.563	-	-	2.783.563	395.279	-	395.279
Argentur Inversiones Turisticas SA	55.977	-	-	55.977	170.531	-	170.531
Praia do Marceneiro PH, Ltda	4.404	-	-	4.404	19.313	-	19.313
Inversiones Vistalparque C.A.	445.391	-	-	445.391	27.088	-	27.088
Surinor, S.A.	15.212	-	-	15.212	-	-	-
Carolgud, S.A.	12.601	-	-	12.601	-	-	-
Atlantic Holidays Ltd	1.150.102	-	-	1.150.102	29.016	-	29.016
Pestana Inversiones, S.L.	35.538	-	-	35.538	-	-	-
Key management personnel	-	-	-	-	-	-	-
	10.478.280	**-**	**-**	**10.478.280**	**3.181.946**	**-**	**3.181.946**

45. Subsequent events

The special tax regime for pure Holding Companies (with legal status of “SGPS”), in effect until 31 December 2013, foresaw that capital gains or losses arising from the sale, under specified conditions, of equity shares held by these Companies, would not concur for the calculation of taxable profit. On the other hand, this regime did not allow for the tax deduction of financial expenses associated with the acquisition of the said equity shares.

However, this regime was revoked on 1 January 2014, without being created any transitional regime.

Thus, SGPS companies may have an amount of financial expenses, the deductibility of which was not allowed for at the same time that no tax exemption could be applied for capital gains or losses obtained under the regime, and for which it will not be possible to benefit in the future since this tax regime was revoked.

In this context, the Company filed in March 2017, a gracious grievance requesting the recovery of the financial expenses, the deductibility of which was not allowed for, as referred above, at the same time that no tax exemption could be applied for capital gains or losses obtained under the regime, and for which it will not be possible to benefit in the future since this tax regime was revoked.

Funchal, 6 March 2017

The Certified Accountant
Luis Miguel Miranda Fernandes

The Board of Directors

Dionísio Fernandes Pestana
President

José Alexandre Lebre Theotónio
Member

José de Melo Breyner Roquete
Member

Hermanus Roelof Willem Troskie
Member

STATUTORY AUDITOR'S REPORT

Statutory Audit Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Grupo Pestana, S.G.P.S., S.A. (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 (which shows total assets of Euro 1.024,350,455 and total shareholders' equity of Euro 280,628,883 including a net profit of Euro 43,054,092), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Grupo Pestana, S.G.P.S., S.A. as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria;

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

March 28, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

César Abel Rodrigues Gonçalves, R.O.C.

REPORT AND OPINION OF THE SUPERVISORY BODY

pwc

Report and Opinion of the Supervisory Body

(Free translation from the original in Portuguese)

To the Shareholders

In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the consolidated Directors' Report and consolidated financial statements as presented by the Board of Directors of Grupo Pestana S.G.P.S., S.A. with respect to the year ended December 31, 2016.

During the year, we have accompanied the evolution of the activity of the Company and its more significant subsidiaries and associates, as and when deemed necessary. We have verified the timeliness and adequacy of the accounting records and respective supporting documentation, as well as the effectiveness of the internal control system, only to the extent that the controls are of relevance for the control of the Company's activity and the presentation of the financial statements. We have also ensured that the law and the Company's articles of association have been complied with.

As a consequence of our work, we have issued the attached Consolidated Statutory Audit Report.

Within the scope of our mandate, we have verified that:

i) the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the corresponding notes to the accounts, allow an adequate understanding of the financial position, the results, the comprehensive income, the changes in equity and cash flows of the Company;

ii) the accounting policies and valuation methods applied are appropriate;

iii) the consolidated Directors' Report is sufficiently clear as to the developments of the business and the position of the Company and the subsidiaries included in the consolidation and highlights the more significant aspects;

On this basis, and taking into account information obtained from the Board of Directors and the Company's employees, together with the conclusions in the Statutory Audit Report, we are of the opinion that:

i) the consolidated Directors' Report be approved;

ii) the consolidated financial statements be approved;

PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda.
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Matriculada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Finally, we would like to express our gratitude to the Board of Directors and all those whom we contacted, for their valuable contribution.

March 28, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda
represented by:

César Abel Rodrigues Gonçalves, R.O.C.

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