

CONSOLIDATED ANNUAL REPORT

2018

(FREE TRANSLATION FROM THE PORTUGUESE VERSION. IN CASE OF DOUBT
OR MISINTERPRETATION THE PORTUGUESE VERSION WILL PREVAIL)

CONSOLIDATED MANAGEMENT
REPORT FOR THE YEAR OF 2018
31 DECEMBER 2018

CONSOLIDATED
ANNUAL
REPORT
2018

TABLE OF CONTENTS

03	CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR OF 2018
05	1. OVERVIEW OF THE WORLD ECONOMY
12	2. TOURISM
25	3. ACTIVITY OF GRUPO PESTANA, S.G.P.S., S.A.
33	4. OTHER RELEVANT ISSUES OCCURRED IN THE PERIOD
34	5. OBJECTIVES AND POLICIES OF GRUPO PESTANA REGARDING FINANCIAL RISKS MANAGEMENT
36	6. RELEVANT ISSUES THAT OCCURRED AFTER THE YEAR END
37	7. THE FUTURE
39	8. RECOGNITION
41	ANNEX TO THE CONSOLIDATED ANNUAL REPORT
43	CONSOLIDATED FINANCIAL STATEMENTS
167	REPORT AND OPINION OF THE SUPERVISORY BOARD
169	STATUTORY AUDITOR'S REPORT

CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR OF 2018





CONSOLIDATED MANAGEMENT REPORT FOR THE YEAR OF 2018

In accordance with the Portuguese Commercial Companies' Code (*"Código das Sociedades Comerciais"*), we have the honor to submit for consideration and approval the Consolidated management report and the Consolidated financial statements for the year ended as of 31 December 2018.

OVERVIEW OF THE WORLD ECONOMY

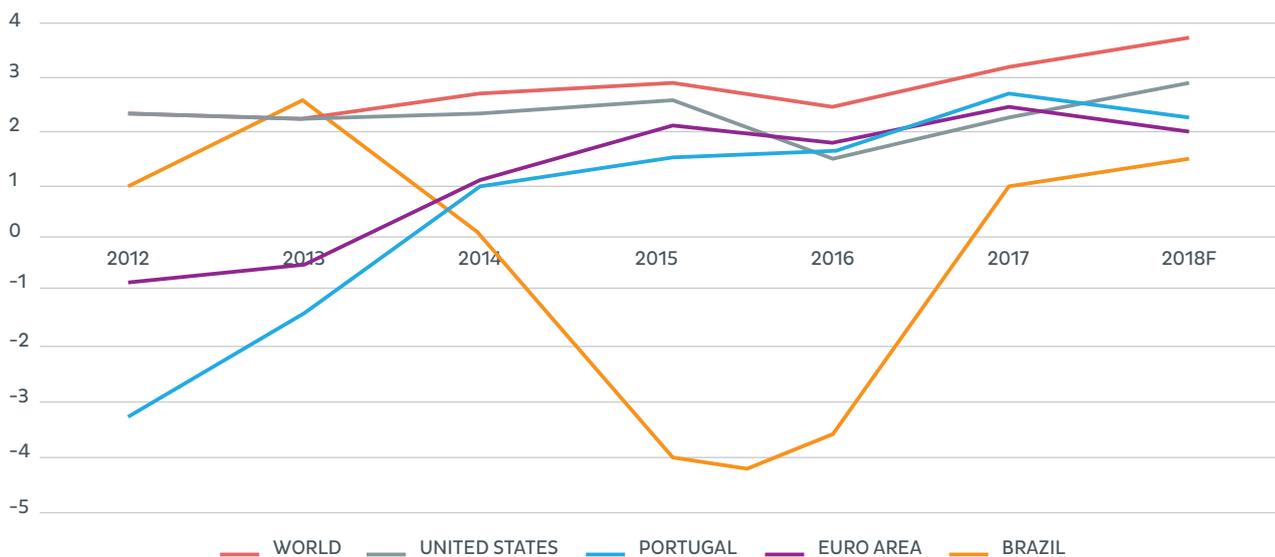
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GDP GROWTH 1.1.

Macroeconomic indicators point to a growth in the world economy of around 3.7% consolidating the trend verified in the previous year of 3.2%. This increase is supported by emerging economies which presented considerable growth and by the USA whose growth is expected to be around 3%. The Eurozone is expected to present a positive growth rate of around 2% but lower than in the previous year. Nominal global inflation is expected to have increased to above 3% after reaching an amount lower than 2.5% in 2017.

TABLE 1 – GDP GROWTH RATE (%)



SOURCE: WORLD BANK; IMF; OECD

The US economy which is responsible for about a quarter of the world's GDP is likely to have accelerated its growth with continued support from increases in consumption (reflex of a decrease in unemployment), public spending and exports. Private investment also registered a greater dynamism due to a more favorable fiscal policy. Inflation continued to present controlled values greater than in 2017 of around 2.5%. In the previous year, US administration sought to denounce/renegotiate several commercial deals with the clear aim of reducing trade deficits. The imposition of customs tariffs to US imports of products originating especially from China and the European Union thickened the climate of uncertainty contributing to cool down the main European economies in the last semester of 2018 which leads to a possibility of slowing down economic growth in 2019.

Additionally, the US year started with some uncertainty concerning payments to the public administration employees, with a subsequent negative impact in 2019's GDP.

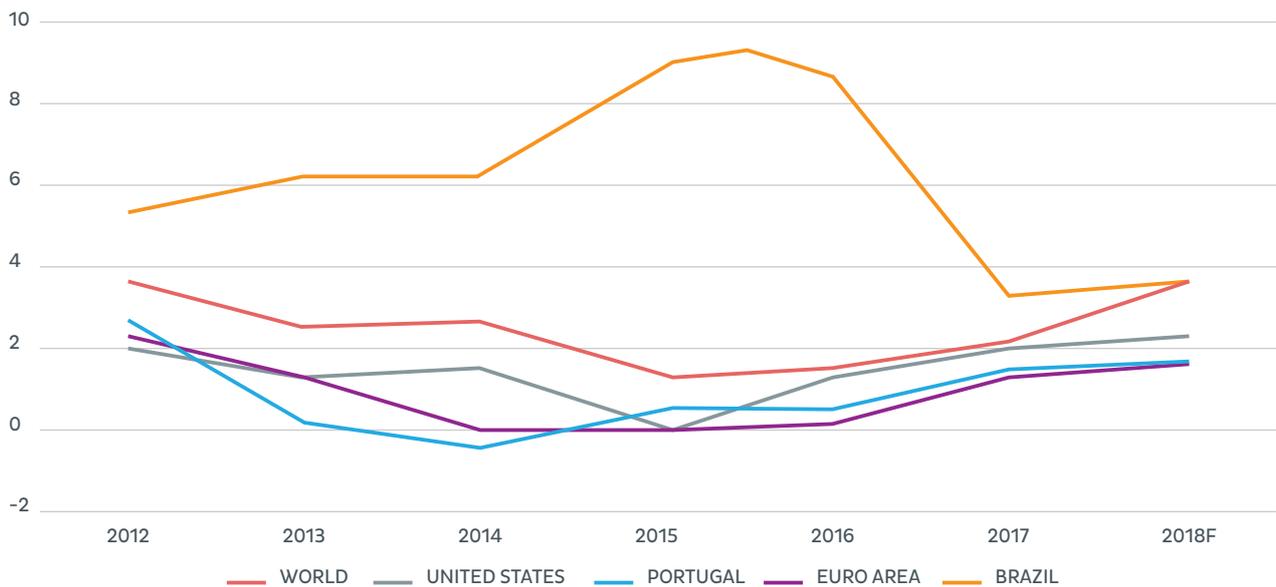
In the Eurozone GDP nominal growth is expected to reach about 2%, lower than 2017 which surpassed expectations at the time, as a reflex of a decreased trade balance superavit and lower industrial production even though internal consumption presented interesting results as a consequence of the continued increase in remunerations and unemployment reduction and raw formation of fixed capital maintained steady.

GDP growth was limited by: (i) a valuation of the EUR against the USD which softened the increase in the average price of the barrel of oil controlling inflation which remained beneath the 2% expected by the ECB; (ii) the maintenance of some frailties in the banking sector associated with the uncertainties on European integration which were heightened by Brexit; (iii) the maintenance of over indebtedness in some countries in the Eurozone namely Italy; (iv) the difficulty resulting from the existing excess liquidity not reaching the real economy. With this framework, the ECB concluded its liquidity policy which included the active repurchase of public debt of several state members.

Average growth rate in BRIC economies (Brazil, Russia, India and China) is expected to have continued increasing despite some geopolitical uncertainties remaining present. Brazil shows a positive growth in GDP along with India, Russia and China although concerning the latter growth was lower than in the previous year.

Brazil has for the second year in a row an inflation rate below 4% with unemployment rate remaining steady. Continued investment shows values below the desired levels. The price of raw materials continued to increase even though below the required to support an economic recovery. The market's reaction to the election of Bolsonaro was positive.

TABLE 2 – INFLATION, ANNUAL VARIATION (%)



SOURCE: WORLD BANK, TRANDINGECONOMICS.COM, EUROSTAT; OCDE

Average world consumption continued to grow in 2018 with a somewhat distinct pattern than in the previous year. The USA showed signs of greater dynamism unlike Europe even though it continued to show positive changes as a result of a decrease in unemployment and an average increase in remuneration.

Investment growth rhythm appears to have slowed but maintained interesting levels in more stable occidental countries which are perceived to be safer and which somewhat sustained the level of consumption in these regions. The perception of insecurity in Europe decreased.

The perception of insecurity also decrease in Turkey, Egypt and Tunisia which allowed these countries to begin regaining their tourism flow. This recovery was accelerated by the implementation of tourism attraction and dynamism policies in these countries with the creation of intense marketing programs in order to attract clients to these destinations, creating incentives to touristic operators and devaluing local currencies to create increased attractiveness.

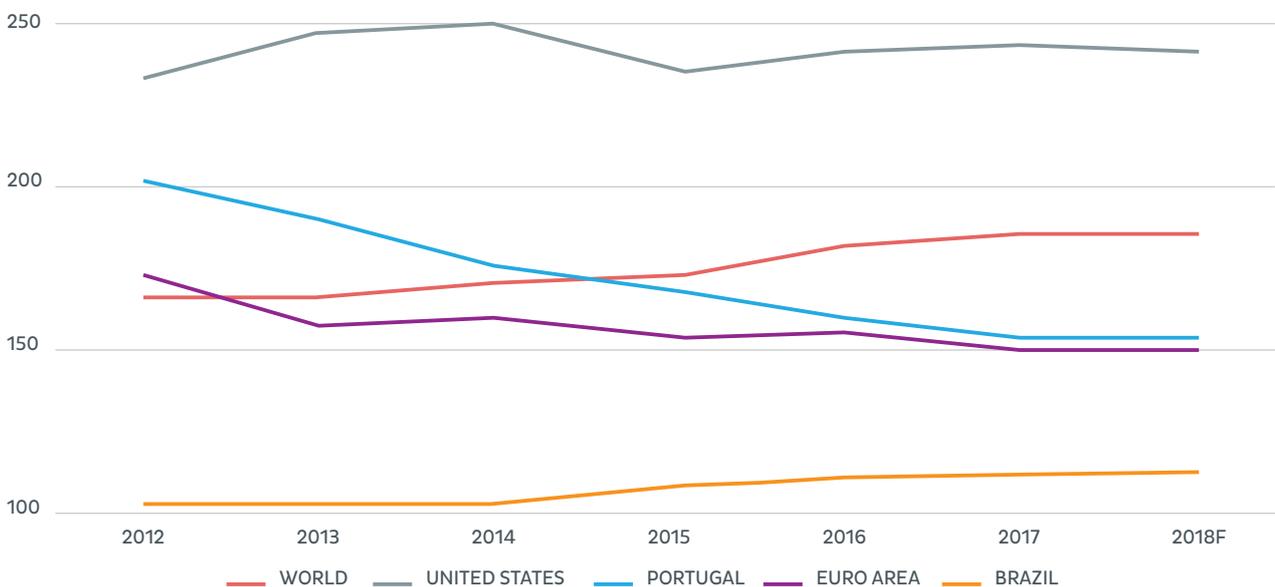
On the contrary, countries like Greece, Spain and Portugal were thus left behind on the resort segment, even though annual decrease rates still remained at low levels which allows for the maintenance of high levels of occupation and price. City destinations remained however very resilient throughout the south of Europe.

LIQUIDITY AND COST OF FUNDS 1.2.

Liquidity levels in the USA remained steady after the elimination, in 2015, of the relaxation on the liquidity policy. In Europe, ECB ceased in 2018, as referred, its liquidity program, which consisted of the purchase of sovereign debt of state members, after considering that the Eurozone is now more consolidated even though growth rates are still far from desired.

USA and Europe credit concession although it continues to present a positive trend remains limited by the risk level of the counterparties whose analysis have been progressively more strict by financial institutions including banks which have been conditioned by the increase levels of equity and regulation demanded by supervisory authorities.

TABLE 3 – DOMESTIC CREDIT PROVIDED BY BANKING SECTOR (% OF GDP)



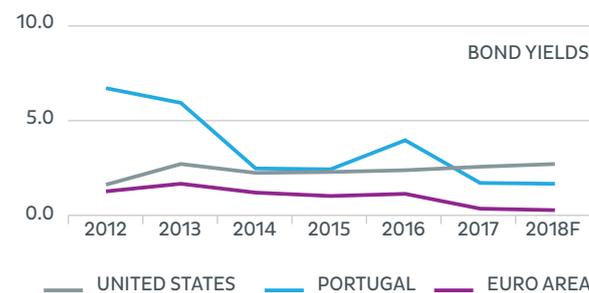
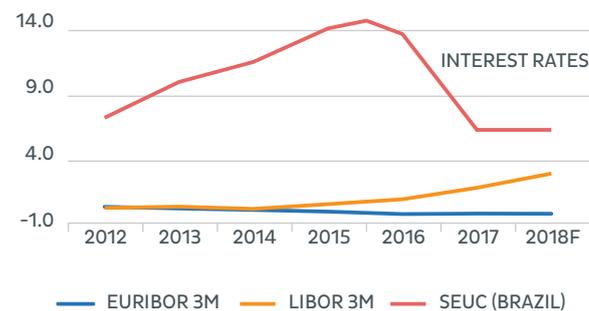
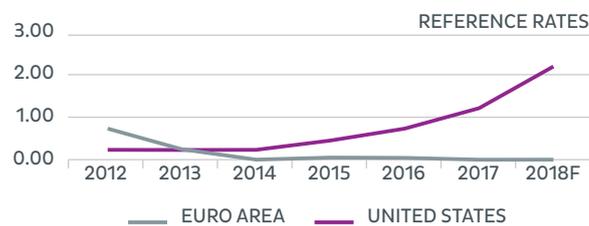
SOURCE: WORLD BANK, IMF

In the US, FED increased its reference rate from 1.5% to 2.5% through four successive 0.25% increases while the Euribor continued to present negative values.

In Brazil, the liquidity and credit restriction continued to alleviate, with the reference rate decreasing slightly unlike inflation which shows an improvement and remained at high levels.

Pestana Hotel Group saw its average cost of debt (in its majority in Euros) continue to decrease mainly due to an improved risk profile which is considered as “investment” by most banks.

TABLE 4 – EVOLUTION OF REFERENCE RATES, BOND YIELDS AND INTEREST RATES



SOURCE: WORLD BANK; EURIBOR-RATES.EU; BDP

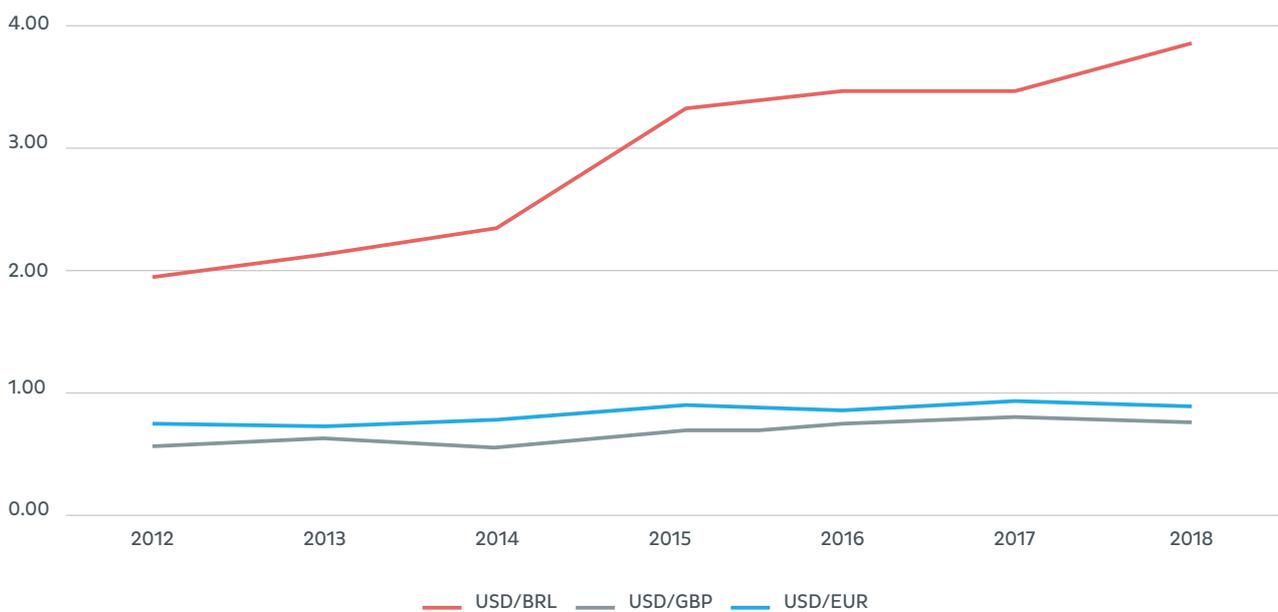
Risk premiums showed mixed evolutions in western countries in 2018, including Portugal, where the 5Y CDS of debt increased from around 80 to 90 bps as a reflection of the maintenance of an “investment” level rating by all international notation agencies.

EXCHANGE RATES

1.3.

USD, in terms of average exchange rate in 2018, depreciated against the Euro and the same happened with the GBP, as a consequence of the macroeconomic scenario already described. The GBP remained steady against the Euro despite all the uncertainties concerning Brexit. Latin American currencies in countries where Pestana Hotel Group is present (Argentina and Brazil) continued to depreciate in 2018, with limited impact due to the decreased exposure in these countries.

TABLE 5 – OFFICIAL EXCHANGE RATE



SOURCE: WORLD BANK

TOURISM

02

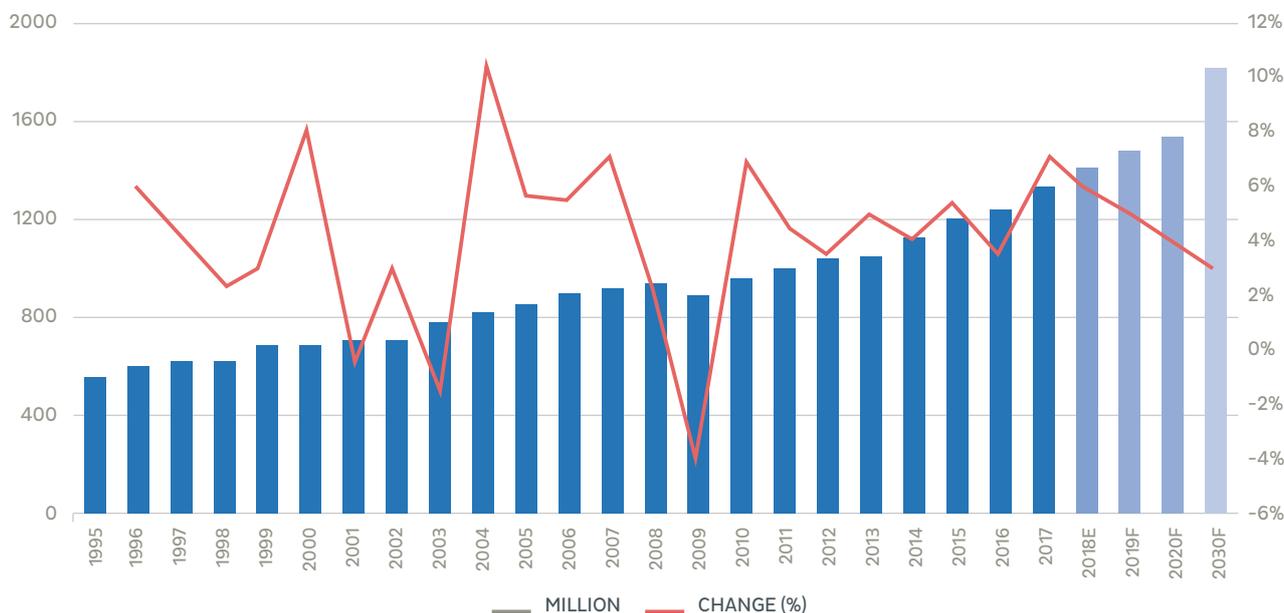


WORLD TREND 2.1.

The tourism business continued to register positive growth, at global level, an important factor in the economic sustainability in some countries in the south of Europe, although it started to show signs of slowing down given the recovery, as previously seen, in the markets of northern Africa, Turkey and Egypt. The arrival of international tourists reached about 1.326 million in 2018, an increase of around 6.94% compare to last year's values, according to the latest UNWTO's World Tourism Barometer. Predictions for 2030 remain impressive, overcoming 1.809 million tourists.

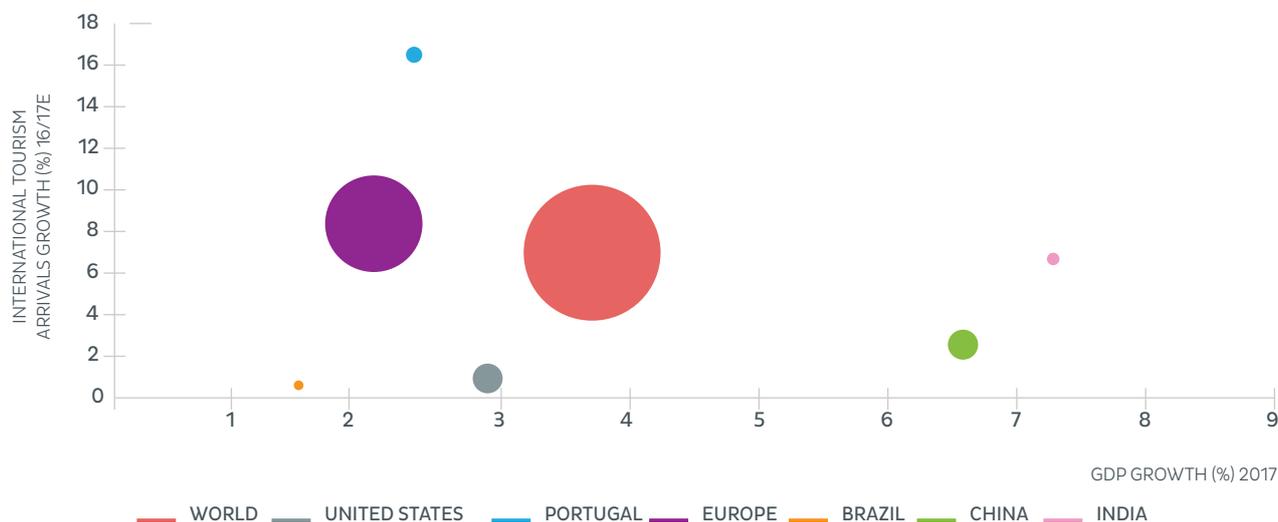
Growth in revenue from international tourists is estimated to have reached a value of around 5% in 2018. Therefore, and according to the latest UNWTO data, the tourism sector continues to represent about 10% of the world's GDP, 1/10 of employment and 1.6 billion USD in exports which represents about 7% of international trade and over 30% of service exports.

TABLE 6 - EVOLUTION OF THE NUMBER OF INTERNATIONAL TOURIST ARRIVALS



SOURCE: WORLD TOURISM ORGANIZATION (UNWTO)

TABLE 7 – NUMBER OF INTERNATIONAL TOURIST ARRIVALS

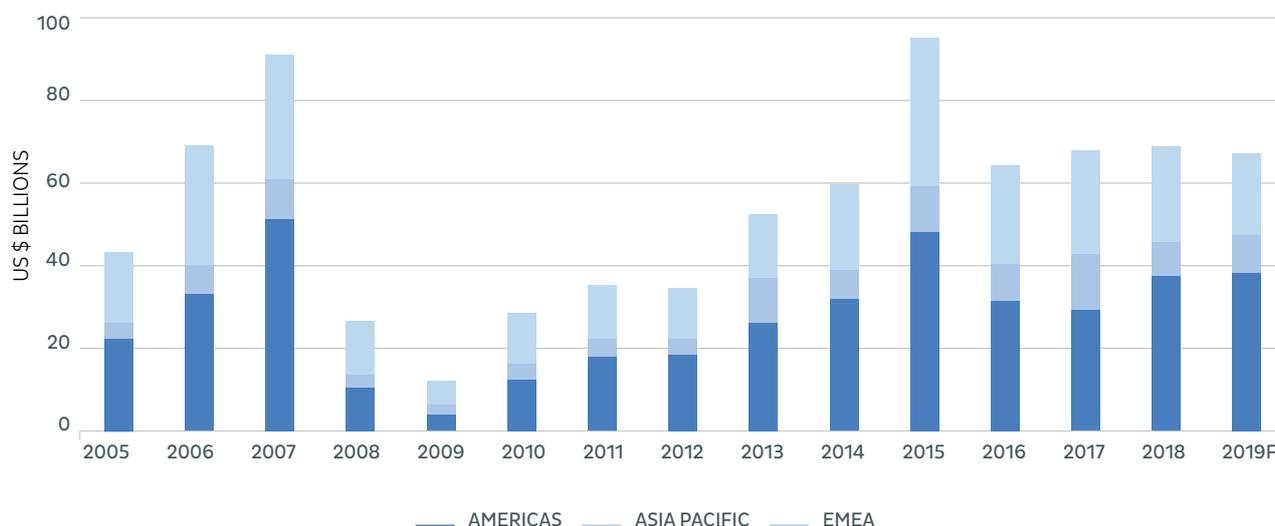


SOURCE: WORLD BANK; UNWTO

The availability of funds existing in the market as a result of central banks' liquidity policies and the relatively high yields practiced in the hospitality market have contributed to a high level of transactions in the last 3 years. Additionally, the growth registered in the main regions of the globe accompanied by the sustained increase in tourist flow have allowed for the maintenance of the global investment in this sector.

Despite the consistency of the European touristic market in the last years, political uncertainty in important countries like the UK, France or Italy conditioned the volume of investment in the continent in 2018. On the other hand, the dynamic economy of the US market contributed to a significant increase of investments made in the USA. As a consequence of the pressure to increase interest rate in the market, hospitality market yields also had some inflationary pressure although with very slight increases. To increase returns investors continued to look within western markets to countries such as Portugal, Spain and Greece and secondary cities in Germany and the UK although interest has decreased significantly in the latter with the increased uncertainty surrounding Brexit.

TABLE 8 – GLOBAL HOTEL TRANSACTION VOLUME 2005- 2019F BY JLL



SOURCE: JLL

EUROPE 2.2.

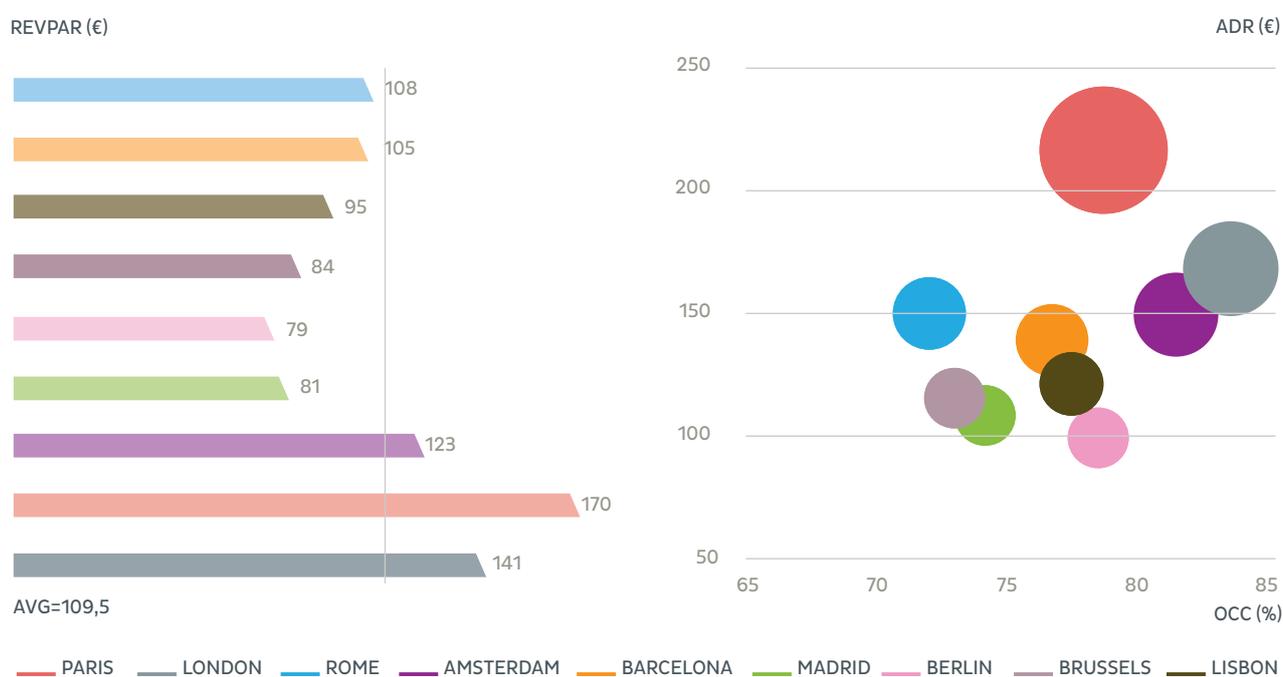
Following world trend, growth in tourism in Europe is expected to have reached about 6% in 2018. The stronger markets in terms of tourist demand were Portugal, Spain, Greece, France and Italy with some deceleration in the end of the year as previously seen. It should be noted that the continued international openness in the last years in Portugal contributed significantly to an increase perception of quality of the country as a tourist destination.

According to the European Travel Commission report of the last quarter of 2018 - Trends and Perspectives, Europe registered a strong performance in terms of growth in international tourists of around 6%. Turkey (+22%), Balkans (+14%) and Greece (+9%) were some of the highlighted tourist destinations in 2018.

Portugal and Spain, after several consecutive years of significant growth, saw the volume of tourist arrivals stabilize.

With the critical date approach, the uncertainty created by Brexit with a possible exit without agreement conditioned significantly tourist flows from the United Kingdom.

TABLE 9 – REVENUE PER AVAILABLE ROOM (REVPAR) AND AVERAGE DAILY RATE (ADR) 2018



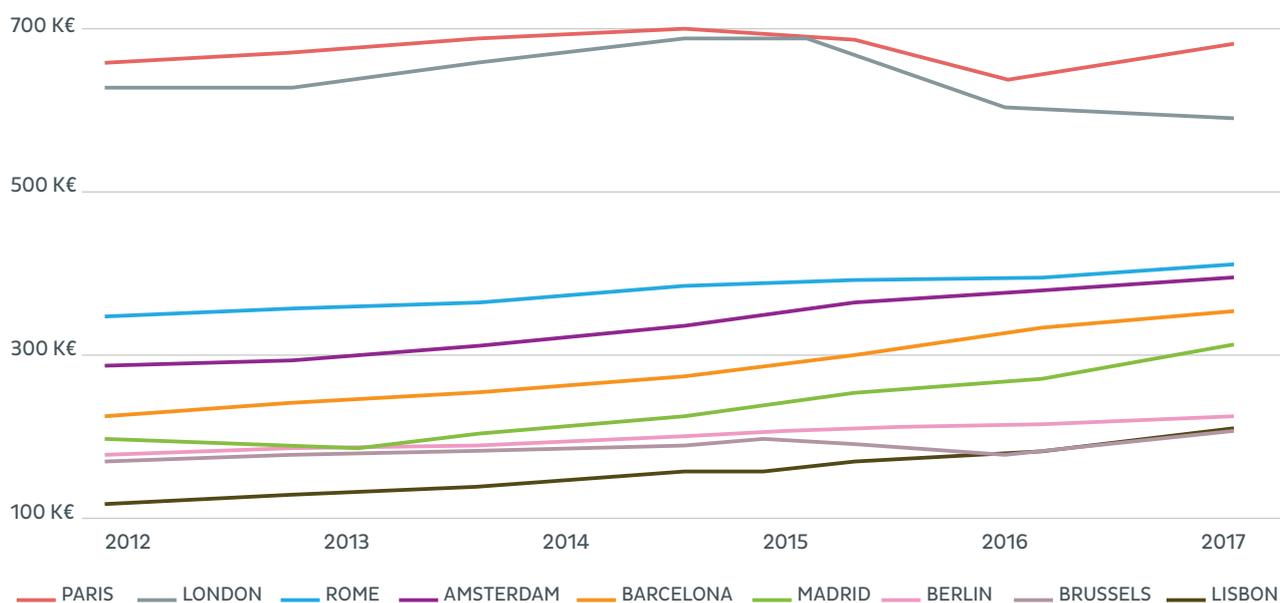
SOURCE: STR GLOBAL

The main cities in Europe, in terms of investment (value per room) were once again Paris and London. The European cities in which Pestana Hotel Group has or will have a hotel, besides London, are Amsterdam, Barcelona, Madrid, Berlin and Lisbon having the latter registered a growth rate in RevPAR of 6.8% against the previous year.

These successive performance growth rates in Lisbon in the previous years have contributed to get the Portuguese capital's average prices to the main European capitals although there still exists a considerable gap. This trend has also been verified in the increase in investment value per room since 2012. The increase in RevPAR in 2018 was mainly due to an increase in the average price charged which registered an increase of 7.7% while occupation decreased 0.8% against the previous year.

Besides Lisbon, also Oporto, a city where Pestana Hotel Group has decided to invest significantly, has presented significant consecutive growth rates. It is expected to have 6 units under Pestana Hotel Group management in the next 2 years.

TABLE 10 – AVERAGE HOTEL VALUE PER ROOM - HVS



SOURCE: HVS – "EUROPEAN HOTEL VALUATION"

As mentioned above, Portuguese tourism continues to live a very positive moment after the crisis, justified by the increase in number of visitors, revenue and RevPAR in domestic and international markets although slightly lower than in previous years and a slight decrease in number of overnight stays has already been seen in 2018. The country feeder markets are mainly European as shown in the table below.

TABLE 11 – PORTUGUESE TOURISM HIGHLIGHTS

	2018E	2017	△18/17	2016
Domestic visitors ('000)	8,291	7,980	4%	7,600
International visitors ('000)	12,737	12,712	0%	11,418
Overnights by international visitors ('000)	40,809	41,272	-2%	38,300
Revenue (million €)	16,668	15,153	10%	12,800
RevPAR (€)	52,66	50,30	5%	42,00

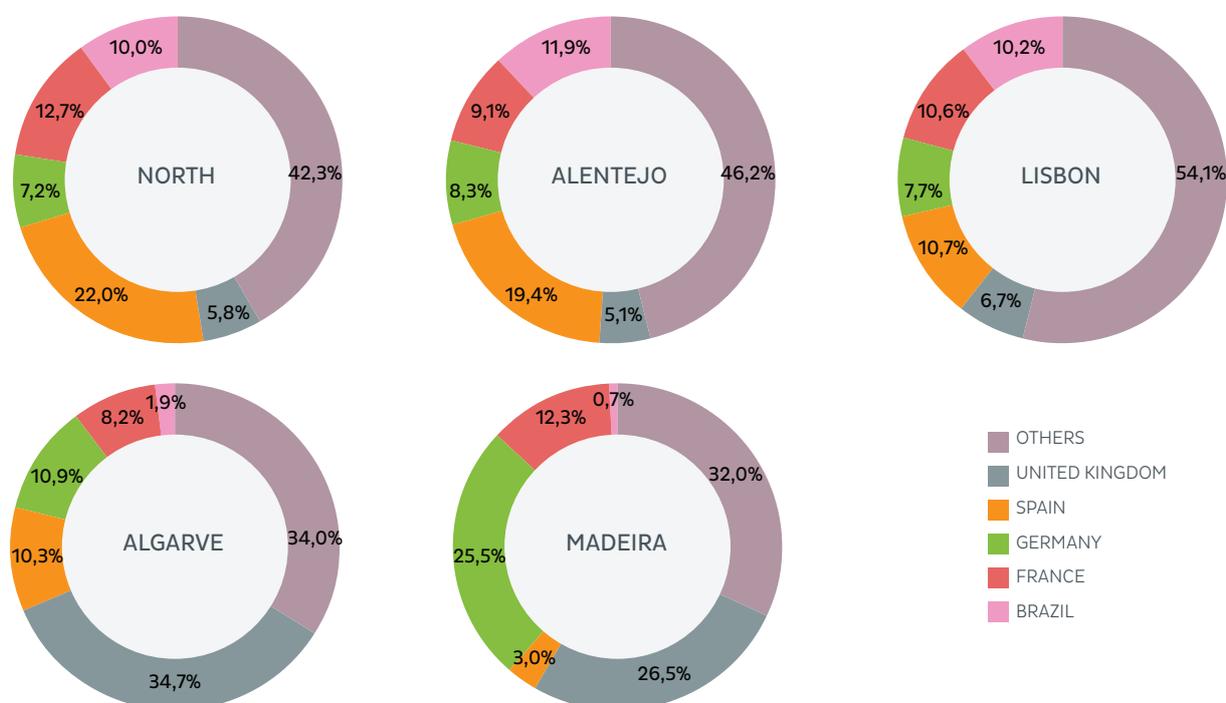
Feeder Markets (by number of visitors) ('000)	2018F	2017	Weight	2016
United Kingdom	1,818	1,940	14%	2,248
Spain	1,758	1,725	14%	1,650
France	1,324	1,351	10%	1,350
Germany	1,258	1,312	10%	1,200
Brazil	943	870	7%	570
Others	5,636	5,513	44%	4,400
Total	12,737	12,712	100%	11,418

SOURCE: TURISMO DE PORTUGAL; INE, BDP

The main touristic regions are still Madeira and Algarve in the resort segment and the cities of Lisbon and Oporto (that concentrates the visitors of North region) in the urban segment (city breaks and meetings, incentives, conferences and exhibitions or MICE). The first two destinations showed decreases mainly due to constraints related with the local airport and the dependency on the British market. In both destinations, there were decreases in visitors from the UK and Germany. The latter was particularly affected by the bankruptcy of airline companies which reduced the number of available flights to Madeira.

The internal market showed an increase of around 4% in terms of visitors in 2018 when compared with the previous year. The economic recovery (Gross Domestic Product, or GDP, continues to grow and is supported by a continued trade balance superavit and now also in investment and a reduction in unemployment which the tourism business much contributed for) helped sustain private consumption in tourism spending and related tourist activities.

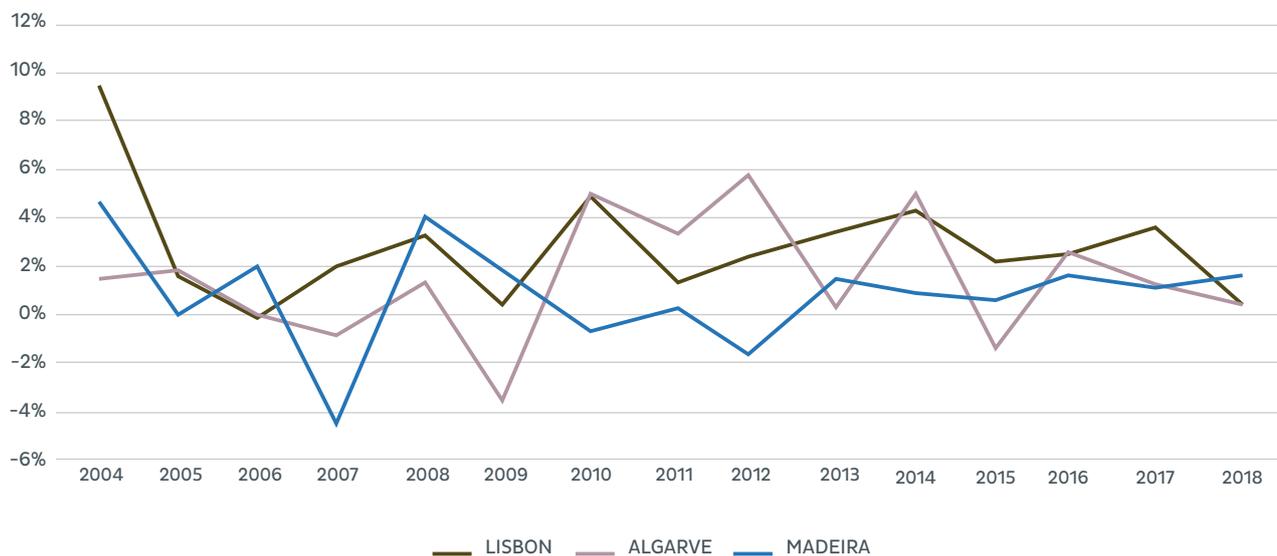
TABLE 12 – PORTUGUESE FEEDER MARKETS BY REGION – YTD NOV 18



SOURCE: TURISMO DE PORTUGAL

The increase in demand which has been verified in the main national touristic markets continued to be met with an increase in offer in 2018, namely in the main Portuguese destinations (as can be seen in the graphic below). Since this growth in offer has been lower than the increase in demand, tourism in Portugal continued to grow in a consistent and sustainable way in the previous year.

TABLE 13 – NUMBER OF ROOMS EVOLUTION

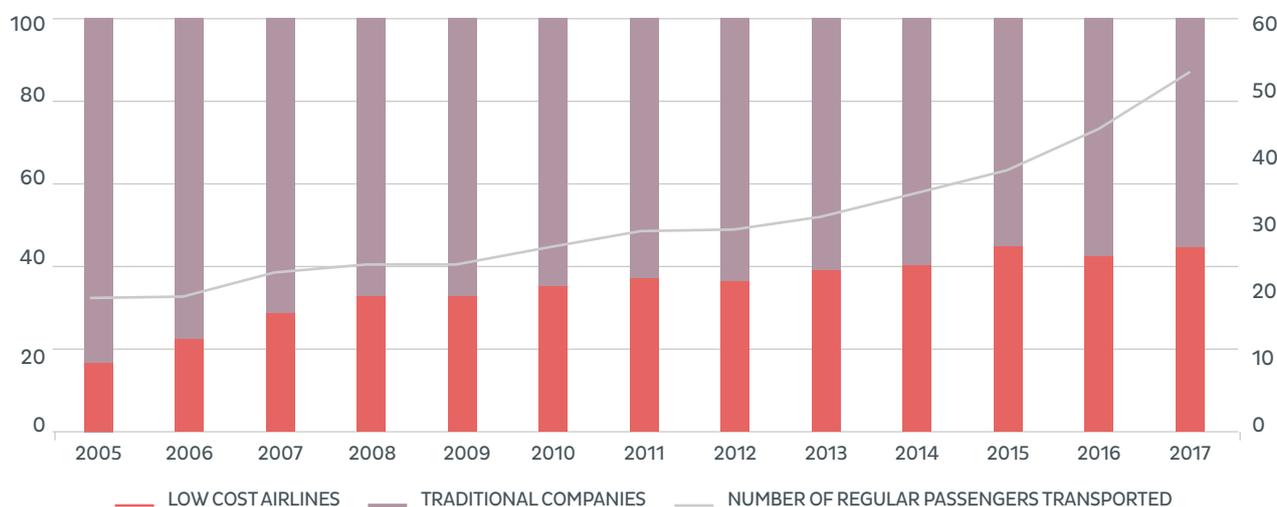


SOURCE: INE

Another contributing factor to the dynamism in tourism was the growth in lowcost airlines available in the portuguese market. The number of low cost companies operating in Portugal went from 3 in 2001 to 15 nowadays.

According to the National Civil Aviation Authority (ANAC), these operators registered a very significant growth in terms of passangers transported between 2003 and 2006 with their national market share increasing from 6% to 22%. The growth in passengers transported by these operators has remained steady, which implied additional gains in market share, to 37% in 2011 and to over 40% in 2017.

TABLE 14 – NUMBER OF PASSENGERS TRANSPORTED



SOURCE: NATIONAL CIVIL AVIATION AUTHORITY (ANAC) (CALCULATIONS BY BANK OF PORTUGAL)

MADEIRA

2.3.1.

Madeira remains one of the main Portuguese tourist destinations, with a slowdown in demand and a re-entry in the market of some hotels, with some additional hotel openings planned for the next year. This dynamism is a result of the growing performance registered in the market in recent years.

Demand continued to be originated in the United Kingdom, Germany and France, which again accounted for 59% of total overnight stays in 2018. Therefore, Brexit in the British market and the bankruptcy of airlines operating in the German market are of some concern for the short-term evolution of Madeira's tourism flows.

TABLE 15 – EVOLUTION AND STRUCTURE OF OVERNIGHT STAYS IN MADEIRA

Madeira - Overnight stays by feeder market						Weight				
Origin	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
United Kingdom	1,717,684	1,797,161	1,827,463	1,545,156	1,376,562	25.2%	25.4%	26.3%	24.7%	23.1%
Germany	1,686,061	1,742,826	1,700,220	1,532,095	1,413,406	24.7%	24.6%	24.5%	24.5%	23.8%
Top 2	3,403,745	3,539,987	3,527,683	3,077,251	2,789,968	49.9%	50.0%	50.8%	49.3%	46.9%
France	614,232	611,399	619,980	655,545	656,658	9.0%	8.6%	8.9%	10.5%	11.0%
Netherlands	612,656	596,102	548,419	528,193	529,600	9.0%	8.4%	7.9%	8.5%	8.9%
Spain	242,109	293,271	287,984	223,165	209,605	3.6%	4.1%	4.1%	3.6%	3.5%
Top 5	4,872,742	5,040,759	4,984,066	4,484,154	3,843,788	71.5%	71.1%	71.7%	71.8%	64.6%
Scandinavia	146,300	143,132	155,396	193,878	187,557	2.1%	2.0%	2.2%	3.1%	3.2%
Others	1,050,007	1,134,292	1,046,399	965,447	939,492	15.4%	16.0%	15.1%	15.5%	15.8%
Foreign markets	6,069,049	6,318,183	6,185,861	5,643,479	5,312,880	89.0%	89.2%	89.0%	90.3%	89.3%
Portugal	747,097	768,636	764,067	603,769	636,417	11.0%	10.8%	11.0%	9.7%	10.7%
Total	6,816,146	7,086,819	6,949,928	6,247,248	5,949,297	100.0%	100.0%	100.0%	100.0%	100.0%

SOURCE: INE.
DATA JANUARY TO NOVEMBER

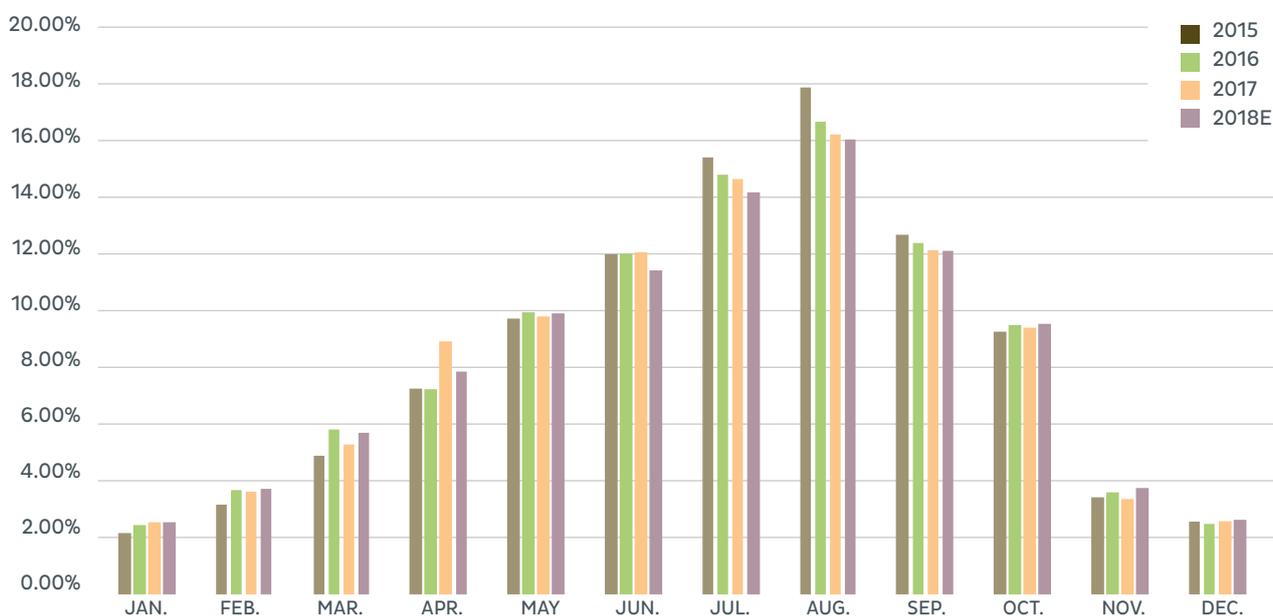
ALGARVE

2.3.2.

The most popular resort destination in Portugal continued to represent the largest hotel offer in the country, with an average annual growth rate of 4% over the last five years. Tourism in this region is still marked by seasonal demand, which is concentrated in the summer months, although spring and autumn have registered a positive evolution.

The program launched during 2016 by Turismo de Portugal, I.P., “*Programa Algarve*”, which aimed to mitigate seasonality and boost employment through artistic valorization and tourism promotion, continued to have effects through the strengthening and qualification of the cultural program of the region, allied to the golf product that has played an important (although not sufficient) role to combat these challenges. Therefore, as in previous years, the summer months, despite the good results, registered a significant weight loss in total demand.

TABLE - 16 EVOLUTION OF OVERNIGHT STAYS IN ALGARVE (%)



SOURCE: TURISMO DE PORTUGAL, I.P.; INE

As in Madeira, there was a slowdown in the number of overnight stays, with the portuguese and spanish markets partly offsetting the fall in the UK, German and Dutch markets. It should be noted that in Algarve accessibility is better than in the island of Madeira and there have been no significant increases in the offer available in the region in previous years.

TABLE 17 – EVOLUTION AND STRUCTURE OF OVERNIGHT STAYS IN ALGARVE

Algarve - Overnight stays by feeder market						Weight				
Origin	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
United Kingdom	5,366,920	5,933,151	5,899,784	5,433,359	5,197,609	29.3%	32.0%	33.5%	33.5%	32.5%
Germany	1,817,386	1,921,686	1,755,618	1,614,257	1,553,074	9.9%	10.4%	10.0%	10.0%	9.7%
Top 2	7,184,306	7,854,837	7,655,402	7,047,616	6,750,683	39.3%	42.4%	43.5%	43.5%	42.2%
Netherlands	1,161,405	1,380,210	1,374,047	1,273,656	1,308,892	6.3%	7.4%	7.8%	7.9%	8.2%
Spain	900,294	853,391	808,129	819,243	853,187	4.9%	4.6%	4.6%	5.1%	5.3%
Top 4	9,246,005	10,088,438	9,837,578	9,140,515	8,912,762	50.5%	54.4%	55.9%	56.4%	55.7%
Scandinavia	482,865	473,355	404,295	343,317	393,040	2.6%	2.6%	2.3%	2.1%	2.5%
Others	4,315,819	4,104,291	3,618,410	2,951,878	2,767,000	23.6%	22.1%	20.6%	18.2%	17.3%
Foreign markets	14,044,689	14,666,084	13,860,283	12,435,710	12,072,802	76.8%	79.1%	78.8%	76.8%	75.4%
Portugal	4,248,296	3,875,719	3,738,123	3,762,436	3,935,296	23.2%	20.9%	21.2%	23.2%	24.6%
Total	18,292,985	18,541,803	17,598,406	16,198,146	16,008,098	100%	100%	100%	100%	100%

SOURCE: INE.
DATA JANUARY TO NOVEMBER

LISBON

2.3.3.

Last year, Lisbon registered a positive growth rate in the number of overnight stays, close to 1%. It is the Portuguese city with the greatest international projection in terms of business tourism that concentrates more than half of the events that take place in the country. This aspect, together with the growing interest the capital has in the international market in leisure tourism, especially in the segment of city-breaks, continued to translate into a high demand throughout the year.

France has once again become the most important market for Lisbon, although it has registered a slight decrease in the number of overnight stays. The Brazilian market was already confirmed this year as the second most important issuing market for Lisbon. Both the Brazilian and US markets have grown significantly in recent years, benefiting significantly from TAP's strategy to create in Lisbon its hub, linking these destinations from the American continent to Europe.

TABLE 18 – EVOLUTION AND STRUCTURE OF OVERNIGHT STAYS IN LISBON

Lisbon - Overnight stays by feeder market						Weight				
Origin	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
France	1,140,127	1,205,777	1,284,061	1,082,379	976,468	8.4%	9.0%	10.3%	9.3%	9.0%
Brazil	1,135,314	1,071,816	784,165	745,557	781,282	8.3%	8.0%	6.3%	6.4%	7.2%
Top 2	2,275,441	2,277,593	2,068,226	1,827,936	1,757,750	16.7%	16.9%	16.7%	15.8%	16.1%
Spain	1,076,507	1,094,466	1,161,078	1,047,904	1,089,153	7.9%	8.1%	9.4%	9.0%	10.0%
USA	972,029	794,793	601,852	517,274	444,104	7.1%	5.9%	4.9%	4.5%	4.1%
Germany	919,693	988,991	898,467	885,961	754,540	6.8%	7.3%	7.2%	7.6%	6.9%
Top 5	5,243,670	5,155,843	4,729,623	4,279,075	4,045,547	38.5%	38.3%	38.1%	39.6%	37.2%
United Kingdom	763,012	826,862	732,190	672,248	627,697	5.6%	6.1%	5.9%	5.8%	5.8%
Scandinavia	462,421	448,536	448,756	477,603	446,311	3.4%	3.3%	3.6%	4.1%	4.1%
Others	4,204,038	4,161,208	3,681,869	3,399,673	3,195,699	30.9%	30.9%	29.7%	29.3%	29.4%
Foreign markets	10,673,141	10,592,449	9,592,438	8,828,599	8,315,254	78.4%	78.7%	77.3%	76.2%	76.4%
Portugal	2,936,571	2,868,318	2,814,152	2,758,446	2,569,963	21.6%	21.3%	22.7%	23.8%	23.6%
Total	13,609,712	13,460,767	12,406,590	11,587,045	10,885,217	100.0%	100.0%	100.0%	100.0%	100.0%

SOURCE: INE.
DATA JANUARY TO NOVEMBER

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

03



OVERALL ACTIVITY

3.1.

Grupo Pestana, S.G.P.S., S.A.'s activity (referred to in this document as "Grupo Pestana SGPS" or "Grupo Pestana"), based at Funchal, was characterized by its role as manager of shareholdings of all companies in the group with operating units in Portugal.

In 2018, Pestana, S.G.P.S., S.A. consolidates all the Pestana business units based in Portugal. Through its subsidiaries, it manages 67 hotel units (20 in ownership, but which represent 53% of the total number of rooms), including the 34 "Pousadas de Portugal", which are under management through long-term leases or concessions, which offer a diversified range of hotel services through the "*Pestana Hotels & Resorts*", "*Pestana CR7*", "*Pestana Pousadas de Portugal*" and "*Pestana Collection*" brands.

The Group's offer is complemented by the management of 9 holiday club developments - Pestana Vacation Club (all owned), 6 golf courses (5 in ownership), the Madeira gambling concession, the management of the public concession of the free trade area of Madeira and, also, enterprises of tourist animation and tourist real estate.

2017 was a remarkable year in terms of the strategy of the Grupo Pestana SGPS, and began to dedicate itself exclusively to the monitoring of its investments in Portugal, performing a deep corporate restructuring.

Considering that Pestana Hotel Group was studying new investments in Europe and the USA, with financing needs that could imply that the Company would no longer have adequate financial capacity to perform investments in the national territory, in 2017, the Company decided to sell the financial investments with activities abroad as it aimed to focus on its economic activity in Portugal, a market with great potential for growth, thus assessing new business opportunities and potential new investments.

Accordingly, Grupo Pestana SGPS sold the shares representing 99.92% of the share capital of the company holding the financial investments in Europe and the USA, *Hotéis do Atlântico - Sociedade Imobiliária and Gestão de Hóteis, S.A.*, to Pestana International Holdings S.A. For the same reasons, Grupo Pestana SGPS also decided to sell, in 2017, the financial investments in the companies that provide services to the several companies of the Pestana Hotel Group, namely in the context of shared management support services, travel agency services and security, namely *Pestana Management - Serviços de Gestão, S.A.*, *Intervisa, Lda.* and *Pestana Segurança, Lda.*

The main projects performed and/or initiated in 2018 were as follows:

- Completion of the expansion of *Pestana Quinta do Arco Nature & Rose Resort* in Madeira, which increased the existing 18 keys to 57 keys with another 4 keys currently undergoing refurbishment. This unit located in the north of the island of Madeira intends to complement and diversify Grupo Pestana's offer in this destination, being the only unit managed outside of Funchal with a less urban area and is more Nature-oriented product which has been facing growing demand;
- The remodeling of the port building of Lobos, on the island of Madeira, is expected to be completed in July 2019. This building, which in the past has housed Winston Churchill, will be transformed into a four-star themed hotel with 59 rooms, also contributing to the diversification of our offer in Madeira;
- The construction of the five-star *Pestana Blue Alvor*, an all-inclusive 551 key hotel in Alvor, Algarve, in a plot of land with 12.8 hectare between *Pestana Alto Golf* and *Pestana Alvor Praia hotels* and *Pestana Delfim*, with direct route to the "três irmãos" beach in Alvor. This hotel will be the first in Portugal to be built from scratch to the sophisticated all-inclusive 5-star market and focused on sustainability and nature. This hotel is expected to open in May 2019;
- Work is under way in the Rua das Flores building which concerns a 4-star tourist development in the historic center of Oporto with 87 rooms, which will result from the refurbishment of a building in a high state of disrepair, and is expected to open by the end of 2019;
- An urban building, where the old flower soap factory in Gondomar was located and where a rehabilitation project is being developed for the construction of the new "*Pestana Douro Hotel*" was purchased and will result in a 165 key unit located with a privileged view over Douro, whose opening is expected for the end of 2019;
- A 15-year urban sub-lease agreement was signed for the development of the refurbishment and construction of a new 4-star 90 key unit at Rua Braamcamp, in Lisbon, with opening scheduled for 2019;
- A lease agreement was signed for a term of 26.5 years, renewable for three equal and successive periods of five years, for the construction of a 4-star unit with 89 rooms at Rua Augusta in Lisbon, with an expected opening for the year 2020;
- In *Pousadas de Portugal*, after signing contracts in 2017 with the Municipal Council of Vila Real de Santo António and Misericórdia de Óbidos. Work was begun on the future Pousada of Vila Real de Santo António and work was completed in Óbidos. The latter allowed to open a new Pousada with 36 rooms in this locality;

- In 2018, a set of rehabilitation works of different units (for example at *Pestana Delfim* in the Algarve, at the *Pestana Promenade* in Madeira or at *Pestana Cascais*) were completed in 2018, and the former condition of the facilities was restored and updated in order to maintain assets in excellent conditions to optimize their exploitation.

In November 2018, Grupo Pestana acquired the D. João II hotel, which was already being operated through a lease, for a total amount of EUR 39,000,000.

PROFIT AND LOSS HIGHLIGHTS 3.2.

Grupo Pestana presented revenue in the amount of EUR 364.9 million, which reflects an annual growth of 7%. Excluding the effect related to the contribution to the 2017 result of the units in Europe and USA due to the disposal occurred in December 2017, annual growth was around 16%, representing an increase in sales in the amount of EUR 50.4 million.

This growth in sales is explained primarily by the Group's real estate business, with emphasis on *Pestana Tróia Eco-Resort*, with a sales increase in the amount of EUR 30.6 million, resulting in an EBITDA increase of EUR 13.7 million, due to the improvement in the sector in Portugal during the last year, allowing a significant increase in the number of units sold, as well as in the sale price of these units. In addition to being a unique project, this is already regarded a true example in this area of business.

The tourism activity in Portugal registered growth in sales of EUR 6.9 million, mainly explained by the fact that Grupo Pestana has a greater inventory available due to the opening of units in recent years.

Hotel units of Algarve had a Guest operating profit (G.O.P.) in the amount of EUR 18.9 million, which represents a continuation of the excellent results obtained in the previous year. The Sintra and Cascais units also presented expressive increases in G.O.P. of more than 8% and *Pestana Baía Praia*, in Azores, after refurbishment, had a good performance after the growth occurred in the year 2017.

In Madeira there was a growth of 6% in sales and 5% in G.O.P. over the previous year, which had already been a very good year. The opening of new units in 2017, which were in operation throughout 2018, explains this increase. The *Pousadas de Portugal* network continued to show an excellent performance, with significant growth, although lower than in 2017. Greater Lisbon and Oporto remain tourist destinations where the Group has good performances (G.O.P growth of 7%), powered by the Pestana Collection units.

The Group's tourist origins followed the market trend, with the traditional countries (England, Germany, France and others in northern Europe) showing slight declines that intensified at the end of the year and were offset in some regions by the internal market, but also by the North American and Brazilian markets.

Pestana Vacation Club performed well in terms of sales, having grown by 8% but maintaining its weight in the Group's sales. Golf, on the other hand, showed a 15% drop in sales compared to the previous year due to the fall in traditional markets, but also to climatic issues (heavy rain) that occurred in the months of February and March.

Consolidated EBITDA amounted to EUR 123 million and Consolidated profit for the period amounted to EUR 68.2 million, reflecting a decrease of 15% and 24% compared to 2017, respectively. These decreases are mainly explained by the capital gains in 2017 in relation to the disposals of the aforementioned financial investments, amounting to EUR 27 million. Excluding this effect, consolidated EBITDA increased 4% and, also excluding Impairment reversals in 2017, Consolidated profit for the period increased 13% compared to the previous year, as a consequence of both improved operating and financial results, by reducing the average value of debt and reducing its cost.

PROFIT AND LOSS HIGHLIGHTS 3.2.

TABLE 19 – FINANCIAL DATA (*)

	2018	2017
Rooms (Total keys)	6,293	6,207
Hotel Units	67	66
(Amounts expressed in million Euros)		
Revenue	364.9	342.2
Touristic activity	326.5	303.6
Non-touristic activity	38.5	38.6
GOP of touristic activity (a)	106.8	135.1
EBITDAR (b)	132.9	160.1
Rents paid to owners and concessions	-9.9	-14.6
EBITDA (c)	123.0	145.5
Depreciation and amortization	-28.9	-28.8
EBIT	94.1	116.7
Paid interest net (included fees)	-10.5	-14.2
Paid Income taxes (d)	-15.4	-12.3
Net profit including non-controlling interests	68.2	90.2
GOP margin (%)	33%	45%
EBITDAR margin (%)	36%	47%
EBITDA (%)	34%	43%
EBIT margin (%)	26%	34%
ROE (%)	18.3%	23.4%
EPS	0.82	1.10
EBITDA/Net interest (..x)	-11.7	-10.2
Average cost of debt (%)	4.1%	5.0%

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) Operational result excluding Charges of depreciation and amortization, Reversals of Impairment losses on tangible assets, Gambling tax paid by the Casino and other accounts of reduced value

(d) includes gambling tax paid by Casino

(*) As explained above, 2017 data are not comparable with 2018 data, since the consolidation perimeter of Grupo Pestana SGPS was reduced, namely by the hotel operations of Pestana Hotel Group in Europe and in the USA.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS 3.3.

Grupo Pestana has Total net assets of EUR 637.2 million, which results from its strategy of holding a large part of its assets (hotels, golf courses and land) where the business units managed by the Group are installed, which explains the significant value and expressive weight of fixed assets. It should be noted that these fixed assets are recorded at cost less accumulated depreciation (see Note 3.3 of the Notes to the consolidated financial statements), which represents a high value reserve since the market values are significantly higher than the accounting values.

Sum of non-remunerated funding: Equity plus cash generated by the Pestana Vacation club activity (which in the Statement of financial position are registered under Liabilities – Deferred revenue) cover 58% of Adjusted assets, reflecting, therefore, a good debt-to-equity ratio. Permanent Capital reached 98% of total Adjusted assets.

Currently, Grupo Pestana has a debt service in line with its estimated capacity to generate funds and its refinancing risk is controlled. Grupo Pestana has credit facilities available in the financial institutions it works with, which represent more than 25% of the total outstanding amount.

Therefore, due to the improvement in the operating results of the units managed by Grupo Pestana and the reduction of its net debt, a very low Net Debt / EBITDA ratio of 2.09x was presented, which reflects the 'investment' risk profile in which the Grupo Pestana operates. However, it should be noted that excluding the effect of the significant Capex under construction that Grupo Pestana has, this ratio would be 1.57x (2017: 1.66x, if corrected from the effect of capital gains obtained on the sale of subsidiaries would be 2.04x).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

3.3.

TABLE 20 – CAPITAL STRUCTURE

(Amounts expressed in million Euros)

	2018	% TOT	Var 18/17	2017	% TOT	Var 17/16	2016
Net Assets							
Investments - Fixed assets (a)	596,5	94%	9%	545,2	79%	-23%	704,0
Deferred tax liabilities	-27,4	-4%	-11%	-30,7	-4%	-18%	-37,7
Total adjusted fixed assets	569,1	90%	11%	514,5	75%	-23%	666,3
Investment - Financial assets (b)	17,3	3%	-7%	18,7	3%	-24%	24,6
Other non-current assets (c)	11,1	2%	-29%	15,6	2%	-15%	18,2
Current Assets - Current liabilities (d)	38,1	6%	-73%	139,4	20%	197%	46,9
Total Net assets (Adjusted Assets)	635,6	100%	-8%	688,2	100%	-9%	756,1
Funding origins							
Equity	267,0	42%	-1%	269,8	39%	-4%	280,6
Collected deferred revenue (e)	162,6	26%	-6%	173,3	25%	-3%	178,3
Deferred sales costs (e)	-57,4	-9%	0%	-57,2	-8%	-1%	-57,6
Total non-remunerated funding	372,2	59%	-4%	385,9	56%	-4%	401,3
Long term financial debt (f)	246,9	39%	-10%	274,5	40%	-27%	373,5
Other non-current liabilities (g)	7,5	1%	-53%	16,1	2%	375%	3,4
Total non-current funding	626,6	99%	-7%	676,4	98%	-13%	778,2
Short term financial debt (f)	50,3	8%	-26%	68,1	10%	13%	60,5
Cash + Equity instruments at FV through PL	-41,3	-6%	-27%	-56,3	-8%	-32%	-82,7
Net current debt	9,0	1%	-23%	11,8	2%	-153%	-22,2
Total funding origins	635,6	100%	-8%	688,2	100%	-9%	756,0
Net debt (h)	255,9		-11%	286,2		-19%	351,3
EBITDA	123,0		-15%	145,5		44%	101,0
Working capital	38,1		-73%	139,4		197%	46,9
Net capex	81,3		77%	46,0		104%	22,6
Capex under construction	64,6		45%	44,5		-57%	102,5
(Net debt - Capex under construction) / EBITDA ratio	1,56		-6%	1,66		-33%	2,46
Net debt / EBITDA ratio	2,08		6%	1,97		-43%	3,48
Net debt / Equity ratio	0,69		-7%	0,74		-15%	0,88
Net debt / Total Assets ratio (%)	40%		-3%	42%		-11%	46%
Liquidity ratio (%)	14%		-14%	16%		-17%	19%

NOTES:

- (a) Includes Tangible Fixed Assets, Intangible Assets and Investment Properties
- (b) Includes Investments in joint ventures and associates
- (c) Includes deferred tax assets and Trade and other receivables
- (d) Excludes Cash and cash equivalents, Borrowings, Deferred revenue and Trade and other payables relating to leasing contracts
- (e) Collected sales of Holiday Club ("timeshare")
- (f) Includes Trade and other payables relating to leasing contracts
- (g) Includes Provisions, Derivatives and Trade and other payables (excluding leasings)
- (h) Long term financial debt plus Net current debt
- (i) Acquisitions net of Disposals



OTHER
RELEVANT
ISSUES
OCCURRED
IN THE PERIOD

04

There are no relevant subsequent events to report.

OBJECTIVES AND POLICIES OF GRUPO PESTANA REGARDING FINANCIAL RISKS MANAGEMENT

05

OBJECTIVES AND POLICIES OF GRUPO PESTANA REGARDING FINANCIAL RISKS MANAGEMENT

Grupo Pestana 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 the interest rate, among others.

Grupo Pestana's 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 for some areas.

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



RELEVANT ISSUES THAT OCCURRED AFTER THE YEAR END

06

There are no relevant subsequent events to report.

THE FUTURE

07

For Pestana Hotel Group, and in particular the Grupo Pestana SGPS, the next two years will be of extreme importance considering the number of units currently under construction, the opening of which will occur during this period. Therefore, despite the fact that we are experiencing some cooling of Portuguese tourist destinations, it is our conviction that we will continue to have a positive development in the coming years, despite the anticipated macroeconomic and sectorial uncertainties.

A sectorial cooling is expected, mainly in resort destinations that suffer from increased competition from destinations outside the Eurozone. These destinations, direct competitors of the Algarve or Madeira, add to the devaluation of their countries' currencies, very fierce policies to conquer markets (markets that originate in a large part in countries in the European Union - EU) with practices that cannot be replicated because they are considered anti-competitive if practiced by countries that are in the EU. To add to these facts is the effect of uncertainty that the current state of Brexit is bringing to British consumers, the main market for resort tourism in Portugal, and the recent bankruptcy of German airline, which introduced additional complications for German tourists, our third market.

Another factor of great concern results from the postponement of decisions regarding Lisbon's air capacity. The decisions necessary for the expansion of the Humberto Delgado airport capacity in Portela are not all taken and the studies that will make the Montijo airport viable are not finished. Therefore, Montijo airport will never be ready before 4 and 5 years after the actual beginning of its construction. In this way, even with the increased demand for Portuguese destinations, those most dependent on Lisbon airport will not be able to access this demand due to the lack of air capacity which is already a relevant constraint.

Regarding Grupo Pestana, in addition to this growth through the opening of new units, resulting from our own investment or partnerships with external investors through agreements for the management of the units using one of our sub-brands, the Group will continue its priority projects, which according to the plans approved are mainly focused on the Human Resources, Marketing and loyalty, revenue management and the new stages of the Digital Plan areas.

RECOGNITION

08



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 Grupo Pestana.

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

We appreciate the support and collaboration of the governing bodies of the group companies, members of the General Assembly and Supervisory 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 the Group's employees. Their effort and dedication are the reason that makes possible the creation of value in Grupo Pestana.

Funchal, 18 March 2019

The Board of Directors

Dionísio Fernandes Pestana

President

Hermanus Roelof Willem Troskie

Member

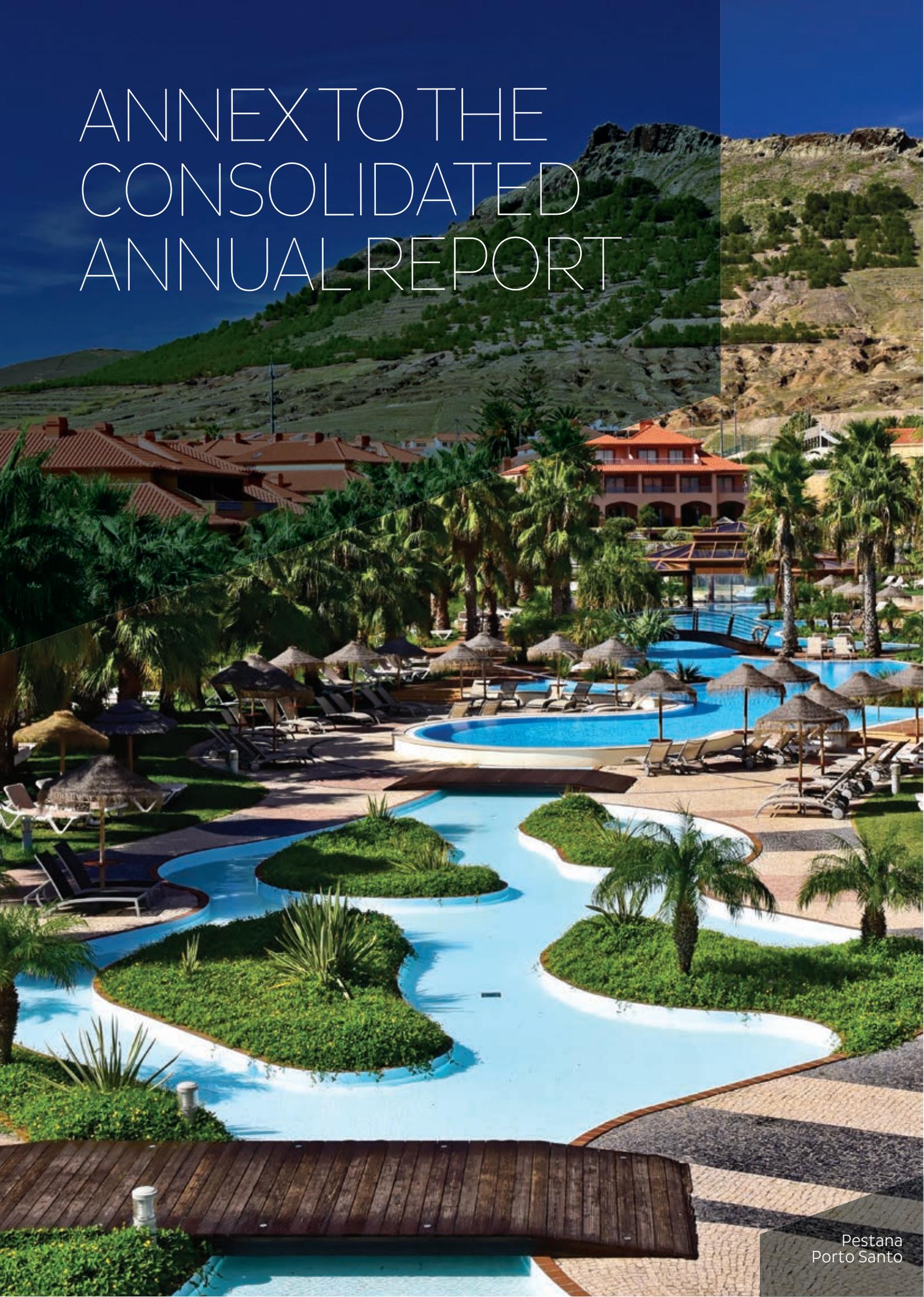
José Alexandre Lebre Theotónio

Member

José de Melo Breyner Roquete

Member

ANNEX TO THE CONSOLIDATED ANNUAL REPORT



ANNEX TO THE CONSOLIDATED ANNUAL REPORT

In accordance with Article 447, paragraph 5 of the Portuguese Commercial Companies Code (“*Código das Sociedades Comerciais*”) we present the number of shares of Grupo Pestana, S.G.P.S., S.A., owned by the members of the management bodies.

As at 31 December 2018, Dionísio Fernandes Pestana holds 835,300 shares of the Grupo Pestana S.G.P.S., S.A. and also the 82,694,700 remaining shares, by virtue of being the last shareholder of the company that holds them directly. As at 4 September 2018, a General Shareholders’ Meeting decided to perform a capital increase in the amount of EUR 2,000,000, to be made by the two shareholders, in cash in proportion to their respective shareholdings. Accordingly, cash inflows were made in the amount of EUR 1,980,000 and EUR 20,000 giving rise to the issue of 2,000,000 new shares with a nominal value of 1 Euro each.

As at 31 December 2017, Dionísio Fernandes Pestana held 815,300 shares of Grupo Pestana, S.G.P.S., S.A. and also the 80,714,700 remaining shares for being the last shareholder of the company that holds them directly.

Funchal, 18 March 2019

The Board of Directors

Dionísio Fernandes Pestana

President

Hermanus Roelof Willem Troskie

Member

José Alexandre Lebre Theotónio

Member

José de Melo Breyner Roquete

Member

CONSOLIDATED FINANCIAL STATEMENTS

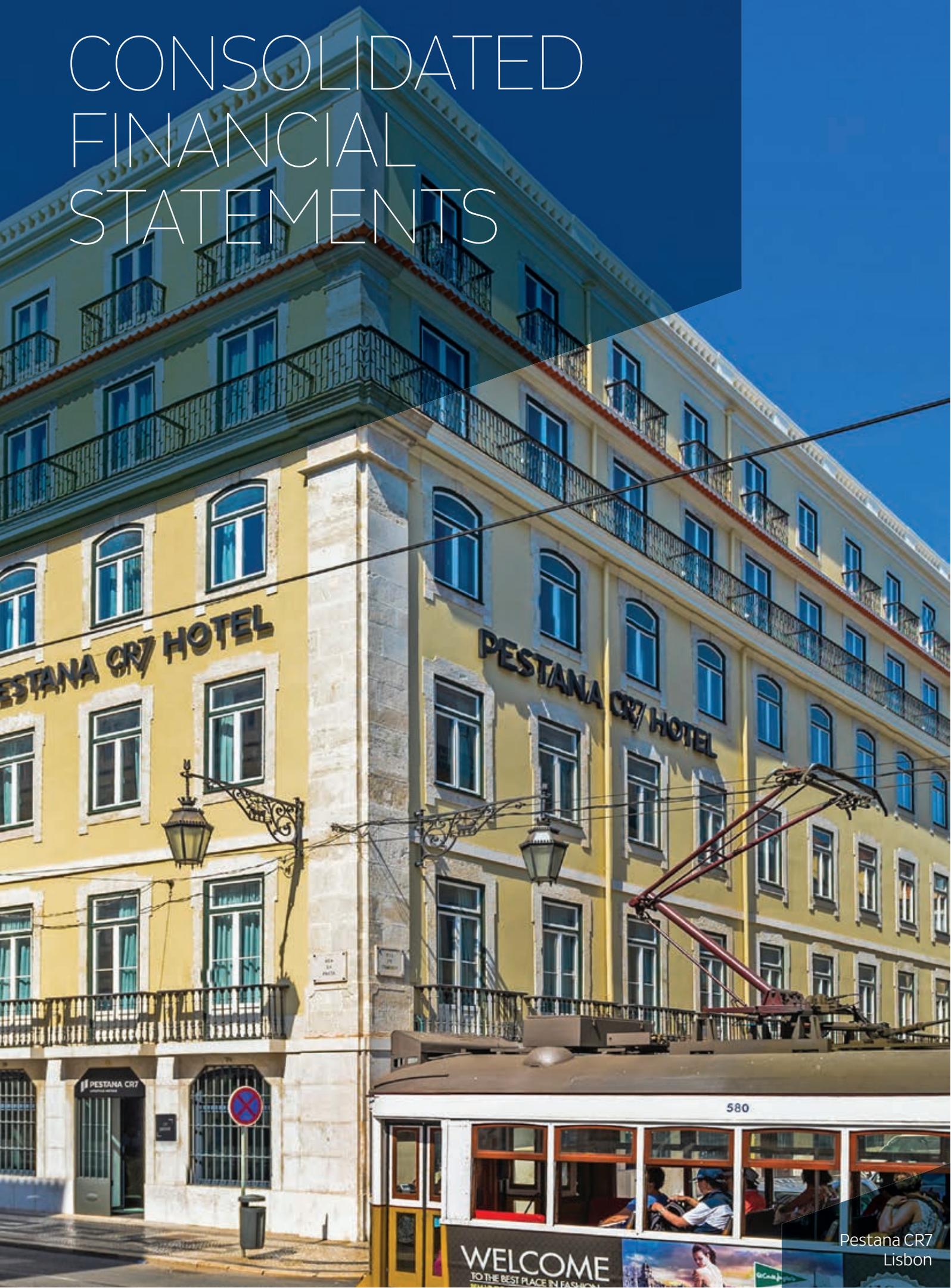


TABLE OF CONTENTS

45

Consolidated statement of financial position

46

Consolidated income statement

47

Consolidated statement of comprehensive income

48

Consolidated statement of changes in equity

50

Consolidated cash flow statement

51

Notes to the consolidated financial statements

51_	1.	General information	125_	23.	Borrowings
54_	2.	Accounting standards used in the preparation of the consolidated financial statements	127_	24.	Derivatives
57_	3.	Main accounting policies	130_	25.	Deferred revenue
77_	4.	Financial risk management policies	131_	26.	Trade and other payables
83_	5.	Main accounting estimates and judgments	133_	27.	Revenue
86_	6.	Tangible fixed assets	136_	28.	External services and supplies
92_	7.	Intangible assets	137_	29.	Personnel expenses
95_	8.	Investment properties	138_	30.	Other income
96_	9.	Investments in joint ventures	139_	31.	Other expenses
99_	10.	Investments in associates	140_	32.	Gains and losses on investments in joint ventures, associates and equity instruments at fair value through profit and loss and disposal of subsidiaries
101_	11.	Equity instruments at fair value through profit and loss	141_	33.	Financial expenses and income
103_	12.	Deferred tax assets and liabilities	142_	34.	Income tax
106_	13.	Financial assets and liabilities	143_	35.	Dividends
108_	14.	Trade and other receivables	144_	36.	Commitments
111_	15.	Inventories	145_	37.	Contingencies
113_	16.	Corporate income tax	146_	38.	Consolidation perimeter
115_	17.	Cash and cash equivalents	150_	39.	Changes in the perimeter
115_	18.	Capital	155_	40.	Related parties
118_	19.	Other reserves	165_	41.	Notes to the Consolidated cash flow statement
120_	20.	Retained earnings	165_	42.	Subsequent events
121_	21.	Non-controlling interests			
123_	22.	Provisions			

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December		
(Amounts expressed in Euros)		Notes	2018	2017
Assets				
Non-current				
Tangible fixed assets	6	619,927,361	566,215,054	
Intangible assets	7	25,653,420	27,764,046	
Investment properties	8	8,328,251	8,420,704	
Investment in joint ventures	9	5,560,788	5,403,585	
Investment in associates	10	11,737,961	11,930,722	
Equity instruments at fair value through profit and loss	11	1,577,373	1,355,718	
Deferred tax assets	12	68	3,719,921	
Trade and other receivables	14	11,111,071	11,835,921	
		683,896,293	636,645,671	
Current				
Inventories	15	86,468,875	92,408,983	
Trade and other receivables	14	48,350,633	166,419,819	
Income tax receivable	16	192,442	133,019	
Cash and cash equivalents	17	39,716,014	56,280,131	
		174,727,964	315,241,952	
Total assets		858,624,257	951,887,623	
Equity				
Capital	18	125,420,973	150,420,973	
Other reserves	19	22,920,005	9,579,170	
Retained earnings	20	39,675,970	9,692,769	
Profit for the period attributable to shareholders		63,737,931	85,950,244	
Non-controlling interests	21	15,282,398	14,196,649	
Total equity		267,037,277	269,839,805	
Liabilities				
Non-current				
Provisions	22	701,767	603,953	
Borrowings	23	242,931,737	270,892,176	
Derivatives	24	485,180	1,069,253	
Deferred tax liabilities	12	27,431,182	30,628,345	
Deferred revenue	25	147,137,852	161,411,251	
Trade and other payables	26	3,952,078	5,302,029	
		422,639,796	469,907,007	
Current				
Provisions	22	3,997,357	3,980,564	
Borrowings	23	49,433,561	65,983,265	
Deferred revenue	25	28,097,235	30,859,263	
Trade and other payables	26	85,866,372	102,164,240	
Income tax liabilities	16	1,552,659	9,153,479	
		168,947,184	212,140,811	
Total liabilities		591,586,980	682,047,818	
Total equity and liabilities		858,624,257	951,887,623	

THE FOLLOWING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2018.

CONSOLIDATED INCOME STATEMENT

(Amounts expressed in Euros)	Notes	Period	
		2018	2017
Revenue	27	364,949,912	342,170,602
Cost of goods sold	15	(65,109,780)	(48,295,318)
External services and supplies	28	(122,967,062)	(104,515,653)
Personnel expenses	29	(56,266,535)	(71,925,415)
Charges of depreciation and amortization	6;7;8	(29,104,337)	(32,191,125)
Reversals of impairment losses of tangible assets	6;7	237,642	3,395,327
Impairment of receivables	14	290,433	(766,855)
Impairment of inventories	15	(161,206)	(104,111)
Provisions	22	(182,854)	(967,486)
Other income	30	9,147,111	13,495,616
Other expenses	31	(8,368,261)	(13,155,410)
Gains and losses on investments in subsidiaries, joint ventures, associates and equity instruments at fair value through profit and loss	32	305,605	28,127,872
Operating profit		92,770,668	115,268,045
Financial expenses	33	(10,923,353)	(14,992,655)
Financial income	33	430,342	769,739
Profit before tax		82,277,657	101,045,129
Income tax	34	(14,071,877)	(10,823,470)
Profit for the period		68,205,780	90,221,659
Profit for the period attributable to:			
Shareholders of the group		63,737,931	85,950,244
Non-controlling interests		4,467,849	4,271,415
		68,205,780	90,221,659
EBITDA		123,000,433	145,511,161
EBITDAR		132,892,120	160,083,740

THE FOLLOWING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts expressed in Euros)	Notas	Period	
		2018	2017
Profit for the period		68,205,780	90,221,659
Items that recycled through profit and loss:			
Foreign currency translation differences	19;21	-	(2,095,764)
Change in fair value of hedging derivatives	24	559,925	840,252
Tax impact in items booked directly in equity	12	(106,163)	(232,857)
Other comprehensive income for the period - net of income tax		453,762	(1,488,369)
Total comprehensive income for the period		68,659,542	88,733,290
Comprehensive income attributable to:			
Shareholders of the group		64,191,693	84,461,875
Non-controlling interests		4,467,849	4,271,415
		68,659,542	88,733,290

THE FOLLOWING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts expressed in Euros)	Attributable to shareholders							Total
	Share capital	Equity instruments	Share premium	Other reserves	Retained earnings	Profit for the period	Non-controlling interests	
At 1 January 2018	81,530,000	35,200,000	33,690,973	9,579,170	9,692,769	85,950,244	14,196,649	269,839,805
Changes in the period								
Changes in accounting policies (Note 2)				-	130,438	-	-	130,438
Profit for the period application				5,760,718	80,189,526	(85,950,244)	-	-
Other changes recognized in equity				7,291,355	(7,675,874)	-	447,019	62,500
				13,052,073	72,644,090	(85,950,244)	447,019	192,938
Change in fair value reserve - hedging derivatives				559,925	-	-	-	559,925
Deferred tax adjustments				(106,163)	-	-	-	(106,163)
Profit for the period				-	-	63,737,931	4,467,849	68,205,780
Comprehensive income				453,762	-	63,737,931	4,467,849	68,659,542
				13,505,835	72,644,090	(22,212,313)	4,914,868	68,852,480
Transactions with shareholders in the period								
Shareholders contribution	2,000,000	-	-	-	-	-	-	2,000,000
Distributions	-	(27,000,000)	-	(165,000)	(38,477,632)	-	(3,829,119)	(69,471,751)
Acquisition of non-controlling interests	-	-	-	-	(4,183,257)	-	-	(4,183,257)
	2,000,000	(27,000,000)	-	(165,000)	(42,660,889)	-	(3,829,119)	(71,655,008)
At 31 December 2018	83,530,000	8,200,000	33,690,973	22,920,005	39,675,970	63,737,931	15,282,398	267,037,277

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts expressed in Euros)	Attributable to shareholders							Total
	Share capital	Equity instruments	Share premium	Other reserves	Retained earnings	Profit for the period	Non-controlling interests	
At 1 January 2017	81,530,000	35,200,000	33,690,973	11,350,393	49,005,894	43,054,092	26,797,531	280,628,883
Changes in the period								
Profit for the period application				2,694,668	40,359,424	(43,054,092)	-	-
Changes in the perimeter				1,061,151	-	-	(1,103,794)	(42,643)
Other changes recognized in equity / Merger				(2,532,534)	2,020,503	-	(3,985,627)	(4,497,658)
				1,223,285	42,379,927	(43,054,092)	(5,089,421)	(4,540,301)
Change in fair value reserve - hedging derivatives				636,966	-	-	-	636,966
Foreign currency translation differences				(2,102,375)	12,376	-	(5,765)	(2,095,764)
Gains and losses recognized directly in equity arising from associates				216,071	(216,071)	-	-	-
Profit for the period				-	-	85,950,244	4,271,415	90,221,659
Comprehensive income				(1,249,338)	(203,695)	85,950,244	4,265,650	88,762,861
				(26,053)	42,176,232	42,896,152	(823,771)	84,222,560
Transactions with shareholders in the period								
Shareholders contribution	-	-	-	-	-	-	2,255,738	2,255,738
Distributions	-	-	-	(1,745,170)	(81,489,357)	-	(14,032,849)	(97,267,376)
	-	-	-	(1,745,170)	(81,489,357)	-	(11,777,111)	(95,011,638)
At 31 December 2017	81,530,000	35,200,000	33,690,973	9,579,170	9,692,769	85,950,244	14,196,649	269,839,805

THE FOLLOWING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018.

CONSOLIDATED CASH FLOW STATEMENT

(Amounts expressed in Euros)	Notes	Period ended 31 December	
		2018	2017
Cash flow from operating activities			
Receipts from customers		368,078,850	324,239,105
Payments to suppliers		(197,314,856)	(140,238,603)
Payments to personnel		(55,349,761)	(74,536,205)
Cash generated from operations		115,414,233	109,464,297
Income tax paid		(21,353,077)	(2,800,570)
Other payments		(1,224,179)	1,105,657
Net cash flow from operating activities		92,836,977	107,769,384
Cash flow from investing activities			
Receipts related to:			
Tangible assets		1,880,443	8,128,232
Intangible assets		-	139,977
Disposal of subsidiaries		95,144,198	41,655,079
Interest income and similar		115,086	484,773
Dividends		165,000	-
Payments related to:			
Tangible assets		(79,990,998)	(51,694,886)
Intangible assets		-	(864,573)
Acquisition of non-controlling interests		(4,183,257)	(3,982,257)
Other financial investments		-	(17,901)
Net cash flow from investing activities		13,130,472	(6,151,556)
Cash flow from financing activities			
Receipts related to:			
Borrowings		51,519,151	29,655,342
Shareholder contributions and other equity instruments		2,000,000	-
Other financing items		-	2,255,738
Payments related to:			
Borrowings		(93,018,201)	(49,114,882)
Interest expenses and similar charges		(12,941,041)	(14,975,675)
Dividends		(41,220,151)	(97,267,376)
Reimbursement of other equity distributions		(28,251,600)	-
Net cash flow from financing activities		(121,911,842)	(129,446,852)
Changes in cash and cash equivalents		(15,944,393)	(27,829,024)
Effects of exchange differences		17,122	3,747,465
Cash and cash equivalents at the beginning of the period	17	55,439,019	79,520,578
Cash and cash equivalents at the end of the period	17	39,511,748	55,439,019

THE FOLLOWING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018.

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 on the currently denominated Pestana Carlton Madeira, develops its activity mainly in the Hospitality business. The Group is led by its shareholder, Mr. Dionisio Pestana, son of the founder of the Group.

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

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

In 2010, the Group initiated its business expansion in Europe, through the opening of Chelsea Bridge Hotel, in London, having followed this with an expansion to North America, initiated in 2013, with the opening of Pestana South Beach in Miami.

Nowadays, Pestana Hotel Group is by far the largest Portuguese group in the Hospitality business, with an operation focused on hotels, but complemented by other activities such as timeshare, residential tourism, golf, touristic entertainment and distribution. It also includes some investments in industry and services.

Through the promotion of "Pestana" brand and "Pousadas de Portugal", as well as the launch in 2016 of the brand "Pestana CR7", Pestana Hotel Group currently operates 106 units of touristic lodging totaling approximately 11.398 rooms, making it the largest network with Portuguese origin, being in the top 25 of European hotel networks ranking and in the top 75 worldwide.

In order to structure the Group investments, Grupo Pestana, S.G.P.S., S.A. (hereinafter referred to as "Grupo Pestana") was established in 2003, essentially to aggregate the investments in Portugal, and, until December 2017, in Europe and North America.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2017 was a significant year in terms of the Grupo Pestana's strategy, which started to dedicate exclusively to the monitoring of its investments in Portugal, after undertaking an extensive corporate restructuring, which included the sale of shares representing 99.92 % of the share capital of the holding that manages the financial investments in Europe and in the United States of America, Hotéis do Atlântico - Sociedade Imobiliária and Gestão de Hotéis, S.A., to Pestana International Holdings S.A.. The investments held in companies that provide services to the various companies of Pestana Hotel Group, in particular shared management support services, travel agency and security services, namely Pestana Management - Serviços de Gestão, SA, Intervisa, Lda. and Pestana Segurança, Lda., were also sold to another company of the Group, ESGAP S.A.

In the leisure area, Grupo Pestana currently holds, besides its 33 hotels (16 in Madeira, 9 in Algarve, 5 in Lisbon/Cascais/Sintra, 2 in Oporto and 1 in Azores), 9 units of Vacation Club, 6 golf courses, 4 real estate / touristic ventures, 1 casino gambling concession in Madeira, 1 tour operator and the management of the network of 34 Pousadas de Portugal, including the one in Terreiro do Paço in Lisbon. These figures include two hotels resulting from the partnership between Pestana Hotel Group and Cristiano Ronaldo, namely Pestana CR7 Lisbon and Pestana CR7 Madeira.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Units	Local	Units	Local
Pestana Carlton Madeira ^(a)	Madeira	Pestana Cidadela Cascais	Cascais
Pestana Madeira Beach Club	Madeira	Pestana Vintage Porto	Oporto
Pestana Casino Park Hotel	Madeira	Pestana Palácio do Freixo	Oporto
Pestana Grand	Madeira	Pestana Sintra Golf	Sintra
Pestana Grand Vacation Club	Madeira	Pestana Beloura Golf Resort	Sintra
Pestana Porto Santo	Madeira	Pousadas de Portugal (Network)	Portugal
Pestana Colombos ^(a)	Madeira	Pestana Tróia Eco resort	Tróia
Pestana Ilha Dourada	Madeira	Pestana Alvor Praia	Algarve
Pestana Promenade	Madeira	Pestana Alvor Beach Club	Algarve
Pestana Promenade Vacation Club	Madeira	Pestana Dom João II	Algarve
Pestana Miramar	Madeira	Pestana Dom João II Beach Club	Algarve
Pestana Miramar Vacation Club	Madeira	Pestana Delfim ^(a)	Algarve
Pestana Village	Madeira	Pestana Alvor Park ^(b)	Algarve
Pestana Village Vacation Club	Madeira	Pestana Viking ^(a)	Algarve
Pestana Palms	Madeira	Pestana Viking Vacation Club	Algarve
Pestana Palms Vacation Club	Madeira	Pestana Alvor Atlantico	Algarve
Pestana Bay	Madeira	Pestana Alvor South Beach	Algarve
Pestana Atlantic Gardens ^(a)	Madeira	Pestana Palm Gardens ^(b)	Algarve
Madeira Magic	Madeira	Pestana Gramacho Golf Resort	Algarve
Casino da Madeira	Madeira	Pestana Gramacho Residences	Algarve
Centro Intern. Neg. Madeira	Madeira	Pestana Vale da Pinta Golf Resort	Algarve
Pestana CR7 Madeira ^(a)	Madeira	Pestana Silves Golf Resort	Algarve
Pestana Royal ^(a)	Madeira	Pestana Alto Golf Resort ^(a)	Algarve
Pestana Quinta dos Arcos ^(a)	Madeira	Pestana Vilasol Golf Resort ^(a)	Algarve
Pestana Casino Studios	Madeira	Pestana Vilasol Hotel Resort ^(a)	Algarve
Pestana Palace	Lisbon	Pestana Race ^(a)	Algarve
Pousada de Lisboa	Lisbon	Pestana Race Apartments ^(a)	Algarve
Pestana CR7 Lisboa	Lisbon	Pestana Bahia Palace	Açores
Pestana Cascais ^(a)	Cascais		

(a) MANAGEMENT / LEASED CONTRACT

(b) FRANCHISED

These Consolidated financial statements were approved by the Board of Directors on the meeting held on 18 March 2019. The Board of Directors believes that the Consolidated financial statements give a true and fair view of the performance of Grupo Pestana, S.G.P.S., S.A., as well as its consolidated financial position and its consolidated cash flows.

Grupo Pestana's Consolidated financial statements and corresponding Notes are presented in Euros.

2. ACCOUNTING STANDARDS USED IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated financial statements are prepared by Grupo Pestana in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and effective as at 1 January 2018. 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 the Group 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, except for the effect of the newly applicable standards as described below.

The Consolidated financial statements have been prepared on a going concern basis under historical cost convention, except for the derivative financial instruments and equity instruments at fair value through profit and loss, measured at fair value, to meet its contractual financial commitments at their maturity date.

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 Grupo Pestana, 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 standards that became effective on 1 January 2018 is as follows:

- **IAS 40 (amendment)**, 'Transfer of investment property". This amendment clarifies that when assets are transferred to, or from investment property, the evidence of the change in use is required. A change in management intention in itself is not evidence enough to support a transfer. This amendment had no impact on the Group's Consolidated financial statements.

- **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. The adoption of this new standard had no significant impacts on the Group's Consolidated financial statements.
- **IFRS 15 (new)**, 'Revenue from contracts with customers'. This new standard applies only to contracts with customers who provide goods or services, and requires an entity to recognize revenue when the performance obligations to deliver the goods or services are satisfied and by the amount that reflects the consideration to which the entity is entitled to, as described on five steps model. Depending on the fulfillment of some criteria, revenue is recognized i) at the specific moment, when control of a good or service is transferred to the customer, or ii) over time as the performance obligation is satisfied.

This standard replaced IAS 18, 'Revenue' and the Group has reviewed its accounting policy for revenue recognition related to Pestana Vacation Club – Options (Note 3.22) using the modified retrospective approach (recognizing the cumulative effect of applying this standard as an adjustment to the opening balance), taking into account points which are expected to remain unused on their expiration date.

Therefore, on 1 January 2018, the Group decreased Deferred revenue in the amount of 249,327 Euros (Note 25), decreased Trade and other receivables in the amount of 83,164 Euros (Note 14) and increased Deferred taxes liabilities in the amount of 35,725 Euros (Note 12), against an increase in Retained earnings in the amount of 130,438 Euros (Note 20). The adoption of this standard in 2018 resulted in an increase in Revenue in the amount of 30,471 Euros, an increase in External services and supplies in the amount of 9,295 Euros and an increase in Income tax in the amount of 5,347 Euros.

- **Amendments to IFRS 15**, 'Revenue from contracts with customers'. These amendments refer to additional guidance for determining performance obligations in a contract, the timing for revenue recognition for a license of intellectual property, the review of the indicators for principal versus agent classification, and to new practical expedients to simplify transition. These amendments had no impact on the Group's Consolidated financial statements.
- **IFRIC 22 (new)**, 'Foreign currency transactions and advance consideration'. An interpretation of IAS 21 'The effect of changes in foreign exchange rates' refers to the determination of the transaction date when an entity pays or receives prepayments for foreign currency denominated contracts. The 'transaction date' determines the exchange rate to be used to convert transactions in foreign currency. The adoption of this new interpretation had no impact on the Group's Consolidated financial statements.

b) New standard which is mandatory for the accounting periods beginning on or after 1 January 2019 and which has been endorsed by EU:

- **IFRS 16** (new), 'Leases'. This new standard replaces IAS 17 and requires lessees to recognize 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".

Currently, the Group estimates this adoption using the retrospective approach as foreseen in the standard with an equally estimated impact of an increase in assets of approximately 111 million Euros, an increase in liabilities of approximately 127 million Euros and a decrease in Retained earnings of approximately 16 million Euros.

c) Standards (new and amendments) and interpretations that are mandatory for the accounting periods beginning on or after 1 January 2019 (or after that date if expressly indicated), which have been already endorsed by the EU:

- **Annual Improvement 2014 - 2016**. The 2014-2016 annual improvements impacts IAS 28 and IFRS 12 will have no impact on the Group's Consolidated financial statements.
- **IAS 1** (amendment), 'Presentation of Financial Statements' and **IAS 8** (amendment), 'Accounting policies, changes in accounting estimates and errors (effective for annual periods beginning on or after 1 January 2019)'. These amendments made by IASB changed the materiality definition, which the Group will adopt in the period it becomes effective.
- **IAS 28** (amendment), 'Investments in associates and joint ventures'. This amendment clarifies that long-term investments in associates and joint ventures (investment components in associates and joint ventures) which are not accounted for using the equity method are registered according to IFRS 9 and are subject to the impairment loss model before any other impairment tests to the investment as a whole. This amendment will have no impact on the Group's Consolidated financial statements.
- **IFRS 9** (amendment), 'Prepayment features with negative compensation'. This amendment introduces the possibility to classify certain financial assets with negative compensation features at amortized cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss. This amendment will have no impact on the Group's Consolidated financial statements.
- **Annual Improvements 2015 - 2017**. The 2015-2017 annual improvements impact IAS 23, IAS 12, IFRS 3 and IFRS 11. The Group will adopt these improvements in the periods they become effective.

- **IFRIC 23** (new), 'Uncertainty over income tax treatment'. This is an interpretation of IAS 12 - 'Income tax', referring to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of an income tax treatment by the tax authorities. In the event of uncertainty as to the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12, and not under IAS 37 - "Provisions, contingent liabilities and contingent assets "; based on the expected value or the most probable value. The application of IFRIC 23 may be retrospective or retrospective modified. The Group will adopt IFRIC 23 in the period it becomes effective and no relevant impacts are expected to occur on the Group's Consolidated financial statements.

3. MAIN ACCOUNTING POLICIES

The main accounting policies applied in the preparation of the Consolidated financial statements are described below. These policies were consistently applied to all years presented, except for the effect of the newly applicable standards as described in Note 2.

3.1. CONSOLIDATION

3.1.1. SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which the Group has control. Grupo Pestana 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 Grupo Pestana and are excluded from consolidation from the date that control ceases.

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 Grupo Pestana's 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 and dilutions of non-controlled 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 the subsidiaries are attributed to non-controlling interests in the proportion of their share in the capital of Grupo Pestana.

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

Entities that qualify as Subsidiaries are listed in Note 38.

3.1.2. JOINT VENTURES

The Group recognizes an investment in a joint venture when it is contractually agreed to share control over a business or an entity and it only exists when strategic financial and operational decisions over that business or entity are taken by all investors unanimously. Investments in this kind of entities are supported by agreements signed between all investors.

Classification as a joint venture ceases when control of the entity is acquired which can happen when: i) the other parties' shares are acquired and the agreement ceases to be in effect; or ii) when the unconditional right to acquire (purchase option) the other parties' shares is obtained even if that right has not been exercised but can be done so 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 Grupo Pestana's consolidated 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 its consistent application by all Group companies.

Entities that qualify as Joint ventures are listed in Notes 9 and 38.

3.1.3. ASSOCIATES

Associates are entities in which Grupo Pestana owns between 20% and 50% of the voting rights or over which it 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, the 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 Grupo Pestana's consolidated 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 its consistent application by all Grupo Pestana companies.

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

Entities that qualify as Associates are listed in Notes 10 and 38.

3.1.4. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Equity instruments at fair value through profit and loss correspond to investments in entities in which Grupo Pestana holds less than 20% of the voting rights or over which Grupo Pestana has no significant influence in the definition of the financial and operating policies.

The investments in these entities correspond to Equity instruments at fair value through profit and loss 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 Equity instruments at fair value through profit and loss are listed in Note 11.

3.2. BUSINESS COMBINATIONS UNDER COMMON CONTROL

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

Grupo Pestana 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, unless otherwise stated, the presentation currency of Grupo Pestana.

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 Grupo Pestana which have a functional currency other than Euro are translated into the presentation currency at the average exchange rate.

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

iv. Exchange rates used

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

Currency	31-12-2018	31-12-2017
BRL - Brazilian Real	4.4235	3.9437
CAD - Canadian Dollar	1.5596	1.5047
CHF - Swiss Franc	1.1272	1.1701
DKK - Danish Krone	7.4671	7.4449
GBP - Sterling Pound	0.8948	0.8875
NOK - Norwegian Krone	9.9452	9.8348
SEK - Swedish Kroner	10.2423	9.8387
USD - US Dollar	1.1454	1.1994

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, namely in 2010, 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 conditions of use. The financial costs incurred with loans obtained for 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Depreciations are calculated on a straight line basis, using estimated useful lives, being the most significant 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 and arranging 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 by in IAS 17, and this period varies between 3 to 30 years.

Grupo Pestana 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 assets associated with the concession of the Pousadas de Portugal and the 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 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 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 the 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.

Intangible assets of Grupo Pestana refer mainly to concessions, software and websites.

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.

Concession rights are related to the amounts paid for the acquisition of the right to explore the hotel units of "Pousadas de Portugal" and the gambling license in Madeira.

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 Grupo Pestana and its services are registered in the income statement as incurred.

Amortization is calculated on a straight line basis, using estimated useful lives, being the most significant as follows:

	Years
Concessions	Between 20 and 70 anos
Website	4 years

Assets which, by their nature, do not have a defined useful life are not amortized, are however 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 Grupo Pestana's ordinary 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 continues 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 also 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. Grupo Pestana performs impairment tests every year, in December, and whenever events or changes in surrounding conditions indicate that the book value may not be recoverable.

When the recoverable amount is lower than the book value of the assets, impairment is recorded.

An impairment loss is recognized by the excess of the book value of the asset over its recoverable amount, being the recoverable amount, the higher 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 (cash generating units).

The non-financial assets other than goodwill, for which have been recognized impairment losses are assessed, at each reporting date, on the possible reversal of impairment losses.

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

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 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 instruments, deferred tax liabilities should not be recognized to the extent that: i) the parent company 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

I. CLASSIFICATION

Financial asset classification depends on the business model used in the management of financial assets (cash flow receipts or fair value variations) and on the contractual terms associated with cash inflows.

Changes to financial asset's classification can only be done when the business model is altered except in what relates to financial assets at fair value through comprehensive income which are equity instruments and which may never be altered to a different category.

Financial assets can be classified as:

- (i) Financial assets at amortized cost: includes financial assets which correspond exclusively to the payment of the nominal value and interest and whose management's business model is contractual cash flow receipts;
- (ii) Financial assets through other comprehensive income: this category may include financial assets which qualify as debt instruments (contractual obligation to deliver cash flows) or as equity instruments (residual interest in an entity):
 - a) In what concerns debt instruments this category includes financial assets which correspond exclusively to the payment of the nominal value and interest and whose management's business model is contractual cash flow receipts or occasionally its sale;
 - b) In what concerns equity instruments this category includes the percentage of interest held in an entity over which no control, joint control or significant influence is exercised and for which it has been irrevocably decided at the time of initial recognition to be designated as fair value through other comprehensive income;
- (iii) Financial assets at fair value through profit or loss: includes assets which do not fulfil the criteria for classification as financial assets at amortized cost or fair value through other comprehensive income whether they are debt or equity instruments.

Purchases and sales of investments in financial assets are recorded at the transaction date, which means, the date on which Grupo Pestana commits to purchase or sell the asset.

ii. Measurement

Financial assets are initially recognized at fair value plus transaction costs directly attributable to the asset's acquisition for financial assets which are not measured at fair value through profit and loss. Transaction costs of financial asset at fair value through profit and loss are recognized in profit and loss in the period in which they occur.

Financial assets at amortized cost are subsequently measured according to the effective interest rate method less impairment losses. Interest earned from these financial assets are included in "Interest earned from assets at amortized cost" in financial income.

Financial assets through other comprehensive income which constitute debt instruments are subsequently measured at fair value and fair value changes are recognized in other comprehensive income with the exception of changes concerning impairment losses, interest earned and exchange rate gains/(losses) which are recognized in profit and loss. Financial assets at fair value through other comprehensive income are subject to impairment.

Financial assets through other comprehensive income which constitute equity instruments are initially and subsequently measured at fair value and fair value changes are recognized directly in other comprehensive income, in Equity, and no future reclassification can take place even after the investment is derecognized. Dividends obtained from these assets are recognized as gains in profit and loss in the date they are attributed.

iii. Impairment

Grupo Pestana prospectively assesses estimated credit losses associated with financial assets which constitute debt instruments classified as amortized cost and fair value through other comprehensive income.

The impairment methodology applied has in consideration the debtor's credit risk profile and is applied differently taking into account their nature.

In what concerns trade receivables and customer contractual assets, the Group applies the simplified approach allowed for in IFRS 9 according to which estimated credit losses are recognized from the initial recognition of the receivable balance and throughout the period to its maturity taking into account an historical default matrix for the maturity of the receivable balances adjusted by prospective estimates whenever appropriate.

As at 31 December 2018 and 2017 all related parties have the ability to pay having the probability of default been considered as close to 0% and therefore no impairment has been recognized.

For all other situations and nature of receivable balances the Group applies the impairment model's general approach assessing at each reporting date if an increase in credit risk has occurred since the asset's initial recognition date. If no increase in credit risk has occurred the Group calculates an impairment corresponding to the amount equivalent to estimated losses in a 12 month period. If there has been an increase in credit risk, the Group calculates an impairment corresponding to the amount equivalent to estimated losses for all contractual flows until the asset's maturity.

Financial assets are derecognized when the right to receive cash flows originated by those assets have expired or been transferred. Financial assets at fair value through other comprehensive income which constitute debt instruments at the date of derecognition which have had their gains/(losses) recognized in equity/other comprehensive income previously are reclassified from the corresponding equity lines to profit and loss.

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 used, based on market assumptions. This is the second level of the hierarchy of fair value.

The Group applies valuation techniques for non-listed financial instruments, such as derivatives, financial assets at fair value through other comprehensive income and other financial assets and liabilities at fair value through profit and loss. The valuation models that are most often used are discounted cash flows 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 Grupo Pestana 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. Impairment losses of Trade and other receivables are recorded in accordance with the principles described in the Note Financial Assets - impairment. Impairment losses identified are recorded in the consolidated income statement under Impairment of receivables.

3.12. INVENTORIES

Inventories refer to goods, to finished goods and work in progress and the materials used in the activities of rendering service 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 villas, apartments and townhouses 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 process of approval and allotment), villas, apartments and townhouses under construction, measured at the construction costs. The construction cost includes land acquisition costs incurred in obtaining permits and licenses, the costs of materials and labor incorporated in construction works.

Inventories also include materials, raw materials and consumables initially measured by the purchase price added up to the costs directly related to the acquisition.

The cost formula used for registering the consumption / sale of inventories in general is 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 shown in the consolidated statement of financial position as current liabilities, under the captions Borrowings and are considered in the preparation of the consolidated cash flows statements as Cash and cash equivalents.

3.14. 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.

Additional contributions without issuance of shares are recognized as Other equity instruments.

3.15. PROVISIONS

Provisions are recognized when Grupo Pestana has a present legal or constructive obligation resulting from past events, to which is more probable than not that an outflow of internal resources will be necessary to settle this obligation, and 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 nonoccurrence) of a certain future event, Grupo Pestana 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 Grupo Pestana are recognized in accordance with the assessment of the Group's internal legal department supported by the lawyers in charge for the processes.

Grupo Pestana 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 to the consolidated income statement.

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

3.16. FINANCIAL LIABILITIES

Financial liabilities are classified into two categories:

- (i) Financial liabilities at fair value through profit or loss;
- (ii) Financial liabilities at amortized cost.

Financial liabilities are initially recognized at fair value less transaction costs directly attributable to the emission of the financial liability when the financial liability is not recognized at fair value through profit or loss.

Subsequently, all liabilities are measured at amortized cost with the exception of derivatives which are liabilities and are recognized at fair value. Financial assets at amortized cost are measured according to the effective interest rate and include Borrowings and Trade and other payables.

Grupo Pestana recognizes as financial liabilities at fair value through profit or loss derivatives which at the reporting date have a debit balance.

Purchase and sale of investments in financial liabilities are registered at the transaction date meaning the date in which the Group commits to purchase or liquidate the liability.

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

3.17. BORROWINGS

Borrowings are initially recognized at fair value, net of transaction costs incurred directly attributable to the emission. 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 Grupo Pestana 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.

3.18. 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 as trading or hedging.

A derivative is considered as hedging when: i) there is an economic relationship between the item being hedged and the hedging instrument which Grupo Pestana has defined as being between 85% and 125%; ii) the changes in fair value do not mainly result from credit risk; and iii) the coverage ratio designated by the Group, in each transaction, is what results from the quantity of the hedged item and the quantity of the hedging instrument which the entity effectively uses to hedge the quantity of the hedged item.

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, when occurs.

If a hedging relationship ceases to satisfy the hedging efficacy criteria relating to the hedging ratio defined but the objective for risk management and the designated hedging relationship continues to be the same, the Group will readjust the hedging ratio (rebalance) in order to once again satisfy the eligibility criteria to be recognized as hedge accounting.

Hedge accounting may only be interrupted prospectively when the hedging relationship (or part of the hedging relationship) ceases to satisfy the eligibility criteria defined by the finance department which includes situations in which the hedging instrument expires or is sold, terminated or exercised.

3.19. LEASES

Leases of tangible fixed assets, for which Grupo Pestana retains substantially all the risks and rewards 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 indicates that in substance that is the contract nature. 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 captions 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.

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 where Grupo Pestana enters in the lease of an asset that has been sold (sale & leaseback) are assessed taking into account if it is a true sale and, if that is the case, if the lease qualifies as an operating or a finance lease. The accounting treatment followed is as described above depending on the classification.

3.20. GOVERNMENT GRANTS AND INCENTIVES

Grupo Pestana 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, being the discount amount the grant. The grant shall be amortized over the period of the borrowing or the useful life of the asset which acquisition the grant aims to subsidize.

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

3.21. 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.

3.22. REVENUE

Revenue is the fair value of the amount received or receivable from the transactions with customers in the ordinary course of business of Grupo Pestana. Revenue is recorded net of any taxes, trade discounts and assigned financial discounts.

When determining the amount of revenue, Grupo Pestana assesses for each transaction the performance obligations it assumes before customers, the transaction price to attribute to each identified performance obligation in the transaction and the existence of variable price conditions which may originate future corrections to the revenue recognized and for which the Group makes its best estimate.

Revenue is recognized in the Consolidated income statement when control over the product or service is transferred to the customer, meaning the moment the customer has the ability to manage the use of the product or service and obtain the associated remaining economic benefits.

Grupo Pestana considers that depending on the nature of product or service associated with the performance obligations assumed the transfer of control occurs mainly on a specific date but there may be transactions in which the transfer of control happens continuously and through a contractually defined period of time.

The revenue recognition policy for the Group's following main activities is as follows:

(i) Hospitality

Revenue corresponds mainly to accommodation 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 hospitality services revenue is recorded on the day of the service.

Grupo Pestana 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. Considering that transactions that qualify for point's award is a separate performance obligation, at the date the services are rendered there is a segregation of the amount invoiced to the client between the revenue of product or services and the value of points awarded, considering the separate sale price

of each performance obligation and the customer's point redemption history. 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

Grupo Pestana recognizes revenue from the sale of timeshare contracts, also known as Pestana vacation club, depending on the transfer of control of the customer's right to use the service throughout the contract's period.

In general, the timeshare sale 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, once Grupo Pestana retains control of 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).

When the timeshare sale is made with credit granted to the customers, and no interest is charged, the amount of revenue to defer is calculated based on the present value of receivables. When interest is charged to customers, the amount of revenue is recorded at its nominal value.

Contractually defined maintenance costs on timeshare periods sold are charged to customers and do not constitute a separate performance obligation from the initial contract since the Group has a right to receive this amount at the defined date regardless of the customer's use of the asset during the period established. Therefore revenue is recognized at the defined date during the contract's period.

In 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. Much like what happens with PPG, revenue associated with these points is recognized by usage or at its expiration date, corrected for the historic percentage of expired points due to lack of use by the customer.

(iii) Touristic real estate business

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 the Group transfers control of the land or apartments to the customer.

In the case of land, the sale's revenue is generally recognized when control over the land is transferred to the customer which generally occurs on the date that the deed of sale is signed.

In the case of houses, apartments and townhouses, built at the risk of Grupo Pestana, for sale to third parties (Inventories), revenue is recognized when control is transferred to the client. This happens at the date in which the asset's key is handed to the customer and can be previous to the date in which the deed on the property is signed.

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 inherent to the building / resort management, to the owners.

(iv) Construction contracts

Grupo Pestana's touristic real estate business also includes construction services (villas) for clients. Since the construction of assets is a performance obligation in which the customer controls the asset as it is being built, revenue is recognized throughout the contract period.

Revenue in these type of contracts is recognized according to the percentage of completion using the input method, which means based on the costs incurred in each period instead of the estimated total costs in each contract, with the recognition of the estimated margin for the contract. Any changes to the contract are only considered to calculate revenue if previously approved by the customer.

Whenever it is estimated that the costs associated with the construction services rendered exceed the agreed revenue, Grupo Pestana recognizes a provision for onerous contracts. The estimated cost associated with the construction warranty is also recognized as the Group transfers control to the customer. Estimated warranty costs are excluded from the contract's total estimated costs and do not affect the conclusion percentage in each reporting period.

(v) Touristic entertainment

Revenue from gambling, both table games and gaming machines, is determined daily and recognized as revenue on a daily basis, for the difference between the bets placed and the prizes won less the estimated premiums payable and accrued gambling tax.

(vi) Management contracts

Management services represent fees received for managing hotels owned by third parties and managed by Grupo Pestana are recognized through the contract's period because it is considered that control over the service and the associated benefits are transferred to the customer as the Group provides the service. Revenue normally corresponds ordinarily 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.) therefore revenue is only recognized when the probability of reversal is considered to be low.

3.23. 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 lead to no adjustments) are disclosed in the consolidated financial statements, if considered to be material.

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1. FINANCIAL RISK FACTORS

Grupo Pestana'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 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. Market risk

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

Grupo Pestana's operating activity is mainly developed in 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.

Grupo Pestana follows a growth strategy which implies significant volumes of investments with relatively long return dates and, therefore, associated with financing sources with adequate refund dates. Additionally, taking into account the widespread geography of these investments, there are some restrictions on free movement of capital which originates treasury excesses and needs with disparate behaviors at the same time. On the other hand, the hotel business presents a significant exposure to the variability of economic cycles and especially resorts face significant seasonality.

These factors are determinant in defining Grupo Pestana's financial risk management policy. This policy aims, above all else, to ensure the significant reductions of these risks in a prudent way, searching to focus on efficient hotel business management itself and ensuring to each new significant investment its medium and/or long term financial structure and whenever possible with fixed rate interest.

Grupo Pestana is going through a very positive business economic cycle which originated excess treasury in the short term. These excesses are firstly applied in the reduction of short term debt, then on the more expensive medium and/or long term debt and also on the equity financing component of the new projects. In order to reduce treasury risk the remaining excess is applied on very short term deposits with financial institutions with whom Pestana Hotel Group already works and to whom it owes most of its medium and/or long term debt.

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 rate, Grupo Pestana negotiates, whenever appropriate, derivative financial instruments to hedge the respective cash flows (interest rate swaps), which represent hedging 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 finance results to changes in interest rate:

A sensitivity analysis was performed, based on Grupo Pestana's total debt deducted of the cash and cash equivalents as at 31 December 2018 and 2017.

Considering Grupo Pestana's consolidated net debt as at 31 December 2018, an increase of 0.25% in the interest rate would result in the increase in the net finance expenses for the year of approximately 630.000 Euros (31 December 2017: approximately 700.000 Euros).

ii. Credit risk

Grupo Pestana's credit risk mainly arises from corporate customers and tour operators and from the other remaining receivables from third parties classified as financial assets at amortized cost or as financial assets at fair value through other comprehensive income.

Sales to individual customers must be paid for upon check out which mitigates the credit risk generated by the hospitality activity. Additionally and considering the considerable amount of corporate customers and tour operators, the Group considers that the concentration of credit risk in the activity is reduced.

In order to increase credit risk hedging, Grupo Pestana acquired in 2018 a credit insurance from a leading insurance company in the Portuguese market which includes the most significant part of the credit on companies and tour operators in the main feeder markets for the Group's units.

The follow up of credit risk is made centrally by the finance department of Grupo Pestana, overseen by the Board of Directors, based on the credit rating attributed by the insurance company, the client's institutional nature, the type of transactions which originate the credit, the experience of past transactions performed, the established credit limits for each client and their financial information made available by a recognized entity specialized in the market for the effect.

Rating levels attributed to customers are: low, medium or high while taking into account that the Group considers related parties to have a credit risk rating close to 0% and therefore their impairment is considered to be zero.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

According to Moody's, credit ratings for the Group's bank deposits and loans, classified as Cash and cash equivalents and Borrowings, are as follows:

Rating	Bank deposits		Bank loans	
	2018	2017	2018	2017
A2	5,714,999	-	33,380,381	-
A3	5,485,574	5,306,543	21,500,000	10,630,494
Aa2	400,606	123,634	-	-
Baa1	69,652	1,243,007	5,000,000	613,816
Baa2	5,839,208	306,309	105,336,267	5,000,000
Ba1	-	17,476,863	-	99,581,464
Ba2	-	8,097,363	-	31,500,000
Ba3	13,134,859	-	57,275,505	-
B1	-	3,006,670	-	22,497,858
B3	684,060	786,070	11,396,825	13,714,286
Caa2	3,718,757	14,244,470	25,380,676	47,023,011
No classification	3,477,833	4,253,731	33,288,765	61,474,052
Total	38,525,548	54,844,662	292,558,419	292,034,981

iii. Liquidity risk

The cash needs are managed centrally by Grupo Pestana's finance department, 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 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 estimated cash flows both in the short term and in the medium and long term, so as to adjust the type and amount of appropriate financing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table analyzes Grupo Pestana's financial liabilities by relevant maturity groupings, based on the remaining period to the contractual maturity at the reporting date. The amounts in the table are undiscounted contractual cash flows:

31 December 2018	Less than 1 year	Between 1 year and 5 years	More than 5 years
Borrowings:	54,688,189	204,580,757	56,911,596
- bank loans	36,302,011	59,426,788	52,292,021
- bond loans	-	107,500,000	-
- commercial paper	11,444,444	25,388,889	-
- bank overdrafts	204,266	-	-
- undiscounted interests payable until maturity	6,737,468	12,265,080	4,619,575
Trade and other payables - non group	76,826,619	3,952,053	25
Derivative financial instruments	308,696	176,484	-

31 December 2017	Less than 1 year	Between 1 year and 5 years	More than 5 years
Borrowings:	49,208,534	231,039,627	38,160,263
- bank loans	34,417,336	80,583,804	35,914,952
- bond loans	-	107,500,000	-
- commercial paper	5,944,444	26,833,333	-
- bank overdrafts	841,112	-	-
- undiscounted interests payable until maturity	8,005,642	16,122,490	2,245,311
Trade and other payables - non group	91,229,451	3,903,950	1,398,709
Derivative financial instruments	627,378	437,144	4,732

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 its sustainability in the long term, being sufficient to meet the debt service and compensate the capital invested by the Shareholder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Before the beginning of each year, detailed budgets are prepared by business unit which, that after being approved, will guide its 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 2018 and 2017 were as follows:

	31-12-2018	31-12-2017
Total borrowings	292,365,298	336,875,441
Less: cash and cash equivalents	39,716,014	56,280,131
Net debt	252,649,284	280,595,311
Equity	267,037,277	269,839,805
Total capital	519,686,561	550,435,115
Gearing	49%	51%

If we considered the deferred revenue from timeshare sales (Note 25) as a component of equity and not as liability, since they do not represent future cash payments, the adjusted gearing would be as follows:

	31-12-2018	31-12-2017
Total borrowings	292,365,298	336,875,441
Less: cash and cash equivalents	39,716,014	56,280,131
Net debt	252,649,284	280,595,311
Adjusted equity	415,799,054	426,182,318
Total capital	668,448,338	706,777,629
Adjusted Gearing	38%	40%

4.3. ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2018 and 2017, and whenever appropriate, Grupo Pestana 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 these are classified as trading.

5. MAIN ACCOUNTING ESTIMATES AND JUDGMENTS

The estimates and judgments that have an impact on Grupo Pestana'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

In order to determine which entities must be included in the consolidation perimeter, Grupo Pestana assesses whether it is exposed to, or has rights over, variable returns from its involvement with the investee and if it has the ability to affect those returns through its power over the investee ("de facto" control).

This evaluation requires the use of judgment, assumptions and estimates in order to determine whether the Group is in fact exposed to the variability of returns and has the ability to affect those returns through its control over the investee.

Other judgments could lead to a different consolidation perimeter of the Group, with direct impact on the consolidated financial statements.

5.2. TANGIBLE 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 abroad.

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 Grupo Pestana'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 more than the last 40 years, are however, a good indicator to assess the estimates that have been used.

Considering the uncertainties regarding the recovery value of the net value of goodwill because it is based on the best information available to date, changes in assumptions could impact on the determination of the level of impairment and, consequently, on the results. Grupo Pestana reviews, on an annual basis, the assumptions underlying, whether or not, there is impairment of goodwill resulting from the acquisition of shareholdings in subsidiaries. The assumptions used are sensitive to changes of the macroeconomic indicators and business assumptions used by management.

5.4. PROVISIONS

Grupo Pestana 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 Grupo Pestana's assets is assessed on a case by case basis, considering the management's intention and the substance of the conditions agreed in terms of transfer of risks and rewards associated to the ownership and operation of the assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Sale & leaseback contracts are classified as effective sales of assets followed by an operational lease, when the contract terms do not foresee the retention of a significant part of the risks and rewards over the assets, by Grupo Pestana.

Management considers that the existence of contractual conditions like: 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 corresponds to more than 90% of the fair value of the asset, are indicators that the substance of the leasing contract is a financing. When none of these conditions are foreseen in the leasing contract, this is considered to be an operating lease.

6. TANGIBLE FIXED ASSETS

During the year ended as at 31 December 2018 the movements occurred in Tangible fixed assets are as follows:

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Tools	Other tangible assets	Assets under construction	Total
1 January 2018									
Acquisition cost	107,793,383	731,375,288	241,125,533	4,915,754	18,101,517	608,028	10,625,719	44,548,258	1,159,093,481
Accumulated depreciation	-	(391,558,310)	(169,287,163)	(4,333,631)	(17,430,649)	(545,744)	(8,347,915)	-	(591,503,412)
Accumulated impairment	-	(1,340,526)	(34,490)	-	-	-	-	-	(1,375,016)
Net book value	107,793,383	338,476,452	71,803,880	582,124	670,868	62,284	2,277,804	44,548,258	566,215,054
Changes in 2018									
Additions	9,780,476	38,315,332	4,272,022	111,773	117,199	10,398	455,415	28,186,595	81,249,210
Disposals - acquisition cost	(135,277)	(729,644)	(63,254)	(279,661)	(42,801)	-	(221,177)	-	(1,471,815)
Disposals - accumulated depreciation	-	52,394	62,540	230,472	26,825	-	221,177	-	593,408
Disposals - impairment	-	118	-	-	-	-	-	-	118
Transfers - acquisition cost	2,301,946	5,204,164	495,411	-	11,269	-	-	(8,012,790)	-
Transfers (Note 7)	-	961,333	-	-	-	-	-	-	961,333
Depreciation	-	(18,133,288)	(8,768,144)	(154,105)	(282,207)	(19,289)	(500,556)	-	(27,857,589)
Impairment - charge	-	-	-	-	-	-	-	(149,450)	(149,450)
Impairment - reversal	-	352,617	34,475	-	-	-	-	-	387,092
	11,947,145	26,023,026	(3,966,950)	(91,521)	(169,715)	(8,891)	(45,141)	20,024,355	53,712,307
31 December 2018									
Acquisition cost	119,740,528	775,126,473	245,829,712	4,747,866	18,187,184	618,426	10,859,957	64,722,063	1,239,832,209
Accumulated depreciation	-	(409,639,204)	(177,992,767)	(4,257,263)	(17,686,031)	(565,033)	(8,627,294)	-	(618,767,592)
Accumulated impairment	-	(987,791)	(15)	-	-	-	-	(149,450)	(1,137,256)
Net book value	119,740,528	364,499,478	67,836,930	490,603	501,153	53,393	2,232,663	64,572,613	619,927,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Tools	Other tangible assets	Assets under construction	Total
1 January 2017									
Acquisition cost	138,777,059	795,581,356	244,759,887	5,123,740	21,466,478	748,870	9,998,391	102,850,392	1,319,306,173
Accumulated depreciation	-	(384,090,022)	(169,829,002)	(4,719,814)	(20,200,391)	(636,160)	(8,048,535)	-	(587,523,924)
Accumulated impairment	(425,628)	(6,047,308)	(54,182)	-	(4,819)	(22)	-	(321,600)	(6,853,559)
Net book value	138,351,432	405,444,026	74,876,703	403,926	1,261,268	112,688	1,949,856	102,528,791	724,928,689
Changes in 2017									
Perimeter entries - acquisition cost	-	-	-	-	-	-	-	10,689,293	10,689,293
Additions	255,675	15,047,625	8,628,343	335,058	403,999	3,282	875,055	25,911,167	51,460,203
Disposals - acquisition cost	-	(5,579,280)	(140,595)	(146,836)	(13,513)	(33)	(241,005)	-	(6,121,261)
Disposals - accumulated depreciation	-	237,752	87,065	131,311	13,513	33	241,005	-	710,679
Foreign currency translation - acquisition cost	(795,692)	(1,050,466)	(328,207)	(3,662)	(126,466)	(2,635)	(219)	(3,192,819)	(5,500,166)
Foreign currency translation - accumulated depreciation	-	138,116	156,292	2,343	88,552	1,789	23	-	387,115
Transfers - acquisition cost	700,803	4,683,058	(916,750)	(234,093)	(60,254)	(37,053)	1,419	(22,392,357)	(18,255,228)
Transfers - accumulated depreciation	-	(460,080)	1,924,313	234,094	73,616	37,052	-	-	1,808,995
Transfers - accumulated impairment	27,095	441,223	10,824	-	-	-	-	321,600	800,742
Depreciation	-	(20,263,300)	(9,115,788)	(135,369)	(546,025)	(29,338)	(541,861)	-	(30,631,680)
Perimeter exits - acquisition cost	(31,144,462)	(77,307,005)	(10,877,145)	(158,453)	(3,568,727)	(104,403)	(7,922)	(69,317,418)	(192,485,535)
Perimeter exits - accumulated depreciation	-	12,879,222	7,489,957	153,804	3,140,086	80,880	1,452	-	23,745,401
Perimeter exits - impairment	-	1,278,620	-	-	3,855	-	-	-	1,282,475
Impairment - charge	-	-	-	-	-	-	-	-	-
Impairment - reversal	398,533	2,986,939	8,868	-	964	22	-	-	3,395,327
	(30,558,050)	(66,967,574)	(3,072,823)	178,197	(590,400)	(50,404)	327,948	(57,980,532)	(158,713,637)
31 December 2017									
Acquisition cost	107,793,383	731,375,288	241,125,533	4,915,754	18,101,517	608,028	10,625,719	44,548,258	1,159,093,481
Accumulated depreciation	-	(391,558,310)	(169,287,163)	(4,333,631)	(17,430,649)	(545,744)	(8,347,915)	-	(591,503,412)
Accumulated impairment	-	(1,340,526)	(34,490)	-	-	-	-	-	(1,375,016)
Net book value	107,793,383	338,476,452	71,803,880	582,124	670,868	62,284	2,277,804	44,548,258	566,215,054

Changes in the consolidation perimeter

The changes in the consolidation perimeter in 2017 related to the entry of land belonging to the Pestana Dunas Project (Porto Santo) of the subsidiary Imóveis Brisa – Fundo de Investimento Imobiliário Fechado and to the exit of Pestana Chelsea Bridge, Pestana Berlin Tiergarten, Pestana Miami South Beach, Pestana Arena Barcelona, as well as the ongoing construction of the hotels in Manhattan and Amsterdam, as a result of the disposal of Hotéis do Atlântico – Sociedade Imobiliária e de Gestão de Hotéis, S.A. and its subsidiaries (Note 39).

Additions, excluding Assets under construction

Additions in 2018 refer mainly to the acquisition of Pestana D. Joao II Hotel, in November, for the amount of 39,000,000 Euros and which was already being explored through an operational lease contract and also a new unit in Obidos, Pousada Vila de Obidos, with 17 keys which is located within the walls of the medieval village, whose total investment was approximately 750,000 Euros.

In 2018, a number of renovation and remodeling investments were also carried out in the hotel units, namely the expansion of the Quinta do Arco Hotel and the refurbishment of the Pestana Delfim, Pestana Palace and Pestana Promenade hotels, in the total amount of approximately 4,700,000 Euros.

The remaining additions as at 31 December 2018 and 2017 relate to refurbishment and renovations in other hotels, Madeira's brewery company, Casino da Madeira and timeshare contracts acquisition costs (Note 3.4).

Additions in 2017 refer mainly to the construction of Pestana Casino Studios and the renovation works in Pestana Royal Bay, for the amount of 3,500,000 Euros and 3,000,000 Euros, respectively, and the acquisition of the building known as "Cocheiras do Palacio Valle Flor", near Pestana Palace in Lisbon, in July 2017, for 5,400,000 Euros, leased up to that date.

Disposals

In 2018, disposals refer mainly to the sale of 8 apartments from Pestana Gramacho Residences, for the amount of 1,708,770 Euros, obtaining a gain in the amount of 925,544 Euros (Note 30).

In 2017, the reduction verified in the caption Buildings refers to the sale of Pestana Atlantic Gardens for the amount of 5,350,000 Euros, with a capital gain of 308,951 Euros (Note 30), subsequently leased and maintaining its exploration (Note 30). It also includes the sale of apartments from Pestana Alvor Atlantico, in Algarve, in the amount of 1,225,642 Euros, obtaining a gain in the amount of 832,429 Euros (Note 30).

Transfers

In 2018, the Group opened 4-star Pestana Gramacho Residences whose building had been bought in 2017 and refurbished by a subsidiary of the Grupo Pestana. This undertaking is located next to the fields of Gramacho and Vale da Pinta and has 54 apartments and a villa.

In October 2018 and after rehabilitation works, the Group began using the building located in Travessa de São Plácido in Lisbon's downtown (purchased in 2016) whose total investment amounted to 3,279,642 Euros.

In 2018, the Group also began exploring the land in the Silves area, whose total investment amounted to 1,215,396 Euros.

In 2017, Grupo Pestana decided to change the purpose for Silves and Tróia projects, where initially they were expected to be explored as apart hotels now apartments are going to be built and sold. Therefore, in 2017, the amounts of 10,496,377 Euros and 4,894,000 Euros, respectively, were transferred to Inventories (Note 15) which includes the value of the corresponding land and incurred expenses with the development of the corresponding infrastructures.

Impairment

In 2018, Grupo Pestana reversed part of the impairment losses booked against Madeira Magic in the amount of 342,253 Euros as a result of the significant improvement in the operational results generated by the exploration of this asset. Therefore, and considering the estimated future cash flows and the applicable discount rate, the recoverable amount of this asset is now higher than its net book value.

In 2017, Grupo Pestana reversed all of the impairment losses booked against Silves and Gramacho/Pinta golf courses and adjacent club-houses in the amounts of 1,666,375 Euros and 370,824 Euros, respectively, both located in Algarve, as well as part of the impairment losses booked against Beloura golf course and adjacent club-house, located in Lisbon, in the amount of 1,118,159 Euros. It also reversed part of the impairment losses booked against Madeira Magic in the amount of 229,288 Euros, as a result of the significant improvement in the operational results generated by the exploration of these assets.

Assets under construction

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

	2018	2017
Pestana Blue Alvor project (Algarve)	31,329,670	18,855,722
Pestana Dunas project (Porto Santo)	10,539,843	10,689,293
Rua das Flores project (Oporto)	8,375,387	-
Pestana Douro project (Oporto)	4,245,141	-
North of Gramacho land (Algarve)	2,165,738	2,165,720
D. Fernando land (Algarve)	1,926,288	1,926,288
Pestana Churchill project (Madeira)	1,766,862	71,723
Golf course project (Algarve)	1,199,852	1,199,852
Silves golf course project (Algarve)	504,301	500,001
Vale do Pinta adjacent lands (Algarve)	354,900	354,900
Gramacho Residences project (Algarve)	-	3,875,847
Lisbon downtown building	-	1,850,925
Project in Silves area (Algarve)	-	1,215,396
Others (mainly hotel refurbishments and renovations)	2,164,631	1,842,591
	64,572,613	44,548,258

Pestana Blue Alvor project refers to a 5-star hotel in Quinta da Amoreira, in Alvor, Algarve, which began construction in the last quarter of 2017, in a plot of land of 12,8 Ha situated between Pestana Alto Golfe and hotels Pestana Alvor Praia and Pestana Delfim with a direct connection to the beach in Alvor. The hotel will be the first in Portugal to be built from scratch for the sophisticated all-inclusive 5-star market. This new unit will have 551 rooms and suites and will be developed in an area equivalent to 13 football fields, horizontally, in buildings with only one or two floors. In its interior it will only be possible to circulate on foot or in electric vehicles and the existing large trees will be preserved, namely, the “amoreira” it is named after. The hotel will have 7 restaurants and bars, 5 pools, spa, sports fields and animation activities for all ages. This project’s total investment is estimated to be 36,500,000 Euros and it is expected to open in May 2019.

Pestana Dunas project relates to a new hotel in Porto Santo with a total of 396 beds. It is still in licensing stage.

The Pestana Rua das Flores project refers to a 4-star 87-key hotel in Oporto’s historic city center which will result from the refurbishment of a building in advanced state of disrepair. This project’s total investment is expected to be 13,500,000 Euros and it is expected to open by the end of 2019.

The Pestana Douro project refers to the refurbishment of a building bought in 2018, in the Municipality of Porto, which is intended for the construction of a new hotel with 165 keys that will benefit from a privileged view over the Douro River and is located in the old floral soap factory in Gondomar. The opening of Pestana Douro Hotel is scheduled for the end of 2019 and its total cost is approximately 13,000,000 Euros.

The land North of Gramacho, with a total area of approximately 100 Ha, 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.

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

The Pestana Churchill project refers the construction of a new upper 4-star hotel in Câmara de Lobos bay, with 59 keys and built in the old facilities. Pestana Churchill Bay will be the first hotel unit to be built in the historic center of the city of Câmara de Lobos and results from a property lease agreement concluded in April 2017 with Câmara de Lobos Town Hall for the establishment of a hotel unit, with a duration of 50 years, representing an investment in the approximate amount of 3,900,000 Euros. It is scheduled to open in July 2019.

The Golf course project is related to a 20 ha land 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 a 9-hole golf course in the future.

The Silves golf course project refers to a land in Silves aiming to build a 9-hole Golf Course following the construction of the Silves Golf Resort.

The area adjoining the Vale da Pinta undertaking, with an area of 8,171 Ha, has several development possibilities, in particular the extension of the real estate project of Vale de Pinta on further change to the Land-use planning of Lagoa and the construction of a hotel unit.

Assets which are reversible to the State

Grupo Pestana recognizes 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 2018 is 9,237,129 Euros (2017: 9,458,062 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is lower.

Tangible fixed assets acquired through financial leasing

In the year ended 31 December 2018 and 2017, the net book value of Tangible fixed assets acquired through financial leasing is as follows:

	2018	2017
Acquisition cost	9,154,781	9,112,027
Accumulated depreciation	(3,354,163)	(2,916,767)
	5,800,618	6,195,260

7. INTANGIBLE ASSETS

During the year ended as at 31 December 2018 the movements occurred in Intangible assets are as follows:

	Goodwill	Concessions	Website and software	Total
1 January 2018				
Acquisition cost	17,000,000	22,002,373	561,165	39,563,538
Accumulated amortization	-	(11,338,565)	(460,927)	(11,799,492)
Accumulated impairment	-	-	-	-
Net book value	17,000,000	10,663,808	100,238	27,764,046
Changes in 2018				
Additions	-	-	5,000	5,000
Transfers - acquisition cost and accumulated amortization	-	(961,333)	-	(961,333)
Amortization	-	(1,111,223)	(43,072)	(1,154,295)
Impairment - charge	-	-	-	-
Impairment - reversal	-	-	-	-
	-	(2,072,556)	(38,072)	(2,110,628)
31 December 2018				
Acquisition cost	17,000,000	20,972,373	566,165	38,538,538
Accumulated amortization	-	(12,381,120)	(503,998)	(12,885,118)
Accumulated impairment	-	-	-	-
Net book value	17,000,000	8,591,253	62,167	25,653,420

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Goodwill	Concessions	Website and software	Total
1 January 2017				
Acquisition cost	17,000,000	21,000,497	2,602,533	40,603,030
Accumulated amortization	-	(10,168,179)	(1,515,061)	(11,683,240)
Accumulated impairment	-	-	-	-
Net book value	17,000,000	10,832,318	1,087,472	28,919,790
Changes in 2017				
Additions	-	-	504,072	504,072
Transfers	-	-	-	-
Perimeter entries (Note 39)	-	1,030,000	-	1,030,000
Perimeter exits - acquisition cost (Note 39)	-	(28,124)	(2,405,464)	(2,433,588)
Perimeter exits - accumulated amortisation (Note 39)	-	14,404	1,327,275	1,341,679
Transfers and write-offs - Acquisition cost	-	-	(139,977)	(139,977)
Amortization	-	(1,184,790)	(273,140)	(1,457,930)
Impairment - charge	-	-	-	-
Impairment - reversal	-	-	-	-
	-	(168,510)	(987,234)	(1,155,744)
31 December 2017				
Acquisition cost	17,000,000	22,002,373	561,165	39,563,538
Accumulated amortization	-	(11,338,564)	(460,927)	(11,799,491)
Accumulated impairment	-	-	-	-
Net book value	17,000,000	10,663,808	100,238	27,764,046

In June 2016, following the corporate restructuring of Pestana Hotel Group, by concentrating the financial investments held in the Madeira Autonomous Region and the Autonomous Region of the Azores in the subsidiary M&J Pestana, S.A., the single quota of Cervejas da Madeira, Sociedade Unipessoal, Lda was sold for the amount of 17,500,000 Euros, resulting in a goodwill in the amount of 17,000,000 Euros.

The recoverability of goodwill is assessed on an annual basis with reference to 31 December, irrespective of the existence of impairment signs. The recoverable amount was determined based on the value in use of the assets, calculated using the discounted cash flow valuation methodology, considering the market conditions, the value of the budgets set and approved by Management and using the discount rate that Grupo Pestana considers that it reflects the best estimate of the associated specific risks. As at 31 December 2018 and 2017, the recoverable amount of this asset was higher than its 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 “Palacio do Freixo”, for a period of 50 years, obtained through a contract with the City Hall of Oporto, where Pestana Palacio do Freixo in Oporto operates since October 2010.
- The concession right of “Cidadela de Cascais”, for a period of 70 years, through a contract signed in 26 November 2009 with Fortaleza de Cascais, E.M., where Pestana Cidadela de Cascais operates since March 2012.

In 2017, the subsidiary Imóveis Brisa - Fundo de Investimento Imobiliário Fechado joined the consolidation perimeter of Grupo Pestana, S.G.P.S., S.A. resulting in an increase in the caption Concessions corresponding to the surface right of three warehouse lots in the west side of the Business Park in Câmara de Lobos (Note 39). Additionally, in 2017, the subsidiaries Pestana Management - Serviços de Gestão, S.A. and Intervisa - Viagens e Turismo, Lda., were removed from Grupo Pestana, S.G.P.S., S.A.'s consolidation perimeter, resulting in perimeter exits in the net amount of 1,091,190 Euros (Note 39).

8. INVESTMENT PROPERTIES

During the year ended as at 2018 and 2017, the movements occurred in Investment properties are as follows:

	2018	2017
1 January		
Acquisition cost	11,268,350	10,504,714
Accumulated depreciation	(2,731,469)	(2,678,555)
Accumulated impairment	(116,177)	(116,177)
Net book value	8,420,704	7,709,982
Disposals - acquisition cost	-	(476,314)
Disposals - accumulated depreciation	-	48,602
Perimeter entries	-	1,239,950
Depreciation	(92,453)	(101,515)
	(92,453)	710,723
31 December		
Acquisition cost	11,268,350	11,268,350
Accumulated depreciation	(2,823,922)	(2,731,469)
Accumulated impairment	(116,177)	(116,177)
Net book value	8,328,251	8,420,704

As at 31 December 2018 and 2017 Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2018	2017
Commercial properties leased to third parties, Algarve	2,893,517	3,067,221
Funchal land, Madeira	1,269,455	1,269,455
São Vicente facilities, Madeira (Note 39)	1,239,950	1,239,950
Angra dos Reis land, Brazil	962,902	962,902
São Gonçalo houses, Madeira	712,192	755,019
Other	1,250,235	1,126,157
	8,328,251	8,420,704

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018 and 2017, the fair value of each one of the assets classified as Investment properties is not less than its carrying amount.

Amounts recognized in the consolidated income statement concerning Investment properties are as follows:

	2018	2017
Rents obtained	381,505	221,407
Operating expenses	(41,770)	(24,241)
Depreciation	(92,454)	(101,515)
	247,281	95,651

9. INVESTMENTS IN JOINT VENTURES

The movements occurred in Investments in joint ventures during 2018 and 2017 are as follows:

	2018	2017
1 January	5,403,585	5,067,351
Gains/ (losses) from equity accounting (M.E.P.) (Note 32)	322,203	336,234
Dividends received	(165,000)	-
31 December	5,560,788	5,403,585

In 2018, dividends in the amount of 165,000 Euros were received from Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.

On December 2015, a Framework Joint Venture Agreement had been signed between Pestana Hotel Group and Cristiano Ronaldo with the aim of promoting, developing and exploring several hotel units. Accordingly, Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A. and Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A., were incorporated, both owned in 50% by Grupo Pestana promoting the partnership "Pestana CR7" in Madeira and Lisbon.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

As at 31 December 2018, Investments in joint ventures refer to the following entities:

Entity	% owned	Acquisition cost			Accessory contributions			Total Investment
		Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total	
Solpor - Sociedade de Turismo do Porto Santo Lda.	50.00%	2,240,598	-	2,240,598	430,000	-	430,000	2,670,598
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	50.00%	172,453	-	172,453	1,875,000	-	1,875,000	2,047,453
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	50.00%	405,237	-	405,237	437,500	-	437,500	842,737
		2,818,288	-	2,818,288	2,742,500	-	2,742,500	5,560,788

As at 31 December 2017, Investments in joint ventures refer to the following entities:

Entity	% owned	Acquisition cost			Accessory contributions			Total Investment
		Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total	
Solpor - Sociedade de Turismo do Porto Santo Lda.	50.00%	2,241,341	-	2,241,341	430,000	-	430,000	2,671,341
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	50.00%	4,219	-	4,219	1,875,000	-	1,875,000	1,879,219
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	50.00%	415,525	-	415,525	437,500	-	437,500	853,025
		2,661,085	-	2,661,085	2,742,500	-	2,742,500	5,403,585

The summary of financial statements from these joint ventures is presented in Note 38.

As at 31 December 2018 and 2017, Investments in joint ventures do not include any goodwill.

10. INVESTMENTS IN ASSOCIATES

The movements occurred in Investments in associates during 2018 and 2017 are as follows:

	2018	2017
1 January	11,930,722	11,735,124
Perimeter changes	-	(305,308)
(Losses) / (gains) from equity accounting (M.E.P.) (Note 32)	(192,761)	500,906
31 December	11,737,961	11,930,722

As at 31 December 2018 the Investments in associates refers to the following entities:

Entity	% owned	Acquisition cost			Loans granted			Total Investment	Goodwill included
		Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total		
Enatur - Empresa Nacional de Turismo, S.A.	49.00%	10,253,598	-	10,253,598	1,190,593	-	1,190,593	11,444,191	3,837,382
Albar - Sociedade Imobiliária do Barlavento, S.A.	49.81%	293,770	-	293,770	-	-	-	293,770	-
		10,547,368	-	10,547,368	1,190,593	-	1,190,593	11,737,961	3,837,382

As at 31 December 2017 the Investments in associates refers to the following entities:

Entity	% owned	Acquisition cost			Loans granted			Total Investment	Goodwill included
		Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total		
Enatur - Empresa Nacional de Turismo, S.A.	49.00%	10,444,105	-	10,444,105	1,190,593	-	1,190,593	11,634,698	3,837,382
Albar - Sociedade Imobiliária do Barlavento, S.A.	49.81%	296,024	-	296,024	-	-	-	296,024	-
		10,740,129	-	10,740,129	1,190,593	-	1,190,593	11,930,722	3,837,382

The summary of financial statements from these associates is presented in Note 38.

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

The movements occurred in Equity instruments at fair value through profit and loss during 2018 and 2017 are as follows:

	2018	2017
1 January	1,355,718	7,879,486
Gains of the period (Note 32)	176,163	23,825
Other movements in equity	45,492	-
Disposals	-	(95,044)
Perimeter changes (Note 39)	-	(6,452,549)
31 December	1,577,373	1,355,718

In 2017, Perimeter changes relates to Imóveis Brisa – F.I.I.F., that entered in the consolidation perimeter (Note 39).

As at 31 December 2018, the Equity instruments at fair value through profit and loss have the following detail:

Entity	% owned	Acquisition cost			Loans granted			Total Investment
		Investment value	Impairment loss	Total	Investment amount	Impairment loss	Total	
Hotel Rauchstrasse 22, S.A.R.L.	7.50%	556,829	-	556,829	-	-	-	556,829
Lean Company Ventures II, S.A.	5.00%	2,500	-	2,500	247,500	-	247,500	250,000
Sociedade Turística Palheiro Golfe, S.A.	3.00%	74,820	-	74,820	10,474	-	10,474	85,294
Iberpartners, S.A.	2.00%	65,000	-	65,000	-	-	-	65,000
Others	-	810,208	292,979	517,229	103,021	-	103,021	620,250
		1,509,357	292,979	1,216,378	360,995	-	360,995	1,577,373

As at 31 December 2017, the Equity instruments at fair value through profit and loss have the following detail:

Entity	% owned	Acquisition cost			Loans granted			Total Investment
		Investment value	Impairment loss	Total	Investment amount	Impairment loss	Total	
Hotel Rauchstrasse 22, S.A.R.L.	7.50%	487,500	-	487,500	-	-	-	487,500
Lean Company Ventures II, S.A.	5.00%	2,500	-	2,500	247,500	-	247,500	250,000
Sociedade Turística Palheiro Golfe, S.A.	3.00%	74,820	-	74,820	10,474	-	10,474	85,294
Iberpartners, S.A.	2.00%	65,000	-	65,000	-	-	-	65,000
Others	-	657,882	292,979	364,903	103,021	-	103,021	467,924
		1,287,702	292,979	994,723	360,995	-	360,995	1,355,718

12. DEFERRED TAX ASSETS AND LIABILITIES

As at 31 December 2018 and 2017, the balance recognized as Deferred taxes is presented in the Consolidated statement of financial position at its gross value.

The impacts of the movements occurred in deferred tax items, for 2018 and 2017, are as follows:

	2018	2017
Impact on income statement		
Deferred tax assets	1,279,636	(471,097)
Deferred tax liabilities	(1,658,679)	1,514,963
	(379,043)	1,043,866
Impact on perimeter changes (Note 39)		
Deferred tax assets	-	(2,645,922)
Deferred tax liabilities	-	5,510,697
	-	2,864,775
Impact on Equity		
Deferred tax assets	(106,163)	(232,857)
Deferred tax liabilities (Note 2)	(35,725)	-
	(141,888)	(232,857)
Net impact of deferred taxes	(520,931)	3,675,784

Following the increases in share capital in 2018 in the companies included in the consolidation perimeter and the change in the Tax benefit code concerning the share capital's conventional remuneration introduced by the Portuguese state budget of 2017 and 2018 which grants companies a benefit corresponding to 7% of cash share capital increases up to 2,000,000 Euros for the period in which it is made and the following five tax periods, in 2018 a deferred tax asset was registered, through profit and loss, corresponding to the benefits for the following years, in the amount of approximately 800,000 Euros.

In 2018, state surcharge was included in the valuation of deferred taxes with an impact of increasing deferred tax assets and liabilities in the amount of 520,835 Euros and 3,001,701 Euros, respectively, and a decrease in profit and loss in the amount of 2,480,866 Euros.

The impact on Equity of Deferred tax liabilities refers exclusively to the adoption of IFRS 15 - Revenue from contracts with customers, the new revenue recognition standard which had an impact on revenue recognition concerning the sale of Options contracts (Note 2).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Impairment losses on trade receivables	Changes in fair value	Hedging reserves	Deemed cost (IFRS 1) on tangible assets	Share capital's conventional remuneration	Others	Total
1 January 2018	150,774	353,227	119,475	430,852	-	2,665,594	3,719,921
Reversal through equity	-	-	(106,163)	-	-	-	(106,163)
Reversal through profit or loss	(73,677)	-	-	(95,262)	-	-	(168,939)
Constitution through profit or loss	-	92,970	33,868	-	798,478	523,259	1,448,575
Changes in the period	(73,677)	92,970	(72,295)	(95,262)	798,478	523,259	1,173,473
	77,097	446,197	47,180	335,589	798,478	3,188,853	4,893,394
Offset of Deferred tax liabilities	(77,029)	(446,197)	(47,180)	(335,589)	(798,478)	(3,188,853)	(4,893,326)
31 December 2018	68	-	-	-	-	-	68

	Impairment losses on trade receivables	Changes in fair value	Hedging reserves	Deemed cost (IFRS 1) on tangible assets	Carry forward tax losses	Loyalty program (PPG)	Others	Total
1 January 2017	213,443	473,773	441,487	909,149	1,663,160	613,649	2,755,134	7,069,797
Perimeter exits (Note 39)	(5,329)	-	(137,461)	-	(1,663,160)	(613,649)	(226,323)	(2,645,922)
Reversal through equity	-	-	(232,857)	-	-	-	-	(232,857)
Reversal through profit or loss	(76,477)	(120,546)	(10,767)	(478,297)	-	-	(245,373)	(931,463)
Constitution through profit or loss	19,137	-	59,073	-	-	-	382,156	460,366
Changes in the period	(62,669)	(120,546)	(322,012)	(478,297)	(1,663,160)	(613,649)	(89,540)	(3,349,876)
31 December 2017	150,774	353,227	119,475	430,852	-	-	2,665,594	3,719,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Deemed cost (IFRS 1) on tangible fixed assets	Legal revaluations (previous GAAP)	Changes in fair value	Others	Total
1 January 2018	28,792,100	35,833	172,291	1,628,120	30,628,345
Transfers	-	-	-	1,760	1,760
Constitution through equity (Note 2)	-	-	-	35,725	35,725
Constitution through profit or loss	3,349,515	46,897	-	3,843	3,400,255
Reversal through profit or loss	(1,661,204)	(35,604)	(9,043)	(35,725)	(1,741,576)
Changes in the period	1,688,311	11,293	(9,043)	5,603	1,696,164
	30,480,411	47,126	163,248	1,633,723	32,324,509
Offset of Deferred tax assets	(4,893,326)	-	-	-	(4,893,326)
31 December 2018	25,587,085	47,126	163,248	1,633,723	27,431,182

	Deemed cost (IFRS 1) on tangible fixed assets	Legal revaluations (previous GAAP)	Changes in fair value	Others	Total
1 January 2017	33,314,587	168,773	149,889	4,020,755	37,654,005
Constitution through profit or loss	-	-	44,143	-	44,143
Reversal through profit or loss	(1,269,233)	(132,940)	(21,741)	(135,192)	(1,559,106)
Perimeter exits (Note 39)	(3,253,254)	-	-	(2,257,443)	(5,510,697)
Changes in the period	(4,522,487)	(132,940)	22,402	(2,392,635)	(7,025,660)
31 December 2017	28,792,100	35,833	172,291	1,628,120	30,628,345

Revaluations performed under the previous accounting framework (POC), denominated as legal revaluations, result from updating the asset's value based on Government diplomas where coefficients of currency devaluation are defined. The effect of these deferred taxes reflects the non-deductibility for tax purposes of 40% of the revaluations made.

13. FINANCIAL ASSETS AND LIABILITIES

The accounting policies for measuring financial instruments in accordance with IFRS 9 were applied to the following financial assets and liabilities:

	Amortized cost	Fair value through profit and loss	Fair value through other comprehensive income	Other non-financial assets and liabilities	Total
31 December 2018					
Financial assets					
Cash and cash equivalents	39,716,014	-	-	-	39,716,014
Trade and other receivables	37,145,278	-	-	22,316,426	59,461,704
Equity instruments at fair value through profit and loss	-	-	1,577,373	-	1,577,373
	76,861,292	-	1,577,373	22,316,426	100,755,091
Financial liabilities					
Borrowings	292,365,298	-	-	-	292,365,298
Derivatives	-	413,538	71,642	-	485,180
Trade and other payables	69,229,113	-	-	20,589,337	89,818,450
	361,594,411	413,538	71,642	20,589,337	382,668,928

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Amortized cost	Fair value through profit and loss	Fair value through other comprehensive income	Other non-financial assets and liabilities	Total
31 December 2017					
Financial assets					
Cash and cash equivalents	56,280,131	-	-	-	56,280,131
Trade and other receivables	160,370,077	-	-	17,885,663	178,255,740
Equity instruments at fair value through profit and loss	-	-	1,355,718	-	1,355,718
	216,650,208	-	1,355,718	17,885,663	235,891,589
Financial liabilities					
Borrowings	336,875,441	-	-	-	336,875,441
Derivatives	-	973,464	95,789	-	1,069,253
Trade and other payables	89,119,753	-	-	18,346,516	107,466,269
	425,995,194	973,464	95,789	18,346,516	445,410,963

According to IFRS 13, Grupo Pestana established the way it obtains the fair value of its financial assets and liabilities. The levels used are presented in Note 3.10, and are as follows:

	31-12-2018			31-12-2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Equity instruments at fair value through profit and loss	-	-	1,577,373	-	-	1,355,718
	-	-	1,577,373	-	-	1,355,718
Financial liabilities						
Derivatives	-	485,180	-	-	1,069,253	-
	-	485,180	-	-	1,069,253	-

14. TRADE AND OTHER RECEIVABLES

As at 31 December 2018 and 2017, Trade and other receivables are detailed as follows:

	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables (i)	24,280,800	-	24,280,800	29,979,952	-	29,979,952
Other receivables (ii)	6,191,286	-	6,191,286	125,728,752	-	125,728,752
Prepayments (iii)	3,874,165	11,009,128	14,883,293	4,755,290	11,832,622	16,587,912
Accrued income (iv)	7,331,190	101,943	7,433,133	1,294,452	3,299	1,297,751
Taxes receivable (v)	6,673,192	-	6,673,192	4,661,373	-	4,661,373
	48,350,633	11,111,071	59,461,704	166,419,819	11,835,921	178,255,740

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

i) Trade receivables

	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables - group (Note 40)	1,762,153	-	1,762,153	2,773,399	-	2,773,399
Trade receivables - other	22,518,647	-	22,518,647	27,206,552	-	27,206,552
Doubtful debtors	10,398,085	-	10,398,085	11,077,866	-	11,077,866
	34,678,885	-	34,678,885	41,057,817	-	41,057,817
Impairment of trade receivables	(10,398,085)	-	(10,398,085)	(11,077,866)	-	(11,077,866)
	24,280,800	-	24,280,800	29,979,952	-	29,979,952

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Trade receivables – movements of the year:

	2018	2017
1 January	11,077,866	12,717,552
Perimeter entries (Note 39)	-	117,670
Increases	596,880	876,293
Reversals	(858,872)	(109,438)
Utilizations	(442,224)	(1,440,428)
Transfers - Other receivables	24,435	(62,114)
Perimeter exits (Note 39)	-	(1,021,669)
31 December	10,398,085	11,077,866

ii) Other receivables

	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Other receivables - group (Note 40)	1,682,372	-	1,682,372	117,711,259	-	117,711,259
Other receivables	4,739,182	-	4,739,182	8,300,637	-	8,300,637
Impairment	(230,268)	-	(230,268)	(283,144)	-	(283,144)
	6,191,286	-	6,191,286	125,728,752	-	125,728,752

As at 31 December 2017, the caption of Other receivables - group included i) the amount of 78,144,198 Euros receivable from Pestana International Holdings S.A. related to the sale of the Accessory contributions and Loans granted of the subsidiary Hotéis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A., (ii) the amount receivable of 21,370,000 Euros related to the temporary transfer of Pestana Trademark, as well as (iii) the amount of 17,000,000 Euros receivable from ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A., related to the sale of the financial investment in Pestana Management - Serviços de Gestão, S.A.. In 2018, these amounts were fully received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Other receivables – movements of the year:

	2018	2017
1 January	283,144	228,966
Perimeter entries (Note 39)	-	13,839
Increases	10,879	-
Reversals	(39,320)	-
Transfers - Trade receivables	(24,435)	62,114
Perimeter exits (Note 39)	-	(21,774)
31 December	230,268	283,144

The ageing of overdue balances without impairment is as follows:

	2018	2017
0 to 6 months	19,408,539	144,535,436
6 to 12 months	3,959,697	3,973,418
12 to 18 months	3,282,063	4,377,950
18 to 24 months	743,542	1,719,603
more than 24 months	3,078,245	1,102,296
	30,472,086	155,708,704

The ageing of overdue balances with impairment is as follows:

	2018	2017
0 to 6 months	56,472	408,228
6 to 12 months	136,097	186,761
12 to 18 months	292,598	783,888
18 to 24 months	303,977	642,718
more than 24 months	9,839,209	9,339,415
	10,628,353	11,361,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

iii) Prepayments

	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Commissions	1,205,829	11,009,128	12,214,957	1,147,171	11,480,417	12,627,588
Rentals	1,155,031	-	1,155,031	2,060,021	-	2,060,021
Insurance	181,440	-	181,440	145,052	-	145,052
Other services	1,331,865	-	1,331,865	1,403,046	352,205	1,755,251
	3,874,165	11,009,128	14,883,293	4,755,290	11,832,622	16,587,912

As at 31 December 2018 and 2017, the balance of Commissions relates exclusively to commissions paid related to sales of Pestana Vacations Club – Options contracts (Note 3.22 ii).

As at 31 December 2017, the caption Rentals included the rent for the months of January through March 2018 for Pestana D. Joao II which has been acquired by the Group in November 2018 (Note 6).

iv) Accrued income

This caption mainly refers to pending invoices concerning construction services, which are recognized according to the conclusion percentage using the input method, as well as the receivable amount at the time of signing the deed for units already delivered to customers.

v) State and Other public entities

As at 31 December 2018 and 2017, this caption is mainly related to VAT receivable.

15. INVENTORIES

As at 31 December 2018 and 2017 Inventories are detailed as follows:

	2018	2017
Goods	5,504,346	5,407,796
Raw and subsidiary materials	2,956,499	2,714,515
Finished goods	987,580	2,039,908
Work in progress	77,345,354	82,443,520
	86,793,779	92,604,736
Impairment of inventories	(324,904)	(195,754)
	86,468,875	92,408,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Finished goods and Work in progress are detailed as follows:

	2018	2017
Tróia project	31,211,953	40,916,054
Silves touristic project (Algarve)	27,368,786	25,912,213
North of Gramacho land (Algarve)	7,798,482	7,788,994
Abrunheira project (Portalegre)	6,291,949	6,291,949
Comporta land	3,569,463	-
Beverages and packaging	696,339	661,633
Vale da Pinta land (Algarve)	586,026	968,997
Porto Santo land	443,360	423,360
S. Martinho land (Funchal)	359,750	359,750
Flats	-	272,163
Others	6,825	888,314
	78,332,934	84,483,428

The Tróia project is mainly related to the construction of houses and the infrastructures of a touristic village in a 100ha plot of land with a building capacity of 54,184 thousand m².

The Silves touristic project is associated to a touristic project which includes two 4-star touristic resorts with 232 accommodation units with a total expected investment of 47,000,000 Euros.

The land North of Gramacho relates to a real estate project under development.

The Abrunheira project is related to a development project, in a plot of land of 450 ha, which will be composed by a set of 13 touristic undertakings, divided in 10 tourist villages, 2 touristic apartments with houses and 1 hotel or apart-hotel.

In 2018, the Group acquired a plot of land in Comporta for the amount of 3,560,463 Euros in which it plans to develop a future real estate project.

The 2018 Cost of goods sold amounted to 65,109,780 Euros (31 December 2017: 48,295,318 Euros).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Inventories - movements of the period:

	2018	2017
1 January	195,754	285,459
Increases	174,658	120,349
Reversals	(13,452)	(16,238)
Utilizations	(32,056)	(193,816)
31 December	324,904	195,754

16. CORPORATE INCOME TAX

The balances of Corporate income tax for the years ended 31 December 2018 and 2017 are as follows:

	31-12-2018		31-12-2017	
	Assets	Liabilities	Assets	Liabilities
Current income tax	192,442	1,552,659	133,019	9,153,479
	192,442	1,552,659	133,019	9,153,479

The balance of Current income tax is detailed as follows:

	2018	2017
Advance payments	13,765,379	3,885,109
Withholding taxes	571,352	299,060
Current income tax estimate	(15,696,948)	(13,204,628)
	(1,360,217)	(9,020,459)

Grupo Pestana, S.G.P.S., S.A. applies the Special Taxation Regime for Group Companies (RETGS), meaning that current tax is calculated based on the taxable profit of the companies included in the consolidation perimeter and taxation regime, pursuant to the regime's rules (Note 34).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018 and 2017, Corporate income tax is detailed as follows:

Entities	2018	2017
Carvoeiro Golfe, S.A.	(5,814,171)	(3,065,658)
M & J Pestana, S.A.	(3,431,150)	(2,638,846)
Pestana Management, S.A.	(1,733,067)	(599,000)
Carlton Palácio, S.A.	(1,572,813)	(1,783,971)
Salvor - Sociedade de Investimento Hoteleiro, S.A.	(915,278)	(3,133,719)
Pestana Cidadela - Investimentos Turísticos, S.A.	(257,734)	(258,406)
Beloura Hotel e Golfe - Invest. Turísticos, S.A.	(243,457)	(190,655)
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	(108,601)	(45,628)
Carvoeiro Golfe Sociedade Mediação Imobiliária, Lda.	(105,265)	(249,790)
Hotéis do Atlântico, S.A.	(75,142)	(208,191)
Eurogolfe, S.A.	(45,025)	(75,282)
Intervisa Unipessoal, Lda.	(39,068)	(52,917)
Cota Quarenta, S.A.	(38,668)	(51,758)
Pestana Segurança - Serviços de Segurança e Vigilância, Lda.	(23,264)	(36,319)
Sociedade de Investimento Hoteleiro D. João II, S.A.	(17,587)	(23,028)
Indústria Açoreana Turístico - Hoteleira (I.A.T.H.), S.A.	(5,988)	(12,738)
Natura XXI, Lda.	(619)	7,989
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	(18)	(35)
Amoreira - Aldeamento Turístico, Lda.	14,891	11,789
Mundo da Imaginação - Projectos de Animação Turística, S.A.	28,448	22,577
ESGAP, S.A.	57,501	12,295
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	98,028	(38,644)
Salvintur - Sociedade de Investimentos Turísticos, S.A.	149,179	117,872
Djebel, S.A.	238,389	232,443
Grupo Pestana, S.G.P.S., S.A.	12,496,475	3,173,304
Consolidated tax group	(1,344,004)	(8,886,315)
SDM - Soc. Desenvolvimento da Madeira, S.A.	(207,840)	10,418
Ponta da Cruz - Soc. Imobiliária e de Gestão de Hotéis, S.A.	(14,200)	(115,884)
Herdade da Abrunheira, S.A.	3,862	4,000
SDEM - Soc. Desenvolvimento Empresarial da Madeira, S.A.	10,174	3,149
ITI - Soc. de Investimentos Turísticos na Ilha da Madeira, S.A.	65,922	(18,627)
Porto Carlton - Soc. de Construção e Exploração Hoteleira, S.A.	125,869	(17,201)
Other entities	(16,213)	(134,144)
Total Current income tax	(1,360,217)	(9,020,459)

17. CASH AND CASH EQUIVALENTS

As at 31 December 2018 and 2017 Cash and cash equivalents are detailed as follows:

	31-12-2018	31-12-2017
Cash	1,190,466	1,435,469
Bank deposits	38,525,548	54,844,662
	39,716,014	56,280,131

The detail of the amount considered as the final balance in Cash and cash equivalents, for the purposes of the Consolidated statement of cash flows for the period ended 31 December 2018 and 2017, is as follows:

	31-12-2018	31-12-2017
Cash	1,190,466	1,435,469
Bank overdrafts	(204,266)	(841,112)
Bank deposits	38,525,548	54,844,662
	39,511,748	55,439,019

18. CAPITAL

As at 31 December 2018 and 2017 Share capital is detailed as follows:

	31-12-2018	31-12-2017
Share Capital (i)	83,530,000	81,530,000
Other equity instruments:		
Share premium (ii)	33,690,973	33,690,973
Accessory contributions (iii)	8,200,000	35,200,000
	125,420,973	150,420,973

(i) Share capital

In the General Meeting, held on 4 September 2018, a capital increase in the amount of 2,000,000 Euros was approved, to be made by the two Shareholders of Grupo Pestana S.G.P.S., S.A., through cash contributions in proportion to their respective participation. As a result, Pestana International Holdings S.A. and Mr. Dionísio Fernandes Pestana made capital contributions in the amounts of 1,980,000 euros and 20,000 Euros, respectively, resulting in the issue of 2,000,000 new shares with a nominal value of 1 Euro each.

As at 31 December 2018, the share capital of Grupo Pestana, S.G.P.S., S.A. in the amount of 83,530,000 Euros (31 December 2017: 81,530,000 Euros) was fully subscribed and paid-up, represented by 83,530,000 shares (31 December 2017: 81,530,000 shares), with a nominal value of 1 Euro each.

The detail of the Share capital as at 31 December 2018 is as follows:

Shareholders	Number of shares	Share capital
Pestana International Holdings S.A.	82,694,700	82,694,700
Dionísio Fernandes Pestana	835,300	835,300
	83,530,000	83,530,000

The detail of the Share capital as at 31 December 2017 is 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

As at 31 December 2018 and 2017, Basic earnings per share are 0.83 Euros and 1.11 Euros, respectively, and Diluted earnings per share are 0.83 Euros and 1.11 Euros, respectively.

(ii) Share premium

This caption refers to the excess of fair value of the amounts delivered by the shareholders to Grupo Pestana, S.G.P.S., S.A. at the time the share capital was paid. This balance can only be used for incorporation in future capital increases.

(iii) Accessory contributions

On 22 October 2018, it was deliberated in General Assembly to partially reimburse Accessory contributions to its shareholder, Mr. Dionísio Pestana, in the amount of 27,000,000 Euros.

As at 31 December 2018, the accessory capital contributions relate to the two shareholders of Grupo Pestana, S.G.P.S., S.A., in the following amounts: 5,700,000 Euros paid-up by Mr. Dionísio Pestana (2017: 32,700,000 Euros) and 2,500,000 Euros paid-up by Pestana International Holdings S.A. (2017: 2,500,000 Euros).

Accessory capital contributions may only be reimbursed until the moment where equity is not lower than the sum of the share capital and the legal reserve as disclosed in the Company's separate financial statements.

19. OTHER RESERVES

As at 31 December 2018 and 2017 Other reserves had the following movements as follows:

	Legal reserve (i)	Free reserves	Fair value reserve C.F.H (ii)	Fair value reserve A.F.S (iii)	Equity method (iv)	Cumulative translation adjustments (v)	Total
1 January 2017	18,458,661	180,029	(1,176,923)	(29,572)	(7,321,017)	1,239,215	11,350,393
Profit for the period application	2,694,668	-	-	-	-	-	2,694,668
Foreign currency translation	-	-	-	-	-	(2,102,375)	(2,102,375)
Change in fair value reserve (cash flow hedge) net of tax	-	-	636,966	-	-	-	636,966
Transfer to and from Retained earnings	(3,927,870)	1,565,141	(1,386)	29,572	216,071	(197,991)	(2,316,463)
Dividends	-	(1,745,170)	-	-	-	-	(1,745,170)
Transfer to Net income (Note 39)	-	-	-	-	-	1,061,151	1,061,151
31 December 2017	17,225,459	-	(541,343)	-	(7,104,947)	-	9,579,170
Profit for the period application	5,760,718	-	-	-	-	-	5,760,718
Change in fair value reserve (cash flow hedge) net of tax	-	-	453,762	-	-	-	453,762
Transfer to and from Retained earnings	-	21,408	-	-	7,269,947	-	(165,000)
Dividends	-	-	-	-	(165,000)	-	7,291,355
31 December 2018	22,986,177	21,408	(87,580)	-	-	-	22,920,005

(i) Legal reserve

In accordance with the applicable commercial law in Portugal, at least 5% of the annual net profit, if positive, must be set aside in a legal reserve until it is equal to 20% of the subsidiary's issued share capital. This reserve is usually 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.

(i) Fair value reserve C.F.H. (Cash Flow Hedge)

This reserve includes the effective portion of changes in fair value of hedging derivatives (Note 24). This reserve also includes the deferred tax impact related to the changes in fair value that are not tax deductible, at the reporting date.

(ii) Equity method

As at 31 December 2017 this caption included all accumulated gains not distributed by dividends and all accumulated losses from the equity method applied in the valuation of Joint ventures and Associates in the Consolidated income statement of previous years. In 2018 these amounts were transferred to Retained earnings (Note 20).

20. RETAINED EARNINGS

As at 31 December 2018 and 2017, Retained earnings movements were as follows:

	Total
1 January 2017	49,005,894
Profit for the period application	40,359,424
Dividends	(81,489,357)
Transfer from Non-controlling interests (Note 21)	3,756,864
Acquisitions of shares owned by Non-controlling interests	(3,982,257)
Transfer to Other reserves (Note 19)	2,341,058
Foreign currency translation	12,376
Other	(311,233)
31 December 2017	9,692,769
Profit for the period application	80,189,526
Changes to the accounting policies (Note 2)	130,438
Dividends	(38,477,632)
Transfer to Non-controlling interests (Note 21)	(447,019)
Acquisitions of shares owned by Non-controlling interests	(4,183,257)
Transfer to Other reserves (Note 19)	(7,291,355)
Other	62,500
31 December 2018	39,675,970

The amount included under Changes in the accounting policies refers exclusively to the adoption of IFRS 15 - Revenue from contracts with customers, the new standard for revenue recognition, which had an impact on the recognition of revenue from securities obtained through the sale of Options contracts.

In January 2018, the Group acquired 68,000 shares representing 33.33% of the capital of the subsidiary Herdade da Abrunheira - Projetos de Desenvolvimento Turístico e Imobiliário, S.A., as well as the Accessory Contributions granted in previous years for the amounts of 340,000 Euros and 366,667 Euros respectively. The Group now holds 100% of this subsidiary.

In November 2018, Grupo Pestana acquired all the shares held by Fundação Oriente in the subsidiary Grupo Pestana Pousadas, S.A. corresponding to 300,400 shares, as well as the Accessory Contributions granted in previous years, for the amount of 1,502,000 Euros and 1,974,590 Euros, respectively. The Group now holds 100% of the capital of this subsidiary.

21. NON-CONTROLLING INTERESTS

Non-controlling interests' movements were as follows:

	2018	2017
1 January	14,196,649	26,797,531
Changes in the perimeter (Note 39)	-	(225,473)
Capital increases	-	2,255,738
Transfer to Retained earnings (Note 20)	447,019	(3,756,864)
Dividends	(2,577,519)	(12,768,084)
Reimbursement to Non-controlling interests	(1,251,600)	(1,264,765)
Transfe to Net income (Note 39)	-	(1,103,794)
Foreign currency translation	-	(5,765)
Other	-	(3,289)
Profit for the period	4,467,849	4,271,415
31 December	15,282,398	14,196,649

As a result of the acquisition of shares in the non-controlling interests in the subsidiaries Herdade da Abrunheira - Projetos de Desenvolvimento Turístico e Imobiliários, S.A. and Grupo Pestana Pousadas - Investimentos Turísticos, S.A, the amount of 477,019 Euros was transferred to Retained earnings.

In 2017, the caption Transfers to Retained earnings results, mainly, from the change in the percentage held, through the acquisition of shares from non-controlling interests, of the subsidiary SDM - Sociedade de Desenvolvimento da Madeira, S.A..

In 2018, Dividends were mainly distributed by SDM - Sociedade de Desenvolvimento da Madeira, S.A. and Porto Carlton, S.A. (2017: SDM - Sociedade de Desenvolvimento da Madeira, S.A.).

Reimbursement to Non-controlling interests in 2018 and 2017 relates to the reimbursement of Accessory contributions owned by Non-controlling interests in the subsidiary Ponta da Cruz S.A..

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Non-controlling interests relate to the following investments:

	31-12-2018		31-12-2017	
	% held	Value	% held	Value
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	48.00%	5,728,521	48.00%	5,955,657
SDM - Sociedade de Desenvolvimento da Madeira, S.A.	52.27%	6,025,501	52.27%	5,222,307
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	52.27%	310,371	52.27%	(299,330)
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	-	-	4.29%	481,812
Porto Carlton - Sociedade de Construção e Exploração Hoteleira, S.A.	40.00%	3,218,005	40.00%	3,131,158
Herdade da Abrunheira - Projectos de Desenvolvimento Turístico e Imobiliário, S.A.	-	-	33.33%	(295,094)
		15,282,398		14,196,649

The effect of perimeter changes in Non-controlling interests is disclosed in Note 39.

22. PROVISIONS

As at 31 December 2018 and 2017, the movements in Provisions were as follows:

	Litigation and claims in progress	Customer guarantees	Other provisions	Total
1 January 2018	2,800,325	216,163	1,568,029	4,584,517
Increases	-	48,662	164,989	213,651
Decreases	(30,797)	-	-	(30,797)
Utilizations	-	-	(68,247)	(68,247)
Changes in the period	(30,797)	48,662	96,742	114,607
31 December 2018	2,769,528	264,825	1,664,771	4,699,124
Current balance	2,769,528	134,739	1,093,090	3,997,357
Non-current balance	-	130,086	571,681	701,767
	2,769,528	264,825	1,664,771	4,699,124
1 January 2017	2,781,351	143,797	784,497	3,709,645
Increases	18,974	72,366	950,000	1,041,340
Decreases	-	-	(73,854)	(73,854)
Utilizations	-	-	(68,247)	(68,247)
Perimeter exits (Nota 39)	-	-	(24,367)	(24,367)
Changes in the period	18,974	72,366	783,532	874,872
31 December 2017	2,800,325	216,163	1,568,029	4,584,517
Current balance	2,800,325	87,147	1,093,091	3,980,564
Non-current balance	-	129,016	474,937	603,953
	2,800,325	216,163	1,568,029	4,584,517

Details of provisions recognized and main reasons for the movements occurred are as follows:

(i) Legal proceedings

There are lawsuits and arbitration proceedings ongoing against some Group subsidiaries, 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 with these claims.

The subsidiary Empresa de Cervejas da Madeira, Lda. (ECM) received 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 2,029,130 Euros with the addition 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 opinion of reputable external advisors. However, in 2015, the court has taken its decision which was unfavorable to ECM. Despite the extraordinary judicial administrative appeal that was immediately submitted, considering the development occurred in the process, Grupo Pestana recognized a provision in the total amount of 2,755,052 Euros.

This proceeding is under review appeal and there have been no further developments which allow for any change in the amount of the provision which is prudently presented as a current liability.

(ii) Customer guarantees

Based on the history and typology of work developed, this provision includes the estimated costs to be incurred in future with the assurance that has been given on the construction of villas and apartments sold.

(iii) Other provisions

Following a promissory sale contract celebrated in 2011 in which the client committed to buying a lodging unit in the Pestana Troia Eco-Resort and after several attempts the deed was not completed, therefore Grupo Pestana's subsidiary Carvoeiro Golfe, S.A. decided to exert its right to resolve the contract having booked the entirety of the advance received as revenue, in the amount of 950.000 Euros.

However, also in 2017, Carvoeiro Golfe, S.A. was notified that the process 324/14.OTELSB-AZ was being instated and was requested to post a bank guarantee in the amount of 950.000 Euros in favor of the Portuguese state. The Public Ministry was of the understanding that there was substantiated reason to consider that the money delivered by the promissory buyer at the time of the celebration of the promissory sale contract came from illicit sources.

Therefore, even though Carvoeiro Golfe, S.A. always acted in good faith and in accordance with the law, and as is registered in the order it had condition to consider the act as formally valid and, consequently, withhold as its own the amount corresponding to the advance, following a prudent approach Grupo Pestana decided to book a provision in the same amount in the eventuality that the Portuguese state executes the mentioned bank guarantee.

In 2018 no changes have occurred in this process remaining the bank guarantee active and the provision presented as a current liability following a prudent approach.

The remaining Other provisions result from ordinary and inherent business risks.

23. BORROWINGS

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

	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	36,302,011	111,718,809	148,020,820	34,417,336	116,498,756	150,916,092
Bond loans	-	107,500,000	107,500,000	-	107,500,000	107,500,000
Commercial paper	11,444,444	25,388,889	36,833,333	5,944,444	26,833,333	32,777,777
Bank overdrafts	204,266	-	204,266	841,112	-	841,112
Group loans	-	-	-	22,797,241	21,798,225	44,595,466
	47,950,721	244,607,698	292,558,419	64,000,133	272,630,314	336,630,447
Interest payable - accrual	1,754,042	-	1,754,042	2,226,571	157,689	2,384,260
Interest paid - deferral	(271,202)	(1,675,961)	(1,947,163)	(243,439)	(1,895,827)	(2,139,266)
	49,433,561	242,931,737	292,365,298	65,983,265	270,892,176	336,875,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Bank loans have as collateral the mortgage over some tangible fixed assets of Grupo Pestana (Note 37).

Borrowings engaged by the group companies include, in some cases, clauses that require specific covenants to be accomplished such as: i) the maintenance of the subsidiaries share capital inside the group; and ii) the maintenance of ratios related to the capital structure and others. As at 31 December 2018, no exceptions have been identified in any of these covenants.

The future payments of the outstanding bank loans, bond loans and commercial paper, by currency of denomination, as at 31 December 2018 and 2017, are as follows:

	2019	2020	2021	2022	2023	Following years	Total
Bank loans							
Euro	36,302,011	18,934,337	15,745,990	12,640,361	12,106,100	52,292,021	148,020,820
	36,302,011	18,934,337	15,745,990	12,640,361	12,106,100	52,292,021	148,020,820
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
Commercial paper							
Euro	11,444,444	2,944,444	444,444	444,444	20,444,444	1,111,111	36,833,333
	11,444,444	2,944,444	444,444	444,444	20,444,444	1,111,111	36,833,333
	47,746,455	86,878,782	43,690,435	28,084,805	32,550,544	53,403,133	292,354,153

	2018	2019	2020	2021	2022	Following years	Total
Bank loans							
Euro	34,417,336	34,647,242	17,690,271	14,240,219	10,589,324	39,331,700	150,916,092
	34,417,336	34,647,242	17,690,271	14,240,219	10,589,324	39,331,700	150,916,092
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
Commercial paper							
Euro	5,944,444	1,444,444	2,944,444	444,444	444,444	21,555,555	32,777,777
	5,944,444	1,444,444	2,944,444	444,444	444,444	21,555,555	32,777,777
	40,361,781	36,091,686	85,634,716	42,184,663	26,033,768	60,887,254	291,193,868

Borrowings presented above are subject to a variable interest rate of 12M, 6M, 3M and 1M Euribor and/or Libor plus spread.

In May 2018, the subsidiary M.&J. Pestana – Sociedade de Turismo da Madeira, S.A. proceeded to amortize a bank loan before its due date (June 2025) in the amount of 9,550,000 Euros, which had an end date of June 2025.

In July 2018, the subsidiary M.&J. Pestana – Sociedade de Turismo da Madeira, S.A. paid for the commercial paper it had acquired in the amount of 5,000,000 Euros. Also in 2018, the subsidiary M.&J. Pestana – Sociedade de Turismo da Madeira, S.A. acquired two commercial paper programs, amounting to 3,500,000 Euros and 6,500,000 Euros. These issues are remunerated at the Euribor rate for the respective issue term plus spread.

In November 2018, the subsidiary M.&J. Pestana – Sociedade de Turismo da Madeira, S.A. acquired new bank loan in the amount of 12,500,000 Euros. In November 2018, the subsidiary Salvor – Sociedade de Investimento Hoteleiro, S.A. acquired two new bank loans in the amounts of 25,000,000 Euros and 5,000,000 Euros, respectively.

During 2018, Grupo Pestana repaid the supplies it had with Pestana International Holdings S.A., one of which, in advance, amounted to 44,415,448 Euros.

Grupo Pestana holds, as at 31 December 2018, a set of unused contracted credit lines in Financial Institutions with a total amount 71,800,000 Euros related to authorized credit lines and overdrafts.

24. DERIVATIVES

As at 31 December 2018 and 2017, Grupo Pestana had interest rate swaps (hedging derivatives) as follows:

	31-12-2018		31-12-2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – non current	-	485,180	-	1,069,253
Interest rate swaps – current	-	-	-	-
	-	485,180	-	1,069,253

Detailed information about the characteristics and fair value of the swaps is as follows:

Subsidiary	Classification IFRS 9	Initial reference value	Maturity	Payment period	Fees receivable / payable	Fair value 31-12-2018	Fair value 31-12-2017	Variation
Beloura Hotel e Golfe - Investimento Turísticos, S.A.	Hedge	9,600,000	30-07-2019	semiannual	Eur 6M / 4.77%	(12,142)	(65,788)	53,646
M & J Pestana, S.A.	Hedge	5,000,000	18-12-2019	semiannual	Eur 6M / 3.08%	(18,778)	(62,500)	43,722
Grupo Pestana S.G.P.S., S.A.	Hedge	10,000,000	28-12-2019	semiannual	Eur 6M / 3.08%	(37,556)	(124,999)	87,443
Carlton Palácio, S.A.	Hedge	5,000,000	28-12-2019	semiannual	Eur 6M / 3.08%	(18,778)	(62,500)	43,722
Salvor, S.A.	Hedge	5,000,000	28-12-2019	semiannual	Eur 6M / 3.08%	(18,778)	(62,500)	43,722
Grupo Pestana S.G.P.S., S.A.	Hedge	10,000,000	30-12-2019	semiannual	Eur 6M / 3.04%	(37,034)	(123,124)	86,091
Carlton Palácio, S.A.	Hedge	5,000,000	30-12-2019	semiannual	Eur 6M / 3.04%	(18,517)	(61,562)	43,045
M & J Pestana, S.A.	Hedge	5,000,000	30-12-2019	semiannual	Eur 6M / 3.04%	(18,517)	(61,562)	43,045
Salvor, S.A.	Hedge	5,000,000	30-12-2019	semiannual	Eur 6M / 3.04%	(18,514)	(61,562)	43,048
ITI Soc.Inves. Tur. Ilha Madeira, S.A. (i)	Proportion hedge	7,000,000	26-09-2022	semiannual	Eur 6M / 4.82%	(286,567)	(383,157)	96,590
						(485,180)	(1,069,253)	584,073

(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 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The change in the fair value of the derivatives financial instruments occurred in 2018 and 2017 were as follows:

	2018	2017
1 January	1,069,253	2,928,884
Hedging derivatives - fair value changes	(559,925)	(802,841)
Trading derivatives - fair value changes (Note 33)	(24,148)	(137,304)
Settlement	-	(3,145)
Perimeter exits (Note 39)	-	(916,341)
31 December	485,180	1,069,253

The changes in the fair value reserve related to cash flow hedges in 2018 and 2017 were as follows:

	2018	2017
1 January	(541,343)	(1,176,923)
Hedging derivatives - fair value changes	559,925	869,823
Deferred tax (Note 12)	(106,163)	(232,857)
Settlement	-	(1,386)
31 December	(87,580)	(541,343)

Derivative financial instruments classified as trading are financial instruments contracted to hedge economic risks in Grupo Pestana (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 13).

Grupo Pestana recognizes derivative financial instruments in accordance with IFRS 9. However, it is noteworthy that borrowings subject to hedging have spreads much lower than the current market conditions.

25. DEFERRED REVENUE

As at 31 December 2018 and 2017, the detail of Deferred revenue is as follows:

	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Pestana Vacations Club (i)	13,436,532	97,500,100	110,936,632	13,936,391	104,304,056	118,240,447
Pestana Vacations Club – Options (ii)	3,538,104	34,287,041	37,825,145	3,525,896	35,129,292	38,655,188
Temporary transfer of Pestana Trademark (iii)	6,333,333	6,333,333	12,666,666	6,333,333	12,666,667	19,000,000
Government grants (iv)	442,021	5,868,821	6,310,842	511,956	6,293,380	6,805,336
Others	4,347,245	3,148,557	7,495,802	6,551,687	3,017,856	9,569,543
	28,097,235	147,137,852	175,235,087	30,859,263	161,411,251	192,270,514

(i) Pestana Vacations Club – Timeshare (D.R.H.P.)

This balance refers to values obtained from the sale of timeshares, which are deferred over the period of the award of temporary right of use of hotels and apartments at Grupo Pestana (Note 3.22 ii)), which will end between 2019 and 2039.

(ii) Pestana Vacations Club – Options

This item refers to the sale of the timeshare program Options. The customer acquires points that give him the right to use accommodation without having to choose the specific hotel at that time. Revenue is recognized according to the redemption of points in the program and their validity date (Note 3.22 ii)). On 1 January 2018 this caption decreased 249,327 Euros as a consequence of the adoption of the new revenue recognition accounting standard (IFRS 15) (Note 2).

(iii) Temporary transfer of Pestana trademark

As at 31 December 2018 and 2017, the Temporary transfer of Pestana trademark fully refers to the temporary transmission fee for the exploitation of the Pestana brand in Portugal, invoiced to Pestana Management - Serviços de gestão, S.A., under the agreement in force until 2020, inclusive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As a result of the terminus of Pestana trademark's onerous and temporary transfer agreement, in force until 2017, Grupo Pestana decided to assess the value of the Trademark before setting the conditions of the new transfer. For this purpose, the Group hired two independent and market-recognized experts to perform the assessment and the pricing of the Trademark transfer, and a price of 19,000,000 Euros was established for a 3-year period (the equivalent to about 6,333,333 Euros a year), starting on 1 January 2018 and ending on 31 December 2020. Thus, the onerous and temporary transfer of the Pestana Trademark was renewed with Pestana Management - Serviços de Gestão S.A., a group company that has been exploring it so far and which has been regarded as being the most suitable to continue with it.

(iv) Government grants

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

26. TRADE AND OTHER PAYABLES

As at 31 December 2018 and 2017, the detail of Trade and other payables is as follows:

Description	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Trade payables						
Suppliers (i)	31,770,988	-	31,770,988	35,998,208	-	35,998,208
Other payables						
Other payables	1,554,855	-	1,554,855	3,062,175	600,190	3,662,365
Other payables - group (Note 40)	457,088	-	457,088	415,196	-	415,196
Suppliers of property, plant and equipment (ii)	3,133,931	3,924,819	7,058,750	2,197,571	4,701,839	6,899,410
Advances from customers (iii)	25,589,556	-	25,589,556	34,115,838	-	34,115,838
Taxes payable (iv)	2,797,876	-	2,797,876	8,028,736	-	8,028,736
Accrued expenses						
Wages and corresponding taxes	10,662,824	-	10,662,824	9,651,730	-	9,651,730
Others	9,899,254	27,259	9,926,513	8,694,786	-	8,694,786
	85,866,372	3,952,078	89,818,450	102,164,240	5,302,029	107,466,269

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(i) Suppliers

Description	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Suppliers - group (Note 40)	8,582,665	-	8,582,665	10,519,594	-	10,519,594
Other suppliers	23,188,323	-	23,188,323	25,478,614	-	25,478,614
	31,770,988	-	31,770,988	35,998,208	-	35,998,208

(ii) Suppliers of property, plant and equipment

This caption includes, among others, leasing contracts negotiated by Grupo Pestana, which are as follows:

	31-12-2018	31-12-2017
Less than 1 year	883,848	942,034
Between 1 to 5 years	3,924,794	3,303,761
More than 5 years	25	1,398,079
	4,808,667	5,643,874

(iii) Advances from customers

Refers mainly to the amounts received along the construction works, amounting in total to 16,602,119 Euros (31 December 2017: 25,447,939 Euros) and maintenance fees charged in advance under timeshare contracts amounting to 5,534,442 Euros (31 December 2017: 6,137,312 Euros) and the amounts received within purchase and sale agreements in the tourist real estate business. The remainder is related to tour operator reservations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(iv) Taxes payable

Description	31-12-2018			31-12-2017		
	Current	Non-current	Total	Current	Non-current	Total
Personal income tax withheld	740,949	-	740,949	658,498	-	658,498
Value added tax	906,207	-	906,207	6,135,435	-	6,135,435
Social security contributions	1,040,179	-	1,040,179	1,111,800	-	1,111,800
Others	110,541	-	110,541	123,003	-	123,003
	2,797,876	-	2,797,876	8,028,736	-	8,028,736

27. REVENUE

The detail of Revenue recognized in the Income statement is as follows:

	2018	2017
Hospitality business (i)	203,586,656	221,894,824
Real Estate (ii)	62,910,622	26,399,728
Vacation Club (iii)	30,026,687	27,699,772
Beverages (industry)	27,163,855	28,039,616
Golf	11,358,407	13,402,423
Entertainment	10,118,106	10,187,895
Others (iv)	19,785,580	14,546,343
	364,949,912	342,170,602

Sales and Services rendered in 2017 related to the subsidiaries that were excluded from the consolidation perimeter amounted to 27,663,506 Euros (Note 39).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(i) Hospitality business

The decrease in the hospitality business revenue was mainly due to the change in consolidation perimeter in 2017 (Note 39). Accordingly, if this effect were excluded, the revenue from this caption would have increased by 9,355,337 Euros, corresponding to a 5% increase over the previous year.

The 2018 and 2017 detail of sales and services rendered in Hospitality business, by country of origin, are as follows:

Country	Hospitality business	
	2018	2017
Portugal	30.1%	29.5%
United Kingdom	19.5%	21.9%
Germany	11.9%	11.5%
United States	5.5%	4.7%
France	5.3%	4.6%
Spain	3.7%	3.5%
Brazil	2.4%	2.4%
Netherlands	2.0%	2.0%
Switzerland	1.9%	2.3%
Ireland	1.9%	1.7%
Belgium	1.4%	1.6%
Sweden	1.4%	1.6%
Denmark	1.3%	1.3%
Italy	1.2%	1.1%
Norway	1.1%	1.2%
Russia	0.8%	0.8%
Others	8.5%	8.4%
	100%	100%

(ii) Real estate

In 2018, the first sales of apartments belonging to Troia Eco-resort's Lot 1 were made, namely 34 apartment units were sold in the amount of 17,671,500 Euros. Simultaneously, the Group continues to sell units from Lots 3 and 4 which amounted to 29,851,506 Euros in 2018 corresponding to 66.25 units. In 2017, 71 townhouses were sold from Lots 3 and 4 in the amount of 16,823,725 Euros.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018 and 2017, Real estate includes revenue recognized according to the measurement of performance obligation satisfaction at those dates, according to the percentage of completion using the input method in the amount of 3,247,684 Euros (2017: 1,995,132 Euros).

For all Construction contracts in progress it was possible to make a reliable estimate of their outcome.

(iii) Pestana Vacation Club

The 2018 and 2017 detail of sales and services rendered in Vacation Club, by country of origin, are as follows:

Country	Pestana Vacation Club	
	2018	2017
United Kingdom	55.0%	54.7%
Portugal	12.5%	12.7%
Germany	9.8%	10.0%
Finland	7.0%	7.3%
Sweden	3.3%	3.0%
Others	12.4%	12.3%
	100%	100%

(iv) Other

As a result of Pestana Trademark's onerous and temporary transfer agreement entered into in 2017, with Pestana Management - Serviços de Gestão S.A., as well as the change in the consolidation perimeter of this group company, as mentioned in Note 39, the caption Others recorded an increase of 6,333,333 Euros in 2018 (Note 25).

28. EXTERNAL SERVICES AND SUPPLIES

The detail of External services and supplies is as follow:

	2018	2017
Professional fees	26,966,925	17,246,877
Subcontracts	21,740,899	9,443,692
Rents	21,111,874	20,088,262
Cleaning	15,880,572	16,799,925
Energy	10,311,711	11,754,527
Advertising	8,168,205	7,852,531
Commissions	7,198,824	8,074,081
Maintenance	5,989,541	6,269,633
Insurance	915,608	1,193,220
Others	4,682,903	5,792,905
	122,967,062	104,515,653

In 2018, the main reason for the change in Supplies and external services is related to the changes in the perimeter occurred in 2017 mainly the exit of the companies that rendered services across several companies of Pestana Hotel Group (Note 29).

External services and supplies for 2017, related to the subsidiaries that left the consolidation perimeter, amounted to 13,463,029 Euros (Note 39).

As at 31 December 2018 and 2017, the detail of Rents is as follows:

	2018	2017
Lease	13,869,571	11,817,966
Concession	2,736,954	2,976,020
Other operating leases	4,505,349	5,294,276
	21,111,874	20,088,262

Lease and Concession include amounts related to medium and long-term lease contracts for the concession of the Pousadas network.

Pursuant to paragraph b) of article no. 66 A of the Portuguese Commercial Companies' Code, audit fees for the 2018 annual accounts of the Statutory Auditors of the Grupo Pestana were 85,100 Euros and the remaining Statutory Auditors of the companies comprising the consolidation perimeter were 19,750 Euros.

29. PERSONNEL EXPENSES

The detail of Personnel expenses is as follows:

	2018	2017
Board of Directors		
Wages and salaries	2,066,472	2,587,278
Social security contributions	350,863	510,292
	2,417,335	3,097,570
Staff		
Wages and salaries	42,871,934	54,689,942
Social security contributions	9,240,375	11,525,079
Others	1,736,891	2,612,824
	53,849,200	68,827,845
	56,266,535	71,925,415

In 2018, Personnel expenses include the amount of 2,077,752 Euros relating to profit sharing (2017: 1,730,331 Euros). The average number of employees of the companies that comprise Grupo Pestana's consolidation perimeter in 2018 was 2,706 (31 December 2017: 3,044).

Due to the perimeter exit, in 2017, of the companies that rendered services to the different companies of the Pestana Hotel Group, particularly management supporting shared services, travel agency services and security services, there was a decrease in 2018 of personnel expenses and consequently an increase in expenses with external services and supplies for the services rendered by these companies to Grupo Pestana (Note 28).

Personnel expenses for 2017 relating to the subsidiaries that exited the consolidation perimeter amounted to 17,847,753 Euros (Note 39).

30. OTHER INCOME

The detail of Other income is presented as follows:

	2018	2017
Foreign currency exchange gains	1,789,637	2,473,939
Supplementary income	4,567,328	6,420,065
Government grants	473,406	588,843
Gains on disposal of tangible fixed assets	1,186,490	2,273,586
Others	1,130,250	1,739,183
	9,147,111	13,495,616

Supplementary income refers mainly to the transfer of electricity, water, gas and telephone infrastructures to the owners of the tourist properties managed by Grupo Pestana, with their cost sharing, as well as the exchange of services and re-debits to companies outside the consolidation perimeter.

As at 31 December 2018, Gains on disposal of tangible fixed assets are mainly related to the disposal of apartments from Pestana Gramacho Residences with gains in the amount of 925,544 Euros (Note 6).

As at 31 December 2017, Gains on disposal of tangible fixed assets are mainly related to the disposal of apartments from Pestana Alvor Atlantico with gains in the amount of 832,429 Euros and to the disposal of Pestana Atlantic Gardens in the amount of 308,951 Euros (Note 6).

31. OTHER EXPENSES

The detail of Other expenses is as follows:

	2018	2017
Taxes	5,270,287	6,365,657
Credit card commissions	1,204,632	1,546,487
Losses on inventories	133,343	78,002
Disposal of tangible fixed assets	748	64,615
Foreign currency exchange losses	798,229	2,216,283
Inventory offers and samples	134,618	976,372
Others	826,404	1,907,994
	8,368,261	13,155,410

Taxes refers mainly to expenses incurred with the payment of property taxes (IMI and similar) and the annual installation fees due to the Autonomous Region of Madeira by the companies installed in the International Business Center of Madeira.

The change occurred in Others relates mainly to the donation given by Grupo Pestana in 2017 to the Nature Conservation and Forest Institute, IP-RAM, in the amount of 557,254 Euros, destined exclusively to environmental purposes, namely, to the creation of a fire cut strip on the edge of the city of Funchal.

32. GAINS AND LOSSES ON INVESTMENTS IN JOINT VENTURES, ASSOCIATES AND EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS AND DISPOSAL OF SUBSIDIARIES

The detail of Gains and losses on investments in Joint ventures, Associates and Equity instruments at fair value through profit and loss and disposal of Subsidiaries is as follows:

	2018	2017
Gains/(losses) from equity method - Joint ventures (Note 9):		
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	333,234	282,828
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	(10,288)	54,430
Solpor - Sociedade de Turismo do Porto Santo, Lda.	(743)	(1,024)
Gains/(losses) from equity method - Associates (Note 10):		
Enatur - Empresa Nacional de Turismo, S.A.	(190,507)	769,488
Albar - Sociedade Imobiliária do Barlavento, S.A.	(2,254)	(278,250)
Disposal of Subsidiaries:		
Pestana Management - Serviços de Gestão, S.A. (Note 39)	-	14,350,171
Hotéis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A. (Nota 39)	-	9,807,762
Intervisa - Viagens e Turismo, Lda. (Note 39)	-	2,784,009
Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal, Lda. (Note 39)	-	159,708
Pinheiromar, S.A. (Note 39)	-	44,212
Others	176,163	154,539
	305,605	28,127,872

33. FINANCIAL EXPENSES AND INCOME

The detail of Financial expenses and income is presented as follows:

	2018	2017
Financial expenses		
Interest expenses	8,875,046	11,861,749
Interest rate swaps	646,686	1,188,578
Foreign currency exchange losses	58,835	214,448
Commissions	1,342,786	1,727,880
	10,923,353	14,992,655
Financial income		
Interest income	261,489	532,917
Foreign currency exchange gains	41,713	82,922
Derivatives fair value (Note 24)	24,148	137,304
Others	102,992	16,596
	430,342	769,739

Financial expenses for 2017 regarding the subsidiaries that exited the consolidation perimeter amounted to 2,933,396 Euros (Note 39).

Financial income for 2017 regarding the subsidiaries that exited the consolidation perimeter amounted to 157,886 Euros (Note 39).

Derivatives fair value fully refers to the change in fair value of derivatives designated as trading (Note 24).

34. INCOME TAX

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

	2018	2017
Current income tax		
Current period income tax	(14,342,249)	(12,742,118)
Adjustment in respect of prior year estimates	649,415	874,782
	(13,692,834)	(11,867,336)
Deferred income tax		
Origin and reversal of temporary differences	(379,043)	1,043,866
	(379,043)	1,043,866
	(14,071,877)	(10,823,470)

The tax rate applicable 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:

	2018	2017
Profit before tax	82,277,657	101,045,129
Tax rate	21%	21%
	17,278,308	21,219,477
Differences of tax rates on income and deferred taxes	2,073,915	(102,034)
Income not subject to tax	(4,466,275)	(10,978,818)
Expenses not deductible for tax purposes	1,425,604	1,783,800
	(966,756)	(9,297,052)
Municipal surcharge	580,191	716,227
State surcharge	2,383,210	1,823,197
Tax losses used	(1,103,265)	(1,184,924)
Investment supporting tax regime (RFAI)	(3,616,738)	(1,989,482)
Autonomous tax	166,342	171,772
Perimeter exits (Note 39)	-	239,038
Adjustments in respect of prior year estimates	(649,415)	(874,782)
	14,071,877	10,823,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Since 2012, Grupo Pestana, S.G.P.S, S.A. is taxed under the Special Taxation Regime for Group Companies (RETGS). Consequently, 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.

RETGS includes all companies with at least 75% of the share capital held, directly or indirectly, and that are residents in Portugal and taxed under the Portuguese Corporate Income Tax.

Under the terms of article no. 69-A of the Portuguese Corporate Income Tax Code, the Group chose to widen the concept of Special Taxation Regime for Groups, to Pestana International Holdings S.A, with Grupo Pestana, S.G.P.S., S.A. assuming the role defined in the number 3 of the referred article, regarding the fulfillment of all obligations imposed on the dominating company.

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 income tax rates applicable to each subsidiary, in the calculation of the income tax to recognize in the Consolidated financial statements, are as follows:

	2018	2017
Tax rate	21.0%	21.0%
Municipal surcharge	0.00% - 1.50%	0.00% - 1.50%
State surcharge		
> 1.500.000 and < 7.500.000	3.00%	3.00%
> 7.500.000 and < 35.000.000	5.00%	5.00%
> 35.000.000	9.00%	7.00%

35. DIVIDENDS

Dividends paid to shareholders during 2018 amounted to 38,477,632 Euros, corresponding to 0.46 Euros per share (2017: 81,489,357 Euros, resulting in 1.00 Euros per share).

Dividends paid by Grupo Pestana's subsidiaries to non-controlling interests during 2018 amounted to 2,742,519 Euros (2017: 14,513,254 Euros).

36. COMMITMENTS

Non discounted commitments with minimum lease payments of operating leases, by maturity, are as follows:

31 December 2018	Non discounted amounts				Total
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	
Future rents of operating leases	14,329,236	56,523,251	56,639,833	97,426,375	224,918,695

31 December 2017	Non discounted amounts				Total
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years	
Future rents of operating leases	16,112,583	60,794,063	70,161,289	92,029,868	239,097,803

The values presented refer to the last amounts paid as established by contract and are, in their vast majority, updated with the inflation rate and as at 31 December 2018 and 2017 these amounts have not been discounted. The estimated impact of the adoption of the new standard IFRS 16 - Leases is presented in Note 2.

The changes occurred in 2018 refer mainly to two new contracts signed, Pestana Rua Augusta and Pestana Braancamp (total of approximately 30,000,000 non discounted Euros) and to the acquisition of Pestana D. Joao II which was being leased in 2017 (approximately 41,000,000 non discounted Euros)

Grupo Pestana is performing 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 2018 it has spent the corresponding annual amount.

Since 1987 a supplementary pension plan is in place for 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 2018, the fund amounts to 1,294,330 Euros and corresponds to 12 former employees.

In 2008 ECM changed its pension plan 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 period of the previous year, whenever it exists.

37. CONTINGENCIES

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

	2018	2017
Mortgages		
Mortgages over buildings	130,250,725	111,715,102
Mortgages over land	1,750,000	1,750,000
	132,000,725	113,465,102
Guarantees		
Guarantees and liability coverages	11,911,868	18,145,400
Bank guarantees	44,547,734	39,463,744
	56,459,602	57,609,144

Contingent assets

The special tax regime in Portugal for pure Holding Companies (with the 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 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 while at the same time 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, in March 2017, Grupo Pestana, S.G.P.S., S.A. filed 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. As a consequence of the developments verified in 2017, Grupo Pestana presented, in November 2017, a Judicial Challenge in Funchal's Tax and Administrative Court which is still pending decision.

Contingent liabilities

As at 31 December 2018, contingent liabilities were calculated and amounted up to 190,899 Euros resulting from other ongoing claims.

38. CONSOLIDATION PERIMETER

Subsidiaries included in the consolidation perimeter by the full consolidation method as at 31 December 2018 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/(Loss)	% Owned	% Control
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real estate	31-12-2018	4,973,952	6,378,468	1,404,516	-	(44,619)	100.00%	100.00%
Beloura Hotel e Golfe - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2018	11,692,884	14,801,422	3,108,536	4,443,672	852,690	100.00%	100.00%
Carlton Palácio - Sociedade de Construção e Exploração Hoteleiras, S.A.	Portugal	Hospitality	31-12-2018	56,798,491	75,694,637	18,896,146	25,437,766	5,919,407	100.00%	100.00%
Carvoeiro Golfe - Sociedade de Mediação Imobiliária, Unipessoal Lda.	Portugal	Real estate	31-12-2018	409,948	727,524	317,576	974,632	396,688	100.00%	100.00%
Carvoeiro Golfe, S.A.	Portugal	Golf / Real estate	31-12-2018	50,457,189	107,867,925	57,410,736	91,062,738	18,195,237	100.00%	100.00%
Cota Quarenta - Gestão e Administração de Centros Comerciais, S.A.	Portugal	Real estate	31-12-2018	22,012,243	22,440,968	428,725	-	252,348	100.00%	100.00%
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	Portugal	Beverage	31-12-2018	7,582,561	29,906,285	22,323,724	27,163,855	21,358	100.00%	100.00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2018	13,378,043	15,825,759	2,447,715	653,617	199,204	100.00%	100.00%
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2018	44,814,869	63,687,587	18,872,718	40,994,502	4,542,119	100.00%	100.00%
Herdade da Abrunheira - Projectos de Desenvolvimento Turístico e Imobiliário, S.A.	Portugal	Real estate	31-12-2018	4,268,890	6,545,208	2,276,318	-	(231,110)	100.00%	100.00%
Imóveis Brisa - F.I.I.F.	Portugal	Real estate	31-12-2018	14,071,001	14,169,323	98,322	47,981	(124,534)	100.00%	100.00%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hospitality	31-12-2018	3,350,443	5,364,715	2,014,272	2,877,294	274,963	100.00%	100.00%
ITI - Sociedade de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hospitality / Entertainment	31-12-2018	42,980,746	65,479,348	22,498,602	34,656,449	8,966,305	100.00%	100.00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hospitality / Timeshare	31-12-2018	139,785,447	344,637,842	204,852,395	70,920,105	20,841,267	100.00%	100.00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Entertainment	31-12-2018	2,558,760	3,893,902	1,335,142	660,861	215,161	100.00%	100.00%
Natura XXI, Lda.	Portugal	Real estate	31-12-2018	1,458,406	1,482,712	24,306	48,000	5,136	100.00%	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/(Loss)	% Owned	% Control
Pestana Cidadela - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2018	9,754,312	16,033,968	6,279,656	6,617,331	932,317	100.00%	100.00%
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hospitality / Timeshare	31-12-2018	11,934,154	25,558,194	13,624,040	9,182,220	2,134,036	52.00%	52.00%
Porto Carlton - Sociedade de Construção e Exploração Hoteleira, S.A.	Portugal	Hospitality	31-12-2018	8,045,012	16,436,557	8,391,545	8,525,202	3,003,562	60.00%	60.00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hospitality / Timeshare	31-12-2018	105,143,934	196,777,425	91,633,491	46,227,737	8,216,456	100.00%	100.00%
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	Portugal	Services	31-12-2018	866,237	1,512,709	646,472	19,308	(70,650)	47.73%	51.14%
SDM - Sociedade de Desenvolvimento da Madeira, S.A.	Portugal	Services	31-12-2018	11,233,338	15,708,067	4,484,730	11,265,550	3,975,672	47.73%	51.14%
Sociedade de Investimentos Hoteleiros D. João II, S.A.	Portugal	Hospitality / Timeshare	31-12-2018	1,430,782	4,200,582	2,769,800	619,591	62,997	100.00%	100.00%

(a) Grupo Pestana, S.G.P.S., S.A. owns 47.73% of this subsidiary's equity, however, as at 31 December 2018 and 2017 it controls the entity via a shareholder agreement signed with a minority shareholder which gives its 3.41% voting rights to the Grupo Pestana.

Associates and Joint ventures included in consolidation through the equity method, as at 31 December 2018, are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/(Loss)	% Owned	% Control
Albar - Sociedade Imobiliária do Barlavento, S.A.	Portugal	Real estate	31-12-2018	1,143,374	1,183,763	40,390	-	(4,524)	49.81%	49.81%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Hospitality	31-12-2018	60,822,948	86,885,215	26,062,267	2,573,738	(388,789)	49.00%	49.00%
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2018	8,196,741	16,173,431	7,976,690	4,200,602	666,467	50.00%	50.00%
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2018	1,685,473	3,462,431	1,776,958	1,903,813	(20,577)	50.00%	50.00%
Solpor - Sociedade de Turismo do Porto Santo Lda.	Portugal	Real estate	31-12-2018	939,165	940,882	1,717	-	(1,485)	50.00%	50.00%

The subsidiaries included in the consolidation perimeter, by the full consolidation method, as at 31 December 2017 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/(Loss)	% Owned	% Control
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real estate	31-12-2017	4,799,671	6,359,432	1,559,761	-	(44,049)	100.00%	100.00%
Beloura Hotel e Golfe - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2017	8,293,980	15,231,204	6,937,224	4,135,184	1,144,047	100.00%	100.00%
Carlton Palácio - Sociedade de Construção e Exploração Hoteleiras, S.A.	Portugal	Hospitality	31-12-2017	40,363,852	69,241,959	28,878,107	23,985,146	7,085,035	100.00%	100.00%
Carvoeiro Golfe - Sociedade de Mediação Imobiliária, Unipessoal Lda.	Portugal	Real estate	31-12-2017	1,376,177	1,871,800	495,623	7,027,436	938,891	100.00%	100.00%
Carvoeiro Golfe, S.A.	Portugal	Golf and Real estate	31-12-2017	47,261,952	111,347,717	64,085,766	48,381,088	11,114,645	100.00%	100.00%
Cota Quarenta - Gestão e Administração de Centros Comercias, S.A.	Portugal	Real estate	31-12-2017	5,329,295	21,973,487	16,644,193	-	189,372	100.00%	100.00%
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	Portugal	Beverages	31-12-2017	7,017,103	30,349,170	23,332,068	28,039,616	555,546	100.00%	100.00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2017	12,634,739	14,315,073	1,680,334	640,801	1,810,381	100.00%	100.00%
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2017	36,747,649	65,951,128	29,203,479	39,606,632	5,654,844	95.68%	95.68%
Herdade da Abrunheira - Projectos de Desenv. Turístico e Imobiliário, S.A.	Portugal	Real estate	31-12-2017	214,725	6,510,769	6,296,044	-	(267,353)	66.67%	66.67%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hospitality	31-12-2017	3,075,480	7,086,208	4,010,728	2,387,431	75,480	100.00%	100.00%
Imóveis Brisa - Fundo de Investimento Imobiliário Fechado	Portugal	Real estate	31-12-2017	7,695,566	14,274,279	6,578,714	-	453,442	100.00%	100.00%
ITI - Sociedade de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hospitality and Entertainment	31-12-2017	44,101,839	68,003,564	23,901,725	36,551,174	10,159,841	100.00%	100.00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hospitality / Timeshare	31-12-2017	118,745,631	339,291,722	220,546,092	66,325,927	20,032,194	100.00%	100.00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Entertainment	31-12-2017	1,798,450	3,807,819	2,009,370	663,855	584,147	100.00%	100.00%
Natura XXI, Lda.	Portugal	Real estate	31-12-2017	1,412,918	1,440,508	27,591	135	(28,895)	100.00%	100.00%
Pestana Cidadela - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2017	8,275,270	16,693,818	8,418,548	6,406,135	938,725	100.00%	100.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/(Loss)	% Owned	% Control
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hospitality / Timeshare	31-12-2017	12,407,618	26,114,048	13,706,430	9,381,265	2,188,726	52.00%	52.00%
Porto Carlton - Sociedade de Construção e Exploração Hoteleira, S.A.	Portugal	Hospitality	31-12-2017	7,827,894	17,449,176	9,621,282	8,108,347	2,786,444	60.00%	60.00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hospitality / Timeshare	31-12-2017	167,287,761	236,724,381	69,436,620	45,023,954	23,082,576	100.00%	100.00%
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, S.A.	Portugal	Services	31-12-2017	918,435	1,695,558	777,124	19,042	(141,299)	47.73%	51.14%
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (a)	Portugal	Services	31-12-2017	10,101,723	17,021,146	6,919,423	10,534,778	3,003,446	47.73%	51.14%
Sociedade de Investimentos Hoteleiros D. João II, S.A.	Portugal	Hospitality / Timeshare	31-12-2017	1,367,785	4,107,408	2,739,624	640,384	96,145	100.00%	100.00%

Associates and Joint ventures included in consolidation through the equity method, as at 31 December 2017, are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/(Loss)	% Owned	% Control
Albar - Sociedade Imobiliária do Barlavento, S.A.	Portugal	Real estate	31-12-2017	1,147,898	1,185,050	37,152	-	(5,056)	49.81%	49.81%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Hospitality	31-12-2017	70,262,819	94,724,762	24,461,943	2,504,844	1,570,384	46.88%	46.88%
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2017	7,860,274	15,749,867	7,889,593	4,065,732	565,656	50.00%	50.00%
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2017	1,706,051	3,737,847	2,031,796	2,197,329	108,861	50.00%	50.00%
Solpor - Sociedade de Turismo do Porto Santo Lda.	Portugal	Real estate	31-12-2017	940,650	942,345	1,695	-	(2,048)	50.00%	50.00%

39. CHANGES IN THE PERIMETER

In 2018 there was no change in Grupo Pestana's consolidation perimeter.

In 2017, Grupo Pestana acquired and/or started to include in the consolidation perimeter the following subsidiaries:

- SDEM – Sociedade de Desenvolvimento Empresarial da Madeira, S.A.;
- Imóveis Brisa – Fundo de Investimento Imobiliário Fechado.

The Statement of financial position of the companies included in the consolidation perimeter as at the date of entry is as follows:

	SDEM, S.A.	Imóveis Brisa - F.I.I.F.	Total
Purchasing price	826,936	7,242,122	8,069,058
Assets			
Tangible fixed assets	-	10,689,293	10,689,293
Intangible assets	-	1,030,000	1,030,000
Investment properties	-	1,239,950	1,239,950
Equity instruments at fair value through profit and loss	843,398	-	843,398
Trade and other receivables	62,924	153,256	216,180
Income tax receivable	9,886	-	9,886
Inventories	-	359,750	359,750
Cash and cash equivalents	849,464	536,717	1,386,181
Total Assets at fair value	1,765,672	14,008,966	15,774,637
Liabilities			
Borrowings	641,385	-	641,385
Deferred revenue	-	3,000	3,000
Trade and other payables	21,705	6,763,843	6,785,548
Total liabilities at fair value	663,090	6,766,843	7,429,933
Net assets	1,102,582	7,242,122	8,344,704
% acquired	75,00%	100,00%	
Goodwill	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Income statement of the companies included in the consolidation perimeter in the period between the date of entry and 31 December 2017 is as follows:

	SDEM, S.A.	Imóveis Brisa - F.I.I.F.	Total
Revenue	19,042	-	19,042
External services and supplies	(60,841)	(168,167)	(229,008)
Personnel expenses	(119,319)	-	(119,319)
Charges of depreciation and amortization	-	(68,667)	(68,667)
Impairment of receivables	-	(13,839)	(13,839)
Other income	14,222	240,271	254,493
Other expenses	(3,634)	(7,079)	(10,714)
Operating income	(150,530)	(17,482)	(168,012)
Financial expenses	(26,399)	-	(26,399)
Financial income	35,630	-	35,630
Profit before tax	(141,299)	(17,482)	(158,781)
Income tax	-	-	-
Profit for the period	(141,299)	(17,482)	(158,781)
Profit for the period attributable to:			
Shareholders	(67,442)	(17,482)	(84,924)
Non-controlling interests	(73,857)	-	(73,857)
	(141,299)	(17,482)	(158,781)

On 13 December 2017, Grupo Pestana disposed of its investment representing 99.92% of the share capital of Hotéis do Atlântico – Sociedade Imobiliária and Gestão de Hóteis, S.A., to Pestana International Holdings S.A. for the amount of 31,000,000 Euros, generating a capital gain of 9,807,762 Euros (Note 32). The disposal also included the accessory contributions and loans granted, which were disposed of at their nominal value in the amount of Euro 24,000,000 and Euro 59,144,198, respectively. Consequently, this company, as well as its subsidiaries, were excluded from the consolidation perimeter with effect from 1 December 2017.

For the same reason, Grupo Pestana decided, on 29 November 2017, to sell to ESGAP - Empresa Serviços de Gestão e Administrativos Partilhados, S.A., formerly designated as Pinheiromar, S.A., the investments held in companies that provide services to the various companies of Pestana Hotel Group, namely management supporting shared services, travel agency services and security services. These companies are Pestana Management - Serviços de Gestão, S.A., sold by 19,000,000 Euros, Intervisa Viagens e Turismo, Lda., sold by 3,500,000 Euros and Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal, Lda., sold by 500,000 Euros, generating capital gains of 14,350,171 Euros, 2,784,009 Euros and 159,708 Euros, respectively (Note 32). Consequently, these companies were excluded from the consolidation perimeter with effect from 1 November 2017.

On 9 June 2017, Grupo Pestana disposed of the entire financial investment held in the company Pinheiromar, S.A., as well as the respective accessory contributions of capital, for 50,000 Euros and 165,000 Euros, respectively, resulting in a capital gain of Euro 44,212 (Note 32). Consequently, this company was excluded from the consolidation perimeter with effect from 1 June 2017.

In 2017, the following subsidiaries were disposed of:

- Pinheiromar, S.A.;
- Pestana Management - Serviços de Gestão, S.A.;
- Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal, Lda.;
- Intervisa - Viagens e Turismo, Lda.;
- Hotéis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A..

Hotéis do Atlântico, S.A. owned, directly, the following subsidiaries that were also disposed of:

- Pestana Miami, LLC.;
- Pestana CR7 Manhattan 39, LLC.;
- Pestana USA, Inc.;
- Pestana New York East Side 39, LLC.;
- Pestana Management UK Ltd.;
- Hotel Rauchstrasse 22 S.à.r.l.;
- Pestana Berlin S.à.r.l.;
- Desarrollos Hoteleros Barcelona 2004, S.A.;
- Global Mandalay, S.L.;
- Pestana Holland Holding B.V.;
- Amsteldijk Hotel Ontwikkeling B.V..

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The financial position of the entities excluded from the consolidation perimeter, as at its exit date, is as follows:

	Pinheiromar, S.A.	Pestana Management, S.A.	Intervisa, Lda.	Pestana Segurança, Lda.	Hotéis do Atlântico, S.A. and subsidiaries	Total
Sale price	50,000	19,000,000	3,500,000	500,000	31,000,000	54,050,000
Assets						
Tangible fixed assets	6,113	1,142,089	3,974	26,438	166,279,046	167,457,659
Intangible assets	-	905,678	172,512	13,720	-	1,091,910
Deferred tax assets	3,802	613,942	1,386	-	2,026,791	2,645,922
Trade and other receivables	27,749	4,194,909	561,081	301,345	3,328,588	8,413,671
Current tax receivable	-	195,054	-	-	158,628	353,682
Inventories	-	-	-	-	49,049	49,049
Cash and cash equivalents	-	574,671	29,814	251	15,818,935	16,423,670
Total Assets at fair value	37,664	7,626,342	768,767	341,754	187,661,036	196,435,563
Liabilities						
Provisions	-	24,367	-	-	-	24,367
Borrowings	487	-	-	-	52,922,508	52,922,995
Derivatives	-	-	-	-	916,341	916,341
Deferred tax liabilities	-	-	-	-	5,510,697	5,510,697
Deferred revenue	-	2,952,147	-	1,462	1,505,804	4,459,413
Trade and other payables	31,389	-	52,776	-	105,639,157	105,723,322
Total Liabilities at fair value	31,876	2,976,514	52,776	1,462	166,494,507	169,557,135
Net assets	5,788	4,649,829	715,991	340,292	21,166,528	26,878,428
Cumulative translation adjustments (Note 19)	-	-	-	-	(1,061,151)	(1,061,151)
Non-controlling interests (Note 21)	-	-	-	-	1,103,794	1,103,794
% sold	100.00%	100.00%	100.00%	100.00%	99.92%	
Gains / (losses) on disposal (Note 32)	44,212	14,350,171	2,784,009	159,708	9,807,762	27,145,862

The Income statement of the entities excluded from the consolidation perimeter in reference to the period from 1 January 2017 to the respective exit date is as follows:

	ESGAP, S.A.	Pestana Management, S.A.	Intervisa, Lda.	Pestana Segurança, Lda.	Hotéis do Atlântico, S.A. and subsidiaries	Total
Revenue	-	2,757,100	1,442,612	22,240	23,441,554	27,663,506
Cost of goods sold	-	-	-	(5,128)	(1,119,097)	(1,124,225)
External services and supplies	(75,994)	(6,070,040)	(28,786)	(50,611)	(7,237,598)	(13,463,029)
Personnel expenses	-	(11,009,027)	(145,872)	(641,502)	(6,051,352)	(17,847,753)
Charges of depreciation and amortization	-	(250,572)	(76,264)	(6,463)	(2,346,897)	(2,680,196)
Impairment of accounts receivable	-	1,306	-	-	(50,431)	(49,125)
Other income	6,511	17,383,285	241,071	782,646	188,148	18,601,660
Other expenses	(5,409)	(85,416)	(955,824)	(144)	(2,799,849)	(3,846,642)
Operating income	(74,892)	2,726,636	476,937	101,038	4,024,478	7,254,196
Financial expenses	(21,869)	-	(136,353)	-	(2,775,175)	(2,933,396)
Financial income	-	2,208	49	94	155,535	157,886
Profit before tax	(96,761)	2,728,844	340,634	101,132	1,404,838	4,478,686
Income tax	-	12,914	(893)	1,294	225,722	239,038
Profit for the period	(96,761)	2,741,758	339,741	102,426	1,630,560	4,717,725
Profit for the period attributable to:						
Shareholders	(96,761)	2,741,758	339,741	102,426	1,472,786	4,559,951
Non-controlling interests	-	-	-	-	157,774	157,774
	(96,761)	2,741,758	339,741	102,426	1,630,560	4,717,724

40. RELATED PARTIES

As at 31 December 2018 and 2017, 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 Director's remuneration

The members of the Boards of Directors of the companies that comprise Grupo Pestana were considered, in accordance with IAS 24, as the only key management personnel of the Group. During the years ended 31 December 2018 and 2017 the remuneration received by the Board of Directors is described in Note 29.

Transactions and balances with related parties

During 2018, Grupo Pestana carried out the following transactions with those entities:

	Services obtained	Interest paid	Services rendered	Interest earned
Holding company	13,055	687,499	-	-
Pestana International Holdings S.A.	13,055	687,499	-	-
Jointly controlled entities	12,721	-	339,390	70
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	-	-	336,767	70
Solpor - Sociedade de Turismo do Porto Santo Lda.	-	-	40	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	12,721	-	2,583	-
Associates	2,845,544	-	36,908	15,644
Enatur - Empresa Nacional de Turismo, S.A.	2,845,544	-	36,850	15,644
Albar - Sociedade Imobiliária do Barlavento, S.A.	-	-	58	-
Other related parties	31,299,391	-	11,722,987	3,701
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	-	-	1,863	3,701
Pestana Management - Serviços de Gestão, S.A.	27,954,567	-	8,404,999	-
Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal Lda.	1,213,504	-	18,480	-
Intervisa Viagens e Turismo, Unipessoal Lda.	2,070,931	-	2,480,477	-
Salvintur - Sociedade de Investimentos Turísticos, S.A.	-	-	272	-
ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	3,979	-	299	-
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	284	-	1,660	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Services obtained	Interest paid	Services rendered	Interest earned
Wild Break 29 (PTY), Ltd	-	-	347	-
Empreendimentos Turísticos, Lda.	-	-	931	-
Afrotours, S.A.	112	-	1,008	-
Rotas de África, Lda.	886	-	114	-
Pestana Marrocos, s.a.r.l.	277	-	12,904	-
Basturinvest Investimentos Turísticos, S.A.	299	-	709,655	-
Argentur Inversiones Turisticas S.A.	198	-	-	-
Pestana Miami LLC	4,341	-	74,847	-
Pestana Manhattan 39 LLC	-	-	266	-
Pestana Management UK, Limited	28,972	-	1,845	-
Pestana Berlim S.A.R.L.	16,303	-	2,732	-
Desarrollos Hoteleros Barcelona 2004 S.A.	4,738	-	877	-
Global Mandalay, S.L.U.	-	-	4,188	-
Amesteldijk Hotel Ontwkkeling B.V.	-	-	5,223	-
Key management personnel	-	-	-	-
	34,170,711	687,499	12,099,285	19,415

During 2017, Grupo Pestana carried out the following transactions with those entities:

	Services obtained	Interest paid	Services rendered	Interest earned	Disposal of subsidiaries
Holding company	18,785	1,792,752	19,679	-	114,144,198
Pestana International Holdings S.A.	18,785	1,792,752	19,679	-	114,144,198
Jointly controlled entities	24,746	-	1,200,092	-	-
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	-	-	542,157	-	-
Solpor - Sociedade de Turismo do Porto Santo Lda.	-	-	46	-	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	24,746	-	657,889	-	-
Associates	2,707,964	-	44,104	16,871	-
Enatur - Empresa Nacional de Turismo, S.A.	2,707,964	-	43,699	16,871	-
Albar - Sociedade Imobiliária do Barlavento, S.A.	-	-	405	-	-
Other related parties	3,572,567	118,035	2,779,303	-	23,000,000
Djebel, S.A.	-	-	144,516	-	-
Pestana Management - Serviços de Gestão, S.A.	3,098,579	3,482	448,173	-	-
Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal Lda.	111,832	345	-	-	-
Intervisa Viagens e Turismo, Unipessoal Lda.	138,793	-	230,976	-	-
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	-	-	17,674	-	-
Salvintur - Sociedade de Investimentos Turísticos, S.A.	-	-	126,496	-	-
ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	72,805	-	-	-	23,000,000
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	-	-	150,238	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Services obtained	Interest paid	Services rendered	Interest earned	Disposal of subsidiaries
Wild Break 29 (PTY), Ltd	346	-	98,901	-	-
Bazaruto, Lda.	-	-	12,668	-	-
Empreendimentos Turísticos, Lda.	-	-	119,438	-	-
Southern Escapes Travel and Tourism (PTY), Ltd	-	-	11,115	-	-
Afrotours, S.A.	33	-	238,457	-	-
Rotas de África, Lda.	4,556	-	56,938	-	-
São Tomé Invest S.A.	1,945	-	43,603	-	-
Pestana Marrocos, s.a.r.l.	4,926	-	411,470	-	-
Brasturinvest Investimentos Turísticos, S.A.	98,740	-	627,180	-	-
Inversiones Vistalparque C.A.	39,551	-	3,679	-	-
Pestana Miami LLC	-	-	474	-	-
Surinor, S.A.	-	-	2,569	-	-
Carolgud, S.A.	-	-	2,588	-	-
Atlantic Holidays Ltd	462	-	32,149	-	-
Pestana Berlim S.A.R.L.	-	32,541	-	-	-
Pestana Holland Holding B.V.	-	6,731	-	-	-
Amesteldijk Hotel Ontwkkeling B.V.	-	74,936	-	-	-
Key management personnel	-	-	-	-	-
	6,324,062	1,910,787	4,043,178	16,871	137,144,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At the end of 2018 and 2017, loans with related parties are detailed as follows:

	31-12-2018		31-12-2017	
	Loans obtained	Loans granted	Loans obtained	Loans granted
Holding company	-	-	44,415,448	-
Pestana International Holdings S.A.	-	-	44,415,448	-
Associates	-	1,190,593	-	1,190,593
Enatur - Empresa Nacional de Turismo, S.A.	-	1,190,593	-	1,190,593
Key management personnel	-	-	-	-
	-	1,190,593	44,415,448	1,190,593

The balances arising from transactions with related parties as at 2018 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 payables
Holding company	394	-	-	394	15,737	-	15,737
Pestana International Holdings S.A.	394	-	-	394	15,737	-	15,737
Jointly controlled entities	42,179	-	-	42,179	24,770	-	24,770
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	41,037	-	-	41,037	23,332	-	23,332
Solpor - Sociedade de Turismo do Porto Santo Lda.	1,085	-	-	1,085	-	-	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	57	-	-	57	1,438	-	1,438
Associates	101,956	-	-	101,956	50,087	-	50,087
Enatur - Empresa Nacional de Turismo, S.A.	66,127	-	-	66,127	50,087	-	50,087
Albar - Sociedade Imobiliária do Barlavento, S.A.	35,829	-	-	35,829	-	-	-
Other related parties	3,299,996	-	-	3,299,996	8,949,159	-	8,949,159
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	79,321	-	-	79,321	10,142	-	10,142
Djebel, S.A.	357	-	-	357	238,389	-	238,389
Pestana Management - Serviços de Gestão, S.A.	1,889,563	-	-	1,889,563	7,805,378	-	7,805,378
Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal Lda.	27,888	-	-	27,888	385,063	-	385,063
Intervis Viagens e Turismo, Unipessoal Lda.	170,809	-	-	170,809	119,075	-	119,075
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	6	-	-	6	479	-	479
Salvintur - Sociedade de Investimentos Turísticos, S.A.	347	-	-	347	149,799	-	149,799

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Trade receivables current	Trade receivables non-current	Impairment of trade receivables	Net trade receivables	Trade payables current	Trade payables non-current	Total payables
ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	47,950	-	-	47,950	60,709	-	60,709
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	1,816	-	-	1,816	1,202	-	1,202
Wild Break 29 (PTY), Ltd	403	-	-	403	-	-	-
Empreendimentos Turísticos, Lda.	12,567	-	-	12,567	-	-	-
Afrotours, S.A.	475	-	-	475	112	-	112
Rotas de África, Lda.	-	-	-	-	886	-	886
Pestana Marrocos, s.a.r.l.	21,949	-	-	21,949	-	-	-
Brasturinvest Investimentos Turísticos, S.A.	966,143	-	-	966,143	164,077	-	164,077
Argentur Inversiones Turisticas S.A.	-	-	-	-	300	-	300
Pestana Miami LLC	74,727	-	-	74,727	-	-	-
Atlantic Holidays Ltd	93	-	-	93	-	-	-
Pestana Management UK, Limited	600	-	-	600	6,708	-	6,708
Pestana Berlim S.A.R.L.	349	-	-	349	2,403	-	2,403
Desarrollos Hoteleros Barcelona 2004 S.A.	576	-	-	576	4,437	-	4,437
Global Mandalay, S.L.U.	3,771	-	-	3,771	-	-	-
Amesteldijk Hotel Ontwkkeling B.V.	286	-	-	286	-	-	-
Key management personnel	-	-	-	-	-	-	-
	3,444,525	-	-	3,444,525	9,039,753	-	9,039,753

The balances arising from transactions with related parties as at 31 December 2017 were as follows:

	Trade receivables current	Trade receivables non-current	Impairment of trade receivables	Net trade receivables	Trade payables current	Trade payables non-current	Total payables
Holding company	78,144,198	-	-	78,144,198	20,575	-	20,575
Pestana International Holdings S.A.	78,144,198	-	-	78,144,198	20,575	-	20,575
Jointly controlled entities	3,016	-	-	3,016	3,835	-	3,835
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	1,653	-	-	1,653	2,493	-	2,493
Solpor - Sociedade de Turismo do Porto Santo Lda.	1,045	-	-	1,045	-	-	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	318	-	-	318	1,342	-	1,342
Associates	109,633	-	-	109,633	237,727	-	237,727
Enatur - Empresa Nacional de Turismo, S.A.	79,591	-	-	79,591	237,727	-	237,727
Albar - Sociedade Imobiliária do Barlavento, S.A.	30,042	-	-	30,042	-	-	-
Other related parties	42,227,811	-	-	42,227,811	10,672,653	-	10,672,653
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	456,814	-	-	456,814	4,487	-	4,487
Djebel, S.A.	324	-	-	324	232,443	-	232,443
Pestana Management - Serviços de Gestão, S.A.	23,766,035	-	-	23,766,035	7,272,931	-	7,272,931
Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal Lda.	39,918	-	-	39,918	618,105	-	618,105
Intervisa Viagens e Turismo, Unipessoal Lda.	406,037	-	-	406,037	2,158,787	-	2,158,787
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	102	-	-	102	-	-	-
Salvintur - Sociedade de Investimentos Turísticos, S.A.	175	-	-	175	125,877	-	125,877

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Trade receivables current	Trade receivables non-current	Impairment of trade receivables	Net trade receivables	Trade payables current	Trade payables non-current	Total payables
ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	17,035,696	-	-	17,035,696	90,006	-	90,006
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	218	-	-	218	823	-	823
Empreendimentos Turísticos, Lda.	13,121	-	-	13,121	-	-	-
Afrotours, S.A.	60	-	-	60	-	-	-
Rotas de África, Lda.	504	-	-	504	-	-	-
Pestana Marrocos, s.a.r.l.	12,400	-	-	12,400	-	-	-
Brasturinvest Investimentos Turísticos, S.A.	381,099	-	-	381,099	164,754	-	164,754
Argentur Inversiones Turísticas S.A.	935	-	-	935	-	-	-
Pestana Miami LLC	70,753	-	-	70,753	1,195	-	1,195
Pestana Manhattan 39 LLC	-	-	-	-	588	-	588
Atlantic Holidays Ltd	93	-	-	93	-	-	-
Pestana Management UK, Limited	1,217	-	-	1,217	2,130	-	2,130
Pestana Berlim S.A.R.L.	195	-	-	195	-	-	-
Desarrollos Hoteleros Barcelona 2004 S.A.	2,060	-	-	2,060	528	-	528
Amesteldijk Hotel Ontwkkeling B.V.	40,054	-	-	40,054	-	-	-
Key management personnel	-	-	-	-	-	-	-
	120,484,659	-	-	120,484,659	10,934,790	-	10,934,790

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of the changes recognized in financial liabilities with the cash flow from financing activities presented in the Consolidated cash flow statement:

	2017	Cash flows	Cash free transactions			2018
			Transfer to suppliers	Fair value changes	Accrual / Deferral	
Bank loans	150,281,767	(959,140)	(1,936,132)	-	(438,115)	146,948,380
Bond loans	108,356,437	-	-	-	-	108,356,437
Commercial paper	32,800,659	4,055,556	-	-	-	36,856,215
Group loans	44,595,466	(44,595,466)	-	-	-	-
Cash flows from financing activities	336,034,329	(41,499,050)	(1,936,132)	-	(438,115)	292,161,032

42. SUBSEQUENT EVENTS

There are no relevant subsequent events to report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Funchal, 18 March 2019

The Certified Accountant

Luis Miguel Miranda Fernandes

The Board of Directors

Dionísio Fernandes Pestana

President

Hermanus Roelof Willem Troskie

Member

José Alexandre Lebre Theotónio

Member

José de Melo Breyner Roquete

Member

REPORT AND OPINION OF THE SUPERVISORY BOARD



REPORT AND OPINION OF THE SUPERVISORY FISCAL BOARD 2018

To the Shareholders of
Grupo Pestana S.G.P.S, S.A.

In compliance with the law and the Company's statutes, the Supervisory Fiscal Board presents its Report on the fiscal activity developed, as well as its Opinion on the consolidated management report, consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and corresponding Notes presented by **Grupo Pestana, S.G.P.S., S.A.**'s (Company) Board of Directors concerning the 2018 period.

In line with its responsibilities, taking into account that it was only instituted on March 4th 2019, the Fiscal Board accompanied i) the verification of accounting entries and corresponding support documents and ii) the appreciation of accounting policies and valuation criteria adopted by the Company. These tasks were performed by KPMG & Associados, SROC, SA, as the Company's Statutory Auditor.

The Fiscal Board acknowledged the terms in the Statutory Auditor's Report for 2018 which had no reserves or emphasis.

The Board also analyzed the Consolidated management report prepared by the Board of Directors which it understands is in accordance with the Company's accounts, complements the information presented in the Consolidated financial statements and reports on the most significant facts in the Company's activity in compliance with the applicable legal and statutory requisites.

In accordance with the previously mentioned facts, the Fiscal Board is of the opinion that the General Assembly approve the consolidated management report as well as the remaining documents for the period of 2018.

Finally, the Fiscal Board wishes to acknowledge **Grupo Pestana, S.G.P.S., S.A.**'s Board of Directors, its Finance Directors and remaining personnel as well as the Statutory Auditor, KPMG, for the collaboration and support given throughout their work.

Lisbon, May 9th 2019

STATUTORY AUDITOR'S REPORT





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STATUTORY AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language.
In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying 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 2018 (showing a total of 858,624,257 euros and total equity of 267,037,277 euros, including a profit for the year of 63,737,931 euros). and the consolidated income statement by nature, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of **Grupo Pestana, S.G.P.S., S.A.** as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the 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 further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

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

Other matters

The Financial Statements as of 31 December 2017, presented for comparative purposes, were examined by another Statutory Auditor, which issued an unqualified audit report, dated 30 April 2018. Our acceptance as statutory auditors occurred on 28 September 2018, to carry out the statutory audit for the year ended as of 31 December 2018.



Responsibilities of Management and the Supervisory Body' for the Consolidated Financial Statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union.;
- the preparation of the management report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Group ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group financial reporting process.

Auditors' 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 misstatements whether due to fraud or error, and to issue an auditors' 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:

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



- 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 auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- 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;
- 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 the verification that the information contained in the management report is consistent with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements.

9 May 2019

SIGNED ON THE ORIGINAL

**KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr.189)**
represented by
João Paulo da Silva Pratas (ROC nº 965)




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