Grupo Pestana, S.G.P.S., S.A.

Consolidated Annual Report (*Free translation from the Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail*)

31 December 2019

Contents

Consolidated management report for 2019

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 2019.

1. Message to stakeholders

2019 was a challenging and important year in Pestana Hotel Group's history.

Financially speaking consolidated net income was the highest in the Group's history even though some indicators were slightly worse than in the previous year which had been the Group's best year ever. Even more important than the record net income, Pestana Hotel Group fulfilled other very important goals. First off, the Group issued the first green bond in the Hospitality sector with great success both in terms of demand, which was substantial and which resulted in an increase in the amount issued, as well as in respect of the actual interest rate which was substantially lower than initially foreseen. The Group's sustainability plan also showed remarkable progress in 2019 in terms of a 60% reduction in the use of single use plastic when compared with the previous year (the target was 50% in two years) as well as investment in clean energy which led to an important decrease in the overall energy bill. In this period Pestana Hotel Group opened two new units: Pestana Blue in Algarve and Pestana Churchill Bay on the bay of Câmara de Lobos in Funchal. 2019 ended with a pipeline of 11 new projects, 4 of which are expected to open in 2020 and another 7 which are expected to open between 2021 and 2023.

Pestana Hotel Group rendered services to more than 3.5 million clients and employed throughout the year about 5 thousand employees. The Group also had a meaningful and positive impact on some communities through its economic dimension and social responsibility actions.

Therefore, the Group's aim of providing opportunities for personal growth and improvement of living conditions for its employees, to provide a service of excellence to our customers and to be attentive and listen to the surrounding communities' concerns will continue to be an integral part of Pestana Hotel Group's corporate mission alongside the Group's financial goals.

In 2020 the Group pursued the defined strategic goals of becoming increasingly competitive through an operating model adapted to the constant changes in business models and uncertainty of the surrounding economic environment. In addition to responding to the digital transformation of those economic and business models the main challenges and goals were focused on key areas such as People, Customers, Technology and Knowledge.

The following areas can be highlighted:

- Revenue Management improvement – a new system (Duetto) was introduced, the training of several Revenue Managers was promoted and a Corporate Revenue Management area was created which has already performed several relevant projects such as a survey of all existing procedures from tariff creation and promotions, to overbooking management, as well as providing advice on specific operations which allowed for increased results;

- Business Intelligence improvement – several different dashboards in Power BI and periodic reports or "deep dives" on specific issues or units were created and made available to the different decision makers in the organization, which provided very relevant and important information to allow for better decision making;

- SAP success factors was introduced in Human Resources management – Teamer project – which allowed for much-improved resource and talent visibility and, consequently, has allowed for a better management of the most important resource in the Hospitality business, our employees;

- Pestana Priority Guest (PPG) was redesigned – next month the new loyalty program will be launched which will continue to allow for point accumulation but, more importantly, aims for a better recognition of our customers and what they value to guarantee that each of the Group's units improves its service quality and therefore improve our customer's experience during their stay in our units;

- Customer relationship management was improved – using data from several different systems a unique data base was compiled which has allowed for improved customer communication which in turn translated to an increase in sales in the direct channel through the Group's newsletter; a Salesforce module is being implemented which should improve the relationship management process which is crucial to the Group's competitiveness;

- The Group's innovation level was increased and the participation in the process was extended to a wider number of employees through Envision, a corporate innovation program initiated in 2019 which is expected to be widened and which currently includes more than 2,000 employees, to listen and obtain ideas from both operational and shared service employees in a more structured process.

These challenges represent a significant investment in systems and teams and is a process which is not yet finished but on track. The correct steps will continue to be taken to increase Pestana Hotel Group's competitiveness.

2. Overview of the world economy

According to the World Bank's Global Economic Prospects 2020 report, following a year during which weak trade and investment dragged the world economy to its weakest performance since the global financial crisis, economic growth was poised for a modest rebound this year. However, for even that modest uptick to occur, many things would have to go right.

Global growth was set to rise by 2.5 percent this year, a small rise from an estimated 2.4 percent in 2019, as trade and investment gradually recover.

Emerging market and developing economies were anticipated to see growth accelerate to 4.1 percent from 3.5 percent last year. However, that acceleration would not be broad-based: the pickup was anticipated to come largely from a handful of large emerging economies stabilizing after deep recessions or sharp slowdowns.

Even this tepid global rally could be disrupted by any number of threats. Trade tensions could re-escalate. A sharper-than-expected growth slowdown in major economies could reverberate widely. A resurgence of financial stress in large emerging markets, an escalation of geopolitical tensions, or a series of extreme weather events could all have adverse effects on economic activity.

This slowdown in growth is happening at the same time as monetary policy has eased across most markets, leading to significant debt accumulation. The absence of inflationary pressures led major central banks to prevent de-anchoring of inflation expectations and support optimistic financial conditions.

Real GDP

(percentage change from previous years)	**2017**	**2018**	**2019e**	**2020f**	**2021f**	**2022f**
World	**3.2**	**3**	**2.4**	**2.5**	**2.6**	**2.7**
Advanced economies	**2.4**	**2.2**	**1.6**	**1.4**	**1.5**	**1.5**
USA	2.4	2.9	2.3	1.8	1.7	1.7
Euro Area	2.5	1.9	1.1	1	1.3	1.3
Japan	1.9	0.8	1.1	0.7	0.6	0.4
Emerging market & developing economies	**4.5**	**4.3**	**3.5**	**4.1**	**4.3**	**4.4**
China	6.8	6.6	6.1	5.9	5.8	5.7
Russia	1.6	2.3	1.2	1.6	1.8	1.8
Brazil	1.3	1.3	1.1	2	2.5	2.4

Source: World Bank Global Economic Prospects Jan/2020

The US economy has suffered negative impacts on investment as a result of the trade uncertainty resulting from the tensions between the US and China and Europe, however, employment and consumption continue robust as a result of the existing policy stimulus. The recent trade agreement with China increased tariffs and therefore trade costs. Consequently, growth rate is expected to slow down to 1.8% in 2020 as a consequence of the fiscal changes being promoted since the second half of 2019.

In the Eurozone, growth decreased as a result of weak exports and a decrease in industrial production resulting in an expected growth of 1.0% in 2020. The United Kingdom continues to suffer with Brexit which has a significant impact in economic growth, especially through a decrease in exports, due to the uncertainty associated with the process and the respective consequences.

China continues to be the main engine of world economy, but growth is decreasing as a result of escalating tariffs and weakening external demand which was exacerbated by the slowdown resulting from the accumulation of debt. Policy stimulus are expected to continue to support activity against external shocks resulting in an expected growth rate of 5.9% for 2020.

Portugal continues to implement public budget reforms under EU monitoring. Tourism has played a crucial role in the recovery of the Portuguese economy, contributing to direct and indirect employment and leveraging other complementary activities such as construction and real estate. The unemployment rate has fallen to approximately 6% and GDP is expected to grow by about 2% in 2019. After re-election, the government is expected to continue implementing similar policies, thus contributing to the stabilization of the Portuguese economy.

3. Tourism

Despite the global economic slowdown, trade tensions and rising geopolitical challenges, social unrest and prolonged uncertainty about Brexit, tourism business continued to register significant growth up until the recent past. International tourist arrivals increased 3.8% reaching an estimated 1.5 billion tourists according to the UNWTO. However, this growth was uneven across regions, with the highest growth in the Middle East (+7.8%) and the lowest in the Americas region (+2%). The forecast of reaching 1.8 billion tourists in 2030 remains unchanged.

Outlook for International Tourist Arrivals

	Change				**average a year**	**2020 Projection (issued in January)**
	2016	**2017**	**2018**	**2019***	**2009 - 2019***	from
World	**3.80%**	**7.20%**	**5.60%**	**3.80%**	**5.10%**	**+3% to +4%**
Europe	2.50%	8.80%	5.80%	3.70%	4.60%	+3% to +4%
Asia and the Pacific	7.70%	5.70%	7.30%	4.60%	7.10%	+5% to +6%
Americas	3.70%	4.70%	2.40%	2.00%	4.60%	+2% to +3%
Africa	7.80%	8.50%	8.50%	4.20%	4.40%	+3% to + 5%
Middle East	-4.7%	4.10%	3.00%	7.60%	2.70%	+4% to +6%

Source: World Tourism Organization (UNTWO) © * Provisional data

The collapse of major British travel group Thomas Cook, which left 600,000 travelers stranded around the world and led to the cancellation of more than 8.6 million flight seats until the end of August 2020, and of several small European airlines has disrupted some tourist flows, namely in Europe and the Americas which have been partly absorbed by other travel service providers.

According to the International Air Transport Association (IATA) international air passenger traffic increased about 4% with all regions contributing positively to this result. This growth has, however, been below the long-term average of 5.5% as a consequence of geopolitical tensions, the slowdown in world economy and lower business confidence.

Europe is estimated to follow the world's trend and to reach a growth rate between 3% and 4% which is lower than verified in the previous year. The stronger markets in terms of demand were southern and mediterranean countries as has been the case in the last few years with central and eastern countries also presenting a growth rate above average. Uncertainty from Brexit as well as the slight depreciation of the pound sterling has affected British tourists and prompted a wait-and-see attitude.

The United States of America has seen a decrease in number of tourist arrivals but still presented a positive growth of 2% with occupancy rates remaining steady but with a slight increase in terms of average daily rate and revenue per available room of about 1% each.

In Brazil, with the establishment in prior years of a Tourism Ministry, tourism presented a positive growth of 2.6% when compared with the previous year due to an increased international openness, reduced visa requirements and better trade integration. This was also backed up by a growth in Brazilian economy as a result of soaring business and consumer confidence which has been built up throughout the previous years.

The main touristic regions in Portugal are, in the resort segment, Madeira and the Algarve and, in the city breaks and meetings, incentives, conventions and exhibitions (MICE) segment, Lisbon and Oporto. Algarve registered an increase of 7% in global revenue mainly through an increase in average price while Madeira suffered a decrease in global revenue as a result of the collapse of several small European airlines as well as restrictions caused by the local airport which is also highly susceptible to poor weather conditions. Both Lisbon and Oporto presented significant increases when compared with the previous year.

Following a period with significant increase in the demand for Portuguese hotels, 2019 was the year of stabilization - the number of bed nights grew approximately +3.9% when compared to 2018, with significant demand from the domestic market (residents + 6.3% and non-residents +3%). Hotel bed nights only grew by +2% while the house/room rentals have grown by +14%.

Looking at the source markets for international tourists (bed nights) in Portugal, we can see that the German market has reduced significantly in 2019 (-9%) as well as the Netherlands (-8%) and France (-3%) markets. On the opposite side the USA has grown significantly (+18%) followed by Ireland (+9%) and Spain (+4%).

The bankruptcy of Germania airline company in the beginning of 2019 and later of Thomas Cook tour operator had a significant impact on the number of tourists flying to Madeira island in 2019 and will continue to impact 2020 figures.

As of today, it is not possible to be sure that Condor airline, a subsidiary of Thomas Cook that the German government helped in 2019 to keep operations running, will continue to fly to Madeira in 2020.

On the other hand, the alternative to Tour Operators flights depends nowadays on flights from Lisbon to Funchal. It is public that the Lisbon airport is working in full capacity and therefore unable to accommodate an increase in flights. As result, the flights from Lisbon to Madeira are priced very high constraining even further the demand from tourists to travel to Madeira.

Looking at the source markets for international tourists (bed nights) in Madeira, we can see that the German market has reduced significantly in 2019 (-10%) as well as the UK (-8%) and France (-6%). No other country with size enough compensated such reductions.

Despite of the market's challenges the Algarve region was able to maintain a moderate increase in its Tourism in 2009 (+2.4%). mainly supported by the domestic market (+5%).

Looking at the source markets for international tourists (bed nights) in Algarve, we can see that the German market has reduced significantly in 2019 (-10%) as well as the Dutch market (-11%). The UK, continues to be by far the most relevant source market for the Algarve, has grown +2.5% and Spain +8%, Ireland +5% and Italy +29% were the countries with higher contribution to the dynamic of this region.

Lisbon continues to be on the radar of most European travelers, as a wonderful destination to go to. The excellent weather conditions allied with authentic gastronomy and the welcoming spirit of the Portuguese people attract significant flow of tourists to the Portuguese capital city, that should continue to be competitive, despite the recent rise in prices.

Looking at the source markets for international tourists (bed nights) in Lisbon, we can see that the German market has reduced in 2019 by -4%, France -3% and the Netherlands -4%. The USA with a significant increase (+18%), Brazil (+12%), Ireland (+34%) and UK (+6%) are the countries with higher demand increases.

The Lisbon airport was known to be running at full capacity and the new airport will be ready, according to optimistic projections, only by 2024. At the same time the pipeline for new hotels and houses for short term rental is developing significantly. The combined effect will pressure hotel prices down in the near future.

Oporto and the northern region of Portugal continue with the growing trend from previous years boosted by the low-cost flights' activity. Number of bed nights in 2019 increased +9.5%, especially in the international source markets (+12%) with significant relevance for the USA (+32%), Spain (+32%), Brazil (+16%) and UK (+19%).

4. Key figures

	2019	2018	Δ	Δ%
Number of rooms	8,350	7,941	409	5.2%
Revenue	349.1	364.8	(15.7)	-4.3%
Gross Operating Profit (GOP)	127.0	135.0	(8.0)	-5.9%
EBITDA	143.5	137.9	5.6	4.1%
Adjusted EBITDA *	131.6	137.6	(6.0)	-4.4%
Net debt	381.3	397.7	(16.4)	-4.1%
Net debt/EBITDA	2.66	2.88	(0.23)	-7.9%
Net debt/Adjusted EBITDA	2.90	2.89	0.01	0.2%
Total Assets	1,076.8	974.9	101.9	10.5%
Total Equity	310.7	247.5	63.3	25.6%
Average Room Rate (ARR)	102.3	101.1	1.3	1.3%
Pestana Collection	179.0	181.4	(2.4)	-1.3%
Pestana CR7 Lifestyle	116.8	123.3	(6.5)	-5.3%
Pousadas de Portugal	125.8	121.8	4.0	3.3%
Pestana Hotels & Resorts	86.7	84.9	1.7	2.0%
% Occupation	68.3%	68.2%	0.2%	0.2%
Pestana Collection	68.4%	67.7%	0.8%	1.1%
Pestana CR7 Lifestyle	76.2%	74.3%	1.9%	2.6%
Pousadas de Portugal	59.3%	61.3%	-2.0%	-3.3%
Pestana Hotels & Resorts	70.7%	71.7%	-0.9%	-1.3%
Guest Satisfaction Index (GSI)	88.8%	88.5%	0.3%	0.4%
Pestana Collection	91.2%	91.7%	-0.4%	-0.5%
Pestana CR7 Lifestyle	89.3%	89.9%	-0.6%	-0.7%
Pousadas de Portugal	89.3%	89.0%	0.3%	0.4%
Pestana Hotels & Resorts	88.0%	87.5%	0.5%	0.6%

* Excluding Gains/Losses on financial investments

5. Activity of Grupo Pestana, S.G.P.S., S.A.

5.1. Overall activity

The activity of Grupo Pestana, S.G.P.S., S.A. (in this document referred to as “Grupo Pestana" or “Group”), based in Funchal, was characterized by its role as manager of shareholdings of all companies in the Pestana Hotel Group with operating units in Portugal.

Pestana Hotel Group’s 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, to be operated, at the time, under the Sheraton brand. Pestana Carlton Madeira was the first of the 73 hotels currently operated by Grupo Pestana in Portugal under 4 different brands.

In 2003, Grupo Pestana won the tender for the management of the "Pousadas de Portugal” network, thus assuming the operation of the existing "Pousadas" in the national territory and promoting its internationalization.

The Group's offer is complemented by the management of 9 holiday club developments - Pestana Vacation Club (all owned), 6 golf courses (3 in ownership), the Madeira gambling concession, and, also, enterprises of tourist animation and tourist real estate.

The main projects performed or initiated in 2019 were as follows:

- Completion of the construction of Pestana Blue Alvor, at Quinta da Amoreira, in the Algarve region, the first all-inclusive five star hotel, with 491 rooms (139 of which will only be put into operation from April 2020), 3 restaurants, 2 bars, 6 swimming pools, a kids club and a spa built on a 12.8 hectare plot of land situated between the Pestana Alto Golfe and the Pestana Alvor Praia and Pestana Delfim hotels, with direct connection to the “trés irmãos" sandy beach in Alvor. This hotel represented a total investment of 38,000,000 Euros;

- Completion of the renovation of the port building of Câmara de Lobos on Madeira Island, which resulted in the four-star hotel, Pestana Churchill Bay, with approximately 57 rooms. This hotel represented a total investment of 3,900,000 Euros;

- Works are being carried out on the building in Rua das Flores, which concerns a 4-star tourist resort in the historic center of Porto with 87 rooms. It is expected to start operations by the end of 2020 and represents a total investment of 13,500,000 Euros;

- The rehabilitation and construction of the new "Pestana Douro Hotel" continued, a fully owned unit with 165 rooms, located with a privileged view over the Douro River, representing an investment of around 13,600,000 Euros, whose opening is scheduled to occur in 2020;

- The project to renovate and build a new unit began, for which an urban sub-lease agreement had been signed in 2018 for a fixed term of 15 years, with four stars and 90 rooms, at Rua Braamcamp in Lisbon, with opening scheduled for 2020. The total estimated investment for this project is 5,900,000 Euros;

- The project to renovate and build a new unit began, for which an urban lease agreement had been signed, for a fixed term of 27 years, with four stars and 89 rooms, at Rua Augusta, in Lisbon, with opening scheduled for 2020 and a total investment of 7,000,000 Euros;

- An agreement was signed for the assignment of a contractual position for the lease of the Torre Bela property to be used for the establishment of a tourist development, the future Pestana Fisherman Hotel, for a period of 50 years. The construction of this new 4-star hotel, located in the city center of Câmara de Lobos, began in 2019, with a capacity of approximately 40 rooms, representing an investment of around 3,200,000 Euros, which is expected to open in 2021;

- A lease agreement was signed for the construction of a new 4-star hotel unit with 39 rooms in Rua São Tomé, in the Alfama area of Lisbon, scheduled to open in 2021. This agreement has a 25-year term, starting from the hotel's entry into operation, automatically renewable for an equal period, unless waived by either party. This hotel represented a total investment of 2,700,000 Euros;

- In 2019, a set of rehabilitation works of different units (for example at Pestana Vila Sol in the Algarve, at the Pestana Palace in Lisbon) were completed, and the former condition of the facilities was restored and updated in order to maintain assets in excellent conditions to optimize their exploitation.

5.2. Profit and loss highlights

In 2019, Grupo Pestana presented a total amount of Revenue of 349.1 million Euros, which reflects a decrease of about 4% compared to 2018. This effect is mainly due to the decrease in the Group's real estate business, with this business area's revenue showing an annual growth of 1%, representing a growth in sales of around 2 million Euros.

The real estate project that the Group is exploring in Tróia is in its final phase and the new real estate projects it owns are still in their early stages and, as such, have a slower pace of sales not compensating for the reduction in available inventory.

The hotel units in the Algarve reached a G.O.P. in the order of 21.6 million Euros, which represents an increase of 13.8% compared to the previous year, due to the opening of the Pestana Blue Alvor in May 2019. Excluding this effect, the other hotel units in the Algarve had a G.O.P. identical to last year, which means they maintained the excellent results obtained in the previous year.

In Madeira, the Group's head office, there was a 9% decrease in sales and a 16% decrease in G.O.P. compared to the previous year as a result of Madeira island losing several air links, mainly in the German market, with the bankruptcy of the Germania carrier even before the collapse of Thomas Cook. In addition, the constraints at Madeira airport resulting from the regular weather conditions continue to negatively affect the image of Madeira as a destination.

The Pousadas de Portugal network continued to show an excellent performance, with a growth of about 3% in G.O.P., after two years of excellent results, having again achieved the best results in its history. This performance is mainly due to an increase in the average price largely driven by Pousada de Lisboa, with the remaining "Pousadas" also showing increases in the average price that more than offset maintenance or slight decreases in occupancy rates.

Greater Lisbon and Oporto continue to be tourist destinations where the Group performs well, having maintained the levels seen in the previous year, which already corresponded to the best year ever in terms of the operating results of these units. The units belonging to the Pestana Collection brand are located in these regions and showed very relevant results with an average price of around 178 Euros per night and average occupancy rates of over 65%.

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 French markets.

The Vacation Club business, the sale of periodic housing and Options, registered a decrease in 2019 in relation to the previous year, both in terms of sales of new agreements (decrease of around 16%) and in terms of operation (maintenance fees, decrease of about 14%).

Although the sales of the new resort (Madeira Beach Club) are progressing steadily, there was a decrease in sales during 2019, related not only to the aforementioned factors that devastated Madeira Island tourism, but also to the fact that the 30-year Madeira Beach Club agreement has come to an end and it has been closed for remodeling for a period of 6 months. Thus, the Group has a new inventory available for future sales. Additionally, there is another factor that also contributed to this decrease in sales, the value of the agreements recorded a slight decrease largely due to the fact that the average price suffered a slight drop related to the decrease in sales, but also to the increase in competition, namely with the opening of a new unit in Funchal. In addition to the factors described above, the increase in sales of weeks for shorter periods (3, 5 and 7 years) to the detriment of Pestana Options contracts and classic timeshare week contracts, longer (10 to 20 years), also contributed to this decrease in value.

In December 2019, the Group sold the shares representing the entire capital of Beloura Hotel e Golfe - Investimentos Turísticos, S.A. for 25,000,000 Euros, generating a capital gain of 11,570,122 Euros.

	2019	2018 (a)
Rooms (total keys)	8,350	7,941
Hotel units	73	71
(Amounts in million Euros)		
Revenue:	349.1	364.8
Tourist activities	312.3	326.3
Non-tourist activities	36.8	38.5
GOP (b)	127.0	135.0
EBITDA (c)	143.5	137.9
EBITDA excluding gains/losses on financial investments	131.6	137.6
Amortization/Depreciation/Impairment	-43.5	-38.4
EBIT	100.1	99.5
Net interests	-16.0	-18.1
Taxes (d)	-3.1	-14.9
Net income including non-controlling interests	80.5	66.5
GOP margin (%)	41%	41%
EBITDA margin (%)	41%	38%
EBIT margin (%)	29%	27%
ROE (%)	18.9%	18.2%
EPS	0.96	0.81
EBITDA / Net interests (..x)	9.0	7.6
Average cost of gross debt (%)	4.2%	4.6%

Notes:
(a) Considering IFRS 16 adoption when applicable
(b) "Gross operating profit" calculated from a management perspective (uniform system of accounts)
(c) Operating income excluding Depreciation and amortization expense, Reversals of impairment of depreciable assets, Casino gambling tax and other low value accounts
(d) includes gambling tax paid by Casino

5.3. Balance sheet highlights

Grupo Pestana has a total capital investment of 817.1 million Euros, which results from its strategy of holding a large part of the assets (hotels, golf courses and land) where the business units that the Group manages are installed, which explains the significant value and expressive weight of fixed assets. It should be noted that these fixed assets are recorded at historical costs and therefore at a value much lower than their real market value.

The sum of non-remunerated funding: Equity plus cash generated by the Vacation club activity (which in the Statement of financial position are registered under Liabilities — Deferred revenue) cover 53% of Adjusted Assets, reflecting, therefore, a good debt-to-equity ratio.

2019 was marked by the first green bond issue in the hospitality sector which elevated Pestana Hotel group to the first hospitality group worldwide to perform a green bond issue according with ICMA principles (International Capital Markets Association). It was a 60 million Euro issue with an interest rate of 2.5% and a maturity of 6 years which was placed with about 30 national and international investors. This bond issue turned out to be a huge success due to high demand registered in the European market, with demand exceeding supply by three times. The initially foreseen amount of 50 million Euros was increased to 60 million Euros based on the demand from the market. In this operation, Grupo Pestana was rated by Axesor with a “BBB with a stable outlook” which qualifies it within the restricted “investment grade” group and one of the lowest risk players in the hospitality sector worldwide.

Today, Grupo Pestana has a debt service in line with its estimated capacity to generate funds, with corporate debt accounting for 33% of the total, and its refinancing risk is controlled. The Grupo Pestana has credit ceilings available from the financial institutions with which it works in the various countries which account for more than 15% of the total amount outstanding, with this ratio increasing to around 25% when lease liabilities are not included.

The Group’s debt continues do decrease and the Net Debt to EBITDA ratio decreased from 2.88x to 2.66x, which translates into an improvement of 7.9%, this figure being quite low, reflecting the 'investment' risk profile.

(Amounts in millions of Euros)

Capital investments	2019	% TOTAL	Var 19/18	2018 (a)	% TOTAL	Var 18/17	2017 (a)
Investment (Fixed assets) (b)	735.7	91%	3%	711.6	93%	9%	650.6
Deferred tax liabilities	-18.7	-2%	-13%	-21.5	-3%	-15%	-25.2
Total adjusted fixed assets	**717.0**	**89%**	**4%**	**690.1**	**90%**	**10%**	**625.4**
Investment (Financial assets) (c)	17.5	2%	1%	17.3	2%	0%	17.3
Other non-current assets (d)	11.9	1%	-12%	13.5	2%	-25%	17.9
Current Assets - Current Liabilities (e)	60.8	8%	41%	43.3	6%	-70%	143.5
Total adjusted assets	**807.3**	**100%**	**6%**	**764.2**	**100%**	**-5%**	**804.1**

Funding origins	2019	% TOTAL	Var 19/18	2018 (a)	% TOTAL	Var 18/17	2017 (a)
Equity	310.7	38%	26%	247.5	32%	-2%	252.0
Collected deferred revenues (f)	158.5	20%	-10%	175.2	23%	-9%	192.3
Deferred sales cost (f)	-44.0	-5%	-23%	-57.4	-8%	0%	-57.2
Total non remunerated funding	**425.2**	**53%**	**16%**	**365.3**	**48%**	**-6%**	**387.1**
Long term financial debt (g)	401.2	50%	5%	380.4	50%	-4%	398.1
Other non-current liabilities (h)	0.8	0%	-34%	1.2	0%	-48%	2.3
Total non-current funding	**827.1**	**102%**	**11%**	**746.9**	**98%**	**-5%**	**787.5**
Short term financial debt (g)	102.1	13%	74%	58.6	8%	-21%	74.2
Cash + Financial assets available for sale (i)	-122.0	-15%	195%	-41.3	-5%	-28%	-57.6
Net current debt	**-19.8**	**-2%**	**-215%**	**17.3**	**2%**	**4%**	**16.6**
Total funding origins	**807.3**	**100%**	**6%**	**764.2**	**100%**	**-5%**	**804.1**
Net debt (i)	381.3		-4%	397.7		-4%	414.7
EBITDA	143.5		4%	137.9		-14%	160.2
Working capital	60.8		41%	43.3		-70%	143.5
Net Capex (j)	69.7		-30%	99.5		116%	46.0
Capex under construction	51.4		-20%	64.6		45%	44.5
(Net debt - Capex under construction) / EBITDA ratio	2.30		-5%	2.42		5%	2.31
Net debt / EBITDA ratio	2.66		-8%	2.88		11%	2.59
Net debt / EBITDA ratio excluding IFRS 16	1.67			2.08			1.96
Net debt / Equity ratio	0.90		-18%	1.09		2%	1.07
Net debt / Total assets ratio (%)	47%		-9%	52%		1%	52%
Liquidity ratio (%)	24%		158%	9%		-23%	12%

Notes:
(a) Considering the adoption of IFRS 16
(b) Includes Tangible fixed assets, Intangible assets and Investment properties and excludes Deferred sales cost
(c) Includes Investments in joint ventures and associates
(d) Includes Deferred tax assets and Trade and other receivables
(e) Excludes Cash and cash equivalents, Borrowings, Deferred revenue and Lease liabilities
(f) Collected sales of Pestana Vacation Club ("timeshare“)
(g) Includes lease liabilities (IFRS 16)
(h) Includes Provisions, Derivatives and Trade and other payables
(i) Long term financial debt plus Net current debt
(j) Additions net of Disposals

6. Other relevant facts occurred in the period

In 2019, the new standard IFRS 16 'Leases' entered into force, replacing IAS 17 with the lessee now having to recognize a lease liability that reflects future lease payments and a right of use asset for all lease contracts, except for certain short-term and low-value leases. The definition of a lease was also changed being now based on the right to control the use of an identified asset. Therefore, and in accordance with the new standard, the Group restated comparative amounts in its financial statements. The Group decided to use the retrospective approach in its transition with the impacts of the standard's adoption disclosed in Note 2.2 of Notes to the consolidated financial statements.

7. Objectives and policies of Grupo Pestana regarding risk

Grupo Pestana 's financial risk management is controlled by the finance department in accordance with policies approved by the Board of Directors.

The Board of Directors has defined global risk management principles as well as specific policies for some areas defining limits, measures and adequate controls to mitigate the potential impact of these risks.

Grupo Pestana is exposed to the following general risk areas:

- Strategic and operational risks regarding business models and portfolio;
- Financial risks;
- Corporate structure risks;
- Technology and Cybersecurity risks;
- Human capital risks;
- Other risks.

Strategic and operational risks regarding business models and portfolio include risks associated with ownership, brand, service quality, guest satisfaction, guest behavior, seasonality, regulation, staff turnover, staff commitment and outdated equipment.

Financial risks include such risks as the effects of changes in market prices, exchange rate risk, credit risk, liquidity risk and cash flow risk associated with interest rate, among others. Corporate structure risks include shareholder succession and corporate governance structure.

Technology and cybersecurity risks include risks related to the implementation of new technology, its maintenance and update, monitoring the reliance and dependence on existing systems and its control environment. With the development of internet and cloud systems, the importance of GDPR rules and brand protection, monitoring the cybersecurity risks became vital.

Human capital risks in a labor-intensive activity with significant development in progress include the risks of lack of availability of qualified professionals, need for intensive recruitment, training and retention plans to provide the human capital needed to support operations expansion plan.

Other risks include environmental risks.

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

8. Relevant issues that occurred after the year end

On 28 February 2020, Grupo Pestana paid 65,000,000 Euros of the bond loan maturing on that date.

In recent months the Coronavirus disease has spread to several countries. The relevant health authorities have been acting in coordination and issuing guidelines to contain its spread as soon as possible. It is currently impossible to predict the future development of the disease and its impacts.

So far the impact on the operations of Grupo Pestana has been minimal, but for preventive purposes, as part of its contingency plan, Grupo Pestana follows closely the guidelines issued by the health authorities of the countries where it operates, in close cooperation with these authorities, implementing whenever possible measures to prevent contamination from the disease, with regard to its customers, suppliers and employees, seeking to ensure the continuity of its operations while minimizing risks. If necessary, operational reorganization measures will be taken in order to minimize the impact of this situation.

9. The near future

Grupo Pestana considered the great challenge of 2020 to be the opening of new units, with 4 openings planned for this year. It is a significant effort, for which Grupo Pestana is prepared and one that is unavoidable in order for the Group to scale up and remain competitive.

The hospitality business has changed a lot. Taking a look at Grupo Pestana's sale by channel until 2016 the best year had been 2007 and on that year the Group sold less than 1% through online channels. In 2019, between direct channel, call center and additional own sites online channels and OTA's in B2B or B2C sales were more than 50% of the total. This is the digital transformation mentioned in business models and which require action from companies. Grupo Pestana is responding positively to this challenge. In order to do so a big investment in systems/technologies and teams to run these systems was needed. The Group will only be able to turn a profit on this investment, which will allow it to remain competitive, through scale hence the 7 units in the pipeline. This scale is what allows the Group to profit from the significant investment in technology and teams, meaning people, Pestana employees.

This leads us to another of the Group's priorities: its Human Resources. This implies an investment in our people, stronger and better prepared teams, meaning more training and increased focus on talent recruitment and retention. To achieve this talent requires investment and brand awareness, which has been achieved. To retain, it we need to listen to our employees and better recognize them, which is a task for all those who lead teams.

To sum up, the Group's challenge is to increase in scale (4 openings in 2020) in order to make the investment in systems and people viable without forgetting the communities it is in. Thus, economic sustainability is assured and allows the Group to fulfil its role in social and environmental sustainability in the community.

Economy is increasingly volatile with shorter and more intense cycles which are impossible to predict or anticipate. The tension surrounding global trade deals, the constant diplomatic or political incidents under discussion and the increased weight of extreme political movements contribute to stagnant or anemic growth in some economies.

Hospitality is not exempt from these factors and is thus able to absorb hard to estimate impacts, however, it is important to point out that it is one of the few sectors which presents a constant demand growth rate above 3% in the last 50 years.

Grupo Pestana systematically accompanies the different risks it faces and implements strategies and action plans in order to prevent situations and reduce as much as possible its potential negative effects. The Group is confident that in the long run, the existing strategy is adequate to face the challenges which are presented and to contribute to the Group's sustainable growth.

10. Recognitions

All members of the Board of Directors wish to express their acknowledgements to all public and private entities that, directly or indirectly, have supported and worked together with Grupo Pestana.

It is particularly gratifying to note, with high esteem, the trusting relationship that our customers, suppliers and other business partners, including financial institutions and qualified service providers, have placed on Us.

We are grateful for the support and collaboration of the other companies' corporate bodies, members of the General Meeting and supervisory bodies, in the performance of their duties.

Finally, and it is not excessive to emphasize, that it is worthy of recognition, the high spirit of professionalism and sense of duty of our employees. Your effort and dedication are the reason that makes possible the creation of value of Grupo Pestana.

Funchal, 6 March 2020

The Board of Directors

Dionísio Fernandes Pestana
Chairman

Hermanus Roelof Willem Troskie
Member

José Alexandre Lebre Theotónio
Member

José de Mefo Breyner Roquete
Member

Pedro Miguel Fino da Silva
Member

Appendix 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 2019 and 2018, Dionisio 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 2,000,000 Euros, to be made by the two shareholders, in cash in proportion to their respective shareholdings. Accordingly, cash inflows were made in the amount of 1,980,000 Euros and 20,000 Euros giving rise to the issue of 2,000,000 new shares with a nominal value of 1 Euro each.

Funchal, 6 March 2020

The Board of Directors

Dionísio Fernandes Pestana
Chairman

Hermanus Roelof Willem Troskie
Member

José Alexandre Lebre Theotónio
Member

José de Mefo Breyner Roquete
Member

Pedro Miguel Fino da Silva
Member

Consolidated financial statements

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Consolidated statement of financial position

(Amounts expressed in Euros)	Notes	31 December 2019	31 December 2018 restated	1 January 2018 restated
Assets				
Non-current				
Tangible fixed assets	6	755,612,709	743,606,780	680,165,749
Intangible assets	7	17,083,164	17,062,166	19,172,792
Investment properties	8	6,995,847	8,328,251	8,420,704
Investments in joint ventures	9	4,959,194	5,518,276	5,361,073
Investments in associates	10	12,590,287	11,737,961	11,930,722
Equity instruments at fair value through profit and loss	11	6,925,558	1,577,373	1,355,718
Deferred tax assets	12	358,266	412,015	4,046,755
Trade and other receivables	14	11,587,973	13,063,034	13,820,143
		816,112,999	**801,305,857**	**744,273,656**
Current				
Inventories	15	83,926,171	86,468,875	92,408,983
Trade and other receivables	14	48,607,150	47,206,086	165,275,272
Income tax receivable	16	13,085,831	192,442	133,019
Cash and cash equivalents	17	115,061,403	39,716,014	56,280,131
		260,680,555	**173,583,417**	**314,097,405**
Total assets		**1,076,793,554**	**974,889,274**	**1,058,371,061**
Equity				
Capital	18	125,420,973	125,420,973	150,420,973
Other reserves	19	27,769,914	22,920,005	9,579,170
Retained earnings	20	65,866,574	21,838,351	(8,144,850)
Profit for the period attributable to shareholders		76,575,701	61,999,351	85,950,244
Non-controlling interests	21	15,115,384	15,282,398	14,196,649
Total equity		**310,748,545**	**247,461,077**	**252,002,186**
Liabilities				
Non-current				
Provisions	22	618,834	701,767	603,953
Borrowings	23	246,198,345	242,931,737	270,892,176
Lease liabilities	24	154,952,123	137,479,341	127,253,530
Derivatives	25	174,335	485,180	1,069,253
Deferred tax liabilities	12	18,713,367	21,463,144	25,150,969
Deferred revenue	26	130,128,650	147,137,852	161,411,251
Trade and other payables	27	-	27,259	600,189
		550,785,654	**550,226,280**	**586,981,321**
Current				
Provisions	22	4,019,540	3,997,357	3,980,564
Borrowings	23	90,772,875	49,433,561	65,983,265
Lease liabilities	24	11,367,313	9,138,580	8,188,777
Deferred revenue	26	28,338,038	28,097,235	30,859,263
Trade and other payables	27	80,669,629	84,982,524	101,222,206
Income tax liabilities	16	91,959	1,552,659	9,153,479
		215,259,353	**177,201,916**	**219,387,554**
Total liabilities		**766,045,007**	**727,428,196**	**806,368,875**
Total equity and liabilities		**1,076,793,554**	**974,889,274**	**1,058,371,061**

The following notes form an integral part of the Consolidated statement of financial position for the year ended 31 December 2019.

Consolidated income statement

(Amounts expressed in Euros)

	Notes	Period 2019	2018 restated
Revenue	28	349,092,750	364,808,579
Cost of goods sold	15	(51,796,824)	(65,109,780)
External services and supplies	29	(109,942,201)	(107,960,188)
Personnel expenses	30	(57,756,455)	(56,266,535)
Charges of depreciation and amortization	6;7;8	(40,748,672)	(38,641,515)
Impairment losses and reversals of tangible assets	6;7	(2,735,333)	237,642
Impairment of receivables	14	(34,464)	290,433
Impairment of inventories	15	(160,336)	(161,206)
Provisions	22	(7,498)	(182,854)
Other income	31	10,865,816	9,147,111
Other expenses	32	(10,503,826)	(8,368,261)
Gains on the disposal of subsidiaries, investments in joint ventures, associates and equity instruments at fair value through profit and loss	33	11,930,156	305,605
Operating profit		**98,203,113**	**98,099,031**
Financial expenses	34	(16,977,513)	(18,675,146)
Financial income	34	970,242	539,416
Profit before tax		**82,195,842**	**79,963,301**
Income tax	35	(1,686,019)	(13,496,102)
Profit for the period		**80,509,823**	**66,467,199**
Profit for the period attributable to:			
Shareholders		76,575,701	61,999,351
Non-controlling interests	21	3,934,122	4,467,848
		80,509,823	**66,467,199**
EBITDA		143,540,301	137,865,974

The following notes form an integral part of the Consolidated income statement for the year ended 31 December 2019.

Consolidated statement of comprehensive income

(Amounts expressed in Euros)	Notes	Period 2019	Period 2018 restated
Profit for the period		**80,509,823**	**66,467,199**
Items that recycled through profit and loss:			
Change in fair value of hedging derivatives	25	84,174	559,925
Tax impact in items booked directly in equity	12	-	(106,163)
Other comprehensive income for the period - net of income tax		**84,174**	**453,762**
Total comprehensive income for the period		**80,593,997**	**66,920,961**
Comprehensive income attributable to:			
Shareholders		76,659,875	62,453,112
Non-controlling interests		3,934,122	4,467,849
		80,593,997	**66,920,961**

The following notes form an integral part of the Consolidated statement of comprehensive income for the year ended 31 December 2019.

Consolidated statement of changes in equity

(Amounts expressed in Euros)	Attributable to shareholders: Share capital	Other equity instruments	Share premium	Other reserves	Retained earnings	Profit for the period	Non-controlling interests	Total
At 1 January 2019	83,530,000	8,200,000	33,690,973	22,920,005	21,838,351	61,999,351	15,282,398	247,461,077
Changes in the period								
Restated profit for the period application				4,795,695	57,203,656	(61,999,351)	–	–
Changes in the perimeter				99,837	–	–	–	99,837
Transfers to Profit for the period (derivatives, net of tax)				(129,797)	–	–	–	(129,797)
Other changes recognized in equity				–	(3,509)	–	(4,323)	(7,832)
				4,765,735	**57,200,147**	**(61,999,351)**	**(4,323)**	**(37,792)**
Change in fair value reserve – (hedging derivatives)				84,174	–	–	–	84,174
Profit for the period				–	–	76,575,701	3,934,122	80,509,823
Comprehensive income				**84,174**	**–**	**76,575,701**	**3,934,122**	**80,593,997**
				4,849,909	**57,200,147**	**14,576,350**	**3,929,799**	**80,556,205**
Transactions with shareholders in the period								
Shareholders contribution	–	–	–	–	–	–	30,000	30,000
Distributions	–	–	–	–	(13,171,924)	–	(4,126,813)	(17,298,737)
	–	–	–	–	(13,171,924)	–	(4,096,813)	(17,268,737)
At 31 December 2019	**83,530,000**	**8,200,000**	**33,690,973**	**27,769,914**	**65,866,574**	**76,575,701**	**15,115,384**	**310,748,545**

(Amounts expressed in Euros)	Share capital	Other equity instruments	Share premium	Other reserves	Retained earnings	Profit for the period	Non-controlling interests	Total
	Attributable to shareholders							
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
IFRS 16 adoption adjustments (net of tax) (Note 2)	–	–	–	–	(17,837,619)	–	–	(17,837,619)
At 1 January 2018 restated	**81,530,000**	**35,200,000**	**33,690,973**	**9,579,170**	**(8,144,850)**	**85,950,244**	**14,196,649**	**252,002,186**
Changes in the period								
Changes in accounting policies - IFRS 15 adoption (Note 20)				–	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)	–	447,020	62,501
				13,052,073	**72,644,090**	**(85,950,244)**	**447,020**	**192,939**
Change in fair value reserve - hedging derivatives (net of tax)				559,925	–	–	–	559,925
Deferred tax adjustments				(106,163)	–	–	–	(106,163)
Restated profit for the period (Note 2)				–	–	61,999,351	4,467,848	66,467,199
Restated comprehensive income				**453,762**	**–**	**61,999,351**	**4,467,848**	**66,920,961**
				13,505,835	**72,644,090**	**(23,950,893)**	**4,914,868**	**67,113,900**
Transactions with shareholders in the period								
Capital increases	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 restated	**83,530,000**	**8,200,000**	**33,690,973**	**22,920,005**	**21,838,351**	**61,999,351**	**15,282,398**	**247,461,077**

The following notes form an integral part of the Consolidated statement of changes in equity for the year ended 31 December 2019.

Consolidated cash flow statement

(Amounts expressed in Euros)		Period ended 31 December	
	Note	2019	2018 restated
Cash flow from operating activities			
Receipts from customers		332,847,919	368,078,850
Payments to suppliers		(164,022,428)	(182,307,982)
Payments to personnel		(57,404,364)	(55,349,761)
Cash generated from operations		111,421,127	130,421,107
Income tax paid		(18,327,922)	(21,353,077)
Other payments		(142,620)	(1,224,179)
Net cash flow from operating activities		**92,950,585**	**107,843,851**
Cash flows from investing activities			
Receipts related to:			
Tangible assets		2,441,894	1,880,443
Disposal of subsidiaries		25,000,000	95,144,198
Equity instruments at fair value through profit and loss		214,229	–
Reimbursement of accessory contributions		500,000	–
Interest and similar income		546,627	115,086
Dividends		316,572	165,000
Payments related to:			
Tangible assets		(39,768,988)	(79,990,998)
Equity instruments at fair value through profit and loss		(6,258,430)	–
Acquisition of Non-controlling interests		–	(4,183,257)
Net cash from investing activities		**(17,008,096)**	**13,130,472**
Cash flows from financing activities			
Receipts related to:			
Borrowings		94,732,668	51,519,151
Shareholder contributions		30,000	2,000,000
Payments related to:			
Borrowings		(50,086,588)	(93,018,201)
Interest and similar expenses		(18,728,891)	(20,692,834)
Dividends to Non-controlling interests		(17,298,737)	(41,220,151)
Lease liabilities		(9,341,657)	(7,255,081)
Other equity distributions		–	(28,251,600)
Net cash from financing activities		**(693,205)**	**(136,918,716)**
Changes in cash and cash equivalents		**75,259,318**	**(15,944,393)**
Effects of exchange differences		102,422	17,122
Changes in the consolidation perimeter		10,032	–
Cash and cash equivalents at the beginning of the period	17	39,511,748	55,439,019
Cash and cash equivalents at the end of the period	17	**114,873,488**	**39,511,748**

The following notes form an integral part of the Consolidated cash flow statement for the year ended 31 December 2019.

Notes to the consolidated financial statements

1. General information

Pestana Hotel Group which origin dates back to 1972, with the establishment of M.&J. Pestana - Sociedade de Turismo da Madeira, S.A. to invest 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 American, 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 99 units of touristic lodging totaling approximately 11,086 rooms, which makes it the largest network with Portuguese origin, being in the top 25 European hotel networks ranking and in the top 75 worldwide.

In order to structure the Group's financial investments, Grupo Pestana S.G.P.S., S.A. was created in 2003 (referred to in this document as "Grupo Pestana" or "Group"), which aggregates the businesses in Portugal.

In the leisure area, Pestana Hotel Group currently holds, besides its 34 hotels (16 in Madeira, 9 in Algarve, 5 in Lisbon/Cascais/Sintra, 3 in Oporto and 1 in the Azores), 9 Vacation Club units, 6 golf courses, 4 real estate/touristic resorts, 1 casino gambling concession in Madeira, 1 tour operator and the management of the 35 “Pousadas de Portugal”, including the ones in Terreiro do Paço, in Lisbon and in Câmara dos Lobos, in Madeira. These numbers include the 2 hotels resulting from the joint venture between Pestana Hotel Group and Cristiano Ronaldo, namely Pestana CR7 Lisboa and Pestana CR7 Madeira.

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

(a) Leased / concession
(b) Management contract
(c) Franchised
(d) Opened in May 2019
(e) Opened in June 2019

These Consolidated financial statements were approved by the Board of Directors on the meeting dated 6 March 2020. 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.

The Consolidated financial statements of Grupo Pestana and corresponding Notes are presented in Euros.

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

2.1. Basis for presentation

The consolidated financial statements are prepared by Pestana Hotel Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and effective as at 1 January 2019. 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 financial statements.

The consolidated financial statements have been prepared on a going concern basis under historical cost convention, except for the derivative financial instruments, 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 results 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 and interpretations

a) The impact of the adoption of standards that became effective on 1 January 2019 is as follows:

- **IAS 28** (amendment), ' Long-term Interests in Associates and Joint Ventures’. This amendment clarifies that long-term investments in associates and joint ventures (components of an entity’s investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9 – ‘Financial Instruments’. The long-term investments in associates and joint ventures are subject to the expected credit loss impairment model, prior to being added, for impairment test purposes, to the whole investment in associates and joint ventures, when impairment indicators exist. This amendment had 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 and had 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 had no impact on the Group’s Consolidated financial statements.

- **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 was also changed being now based on the "right to control the use of an identified asset." As far as the transitional regime is concerned, the application of IFRS 16 may be retrospective or retrospective modified. The impacts of the adoption of this new standard are presented in Note 2.2 of the Notes to the consolidated financial statements.

- **IFRIC 23** (new), 'Uncertainty over income tax treatment'. This is an interpretation of IAS 12 - 'Income tax' and refers 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 adoption of this new standard had no relevant impacts on the Group's consolidated financial statements.

b) New standard which is mandatory for the accounting periods beginning on or after Wednesday, 1 January 2020 and which has been endorsed by EU:

- **Conceptual framework**, 'Amendments to references in other IFRS'. As a result of the publication of the new Conceptual Framework, the IASB introduced changes to the text of various standards and interpretations, like: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of asset / liability and expense / income, in addition to some of the characteristics of financial information. These amendments are retrospective, except if impractical. The Group will apply these amendments when they become effective with no expected impacts on the consolidated financial statements.

- **IAS 1 e IAS 8** (amendment), 'Definition of material'. The amendment revises the concept of material. Includes clarifications as to obscured information, its effect being similar to the omission or distortion of information. and also, clarifications as to the term 'primary users of general purpose financial statements', defined as 'existing or potential investors, lenders and other creditors' that rely on general purpose financial statements to obtain a significant part of the information that they need. The Group will apply these amendments when they become effective with no expected impacts on the consolidated financial statements.

c) Standards (new and amendments) and interpretations that are mandatory for the accounting periods beginning on or after 1 January 2020, but which the EU has not yet endorsed:

- **IFRS 3** (amendment), 'Definition of a business'. This amendment revises the definition of a business in order to account for business combinations. The new definition requires that an acquisition include an input, as well as a substantial process that jointly generate outputs. Outputs are now defined as goods and services rendered to customers, that generate investment income and other income, and exclude returns as lower costs and other economic benefits for shareholders. Optional 'concentration tests' for the assessment if one transaction is the acquisition of an asset or a business combination, are allowed. Grupo Pestana will apply this amendment when it becomes effective.

- **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Interest rate benchmark reform'. These amendments are part of the first phase of IASB 'IBOR reform' project and provide certain reliefs in connection with interest rate benchmark reform. The relief relate to hedge accounting, in terms of: i) risk components; ii) 'highly probable' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for IAS 39 adopters); and v) recycling of the cash flow hedging reserve, with the objective that interest rate benchmark reform does not cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. The adoption of these amendments will have no relevant impacts on Grupo Pestana's consolidated financial statements.

2.2. Changes in accounting policies

Pestana Hotel Group applied IFRS 16 on 1 January 2019 using the retrospective method which resulted in the restatement of the comparative amounts of 2018's period. Reclassifications and adjustments which resulted from the adoption of this new standard were consequently recognized in the statement of financial position at 1 January 2018.

Pestana Hotel Group used the practical expedient allowed by IFRS 16 so as not to reassess whether all its contracts which involve the use of an asset are or contain a lease at the date of first adoption having opted to maintain the previously used classification foreseen by IFRS 17 – 'Leases' and IFRIC 4 – 'Determining whether an Arrangement contains a Lease' for contracts already in place at the date of the initial adoption of IFRS 16.

Grupo Pestana also used the practical expedient allowed for by IFRS 16 to not reassess if all 'sale and leaseback' transactions fulfilled the revenue criteria in IFRS 15 – 'Revenue from Contracts with Customers' having opted to maintain the previously foreseen classification under IAS 17 – 'Leases' for contracts already in place at the date of the initial adoption of IFRS 16.

IFRS 16 changed the way the Group, as a lessee, recognizes operational leases which are now recognized and measured as a Right of use asset and a Lease liability.

At the date of adoption of IFRS 16, the Group recognized Lease liabilities concerning leases which had so far been recognized as 'operational leases' in accordance with IAS 17 – Leases. These liabilities were recognized at the present value of the remaining lease payments at 1 January 2018, discounted through a contract implicit interest rate or, in cases where it is not possible to do so, through the lessee's incremental borrowing rate at the date of the commencement of each contract. The balance of the Right of use assets results from the amount recognized at the commencement of each contract less accumulated depreciation and impairments at 1 January 2018, if any exist.

Additionally, the amounts paid to lessor's, at the commencement of contracts for the acquisition of concession rights, were considered a direct initial cost in obtaining the right of use assets which comprise the concession.

After the adoption date, Grupo Pestana started to recognize the effect of the depreciation of Right of use assets and the interest on Lease liabilities instead of the lease's rents.

IFRS 16's transition impacts on the Consolidated statement of financial position are as follows:

(Amounts expressed in Euros)	Notes	31 December 2018 Reported amount	31 December 2018 IFRS 6 Impact	31 December 2018 Restated amount	1 January 2018 Reported amount	1 January 2018 IFRS 6 Impact	1 January 2018 Restated amount
Assets							
Non-current							
Tangible fixed assets	6	619,927,361	123,679,419	743,606,780	566,215,054	113,950,695	680,165,749
Intangible assets	7	25,653,420	(8,591,254)	17,062,166	27,764,046	(8,591,254)	19,172,792
Investment properties	8	8,328,251	–	8,328,251	8,420,704	–	8,420,704
Investments in joint ventures	9	5,560,788	(42,512)	5,518,276	5,403,585	(42,512)	5,361,073
Investments in associates	10	11,737,961	-	11,737,961	11,930,722	-	11,930,722
Equity instruments at fair value through profit and loss	11	1,577,373	-	1,577,373	1,355,718	-	1,355,718
Deferred tax assets	12	68	296,789	296,857	3,719,921	326,834	4,046,755
Trade and other receivables	14	11,111,071	1,951,963	13,063,034	11,835,921	1,984,222	13,820,143
		683,896,293	**117,294,405**	**801,190,698**	**636,645,671**	**107,627,985**	**744,273,656**
Current							
Inventories	15	86,468,875	–	86,468,875	92,408,983	–	92,408,983
Trade and other receivables	14	48,350,633	(1,144,547)	47,206,086	166,419,819	(1,144,547)	165,275,272
Income tax receivable	16	192,442	–	192,442	133,019	–	133,019
Cash and cash equivalents	17	39,716,014	–	39,716,014	56,280,131	–	56,280,131
		174,727,964	**(1,144,547)**	**173,583,417**	**315,241,952**	**(1,144,547)**	**314,097,405**
Total assets		**858,624,257**	**116,149,858**	**974,774,115**	**951,887,623**	**106,483,438**	**1,058,371,061**
Equity							
Capital	18	125,420,973	–	125,420,973	150,420,973	–	150,420,973
Other reserves	19	22,920,005	–	22,920,005	9,579,170	–	9,579,170
Retained earnings	20	39,675,970	(17,837,619)	21,838,351	9,692,769	(17,837,619)	(8,144,850)
Profit for the period attributable to shareholders		63,737,931	(1,738,580)	61,999,351	85,950,244	–	85,950,244
Non-controlling interests	21	15,282,398	–	15,282,398	14,196,649	–	14,196,649
Total equity		**267,037,277**	**(19,576,199)**	**247,461,078**	**269,839,805**	**(17,837,619)**	**252,002,186**

(Amounts expressed in Euros)	Notes	31 December 2018 Reported amount	31 December 2018 IFRS 6 Impact	31 December 2018 Restated amount	1 January 2018 Reported amount	1 January 2018 IFRS 6 Impact	1 January 2018 Restated amount
Liabilities							
Non-current							
Provisions	22	701,767	–	701,767	603,953	–	603,953
Borrowings	23	242,931,737	–	242,931,737	270,892,176	–	270,892,176
Lease liabilities	24	–	137,479,340	137,479,340	–	127,253,530	127,253,530
Derivatives	25	485,180	–	485,180	1,069,253	–	1,069,253
Deferred tax liabilities	12	27,431,182	(6,083,196)	21,347,986	30,628,345	(5,477,376)	25,150,969
Deferred revenue	26	147,137,852	–	147,137,852	161,411,251	–	161,411,251
Trade and other payables	27	3,952,078	(3,924,819)	27,259	5,302,029	(4,701,840)	600,189
		422,639,796	**127,471,325**	**550,111,121**	**469,907,007**	**117,074,314**	**586,981,321**
Current							
Provisions	22	3,997,357	–	3,997,357	3,980,564	–	3,980,564
Borrowings	23	49,433,561	–	49,433,561	65,983,265	–	65,983,265
Lease liabilities	24	–	9,138,580	9,138,580	–	8,188,777	8,188,777
Deferred revenue	26	28,097,235	–	28,097,235	30,859,263	–	30,859,263
Trade and other payables	27	85,866,372	(883,848)	84,982,524	102,164,240	(942,034)	101,222,206
Income tax liabilities	16	1,552,659	–	1,552,659	9,153,479	–	9,153,479
		168,947,184	**8,254,732**	**177,201,916**	**212,140,811**	**7,246,743**	**219,387,554**
Total liabilities		**591,586,980**	**135,726,057**	**727,313,037**	**682,047,818**	**124,321,057**	**806,368,875**
Total equity and liabilities		**858,624,257**	**116,149,858**	**974,774,115**	**951,887,623**	**106,483,438**	**1,058,371,061**

IFRS 16’s transition impacts on the Consolidated income statement are as follows:

(Amounts expressed in Euros)

	Notes	2018 Reported amount	2018 IFRS 6 Impact	2018 Restated amount
Revenue	28	364,949,912	(141,333)	364,808,579
Cost of goods sold	15	(65,109,780)	–	(65,109,780)
External services and supplies	29	(122,967,062)	15,006,874	(107,960,188)
Personnel expenses	30	(56,266,535)	–	(56,266,535)
Charges of depreciation and amortization	6;7;8	(29,104,337)	(9,537,178)	(38,641,515)
Reversals and impairment losses of tangible assets	6;7	237,642	–	237,642
Impairment of receivables	14	290,433	–	290,433
Impairment of inventories	15	(161,206)	–	(161,206)
Provisions	22	(182,854)	–	(182,854)
Other income	31	9,147,111	–	9,147,111
Other expenses	32	(8,368,261)	–	(8,368,261)
Gains on investments in joint ventures, associates and equity instruments at fair value through profit and loss	33	305,605	–	305,605
Operating profit		**92,770,668**	**5,328,363**	**98,099,031**
Finance expenses	34	(10,923,353)	(7,751,793)	(18,675,146)
Finance income	34	430,342	109,074	539,416
Profit before tax		**82,277,657**	**(2,314,356)**	**79,963,301**
Income tax	35	(14,071,877)	575,775	(13,496,102)
Profit for the period		**68,205,780**	**(1,738,581)**	**66,467,199**
Profit for the period attributable to:				
Shareholders		63,737,931	(1,738,580)	61,999,351
Non-controlling interests		4,467,848	–	4,467,848
		68,205,779	**(1,738,580)**	**66,467,199**

IFRS 16’s transition impacts on the Consolidated Cash flow statement at 31 December 2018 refer to the reclassification of the operational lease’s rents paid, previously classified as operational activities, to Lease liability payments and corresponding interest in the amount of 7,255,081 Euros and 7,751,793 Euros, respectively.

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.

3.1. Consolidation

3.1.1. Subsidiaries

Subsidiaries are all entities (including structured entities) over which Grupo Pestana 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 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 Grupo Pestana companies.

Entities that qualify as Subsidiaries are listed in Note 38.

3.1.2. Joint ventures

Grupo Pestana 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 Grupo Pestana 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 Grupo Pestana 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 and 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. Exchange rates used

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

Currency	31-12-2019	31-12-2018
BRL - Brazilian Real	4.5066	4.4235
CAD - Canadian Dollar	1.4604	1.5596
CHF - Swiss Franc	1.0851	1.1272
DKK - Danish Crown	7.4713	7.4671
GBP - Pound Sterling	0.8512	0.8948
NOK - Norwegian Krone	9.8648	9.9452
SEK - Swedish Crown	10.4480	10.2423
USD - US Dollar	1.1230	1.1454

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 Group presents its Right of use assets in the asset class it relates to integrating the Tangible fixed asset caption of the same nature.

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 IFRS 16 - Leases.

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

The cost of repairs and maintenance of 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 Vacation club Property	40 years
Golf Property	20 years
Right of use	Between 4 and 70 years
Other Property	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 IFRS 16, 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.

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 Grupo Pestana.

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

Besides goodwill, Grupo Pestana’s Intangible assets refer mainly to 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.

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 related to websites which are amortized in 4 years.

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

3.6. Investment properties

Investment properties are real estate assets (land, buildings or parts of buildings) held for the purpose of capital appreciation, obtaining rental income, or both, and, therefore, not used in 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 2019 and 2018, 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 non-occurrence) 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 construction warranties 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 the present value of estimated costs to settle the obligation using a pre-tax rate that reflects the market assessment for the discount period and the risk of the provision.

3.16. 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 Grupo Pestana 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. Leases

A contract contains a lease when the lessee has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group leases several buildings and vehicles. Lease contracts are usually negotiated for fixed periods but there may be extension options. Lease terms and conditions are negotiated on an individual basis.

The Group determines whether as contract is or includes a lease at the contract’s commencement date. In a lease contract the Group registers Right of use assets, with the corresponding Lease liability, at the date in which control over the asset’s use is transferred to the Group, except for short term (under 12 months) or low value contracts (assets with a unit value in “new” condition below 5.000 USD) for which payments are recognized as an expense in the period in which the event or condition which gives rise to the payment occurs.

Lease liabilities are initially measured at the present value of lease payments which are due after the lease's commencement date, discounted at the contract's implicit interest rate. When this rate cannot be determined, the Group's incremental borrowing rate, which corresponds to the interest rate the lessee would have to pay to obtain an asset of similar value in an economic environment with comparable terms and conditions, is applied.

Lease payments included in the measurement of Lease liabilities include: fixed payments, less receivable lease incentives; variable payments which depend on an index or rate; amounts which are expected to be paid by the lessee as residual value guarantees; the price to exercise the purchase option if the lessee is reasonably certain it will do so; penalty payments for terminating the contract in case terminating the lease reflects the exercise of the termination option.

Lease liabilities are measured at amortized cost, using the effective interest method and is remeasured when there are changes to the future payments resulting from the application of an index or rate or if there are other changes such as the lease term, the change in expectation concerning the purchase option, contract renewal or contract termination. In these cases, the Group recognizes the remeasured Lease liability as an adjustment to the Right of use asset.

Right of use assets are presented in their corresponding asset class in the Tangible fixed asset caption of the same nature and are initially measured using the cost model which includes the initial value of the Lease liability adjusted for any payments made before the lease's commencement date, including any initial costs incurred and an estimate for dismantling costs (when applicable) less any incentives received. The Right of use asset is subsequently depreciated using the straight-line method according with the lease term. The right of use is periodically adjusted by Lease liability remeasurements, namely changes in the price resulting from renegotiations or indexes and by impairment losses (if any exist).

Variable rents that do not depend on an index or rate are not included in the measurement of a Lease liability or Right of use asset. Such payments are recognized as expenses in the period in which the event or condition which gives rise to the payments occurs.

When Pestana Hotel Group transfers an asset to a third party and simultaneously enters into a lease contract for the same asset with said third party, the Group applies the conditions in IFRS 15 to determine whether the transfer qualifies as an asset sale.

If the transfer qualifies as an asset sale, Pestana Hotel Group will measure the Right of use asset of the leaseback as a proportion of the previous net book value related to the right of use retained by the Group, recognizing a gain or loss in the proportion of the rights transferred to the third party.

In case the fair value consideration for the asset sale is not equivalent to the asset's fair value, or in case the lease's payments do not correspond to market values, Pestana Hotel Group will perform the following adjustments to measure the results of a fair value sale: Any conditions below market will be recognized as anticipated lease payments; and any conditions above market will be recognized as additional borrowings given by the third party to the Group.

When Pestana Hotel Group subleases a Right of use asset to another entity, it begins acting as a lessee in relation to the main lessor and as a lessor in relation to the sublessee.

As a sublessor, Pestana Hotel Group determines at the leases commencement date if a lease qualifies as financial or operational considering: i) the Right of use asset recognized in the main lease contract as a subjacent asset to the sublease contract; and ii) as a discount rate the sublease's implicit tax rate or the main lease contract's incremental interest rate.

When a sublease contract qualifies as a financial lease, Pestana Hotel Group derecognizes the Right of use asset and recognizes a receivable balance which is subsequently regulated by the interest incurred and the reimbursements made by the sublessee.

3.19. Derivatives

Derivative financial instruments are initially recorded at fair value on the transaction date being subsequently measured at fair value. The method for recognizing gains and losses in fair value depends on the designation of the derivatives 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 Grupo Pestana, 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.

3.20. 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 income 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 on the sale of products and / or services in the ordinary course of business of the Group. Revenue is recorded net of any taxes, trade discounts and assigned financial discounts.

When determining the amount of revenue, Grupo Pestana assess 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.

(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 Pestana Hotel Group, 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 throughout the contract's period because it is considered that services rendered transfer control to the owners as they are rendered. 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 this 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.

Grupo Pestana'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 the 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. 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 2019 and 2018.

Considering Pestana Hotel Group's consolidated net debt (excluding Lease liabilities) as at 31 December 2019, an increase of 0,25% in the interest rate would result in the increase in the net financial expenses for the year of approximately 555,000 Euros (31 December 2018: 630,000 Euros).

ii. Credit risk

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

Sales to individual customers have to be paid in cash or by credit card, which mitigates the credit risk generated in the activity. In addition, and considering the diversity of "company" customer and tour operator entities, Grupo Pestana considers that the risk of credit risk concentration is reduced in the activities developed.

In order to increase the coverage of credit risk, in 2018 Grupo Pestana contracted credit insurance from a leading insurance company in the Portuguese market, covering a significant portion of credits to companies and tour operators in the main markets that issue tourists to its business units.

The follow up of credit risk is made centrally by the finance department of Pestana Hotel Group, 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.

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:

	Bank deposits		Borrowings	
	2019	2018	2019	2018
Rating				
A2	–	5,714,999	–	33,380,381
A3	62,270,822	5,485,574	12,480,942	–
Aa2	–	400,606	–	–
Aa3	611,326	–	5,577,918	–
Baa1	14,272	69,652	–	5,000,000
Baa2	4,490,683	5,839,208	5,397,727	33,502,934
Baa3	1,389,579	–	21,719,226	–
Ba1	4,169,715	–	38,406,855	–
Ba2	11,239,747	–	13,773,226	–
Ba3	–	13,134,859	–	26,275,505
B1	445,838	–	–	–
B3	–	684,060	–	11,396,825
Caa1	27,835,140	–	26,066,023	–
Caa2	–	3,718,757	–	23,983,149
No classification	1,230,929	3,477,833	20,689,427	14,482,026
Total	**113,698,051**	**38,525,548**	**144,111,344**	**148,020,820**

iii. Liquidity risk

The cash needs are managed centrally by the finance department of Grupo Pestana, 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 analyses 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.

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 contractual cash flows:

31 December 2019	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**
Borrowings:	96,017,781	147,465,320	117,327,170
- bank loans	22,647,954	68,755,795	52,707,595
- bond loans	65,000,000	42,500,000	60,000,000
- commercial paper	1,444,444	23,944,445	–
- bank overdrafts	187,915	–	–
- undiscounted interests payable until maturity	6,737,468	12,265,080	4,619,575
Lease liabilities	11,367,313	45,301,433	109,650,691
Trade and other payables - non group	73,292,383	–	–
Derivatives financial instruments	92,013	82,322	–

31 December 2018	Less than 1 year	Between 1 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
Lease liabilities	9,138,580	35,549,826	101,929,515
Trade and other payables - non group	75,942,771	27,259	–
Derivatives financial instruments	308,696	176,484	–

4.2. Capital risk management

Pestana Hotel Group's goal in relation to capital management, which is a broader concept than the capital reflected in the consolidated 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.

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 2019 and 2018 were as follows:

	31-12-2019	31-12-2018
Total borrowings	336,971,220	292,365,298
Lease liabilities	166,319,436	146,617,921
Less: cash and cash equivalents	115,061,403	39,716,014
Net debt	388,229,253	399,267,205
Equity	310,748,545	247,461,077
Total capital	698,977,798	627,152,083
Gearing	**56%**	**64%**

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

	31-12-2019	31-12-2018
Total borrowings	336,971,220	292,365,298
Lease liabilities	166,319,436	146,617,921
Less: cash and cash equivalents	115,061,403	39,716,014
Net debt	388,229,253	399,267,205
Equity adjusted	449,100,316	396,222,856
Total capital	837,329,569	775,913,863
Gearing adjusted	**46%**	**51%**

4.3. Accounting for derivative financial instruments

As at 31 December 2019 and 2018, 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 it 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. Leases

i. Lease term: extension and termination options

Extension and termination options present in lease contracts were considered in the calculation of Lease liabilities for several of the Group’s building and equipment leases. In determining lease terms, the Group considers all facts and circumstances which create an economic incentive to exercise, or not, an extension or termination option. Extension options (or periods after extension options) are only included in lease terms which are reasonably certain to be extended (or not terminated).

ii. Fiscal impacts of applying IFRS 16

In the context of the uncertainty regarding the fiscal treatment to be given, in the context of the adoption of IFRS 16, to the Right of use asset and subsequent depreciation as well as the Lease liability and the financial expenses associated, the Group prudently decided to consider that: i) all amounts registered have no fiscal relevance; and that ii) the simultaneous recognition of the Right of use asset and the Lease liability do not fit into the initial recognition exemption foreseen in IAS 12 and, therefore, registered deferred tax assets and liabilities at the commencement date.

In the context of uncertainty, the Group is still considering the fiscal treatment it will adopt when it fills the tax declarations concerning the period ended 31 December 2019.

5.4. Impairment

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

The identification of impairment indicators, the estimate of future cash flows and the calculation 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 45 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.

5.5. 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.

6. Tangible fixed assets

During the year ended 31 December 2019 and 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 2019									
Acquisition cost	119,740,528	966,876,023	246,509,621	6,376,307	18,187,184	618,426	10,859,957	64,722,063	1,433,890,109
Accumulated depreciation	–	(474,583,673)	(178,339,751)	(4,948,760)	(17,686,031)	(565,033)	(8,627,294)	–	(684,750,542)
Accumulated impairment	–	(5,383,322)	(15)	–	–	–	–	(149,450)	(5,532,787)
Net book value	**119,740,528**	**486,909,028**	**68,169,855**	**1,427,547**	**501,153**	**53,393**	**2,232,663**	**64,572,613**	**743,606,780**
Changes in 2019									
Additions	–	41,010,245	8,352,898	600,955	354,082	7,344	1,335,981	18,573,935	70,235,440
Disposals - acquisition cost	(83,784)	(439,556)	(21,219)	(53,748)	(1,651)	–	(1,479)	–	(601,437)
Disposals - accumulated depreciation	–	18,984	4,076	51,878	1,166	–	435	–	76,539
Disposals - impairment	–	–	15	–	–	–	–	–	15
Write offs - acquisition cost	–	–	–	(81,702)	–	–	–	–	(81,702)
Write-offs - accumulated depreciation	–	–	–	81,702	–	–	–	–	81,702
Transfers - acquisition cost	9,635,669	20,578,137	895,576	–	–	428	–	(31,109,810)	–
Depreciation	–	(30,280,598)	(9,046,243)	(499,727)	(265,797)	(14,162)	(519,546)	–	(40,626,073)
Perimeter exits - acquisition cost	(3,804,594)	(19,237,904)	(2,365,224)	(24,358)	(123,531)	(6,247)	(993,190)	–	(26,555,048)
Perimeter exits - accumulated depreciation	–	8,628,136	1,952,309	24,358	120,709	6,247	964,088	–	11,695,847
Perimeter exits - impairment	–	515,678	-	–	–	–	–	–	515,678
Impairment - charge	–	(2,061,822)	(45,754)	–	(139)	(275)	–	(627,343)	(2,735,333)
	5,747,291	**18,731,601**	**(273,566)**	**99,358**	**84,839**	**(6,665)**	**786,289**	**(13,163,218)**	**12,005,929**
31 December 2019									
Acquisition cost	125,487,819	1,008,786,946	253,371,652	6,817,454	18,416,084	619,951	11,201,269	52,186,188	1,476,887,363
Accumulated depreciation	–	(496,216,851)	(185,429,609)	(5,290,549)	(17,829,953)	(572,948)	(8,182,317)	–	(713,522,227)
Accumulated impairment	–	(6,929,466)	(45,754)	–	(139)	(275)	–	(776,793)	(7,752,427)
Net book value	**125,487,819**	**505,640,629**	**67,896,289**	**1,526,905**	**585,992**	**46,728**	**3,018,952**	**51,409,395**	**755,612,709**

	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
Acquisition cost - IFRS 16 adoption	–	172,699,713	679,909	1,412,374	–	–	–	–	174,791,996
Accumulated depreciation	–	(391,558,310)	(169,287,163)	(4,333,631)	(17,430,649)	(545,744)	(8,347,915)	–	(591,503,412)
Accumulated depreciation - IFRS 16 adoption	–	(55,770,255)	(215,489)	(460,026)	–	–	–	–	(56,445,770)
Accumulated impairment	–	(1,340,526)	(34,490)	–	–	–	–	–	(1,375,016)
Accumulated impairment - IFRS 16 adoption	–	(4,395,531)	–	–	–	–	–	–	(4,395,531)
Net book value	**107,793,383**	**451,010,379**	**72,268,300**	**1,534,471**	**670,868**	**62,284**	**2,277,804**	**44,548,258**	**680,165,749**
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
Additions - IFRS 16 adoption	–	19,049,836	–	216,067	–	–	–	–	19,265,903
Disposals - acquisition cost	(135,277)	(729,644)	(63,254)	(279,662)	(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	–	(19,244,509)	(8,768,144)	(154,105)	(282,207)	(19,289)	(500,556)	–	(28,968,810)
Depreciation - IFRS 16 adoption	–	(9,174,213)	(131,495)	(231,470)	–	–	–	–	(9,537,178)
Impairment - charge	–	–	–	–	–	–	–	(149,450)	(149,450)
Impairment - reversals	–	352,617	34,475	–	–	–	–	–	387,092
	11,947,145	**34,787,428**	**(4,098,445)**	**(106,925)**	**(169,715)**	**(8,891)**	**(45,141)**	**20,024,355**	**62,329,811**
31 December 2018									
Acquisition cost	119,740,528	966,876,023	246,509,621	6,376,307	18,187,184	618,426	10,859,957	64,722,063	1,433,890,109
Accumulated depreciation	–	(474,583,673)	(178,339,751)	(4,948,760)	(17,686,031)	(565,033)	(8,627,294)	–	(684,750,542)
Accumulated impairment	–	(5,383,322)	(15)	–	–	–	–	(149,450)	(5,532,787)
Net book value	**119,740,528**	**486,909,028**	**68,169,855**	**1,427,547**	**501,153**	**53,393**	**2,232,663**	**64,572,613**	**743,606,780**

During the year ended 31 December 2019 and 2018, the movements occurred in Right of use assets, by asset type, are as follows:

	Buildings and other constructions	Basic equipment	Transport equipment	Total
1 January 2019				
Acquisition cost	191,749,549	679,909	1,628,441	194,057,899
Accumulated depreciation	(64,944,469)	(346,984)	(691,496)	(65,982,949)
Accumulated impairment	(4,395,531)	–	–	(4,395,531)
Net book value	**122,409,549**	**332,925**	**936,945**	**123,679,419**
Changes in 2019				
Additions	27,318,493	125,709	342,904	27,787,106
Perimeter exits - acquisition cost (Note 39)	(17,696)	–	(6,184)	(23,880)
Perimeter exits - accumulated depreciation (Note 39)	14,009	–	6,184	20,193
Depreciation	(10,701,935)	(194,861)	(364,320)	(11,261,116)
Impairment - charge	(218,496)	–	–	(218,496)
	16,394,376	**(69,152)**	**(21,416)**	**16,303,808**
31 December 2019				
Acquisition cost	219,050,347	805,618	1,965,161	221,821,126
Accumulated depreciation	(75,632,395)	(541,845)	(1,049,632)	(77,223,872)
Accumulated impairment	(4,614,027)	–	–	(4,614,027)
Net book value	**138,803,925**	**263,773**	**915,529**	**139,983,227**

	Buildings and other constructions	Basic equipment	Transport equipment	Total
1 January 2018				
Acquisition cost	172,699,713	679,909	1,412,374	174,791,996
Accumulated depreciation	(55,770,255)	(215,489)	(460,026)	(56,445,770)
Accumulated impairment	(4,395,531)	–	–	(4,395,531)
Net book value	**112,533,927**	**464,420**	**952,348**	**113,950,695**
Changes in 2018				
Additions	19,049,836	–	216,067	19,265,903
Depreciation	(9,174,213)	(131,495)	(231,470)	(9,537,178)
	9,875,623	**(131,495)**	**(15,403)**	**9,728,725**
31 December 2018				
Acquisition cost	191,749,549	679,909	1,628,441	194,057,899
Accumulated depreciation	(64,944,469)	(346,984)	(691,496)	(65,982,949)
Accumulated impairment	(4,395,531)	–	–	(4,395,531)
Net book value	**122,409,549**	**332,925**	**936,945**	**123,679,419**

As of 31 December 2019, Right of use assets relating to buildings and other constructions mainly refer to the following assets:

- Casino da Madeira
- Torre Bela building (future Pestana Fisherman hotel)
- Pestana Alto Golf Resort
- Pestana Atlantic Gardens
- Pestana Beloura Golf Resort
- Pestana Braancamp
- Pestana Carlton Madeira
- Pestana Cascais
- Pestana Churchill Bay
- Pestana Cidadela de Cascais
- Pestana Colombos
- Pestana CR7 Funchal
- Pestana Delfim
- Pestana Ilha Dourada
- Pestana Palácio do Freixo
- Pestana Quinta do Arco
- Pestana Royal
- Pestana Rua Augusta
- Pestana Rua de São Tomé
- Pestana Sintra Golf
- Pestana Viking
- Pestana Vilasol Golf Resort
- Pestana Vilasol Hotel
- Pousada de Lisboa
- Pousadas de Portugal (Network)

<u>Perimeter exits</u>

Perimeter exits in 2019 refer to the exit of the Pestana Sintra Golf hotel, as a consequence of the sale of the subsidiary Beloura Hotel e Golfe - Investimentos Turísticos, S.A. (Note 39).

<u>Additions excluding Assets under construction</u>

In 2019, Additions include Right of use assets regarding:

- The subsidiary Grupo Pestana Pousadas, S.A. requested Enatur the recognition of the compensation right concerning the establishments that were withdrawn from the network or had their activity interrupted with the Assignor having recognized, in 2019, a 2.22-year compensation which means that if there were no other situations the aforementioned value would be rounded to 2 years increasing the end date of the current Operation Assignment Agreement to 31 December 2025. Additionally, due to the cancelation by the competent authorities of the funding for Pousada da Serra da Estrela to Enatur and with the need to reinstate the amounts of community funds to the State for the establishment of said Pousada, the Assignor recognized in 2019, the right of compensation of 5.8 years. This recognition is subject to the resolutive condition that Enatur wins the lawsuit brought up against the Portuguese State for the return of these funds. Considering the maximum limit for compensation foreseen in the Assignment Agreement, the agreement's term can only be increased until 31 December 2028 when the previous term was 31 December 2023. In the Group's consolidated financial statements, as a consequence of Enatur not recognizing in their financial statements that it will be refunded by the State, the corresponding impact in Right of use assets and Lease liabilities was registered in the amount of 11.260.281 Euros;

- Contract celebrated on 30 July 2019 for the lease of a building for the construction of a new 4-star 39-bedroom hotel unit in Rua São Tomé in the Alfama neighborhood in Lisbon which is expected to open in 2021. This contract has a 25-year period counting from the hotel's start of operations, renewable for an equal period unless waived by either party, providing for the payment of an inflation updated rent. The hotel's construction, renovation and maintenance works, as well as all furniture and equipment are Pestana Hotel Group's responsibility. The Right of use asset and corresponding Lease liability were registered in the amount of 5,371,557 Euros;

- Contract celebrated on 27 December 2019 with Beloura Hotel e Golfe – Investimentos Turísticos, S.A. (after its disposal) for the lease of the building where Pestana Sintra Golf is located, with effect on 1 January 2020, for a 5-year period with automatically equal period renewals unless waived by either party, providing a fixed annual rent payment and an annual fixed amount payment for renovation works to be performed in the hotel. Additions for this Right of use asset amounted to 5,257,475 Euros;

- Pestana Cascais, which had its lease contract renewed for an additional 5 years, in the amount of 2,469,806 Euros;

- Torre Bela building, resulting from an assignment of a contractual position contract celebrated in 2019 for the lease of the building with the aim of opening a touristic enterprise, the future Pestana Fisherman hotel for a 50-year period in the amount of 1,534,344 Euros;

- Beloura golf course which had its lease agreement renewed in 2019 for an additional 4 years in the amount of 594,557 Euros.

Excluding Right of use assets, the main additions in 2019 refer to:

- Construction of Pestana Blue Alvor, a 491 key, 5-star hotel in Quinta da Amoreira 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 sand of "Três Irmãos" beach in Alvor. During the year 2019, there were investments of 9,674,463 Euros (2018: 15,937,306 Euros). This unit start operating in May 2019;

- Renovation of the Madeira Beach Club in 2019, a timeshare unit, in the amount of 1,760,352 Euros which the beginning of the operations in the first few months of 2019;

- Construction of Pestana Churchill Bay, a 4-star superior 57-bedroom hotel, built using the old facilities of the fish market, in the Câmara de Lobos bay, for the amount of 2,477,935 Euros.

Capitalization of direct costs on Vacation Club contract negotiations (Note 3.4) amounted to 3,139,851 Euros in 2019 (2018: 3,160,104 Euros).

In 2019, a number of renovation and remodeling investments were also carried out in the hotel units, namely the Pestana Grand, Pestana Vilasol and Pestana Palace hotels, in the amount of approximately 2,200,000 Euros.

Right of use asset additions in 2018 refer to:

- Pestana Rua Augusta, a lease agreement signed in 2018 with a 27-year period, in the amount of 13,190,309 Euros;

- Pestana Braancamp, a lease agreement signed in 2018 with a 17-year period, in the amount of 5,558,072 Euros.

Additions in 2018, excluding Rights of Use Assets, refer mainly to the acquisition of Pestana D. João II Hotel, in November, which was already being explored through an operational lease contract, for the amount of 39,000,000 Euros and also a new unit in Óbidos, Pousada Vita de Óbidos, 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 renovation of the Pestana Delfim, Pestana Palace and Pestana Promenade hotels, in the amount of approximately 4,700,000 Euros.

Disposals

In 2019, disposals refer mainly to the sale of 8 apartments from Pestana Gramacho Residences, in Algarve, for the amount of 1,171,337 Euros, obtaining a gain in the amount of 650,103 Euros (Note 31) (2018: 8 apartments from Pestana Gramacho Residences, in Algarve, for the amount of 1,708,770 Euros, obtaining a gain in the amount of 925,544 Euros (Note 30).

Transfers

In 2019, operations began at the Pestana Blue Alvor and Pestana Churchill Bay hotels that had been running the previous year.

In 2018, Transfers from Assets under construction refer mainly to the opening of 4-star Pestana Gramacho Residences in Algarve with 54 apartments and a villa whose building had been bought in 2017 and refurbished by a subsidiary of Grupo Pestana. This undertaking is located next to the fields of Gramacho and Vale da Pinta.

Impairment

In 2019, Grupo Pestana recorded impairment losses on Madeira Magic and the right to use the Beloura golf course, in the amounts of 1,823,304 Euros and 218,496 Euros, respectively, as a result of the deterioration of the operating results generated and/or expected to be generated by the exploration of these assets. Therefore, and considering the estimated future cash flows and the applicable discount rate, the recoverable amount of this asset is now lower than its net book value.

In 2018, Pestana Hotel Group reversed part of the impairment losses booked against Madeira Magic in the amount of 342,253 Euros as a result of the 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.

Assets under construction

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

	2019	2018
Pestana Douro Project (Oporto)	11,479,112	4,245,141
Pestana Dunas Project (Porto Santo)	10,098,004	10,539,843
Rua das Flores Project (Oporto)	9,733,952	8,375,387
Quinta da Amoreira Project (Algarve)	6,345,437	6,345,437
Braancamp Project (Lisbon)	3,249,008	18,743
Pousada Vila Real Santo António Project (Algarve)	2,799,920	419,240
North of Gramacho land (Algarve)	2,168,556	2,165,738
D. Fernando land (Algarve)	1,926,288	1,926,288
Campo de Golfe Project (Algarve)	1,199,852	1,199,852
Blue Alvor Project (Algarve)	–	24,984,233
Pestana Churchill Project (Madeira)	–	1,766,862
Others	2,409,266	2,585,849
	51,409,395	**64,572,613**

The Pestana Douro Project refers to the reconstruction 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 right next to Pestana Palácio do Freixo. The opening of Pestana Douro Hotel is scheduled for 2020 and its total cost is approximately 16,500,000 Euros.

Pestana Dunas project relates to a new hotel in Porto Santo with a total of 396 beds. It is still in licensing stage which is expected to be obtained in 2020.

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 renovation of a building acquired in 2018 for 8,000,000 Euros, in advanced state of deterioration. This project’s total investment is expected to be 17,000,000 Euros and it is expected to open in 2020.

Quinta da Amoreira project refers to a pre-project for a 98-apartment apart-hotel in a plot of land in the Alvor region in Portimão (Algarve).

The Braancamp Project refers to a hotel for which the Group had already signed a sublease contract in 2018, with a duration of 17 years, for the renovation and construction of its new 4-star unit with 90 rooms, at Rua Braamcamp in Lisbon, and scheduled to open in 2020. The works and improvements necessary for the recovery of the building and its adaptation to the hotel purpose, as well as all the investment related to the furniture and decoration goods of the hotel, are Grupo Pestana’s responsibility, which pays a fixed rent, updated annually with inflation. This project’s total investment is expected to be 8,500,000 Euros and it is expected to open in 2020.

Pousada Vila Real Santo António project refers to a lease contract celebrated by Pestana Hotel Group in 2017 for a 20-year period for the refurbishment of a set of buildings in Vila Real de Santo António’s historic center with the aim of installing and exploring a “Pousada” hotel unit. This Pousada will have 57 rooms, a restaurant and event rooms which is expected to open by the end of April 2020 with an estimated total investment of 3,000,000 Euros.

The land located at North of Gramacho, with a total area of approximately 100 ha is a project in development for a real estate project on the plots of land on the north road which connects Gramacho to Vila de Ferragudo which had a change approved and which granted Pestana Hotel Group a total building area of 39,760 m^2. It also comprises a golf course project which was approved in 2017 but is, however, subject to fulfilling some specific measures and conditions which are already under development. The real estate project was approved in January 2019 and infrastructures are already being developed. Additionally, Pestana Hotel Group is developing a project for a rural hotel with a building area of 2,000 m^2 located on the east entrance of Ferragudo as well as a rural touristic enterprise with a total area of 24,710 m^2 located north of the Gramacho golf course and Pestana Gramacho Residences.

D. Fernando project is being developed on a plot of land with a total area of 30 ha, where the Group had a 77-room apart-hotel approved on 27 December 2018 and which had its license approved on 21 October 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.

Assets which are reversible to the State

Pestana Hotel Group 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 31 December 2019 is 8,288,229 Euros (31 December 2018: 9,237,129 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is lower.

7. Intangible assets

During the year ended 31 December 2019 and 2018 the movements occurred in Intangible assets are as follows:

	Goodwill	**Website and software**	**Total**
1 January 2019			
Acquisition cost	17,000,000	580,377	17,580,377
Accumulated amortization	–	(518,211)	(518,211)
Accumulated impairment	–	–	–
Net book value	**17,000,000**	**62,166**	**17,062,166**
Changes in 2019			
Additions	–	51,145	51,145
Amortization	–	(30,147)	(30,147)
	–	**20,998**	**20,998**
31 December 2019			
Acquisition cost	17,000,000	631,522	17,631,522
Accumulated amortization	–	(548,358)	(548,358)
Accumulated impairment	–	–	–
Net book value	**17,000,000**	**83,164**	**17,083,164**

	Goodwill	Concessions	*Website and software*	Others	Total
1 January 2018					
Acquisition cost	17,000,000	20,958,161	561,165	1,044,212	39,563,538
Acquisition cost - IFRS 16 adoption	–	(20,958,161)	–	–	(20,958,161)
Accumulated amortization	–	(11,255,686)	(460,927)	(82,879)	(11,799,492)
Accumulated amortization - IFRS 16 adoption	–	11,255,686	–	–	11,255,686
Accumulated impairment	–	–	–	–	–
Net book value	**17,000,000**	**–**	**100,238**	**961,333**	**18,061,571**
Changes in 2018					
Additions	–	–	5,000	–	5,000
Transfers - acquisition cost and accumulated amortization (Note 6)	–	–	–	(961,333)	(961,333)
Amortization	–	–	(43,073)	–	(43,073)
	–	**–**	**(38,073)**	**(961,333)**	**(999,406)**
31 December 2018					
Acquisition cost	17,000,000	–	580,377	–	17,580,377
Accumulated amortization	–	–	(518,211)	–	(518,211)
Accumulated impairment	–	–	–	–	–
Net book value	**17,000,000**	–	**62,166**	–	**17,062,166**

In June 2016, and following the corporate restructuring of the Pestana Hotel Group, focusing on the subsidiary M.&J. Pestana, S.A. the financial investments held in the Autonomous Region of Madeira and in the Autonomous Region of the Azores, the single quota of Empresa de Cervejas da Madeira, Sociedade Unipessoal, Lda was acquired, resulting in the recognition of 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 2019 and 2018, the recoverable amount of this asset was higher than its book value.

8. Investment properties

During the year ended 31 December 2019 and 2018 the movements occurred in Investment properties are as follows:

	2019	2018
1 January		
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**
Disposals - acquisition cost	(61,808)	–
Disposals - impairment	61,808	–
Transfers to Inventories (Note 15)	(1,239,950)	–
Depreciation	(92,453)	(92,453)
	(1,332,404)	**(92,453)**
31 December		
Acquisition cost	9,966,592	11,268,350
Accumulated depreciation	(2,916,376)	(2,823,922)
Accumulated impairment	(54,369)	(116,177)
Net book value	**6,995,847**	**8,328,251**

At the end of 2019, São Vicente facilities, in Azores, had its purpose changed to building a real estate project in Azores, named Coliseu, therefore the amount of 1,239,950 Euros was transferred to Inventories (Note 15).

As at 31 December 2019 and 2018 Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2019	2018
Commercial properties leases to third parties, Algarve	2,847,602	2,893,517
Funchal land, Madeira	1,269,455	1,269,455
Angra dos Reis land, Brazil	962,902	962,902
São Gonçalo houses, Madeira	695,310	712,192
São Vicente facilities, Azores	–	1,239,950
Others	1,220,578	1,250,235
	6,995,847	**8,328,251**

As at 31 December 2019 and 2018, the fair value of each one of the assets classified as Investment properties is not lower than it’s carrying amount.

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

	2019	2018
Rents obtained	284,333	240,172
Operating expenses	(49,450)	(41,770)
Depreciations	(92,453)	(92,453)
	142,430	**105,948**

9. Investments in joint ventures

The movements occurred in Investments in joint ventures during 2019 and 2018 are as follows:

	2019	2018
1 January	5,518,276	5,361,073
Gains from equity accounting (Note 33)	257,490	322,203
Reimbursement of accessory contributions	(500,000)	–
Dividends	(316,572)	(165,000)
31 December	**4,959,194**	**5,518,276**

In 2019, Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A. distributed dividends in the amount of 316,572 Euros (2018: 165,000 Euros) and reimbursed accessory contributions in the amount of 500,000 Euros.

On December 2015, a 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.

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 2019, Investments in joint ventures refer to the following entities:

		Equity method			Accessory contributions			
Description	**% owned**	**Investment amount**	**Impairment loss**	**Total**	**Investment amount**	**Impairment loss**	**Total**	**Total investment**
Solpor - Sociedade de Turismo do Porto Santo Lda.	50.00%	2,241,911	–	2,241,911	430,000	–	430,000	2,671,911
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	50.00%	164,154	–	164,154	1,375,000	–	1,375,000	1,539,154
Pestana CR7 - Madeira Invest. Turísticos, S.A.	50.00%	310,629	–	310,629	437,500	–	437,500	748,129
		2,716,694	**–**	**2,716,694**	**2,242,500**	**–**	**2,242,500**	**4,959,194**

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

		Equity method			Accessory contributions			
Description	**% owned**	**Investment amount**	**Impairment loss**	**Total**	**Investment amount**	**Impairment loss**	**Total**	**Total investment**
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 Invest. Turísticos, S.A.	50.00%	172,453	–	172,453	1,875,000	–	1,875,000	2,047,453
Pestana CR7 - Madeira Invest. Turísticos, S.A.	50.00%	362,725	–	362,725	437,500	–	437,500	800,225
		2,775,776	**–**	**2,775,776**	**2,742,500**	**–**	**2,742,500**	**5,518,276**

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

10. Investments in associates

The movements occurred in Investments in associates during 2019 and 2018 are as follows:

	2019	2018
1 January	11,737,961	11,930,722
Accessory contributions granted	64,885	–
Gains / (Losses) from equity accounting (Note 33)	287,441	(192,761)
Transfers (Note 11)	500,000	–
31 December	**12,590,287**	**11,737,961**

Transfers refer to Lean Company Ventures II, S.A. which became 20% controlled by Pestana Hotel Group having been transferred from Equity instruments at fair value through profit and loss (Note 11) to Investments in associates.

As at 31 December 2019, Investments in associates refer to the following entities:

Entity	% owned	Equity method – Investment amount	Equity method – Impairment loss	Equity method – Total	Accessory contributions – Investment amount	Accessory contributions – Impairment loss	Accessory contributions – Total	Loans granted – Investment amount	Loans granted – Impairment loss	Loans granted – Total	Total investment	Goodwill included
Enatur - Empresa Nacional de Turismo, S.A.	49.00%	10,547,786	–	10,547,786	–	–	–	1,190,593	–	1,190,593	11,738,379	3,837,382
Lean Company Ventures II, S.A.	10.00%	–	–	–	–	–	–	495,000	–	495,000	495,000	–
Albar - Sociedade Imobiliária do Barlavento, S.A.	49.81%	292,023	–	292,023	64,885	–	64,885	–	–	–	356,908	–
		10,839,809	**–**	**10,839,809**	**64,885**	**–**	**64,885**	**1,685,593**	**–**	**1,685,593**	**12,590,287**	**3,837,382**

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

Entity	% owned	Equity method – Investment amount	Equity method – Impairment loss	Equity method – Total	Loans granted – Investment amount	Loans granted – Impairment loss	Loans granted – Total	Total investment	Goodwill included
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**

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 2019 and 2018 are as follows:

	2019	2018
1 January	1,577,373	1,355,718
Acquisitions	6,258,430	–
Gains of the period (Note 33)	97,979	176,163
Disposals	(508,224)	–
Transfers (Note 11)	(500,000)	–
Other movements in equity	–	45,492
31 December	**6,925,558**	**1,577,373**

On 27 December 2019, the Group subscribed 5,798 participation units of Iberis Bluetech Fund, FCR, EuVECA (“Bluetech Fund”) for the amount of 6.000.930 Euros (Note 35).

On May 2019, the Group acquired 250,000 shares of Lean Company Ventures II, S.A. which represent 5% of this company’s share capital and 10% of its voting rights, for the amount of 2,500 Euros. With this acquisition, Pestana Hotel Group increased its voting rights to 20% and changed how it accounts for this company to an Associate from that moment forward (Note 10), including the loans granted in 2019 to this same company in the amount of 247,500 Euros.

Disposals in 2019 relate to several investments, all of reduced value, generating a loss in the amount of 282,876 Euros (Note 33).

As at 31 December 2019, the Equity instruments at fair value through profit and loss have the following detail:

		Acquisition cost			Loans granted			
Entity	% owned	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Total investment
Iberis Bluetech Fund, FCR, EuVECA	n.a.	6,000,930	–	6,000,930	–	–	–	6,000,930
Hotel Rauchstrasse 22, S.A.R.L.	7.50%	654,808	–	654,808	–	–	–	654,808
Others	-	552,325	292,979	259,346	10,474	–	10,474	269,820
		7,208,063	**292,979**	**6,915,084**	**10,474**	**–**	**10,474**	**6,925,558**

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

		Acquisition cost			Loans granted			
Entity	% owned	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Total investment
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
Others	-	950,028	292,979	657,049	113,495	-	113,495	770,544
		1,509,357	**292,979**	**1,216,378**	**360,995**	**–**	**360,995**	**1,577,373**

12. Deferred tax assets and liabilities

As at 31 December 2019 and 2018, 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 2019 and 2018, are as follows:

	2019	2018
Impact on income statement		
Deferred tax assets	1,263,237	1,855,411
Deferred tax liabilities	1,024,622	(1,658,679)
	2,287,859	196,732
Impact on perimeter changes		
Deferred tax assets	(24,138)	–
Deferred tax liabilities	432,306	–
	408,168	–
Impact on equity		
Deferred tax assets	–	(106,163)
Deferred tax liabilities	–	(35,725)
	–	(141,888)
Net effect of deferred taxes	**2,696,027**	**54,844**

Following the increases in share capital in 2019 and 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 amounts of approximately 125,000 Euros and 800,000 Euros respectively.

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 in 2018 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.

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 (IFRS1) on tangible assets	Share capital's conventional remuneration	Leases	Others	Total
1 January 2019	77,097	446,197	47,180	335,590	798,478	6,379,985	3,188,852	11,273,379
Constitution through income statement	–	652,530	–	–	142,773	700,192	–	1,495,495
Reversal through income statement	(45,533)	–	(47,180)	–	–	–	(139,545)	(232,258)
Perimeter exits	–	–	–	(24,141)	–	–	3	(24,138)
Changes in the period	**(45,533)**	**652,530**	**(47,180)**	**(24,141)**	**142,773**	**700,192**	**(139,542)**	**1,239,099**
	31,564	1,098,727	–	311,449	941,251	7,080,177	3,049,311	12,512,479
Offset of Deferred tax liabilities	(31,538)	(1,098,727)	–	(311,449)	(816,651)	(6,846,537)	(3,049,311)	(12,154,213)
31 December 2019	**26**	**–**	**–**	**–**	**124,600**	**233,640**	**–**	**358,266**

	Impairment losses on trade receivables	Changes in fair value	Hedging reserves	Deemed cost (IFRS1) on tangible assets	Share capital's conventional remuneration	Leases	Others	Total
1 January 2018	150,774	353,227	119,475	430,852	–	–	2,665,593	3,719,921
IFRS 16 adoption adjustments	–	–	–	–	–	5,804,210	–	5,804,210
Reversal through equity	–	–	(106,163)	–	–	–	–	(106,163)
Constitution through income statement	–	92,970	33,868	–	798,478	575,775	523,259	2,024,350
Reversal through income statement	(73,677)	–	–	(95,262)	–	–	–	(168,939)
Changes in the period	**(73,677)**	**92,970**	**(72,295)**	**(95,262)**	**798,478**	**6,379,985**	**523,259**	**7,553,458**
	77,097	446,197	47,180	335,590	798,478	6,379,985	3,188,852	11,273,379
Offset of Deferred tax liabilities	(77,029)	(446,197)	(47,180)	(335,590)	(798,478)	(5,968,038)	(3,188,852)	(10,861,364)
31 December 2018	**68**	**–**	**–**	**–**	**–**	**411,947**	**–**	**412,015**

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

	Deemed cost (IFRS1) on tangible assets	Legal revaluations (previous standards)	Changes in fair value	Others	Total
1 January 2019	30,480,411	47,126	163,248	1,633,723	32,324,509
Reversal through income statement	(877,061)	(24,146)	–	(123,415)	(1,024,622)
Perimeter exits	(432,306)	–	–	–	(432,306)
Changes in the period	**(1,309,367)**	**(24,146)**	**-**	**(123,415)**	**(1,456,928)**
	29,171,044	22,980	163,248	1,510,308	30,867,580
Offset of Deferred tax assets	(12,154,213)	–	–	–	(12,154,213)
31 December 2019	**17,016,831**	**22,980**	**163,248**	**1,510,308**	**18,713,367**

	Deemed cost (IFRS1) on tangible assets	Legal revaluations (previous standards)	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	–	–	–	35,725	35,725
Constitution through income statement	3,349,515	46,897	–	3,843	3,400,255
Reversal through income statement	(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	(10,861,364)	–	–	–	(10,861,364)
31 December 2018	**19,619,047**	**47,126**	**163,248**	**1,633,723**	**21,463,144**

According to the previous tax system, revaluations result from the updating of the assets' value, made under the POC standard (Official Audit Plan - Plano Oficial de Contabilidade) and based on Government diplomas in which coefficients of monetary devaluation are defined. The effect of these deferred taxes reflects the non-deduction for tax purposes of 40% of the revaluation 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:

31 December 2019	Amortized cost	Fair value through other comprehensive income	Fair value through profit and loss	Other non-financial assets / liabilities	Total
Financial assets					
Cash and cash equivalents	115,061,403	–	–	–	115,061,403
Trade and other receivables	37,179,075	–	–	23,016,048	60,195,123
Equity instruments at fair value through profit and loss	–	–	6,925,558	–	6,925,558
	152,240,478	**–**	**6,925,558**	**23,016,048**	**182,182,084**
Financial liabilities					
Borrowings	336,971,220	–	–	–	336,971,220
Derivatives	–	130,751	43,584	–	174,335
Trade and other payables	58,933,734	–	–	21,735,895	80,669,629
	395,904,954	**130,751**	**43,584**	**21,735,895**	**417,815,184**

31 December 2018	Amortized cost	Fair value through other comprehensive income	Fair value through profit and loss	Other non-financial assets / liabilities	Total
Financial assets					
Cash and cash equivalents	39,716,014	–	–	–	39,716,014
Trade and other receivables	39,097,241	–	–	21,171,879	60,269,120
Equity instruments at fair value through profit and loss	–	–	1,577,373	–	1,577,373
	78,813,255	**–**	**1,577,373**	**21,171,879**	**101,562,507**
Financial liabilities					
Borrowings	292,365,298	–	–	–	292,365,298
Derivatives	–	413,538	71,642	–	485,180
Trade and other payables	64,420,446	–	–	20,589,337	85,009,783
	356,785,744	**413,538**	**71,642**	**20,589,337**	**377,860,261**

According to IFRS 13, Grupo Pestana calculated the fair value of its financial assets and liabilities. The levels used are presented in Note 3.10.

	31-12-2019			31-12-2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Equity instruments at fair value through profit and loss	–	–	6,925,558	–	–	1,577,373
	–	**–**	**6,925,558**	**–**	**–**	**1,577,373**
Financial liabilities						
Derivatives	–	174,335	–	–	485,180	–
	–	**174,335**	**–**	**–**	**485,180**	**–**

14. Trade and other receivables

As at 31 December 2019 and 2018, Trade and other receivables are detailed as follows:

	31-12-2019			31-12-2018		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Trade receivables (i)	20,968,331	–	20,968,331	24,280,800	–	24,280,800
Other receivables (ii)	5,415,077	1,869,387	7,284,464	6,191,286	1,951,963	8,143,249
Prepayments (iii)	2,858,806	9,713,559	12,572,365	2,729,618	11,009,128	13,738,746
Accrued income (iv)	10,438,656	5,027	10,443,683	7,331,190	101,943	7,433,133
Taxes receivable (v)	8,926,280	–	8,926,280	6,673,192	–	6,673,192
	48,607,150	**11,587,973**	**60,195,123**	**47,206,086**	**13,063,034**	**60,269,120**

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

i) Trade receivables

	31-12-2019			31-12-2018		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Trade receivables - group (Note 40)	1,062,314	–	1,062,314	1,762,153	–	1,762,153
Trade receivables - other	19,906,017	–	19,906,017	22,518,647	–	22,518,647
Doubtful debtors	9,780,977	–	9,780,977	10,398,085	–	10,398,085
	30,749,308	–	30,749,308	34,678,885	–	34,678,885
Impairment of trade receivables	(9,780,977)	–	(9,780,977)	(10,398,085)	–	(10,398,085)
	20,968,331	**–**	**20,968,331**	**24,280,800**	**–**	**24,280,800**

Impairment of Trade receivables— movements of the year:

	2019	2018
1 January	10,398,085	11,077,866
Increases	654,751	596,880
Reversals	(620,287)	(858,872)
Utilizations	(608,758)	(442,224)
Transfers - Other receivables	164,913	24,435
Perimeter exits	(207,727)	–
31 December	**9,780,977**	**10,398,085**

ii) Other receivables

	31-12-2019			31-12-2018		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Other debtors - group (Note 40)	974,443	1,916,189	2,890,632	1,682,372	1,951,963	3,634,335
Other debtors - other	4,452,342	–	4,452,342	4,739,182	–	4,739,182
Impairment	(11,708)	(46,802)	(58,510)	(230,268)	–	(230,268)
	5,415,077	**1,869,387**	**7,284,464**	**6,191,286**	**1,951,963**	**8,143,249**

As at 31 December 2019 and 2018, the caption Other debtors – group includes the receivable amount from the sublessee resulting from the derecognition of the Right of use asset concerning the sub concession agreement for the private use of the dominion infrastructure of Praça do Mar in Funchal, specifically Pestana CR7 Funchal hotel with Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A. (Note 3.18).

Impairment — movements of the year:

	2019	2018
1 January	230,268	283,144
Increases	–	10,879
Reversals	–	(39,320)
Transfers - Trade receivables	(164,913)	(24,435)
Perimeter exits	(6,845)	–
31 December	**58,510**	**230,268**

The ageing of overdue balances without impairment is as follows:

	2019	2018
0 to 6 months	20,317,758	19,408,539
6 to 12 months	2,131,388	3,959,697
12 to 18 months	1,191,921	3,282,063
18 to 24 months	1,047,546	743,542
more than 24 months	3,564,182	5,030,208
	28,252,795	**32,424,049**

The ageing of overdue balances with impairment is as follows:

	2019	2018
0 to 6 months	417,679	56,472
6 to 12 months	287,143	136,097
12 to 18 months	204,397	292,598
18 to 24 months	99,633	303,977
more than 24 months	8,830,635	9,839,209
	9,839,487	**10,628,353**

iii) Prepayments

	31-12-2019			31-12-2018		
	Current	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Commissions	1,162,891	9,713,266	10,876,157	1,205,829	11,009,128	12,214,957
Rentals	199,415	–	199,415	10,484	–	10,484
Insurance	180,194	–	180,194	181,440	–	181,440
Other services	1,316,306	293	1,316,599	1,331,865	–	1,331,865
	2,858,806	**9,713,559**	**12,572,365**	**2,729,618**	**11,009,128**	**13,738,746**

As at 31 December 2019 and 2018, the balance of Commissions relates mainly to commissions paid for sales of *Pestana Vacation Club - Options* (Note 3.22 ii).

iv) Accrued income

This caption refers almost entirely to pending invoices concerning construction services, which are recognized according to the stage of completion method, as well as the receivable amount regarding units already delivered to customers, which were pending at the time of the Deed.

v) Taxes receivable

As at 31 December 2019 and 2018, this caption is mainly related to VAT receivable.

15. Inventories

As at 31 December 2019 and 2018 Inventories are detailed as follows:

	2019	2018
Goods	5,094,428	5,504,346
Raw and subsidiary materials	2,571,382	2,956,499
Finished goods	1,044,566	987,580
Work in progress	75,595,543	77,345,354
	84,305,919	86,793,779
Impairment of inventories	(379,748)	(324,904)
	83,926,171	**86,468,875**

Finished goods and Work in progress are detailed as follows:

	2019	2018
Silves touristic project (Algarve)	30,668,890	27,368,786
Tróia project	25,219,670	31,211,953
North of Gramacho land (Algarve)	7,886,584	7,798,482
Abrunheira Project (Portalegre)	6,345,335	6,291,949
Comporta land	3,576,673	3,569,463
Coliseu project (Azores) (Note 8)	1,249,709	–
Beverages and packaging	774,079	696,339
Porto Santo land	443,360	443,360
S. Martinho land (Funchal)	359,750	359,750
V. Pinta attached land (Algarve)	–	586,026
Others	116,059	6,825
	76,640,109	**78,332,934**

The Silves touristic project is associated with 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 first tourist resort in already licensed while the second tourist resort still needs to be submitted for approval by the competent authorities.

The Tróia project is mainly related to the construction of houses and the infrastructures of a touristic village in a 100 Ha plot of land with a building capacity of 54,184 thousand m^2. The number of house deliveries decreased in 2019 as a consequence of a decrease in available stock since AT2 is almost sold out and the remaining stock consists of villas of AT1 which present a slower sale pace.

North of Gramacho land relates to a real estate project under as explained in Note 6.

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 apart-hotel. This project will be undertaken through phases with the first phase having been submitted for approval in November 2019 and corresponds to an area of 63 ha and is composed of 1 tourist village with 13 lodging units, two tourist apartments and 1 apart-hotel. Furthermore, an application was submitted for the PDR 2020 in June 2019 to start a Super Intensive Olive Grove project with an extension of 100 ha that involves the construction of dams to feed the olive grove and that is expected to help the attractiveness of the real estate component.

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.

In 2019, São Vicente land began being used to build a real estate project in the Azores, named Coliseu, therefore an amount of 1,239,950 Euros were transferred from Investment Properties (Note 8). This project refers to a real estate project in Ponta Delgada's city center, in the Azores' islands, near the Micaelense Coliseum with 56 apartments and which represents a total expected investment of 8,300,000 Euros.

In 2019, Cost of goods sold amounted to 51,796,824 Euros (31 December 2018: 65,109,780 Euros).

Impairment of Inventories - movements of the period:

	2019	2018
1 January	324,904	195,754
Increases	166,746	174,658
Reversals	(6,410)	(13,452)
Utilizations	(104,813)	(32,056)
Perimeter exits	(679)	–
31 December	**379,748**	**324,904**

16. Current income tax

The balances of Current income tax for the years ended 31 December 2019 and 2018 are as follows:

	31-12-2019		31-12-2018	
	Debtor	Creditor	Debtor	Creditor
Current Income tax	13,085,831	91,959	192,442	1,552,659
	13,085,831	**91,959**	**192,442**	**1,552,659**

The balance of Current income tax is detailed as follows:

	2019	2018
Advance payments	16,622,812	12,410,680
Withholding tax	555,421	571,352
Current income tax estimate	(4,184,361)	(14,342,249)
	12,993,872	**(1,360,217)**

Grupo Pestana, S.G.P.S., S.A. is covered by the Special Taxation Regime for Group Companies (RETGS). Accordingly, the Group's current tax is calculated based on the taxable income of the companies included in the consolidation and on that taxation regime (Note 35).

As at 31 December 2019 and 2018, Income tax is detailed as follows:

Company	2019	2018
Grupo Pestana, S.G.P.S., S.A.	15,015,535	12,496,475
M & J Pestana, S.A.	3,654,012	(3,431,150)
Salvor - Sociedade de Investimento Hoteleiro, S.A.	697,335	(915,278)
Djebel, S.A.	204,969	238,389
ESGAP, S.A.	143,182	57,501
Salvintur - Sociedade de Investimentos Turísticos, S.A.	124,344	149,179
Mundo da Imaginação - Projectos de Animação Turística, S.A.	40,474	28,448
Amoreira - Aldeamento Turístico, Lda.	16,016	14,891
Pestana Inversiones, Unipessoal Lda.	15,208	-
Beloura Hotel e Golfe - Invest. Turísticos, S.A.	-	(243,457)
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	-	(18)
Sociedade de Investimento Hoteleiro D. João II, S.A.	(4,077)	(17,587)
Indústria Açoreana Turistico - Hoteleira (I.A.T.H.), S.A.	(8,448)	(5,988)
Pestana Segurança - Serviços de Segurança e Vigilância, Lda.	(24,652)	(23,264)
Natura XXI, Lda.	(25,054)	(619)
Hotéis do Atlântico, S.A.	(25,185)	(75,142)
Eurogolfe, S.A.	(34,937)	(45,025)
Intervisa, Unipessoal, Lda.	(44,680)	(39,068)
Carvoeiro Golfe Sociedade Mediação Imobiliaria, Lda.	(126,559)	(105,265)
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	(206,363)	98,028
Pestana Cidadela - Investimentos Turisticos, S.A.	(306,804)	(257,734)
Cota Quarenta, S.A.	(307,202)	(38,668)
Pestana Management, S.A.	(484,508)	(1,733,067)
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	(857,249)	(108,601)
Carlton Palácio, S.A.	(980,363)	(1,572,813)
Carvoeiro Golfe, S.A.	(3,628,313)	(5,814,171)
Tax consolidation group companies	**12,846,681**	**(1,344,004)**
Ponta da Cruz - Soc. Imobiliária e de Gestão de Hotéis, S.A.	193,460	(14,200)
SDEM - Soc. Desenvolvimento Empresarial da Madeira, S.A.	24,252	10,174
SDM - Soc. Desenvolvimento da Madeira, S.A.	17,187	(207,840)
Herdade da Abrunheira, S.A.	4,251	3,862
ITI - Soc. de Investimentos Turísticos na Ilha da Madeira, S.A.	(8,926)	65,922
Porto Carlton - Soc. de Construção e Exploração Hoteleira, S.A.	(83,033)	125,869
Remaining companies	**147,191**	**(16,213)**
Total income tax	**12,993,872**	**(1,360,217)**

17. Cash and cash equivalents

As at 31 December 2019 and 2018, the detail of Cash and cash equivalents is as follows:

	31-12-2019	31-12-2018
Cash	1,363,352	1,190,466
Bank deposits	113,698,051	38,525,548
	115,061,403	**39,716,014**

The detail of the amount considered as final balance in Cash and cash equivalents, for the purposes of the Consolidated statement of cash flows for the period ended 31 December 2019 and 2018, is as follows:

	31-12-2019	31-12-2018
Cash	1,363,352	1,190,466
Bank overdrafts	(187,915)	(204,266)
Bank deposits	113,698,051	38,525,548
	114,873,488	**39,511,748**

18. Capital

As at 31 December 2019 and 2018 Capital is detailed as follows:

	2019	2018
Share capital (i)	83,530,000	83,530,000
Other equity instruments:		
Share premium (ii)	33,690,973	33,690,973
Accessory contributions (iii)	8,200,000	8,200,000
	125,420,973	**125,420,973**

(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., for cash contributions in proportion to their respective shareholdings. 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 2019 and 2018, Grupo Pestana, S.G.P.S., S.A.'s subscribed share capital amounts to 83,530,000 Euros, represented by 83,530,000 fully paid shares with the nominal value of 1 Euro each.

As at 31 December 2019 and 2018 Share capital is detailed 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**

As of 31December 2019 and 2018, Basic Earnings per share is 0.96 Euros and 0.81 Euros, respectively, and Net Profit per share is 0.96 Euros and 0.81 Euros, respectively.

(ii) Share premium

The caption Share premiums refers to the excess of fair value of the amounts delivered by the Shareholders to Grupo Pestana, S.G.P.S., S.A. for paying-up the share capital. This balance can only be used for incorporation in future capital increases.

(iii) Accessory contributions

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

As at 31 December 2019 and 2018, the Accessory contributions relate to the two Shareholders of Grupo Pestana, S.G.P.S., in the following amounts: 5,700,000 Euros paid-up by Mr. Dionísio Pestana and 2,500,000 Euros paid-up by Pestana International Holdings S.A..

Accessory 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 2019 and 2018 Other reserves had the following movements as follows:

	Legal reserve (i)	Free reserves	Fair value reserve C.F.H. (ii)	Equity method (iii)	Total
1 January 2018	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 - hedging derivatives (net of tax)	–	–	453,762	–	453,762
Transfer from Retained earnings	–	21,408	–	7,269,947	7,291,355
Distributions	–	–	–	(165,000)	(165,000)
31 December 2018	**22,986,177**	**21,408**	**(87,580)**	**–**	**22,920,005**
Perimeter exits (Note 39)	99,837	–	–	–	99,837
Restated profit for the period application	4,787,652	8,043	–	–	4,795,695
Change in fair value reserve - hedging derivatives (net of tax)	–	–	84,174	–	84,174
Transfers to Profit for the period application	–	–	(129,797)	–	(129,797)
31 December 2019	**27,873,666**	**29,451**	**(133,203)**	**–**	**27,769,914**

(i) Legal reserve

In accordance with the applicable commercial law in Portugal, at least 5% of the annual net profit, if positive, must be used to increase the legal reserve until it is equal to 20% of the company's 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.

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

This reserve includes the effective portion of changes in fair value of hedging derivatives (Note 25). This reserve also includes the deferred tax impact related to the changes in fair value that are not tax deductible, at the reporting date.

(iii) 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 2019 and 2018, Retained earnings movements were as follows:

	Total
1 January 2018	**9,692,769**
IFRS 16 adoption adjustments (net of tax) (Note 2)	(17,837,619)
Changes in accounting policies - IFRS 15 adoption	130,438
Profit for the period application	80,189,526
Transfers from Other reserves (Note 19)	(7,291,355)
Transfers to Non-controlling interests (Note 21)	(447,020)
Distributions	(38,477,632)
Acquisitions of Share capital and Accessory contributions to Non-controlling interests	(4,183,257)
Others	62,501
31 December 2018	**21,838,351**
Restated profit for the period application	57,203,656
Distributions	(13,171,924)
Others	(3,509)
31 December 2019	**65,866,574**

The amount included under Changes in accounting policies - IFRS 15 adoption relates 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 Turistico e Imobiliario, S.A., as well as the Additional capital 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 Additional capital 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:

	2019	2018
1 January	15,282,398	14,196,649
Transfers to Retained earnings (Note 20)	–	447,020
Net profit for the period	3,934,122	4,467,849
Additional capital contributions	30,000	–
Dividends	(4,126,813)	(2,577,519)
Reimbursements to non-controlling interests	–	(1,251,600)
Others	(4,323)	–
31 December	**15,115,384**	**15,282,398**

In 2019, Dividends were mainly distributed by SDM – Sociedade de Desenvolvimento da Madeira, S.A., Porto Carlton – Sociedade de Construção, Exploração Hoteleira, S.A. and Ponta da Cruz – Sociedade Imobiliária e de Gestão de Hotéis, S.A. (2018: SDM – Sociedade de Desenvolvimento da Madeira, S.A. and Porto Carlton – Sociedade de Construção e Exploração Hoteleira, S.A.).

As a result of the acquisition, in 2018, 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.

Reimbursement to Non-controlling interests in 2018 relates to the reimbursement of additional capital contributions owned by Non-controlling interests in the subsidiary Ponta da Cruz, S.A..

Non-controlling interests relate to the following investments:

	31-12-2019		31-12-2018	
	% Held	Value	% Held	Value
Ponta da Cruz – Soc. Imob. e de Gestão de Hotéis, S.A.	48.00%	5,469,701	48.00%	5,728,521
SDM – Soc. de Desenvolvimento da Madeira, S.A.	52.27%	6,423,120	52.27%	6,025,501
SDEM – Soc. de Des. Empresarial da Madeira, SGPS, S.A.	52.27%	171,300	52.27%	310,371
Porto Carlton – Soc. Constr. e Exploração Hoteleira, S.A.	40.00%	3,051,263	40.00%	3,218,005
		15,115,384		**15,282,398**

22. Provisions

As at 31 December 2019 and 2018, the movements in Provisions were as follows:

	Litigations and claims in progress (i)	Customer guarantees (ii)	Other provisions (iii)	Total
1 January 2019	2,769,528	264,825	1,664,771	4,699,124
Increases	1,313	6,185	–	7,498
Utilizations	–	–	(68,248)	(68,248)
Changes on period	1,313	6,185	(68,248)	(60,750)
31 December 2019	**2,770,841**	**271,010**	**1,596,523**	**4,638,374**
Current balance	2,770,841	155,609	1,093,090	4,019,540
Non-current balance	–	115,401	503,433	618,834
	2,770,841	**271,010**	**1,596,523**	**4,638,374**

	Litigations and claims in progress (i)	Customer guarantees (ii)	Other provisions (iii)	Total
1 January 2018	2,800,325	216,163	1,568,029	4,584,517
Increases	–	48,662	164,989	213,651
Reversals	(30,797)	–	–	(30,797)
Utilizations	–	–	(68,247)	(68,247)
Changes on 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**

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

(i) Litigation and claims in progress

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 Pestana Hotel Group'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 324/14.0TELSB-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 Pestana Hotel Group decided to book a provision in the same amount in the eventuality that the Portuguese state executes the mentioned bank guarantee.

In 2019 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 its term (current and non-current) and nature, at the end of the period, is as follows:

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Bond loans	65,000,000	102,500,000	167,500,000	–	107,500,000	107,500,000
Bank loans	22,647,954	121,463,390	144,111,344	36,302,011	111,718,809	148,020,820
Commercial paper	1,444,444	23,944,445	25,388,889	11,444,444	25,388,889	36,833,333
Bank overdrafts	187,915	–	187,915	204,266	–	204,266
	89,280,313	247,907,835	337,188,148	47,950,721	244,607,698	292,558,419
Interest payable - accrual	2,095,169	–	2,095,169	1,754,042	–	1,754,042
Interest payable - deferral	(602,607)	(1,709,490)	(2,312,097)	(271,202)	(1,675,961)	(1,947,163)
	90,772,875	**246,198,345**	**336,971,220**	**49,433,561**	**242,931,737**	**292,365,298**

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

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 2019, no exceptions have been identified in any of these covenants.

The future payments of the outstanding bond loans, bank loans and commercial paper, by currency of denomination, as at 31 December 2019 and 2018, are as follows:

	2020	2021	2022	2023	2024	Following years	Total
Bond loans							
Euro	65,000,000	27,500,000	15,000,000	–	–	60,000,000	167,500,000
	65,000,000	**27,500,000**	**15,000,000**	**–**	**–**	**60,000,000**	**167,500,000**
Bank loans							
Euro	19,005,573	19,690,479	13,221,305	14,628,039	22,583,078	54,982,870	144,111,344
	19,005,573	**19,690,479**	**13,221,305**	**14,628,039**	**22,583,078**	**54,982,870**	**144,111,344**
Commercial paper							
Euro	2,944,444	444,444	444,444	20,444,444	444,444	666,669	25,388,889
	2,944,444	**444,444**	**444,444**	**20,444,444**	**444,444**	**666,669**	**25,388,889**
	86,950,017	**47,634,923**	**28,665,749**	**35,072,483**	**23,027,522**	**115,649,539**	**337,000,233**

	2019	2020	2021	2022	2023	Following years	Total
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**
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**
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**

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

In September 2019, Grupo Pestana entered into a paying service contract with BBVA (Banco Bilbao Viscaia Argentaria) for the issue by private subscription of 600 green bonds, represented by securities in book-entry and nominative form with a nominal value of 100,000 Euros, in the total amount of 60,000,000 Euros, called Pestana Green Bond.

Green bonds are a debt instrument that allows companies to raise investment for existing projects or for new projects, to which environmental benefits are associated. The funds raised are to be used to refinance two new and innovative sustainable hotels: Pestana Tróia Eco Resort and Pestana Blue Alvor.

This issue was initially foreseen to be of 50,000,000 Euros, however, due to the success of the issue demand covered more than three times the targeted amount which lead to the increase to 60,000,000 Euros. This issuance was rated by the rating agency Axesor with ‘BBB with a stable outlook’ classifying the bond as investment grade. This operation was issued and placed still in September 2019, the registering entity of which is the Centralized System Securities, managed by Interbolsa.

On 28 February 2020, Grupo Pestana paid 65,000,000 Euros of the bond loan maturing on that date.

In January 2019, the subsidiary M.&J. Pestana, S.A. has contracted a new bank loan in the amount of 9,000,000 Euros. In June 2019, the subsidiary Salvor, S.A. contracted a new bank loan in the amount of 12,500,000 Euros. In September 2019, the subsidiary Ponta da Cruz, S.A. contracted a new bank loan in the amount of 4,900,000 Euros. These lines are subject to the Euribor interest rate plus spread.

In December 2019, the subsidiary Carlton Palácio, S.A. contracted a bank loan which has not yet been utilized in the amount of 45,000,000 Euros for a period of 15 years with a fixed rate and refundable in 60 quarterly installments with the first installment in March 2020.

As at 31 December 2019, the Group has contracted 3 commercial paper programs with underwriting of 20,000,000 Euros, 10,000,000 Euros and 2,888,889 Euros, respectively, of which 25,388,889 Euros are used, 23,944,445 Euros non-current and 1,444,444 Euros current. These issues are remunerated at the Euribor rate for the respective issue term plus spread.

Grupo Pestana holds, as at 31 December 2019, a set of unused contracted credit lines in Financial Institutions with a total amount 61,800,000 Euros related to authorized credit lines and overdrafts.

24. Lease liabilities

As at 31 December 2019 and 2018 Lease liabilities refer to:

	31-12-2019	**31-12-2018**
Current	11,367,313	9,138,580
Non-current	154,952,123	137,479,341
	166,319,436	**146,617,921**

As at 31 December 2018, Lease liabilities mainly refer to the following Right of use assets:

- Casino da Madeira
- Pestana Alto Golf Resort
- Pestana Atlantic Gardens
- Pestana Beloura Golf Resort
- Pestana Braancamp
- Pestana Carlton Madeira
- Pestana Cascais
- Pestana Churchill Bay
- Pestana Cidadela de Cascais
- Pestana Colombos
- Pestana CR7 Funchal
- Pestana Delfim
- Pestana Ilha Dourada
- Pestana Palácio do Freixo
- Pestana Quinta do Arco
- Pestana Royal

- Pestana Rua Augusta
- Pestana Viking
- Pestana Vilasol Golf Resort
- Pestana Vilasol Hotel
- Pousada de Lisboa
- Pousadas de Portugal (Network)

Beyond the Lease liabilities referred as at 31 December 2018, as at 31 December 2019 Lease liabilities include the following contracts (Note 6):

- Torre Bela building (future Pestana Fisherman hotel)
- Pestana Rua de São Tomé
- Pestana Sintra Golf

25. Derivatives

As at 31 December 2019 and 2018, Pestana Hotel Group had interest rate swaps (hedging derivatives) as follows:

	31-12-2019		31-12-2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps – non-current	–	174,335	–	485,180
Interest rate swaps – current	–	–	–	–
	–	**174,335**	**–**	**485,180**

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 at 31-12-2019	Fair value at 31-12-2018	Variation
ITI Soc.Inves. Tur. Ilha Madeira, S.A. (i)	Proportion hedge	7,000,000	9/26/2022	Semiannual	Eur 6M / 4.82%	(174,335)	(286,567)	112,232
Beloura Hotel e Golfe - Investimento Turísticos, S.A.	Hedge	9,600,000	7/30/2019	Semiannual	Eur 6M / 4.77%	–	(12,142)	12,142
M & J Pestana, S.A.	Hedge	5,000,000	12/18/2019	Semiannual	Eur 6M / 3.08%	–	(18,778)	18,778
Grupo Pestana S.G.P.S., S.A.	Hedge	10,000,000	12/28/2019	Semiannual	Eur 6M / 3.08%	–	(37,556)	37,556
Carlton Palácio, S.A.	Hedge	5,000,000	12/28/2019	Semiannual	Eur 6M / 3.08%	–	(18,778)	18,778
Salvor, S.A.	Hedge	5,000,000	12/28/2019	Semiannual	Eur 6M / 3.08%	–	(18,778)	18,778
Grupo Pestana S.G.P.S., S.A.	Hedge	10,000,000	12/30/2019	Semiannual	Eur 6M / 3.04%	–	(37,034)	37,034
Carlton Palácio, S.A.	Hedge	5,000,000	12/30/2019	Semiannual	Eur 6M / 3.04%	–	(18,517)	18,517
M & J Pestana, S.A.	Hedge	5,000,000	12/30/2019	Semiannual	Eur 6M / 3.04%	–	(18,517)	18,517
Salvor, S.A.	Hedge	5,000,000	12/30/2019	Semiannual	Eur 6M / 3.04%	–	(18,514)	18,514
						(174,335)	**(485,180)**	**310,846**

(i) This derivative financial instrument 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 34).

The change in the fair value of the derivatives financial instruments occurred in 2019 and 2018 were as follows:

	2019	2018
1 January	485,180	1,069,253
Hedging derivatives - fair value changes (Note 19)	(84,174)	(559,925)
Trading derivatives - fair value changes (Note 34)	(28,058)	(24,148)
Settlement	(198,613)	–
31 December	**174,335**	**485,180**

The changes in the fair value reserve related to cash flow hedges in 2019 and 2018 were as follows:

	2019	2018
1 January	(87,580)	(541,343)
Hedging derivatives - fair value changes (Note 19)	84,174	559,925
Deferred tax (Note 12)	–	(106,163)
Settlement (net of tax)	(129,797)	–
31 December	**(133,203)**	**(87,580)**

Derivative financial instruments classified as trading are financial instruments contracted to hedge economic risks in the 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.

26. Deferred revenue

As at 31 December 2019 and 2018 the detail of Deferred revenue is as follows:

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Pestana Vacation Club – D.R.H.P. (i)	13,694,376	90,790,566	104,484,942	13,436,532	97,500,100	110,936,632
Pestana Vacation Club – Options (ii)	3,422,927	30,443,900	33,866,827	3,538,104	34,287,041	37,825,145
Temporary transfer of Pestana Trademark (iii)	6,333,333	–	6,333,333	6,333,333	6,333,333	12,666,666
Government grants (iv)	436,065	5,426,071	5,862,136	442,021	5,868,821	6,310,842
Others	4,451,337	3,468,113	7,919,450	4,347,245	3,148,557	7,495,802
	28,338,038	**130,128,650**	**158,466,688**	**28,097,235**	**147,137,852**	**175,235,087**

(i) Pestana Vacation Club — Timesharing rights (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 the Grupo Pestana (Note 3.22 ii)), which will end between 2020 and 2039.

(ii) Pestana Vacation Club – Options

This item refers to the sale of the timeshare program Options. Revenue is recognized according to the redemption of points in the program and their validity date (Note 3.22 ii)). The customer acquires points that give him the right to use accommodation without having to choose the specific hotel at that time.

(iii) Temporary transfer of Pestana Trademark

As at 31 December 2019 and 2018, 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 the end of 2020.

As a result of the terminus of Pestana Trademark's onerous and temporary transfer agreement, in force until 2017, the Grupo Pestana decided to assess the value of the Trademark before setting the conditions of the new transfer. For this purpose, the Group an independent and market-recognized expert to perform the assessment. 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 per 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.

27. Trade and other payables

As at 31 December 2019 and 2018, Trade and other payables are detailed as follows:

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Trade payables						
Suppliers (i)	26,767,806	–	26,767,806	31,770,988	–	31,770,988
Other payables						
Other payables	2,036,117	–	2,036,117	1,554,855	–	1,554,855
Other payables - group (Note 40)	502,959	–	502,959	457,088	–	457,088
Suppliers of property, plant and equipment	3,881,668	–	3,881,668	2,250,083	–	2,250,083
Advances from customers (ii)	23,165,753	–	23,165,753	25,589,556	–	25,589,556
Taxes payable (iii)	2,579,431	–	2,579,431	2,797,876	–	2,797,876
Accrued expenses						
Wages and corresponding taxes	11,479,256	–	11,479,256	10,662,824	–	10,662,824
Others	10,256,639	–	10,256,639	9,899,254	27,259	9,926,513
	80,669,629	**–**	**80,669,629**	**84,982,524**	**27,259**	**85,009,783**

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

(i) Suppliers

	31-12-2019			31-12-2018		
Description	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Trade payables - group (Note 40)	6,874,287	–	6,874,287	8,582,665	–	8,582,665
Trade payables - other	19,893,519	–	19,893,519	23,188,323	–	23,188,323
	26,767,806	**–**	**26,767,806**	**31,770,988**	**–**	**31,770,988**

(ii) Advances from customers

Refers mainly to the amounts received along the construction works, amounting in total to 12,971,871 Euros (31 December 2018: 16,602,119 Euros) and maintenance fees charged in advance under timeshare contracts amounting to 5,679,121 Euros (31 December 2018: 5,534,442 Euros). The remaining amount is related reservations made by tour operator.

(iii) Taxes payable

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Personnel income tax withheld	566,797	–	566,797	740,949	–	740,949
Value added tax	1,063,445	–	1,063,445	906,207	–	906,207
Social security contributions	767,271	–	767,271	1,040,179	–	1,040,179
Others	181,918	–	181,918	110,541	–	110,541
	2,579,431	**–**	**2,579,431**	**2,797,876**	**–**	**2,797,876**

28. Revenue

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

	2019	2018
Hospitality business (i)	205,158,207	203,586,655
Real estate (ii)	44,964,971	62,910,622
Pestana Vacation Club (iii)	29,070,477	30,026,687
Beverages (industry)	25,869,738	27,163,855
Entertainment	11,364,161	10,118,106
Golf	11,264,367	11,358,407
Others (iv)	21,400,829	19,644,247
	349,092,750	**364,808,579**

(i) Hospitality business

The hotel units in the Algarve reached revenue in the order of 47.4 million Euros, which represents an increase of 22.8% compared to the previous year, due to the opening of the Pestana Blue Alvor in May 2019. Excluding this effect, the other hotel units in the Algarve had a revenue identical to last year, which means they maintained the excellent results obtained in the previous year.

In Madeira, the Group's head office, there was a 9% decrease in sales compared to the previous year as a result of Madeira island losing several air links, mainly in the German market, with the bankruptcy of the Germania carrier even before the collapse of Thomas Cook. In addition, the constraints at Madeira airport resulting from the regular weather conditions continue to negatively affect the image of Madeira as a destination.

The Pousadas de Portugal network continued to show an excellent performance, with a growth of about 2.5% in revenue, after two years of excellent results, having again achieved the best results in its history. This performance is mainly due to an increase in the average price largely driven by Pousada de Lisboa, with the remaining "Pousadas" also showing increases in the average price that more than offset maintenance or slight decreases in occupancy rates.

Lisbon and Oporto continue to be tourist destinations where the Group performs well, having maintained the levels seen in the previous year, which already corresponded to the best year ever in terms of the operating results of these units. The units belonging to the Pestana Collection brand are located in these regions and showed very relevant results with an average price of around 178 Euros per night and average occupancy rates of over 65%.

The 2019 and 2018 detail of Revenue in Hospitality business, by customer's country of origin, are as follows:

	Hospitality	
Country	**2019**	**2018**
Portugal	34.1%	30.1%
United Kingdom	18.7%	19.5%
Germany	9.9%	11.9%
United States	6.0%	5.5%
France	5.6%	5.3%
Spain	3.5%	3.7%
Ireland	2.0%	1.9%
Brazil	2.0%	2.4%
Netherlands	1.8%	2.0%
Switzerland	1.7%	1.9%
Sweden	1.2%	1.4%
Belgium	1.2%	1.4%
Denmark	1.1%	1.3%
Italy	1.0%	1.2%
Norway	0.9%	1.1%
Russia	0.7%	0.8%
Others	8.6%	8.6%
	100%	**100%**

(ii) Real estate

The changes in the item Real estate revenue relate to the factors shown below.

In 2019, 5 villas from Lots 3 and 4 of Pestana Troia Eco-Resort were delivered for the amount of 4,089,000 Euros remaining an additional 11 units to sell. Concerning Lot 1, 47.75 lodging units were delivered in the total amount of 24,672,150 Euros remaining about 67 lodging units to be sold in the years 2020 and 2021.

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.

As at 31 December 2019 and 2018, 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 819,405 Euros (2018: 3,247,684 Euros).

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

(iii) Pestana Vacation Club

The Vacation Club business, the sale of periodic housing and Options, registered a decrease in 2019 in relation to the previous year, both in terms of sales of new agreements (decrease of around 16%) and in terms of operation (maintenance fees, decrease of about 14%).

Despite the fact that sales of the new resort (Madeira Beach Club) are running at a good pace there was, in 2019, a decrease in sales in connection with the factors mentioned above that have devastated tourism on the island of Madeira. Additionally, there is another factor that also contributed to this decrease in sales, the value of the agreements recorded a slight decrease largely due to the fact that the average price suffered a slight drop related to the decrease in sales, but also to the increase in competition, namely with the opening of a new unit in Funchal. In addition to the factors described above, the increase in sales of weeks for shorter periods (3, 5 and 7 years) to the detriment of Pestana Options contracts and classic timeshare week contracts, longer (10 to 20 years), also contributed to this decrease in value.

The 2019 and 2018 detail of sales and services rendered in Vacation Club by country of origin related to the number of customers are as follows:

	Pestana Vacation Club	
Country	**2019**	**2018**
United Kingdom	55.8%	55.0%
Germany	11.6%	9.8%
Portugal	10.6%	12.5%
Finland	7.3%	7.0%
Sweden	2.9%	3.3%
Others	11.8%	12.4%
	100%	**100%**

(iv) Others

In 2019 and 2018, Others include 6,333,333 Euros, on an annual basis, corresponding to the onerous and temporary transfer of the Pestana Brand to Pestana Management – Serviços de Gestão S.A. (Note 26).

29. External services and supplies

The detail of External services and supplies is as follow:

	2019	2018
Professional fees	26,744,733	26,966,925
Subcontracts	21,317,703	21,740,899
Property management exploration cost	2,985,200	2,099,717
Rents	1,858,830	4,005,283
Cleaning	16,872,327	15,880,572
Energy	10,547,368	10,311,711
Advertising	8,537,010	8,168,205
Commissions	9,033,855	7,198,824
Maintenance	6,120,801	5,989,541
Insurance	1,084,570	915,608
Others	4,839,804	4,682,903
	109,942,201	**107,960,188**

Pursuant to paragraph b), no. 1 of article no. 66 A of the Portuguese Commercial Companies Code, audit fees for the 2019 annual accounts of the Statutory Auditors of all subsidiaries of Grupo Pestana were 103,700 Euros and the remaining Statutory Auditors of the companies comprising the consolidation perimeter were 16,250 Euros.

30. Personnel expenses

The detail of Personnel expenses is as follows:

	2019	2018
Corporate bodies		
Wages and salaries	1,827,205	2,066,472
Social security contributions	318,530	350,863
	2,145,735	**2,417,335**
Staff		
Wages and salaries	44,048,383	42,871,934
Social security contributions	9,680,119	9,240,375
Others	1,882,218	1,736,891
	55,610,720	**53,849,200**
	57,756,455	**56,266,535**

In 2019, Personnel expenses include the amount of 1,766,295 Euros relating to expenses with dividends (2018: 2,077,752 Euros). The average number of employees of Grupo Pestana companies that comprise this consolidation perimeter in 2019 was 2,735 (32 December 2018: 2,706).

31. Other income

The detail of Other income is presented as follows:

	2019	2018
Foreign currency exchange gains	1,874,732	1,789,637
Supplementary income	4,276,372	4,567,328
Amortization of government grants	448,706	473,406
Gains on disposal of tangible fixed assets	848,891	1,186,490
Others	3,417,115	1,130,250
	10,865,816	**9,147,111**

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

As at 31 December 2019, 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 650,103 Euros (2018: 925,544 Euros) (Note 6).

The variation in the caption Others refers, essentially, to the restitution received from Coca Cola Company in the amount of 2,000,000 Euros following the lawsuit filed by the subsidiary ECM, Lda. on 8 July 2005 against The Coca Cola Company and The Coca Cola Export Corporation asking for compensations for customers due and the investments made before the termination of the distribution contract in the total amount of 4,440,384 Euros. The audience took place in several sessions between 7 February and 22 March 2018 with the judgment being handed down on 6 April that the action was partially upheld and sentenced the defendants to pay two million Euros as compensation for customer losses plus interest on late payments. In 22 May 2018, the defendants filed an appeal against the sentence that ordered them to pay compensation for customer losses with this appeal being accepted on 17 September by the First Instance Court that ordered the documents to be submitted to the Lisbon Court of Appeal. On 20 November 2019 the Lisbon Court of Appeal confirmed the final decision handed down on 6 April 2018 ordering the defendants to pay 2,000,000 Euros but without interest on late payments. This amount was received on 11 December 2019.

32. Other expenses

The detail of Other expenses is as follows:

	2019	2018
Taxes	7,083,014	5,270,287
Credit card commissions	1,215,788	1,204,632
Losses on inventories	68,940	133,343
Foreign currency exchange losses	858,939	798,229
Inventory offers and samples	188,085	134,618
Others	1,089,060	827,152
	10,503,826	**8,368,261**

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.

33. Gains on the disposal of subsidiaries, investments in joint ventures, associates and equity instruments at fair value through profit and loss

The detail of Gains on the disposal of subsidiaries, investments in joint ventures, associates and equity instruments at fair value through profit and loss is as follows:

	2019	2018
Gain on the disposal of subsidiary Beloura, S.A. (Note 39)	11,570,122	–
Gains / (Losses) from equity method in Joint ventures (Note 9):		
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	308,273	333,234
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	(52,096)	(10,288)
Solpor - Sociedade de Turismo do Porto Santo, Lda.	1,313	(743)
Gains / (Losses) from equity method in Associates (Note 10):		
Enatur - Empresa Nacional de Turismo, S.A.	294,188	(190,507)
Albar - Sociedade Imobiliária do Barlavento, S.A.	(1,747)	(2,254)
Lean Company Ventures II, S.A.	(5,000)	–
Gains in Equity instruments at fair value through profit and loss (Note 11)	(184,897)	176,163
	11,930,156	**305,605**

34. Financial expenses and income

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

	2019	2018
Financial expenses		
Interest expense	7,943,008	8,875,046
Lease liabilities' interest	7,504,661	7,751,793
Interest rate swaps	316,138	646,686
Foreign currency exchange losses	1,124	58,835
Commissions and guarantee fees	1,212,582	1,342,786
	16,977,513	**18,675,146**
Financial income		
Interest earned	404,219	370,563
Foreign currency exchange gains	103,548	41,713
Change in fair value swaps (Note 25)	28,058	24,148
Swap settlement	325,677	–
Others	108,740	102,992
	970,242	**539,416**

Change in fair value swaps fully refers to the change of the fair value of derivative financial instruments designated as trading (Note 25).

35. Income tax

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

	2019	2018
Current income tax:		
Current period income tax	(4,184,406)	(14,342,249)
Adjustments in respect of prior year estimates	210,528	649,415
	(3,973,878)	**(13,692,834)**
Deferred income tax:		
Origin and reversal of temporary differences	2,287,859	196,732
	2,287,859	**196,732**
	(1,686,019)	**(13,496,102)**

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:

	2019	2018
Profit before tax	82,195,842	79,963,301
Tax rates	21%	21%
	17,261,127	**16,792,293**
Differences of tax rates on income and deferred taxes	(575,399)	1,984,155
Income not subject to tax	(8,308,022)	(4,466,275)
Expenses not deductible for tax purposes	952,143	1,425,604
	(7,931,278)	(1,056,516)
Municipal surcharge	476,714	580,191
State surcharge	1,328,282	2,383,210
Used tax losses	(652,655)	(1,103,265)
RFAI (investment tax benefit in Portugal)	(3,805,239)	(3,616,738)
SIFIDE (tax benefit in Portugal)	(4,950,302)	–
Autonomous taxation	169,898	166,342
Adjustments in respect of prior year estimates	(210,528)	(649,415)
	1,686,019	**13,496,102**

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

RETGS includes all subsidiaries in which the Group holds directly or indirectly at least 75% of the share capital 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.

On December 2019, the Group acquired 5,798 participation units on Iberis Bluetech Fund, FCR, EuVECA in the amount of 6,000,930 Euros (Note 11). This fund has as a policy to invest in companies and research and development projects (R&D) and, therefore, this investment is eligible for SIFIDE II (Fiscal Incentives for Research and Development) in Portugal. Therefore, until May 2020, Pestana Hotel Group has to present this application which it expects will be accepted by Agência Nacional de Inovação, S.A.

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:

	2019	2018
Tax rates	20%-21%	21%
Municipal surcharge	0.0% - 1.5%	0.0% - 1.5%
State surcharge:		
> 1,500,000 e < 7,500,000	3.0%	3.0%
> 7,500,000 e < 35,000,000	5.0%	5.0%
> 35,000,000	9.0%	9.0%

36. Dividends per share

Dividends paid to shareholders during 2019 amounted to 13,171,924 Euros, corresponding to 0.16 Euros per share (2018: 38,477,632 Euros, resulting in 0.46 Euros per share).

Dividends paid by the subsidiaries of Grupo Pestana to non-controlling interests during 2019 amounted to 4,126,813 Euros (2018: 2,742,519 Euros).

37. Contingencies

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

	2019	2018
Mortgages		
Mortgages over buildings	120,510,731	130,250,725
Mortgages over lands	1,750,000	1,750,000
	122,260,731	**132,000,725**
Guarantees		
Liability Guarantees and Hedging	12,208,600	11,911,868
Bank guarantees	39,248,527	44,547,734
	51,457,127	**56,459,602**

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, the subsidiary 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, S.G.P.S., S.A. presented, in November 2017, a Judicial Challenge in Funchal's Tax and Administrative Court which is still pending decision.

On 31 December 2013 and in accordance with the Exceptional Regime for the Regularization of Tax Debts, established by Decree - Law 151-A/2013, of 31 October, Grupo Pestana made full payment of the amount subject to proceedings No. 3123201010700, relating to a SISA process, in the amount of 439,472 Euros, being exempt from payment of default or compensatory interest and without prejudice to the progress of the lawsuit under the terms of the competent courts. The Board is convinced that the outcome of this process will be favorable and this amount should be returned to the Group.

Contingent liabilities

As at 31 December 2019, Grupo Pestana has ongoing claims, assessed as contingent liabilities of, approximately, 700.000 Euros.

38. Consolidation perimeter

The Subsidiaries included in the consolidation perimeter, by the full consolidation method as at 31 December 2019 are as follows:

Description	Headquarters	Activity	Reference date	Share capital	Assets	Liabilities	Revenue	Profit/ (Loss)	% Owned	% Control
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real Estate	31-12-2019	4,928,065	6,376,948	1,448,883	–	(45,887)	100.00%	100.00%
Carlton Palácio – Soc. de Construção e Exploração Hoteleiras, S.A.	Portugal	Hospitality	31-12-2019	51,429,631	105,616,413	54,186,782	26,201,336	15,403,590	100.00%	100.00%
Carvoeiro Golfe – Soc. de Mediação Imobiliária, Unip. Lda.	Portugal	Real Estate	31-12-2019	493,493	810,859	317,367	1,129,048	480,232	100.00%	100.00%
Carvoeiro Golfe, S.A.	Portugal	Golf / Real Estate	31-12-2019	61,180,091	114,591,624	53,411,533	70,559,639	10,931,664	100.00%	100.00%
Cota Quarenta - Gestão e Adm. Centros Comercias, S.A.	Portugal	Real Estate	31-12-2019	22,281,584	22,787,495	505,911	340,000	1,269,341	100.00%	100.00%
ECM - Empresa Cervejas da Madeira, Soc. Unipessoal Lda.	Portugal	Beverages	31-12-2019	9,027,315	30,762,690	21,735,375	26,639,678	2,065,100	100.00%	100.00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2019	15,143,327	18,708,771	3,565,444	656,423	165,283	100.00%	100.00%
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2019	49,213,908	65,308,144	16,094,236	41,692,599	5,220,990	100.00%	100.00%
Herdade da Abrunheira - Projectos Desenv. Turístico e Imobiliário, S.A.	Portugal	Real Estate	31-12-2019	6,625,606	6,708,889	83,283	–	(167,884)	100.00%	100.00%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hospitality	31-12-2019	4,544,925	6,388,247	1,843,323	3,022,610	444,482	100.00%	100.00%
Imóveis Brisa F.I.I.F.	Portugal	Real estate fund	31-12-2019	10,734,760	10,757,331	22,571	35,608	(1,136,241)	100.00%	100.00%
ITI – Soc. Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hospitality / Entertainment	31-12-2019	45,958,070	65,412,562	19,454,492	33,506,941	8,976,775	100.00%	100.00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hospitality / Timeshare	31-12-2019	151,404,178	381,716,860	230,312,682	67,636,570	22,343,137	100.00%	100.00%
Mundo da Imaginação - Projectos Animação Turística, S.A.	Portugal	Touristic entertainment	31-12-2019	2,346,800	4,954,091	2,607,292	695,913	205,655	100.00%	100.00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2019	1,549,459	1,593,866	44,407	96,000	91,051	100.00%	100.00%
Pestana Cidadela - Investimentos Turisticos, S.A.	Portugal	Hospitality	31-12-2019	9,554,770	17,281,077	7,726,307	6,881,740	1,099,108	100.00%	100.00%
Ponta da Cruz – Soc. Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hospitality / Timeshare	31-12-2019	11,332,665	24,772,417	13,439,752	8,127,766	1,398,511	52.00%	52.00%
Porto Carlton – Soc. de Constr. e Exploração Hoteleira, S.A.	Portugal	Hospitality	31-12-2019	7,628,158	15,155,897	7,527,739	8,494,127	2,586,708	60.00%	60.00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hospitality / Timeshare	31-12-2019	92,087,807	242,410,088	150,322,281	55,712,786	11,066,540	100.00%	100.00%
SDEM – Soc. de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	Portugal	Services	31-12-2019	600,176	1,029,837	429,661	9,540	(265,737)	47.73%	51.14%
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (a)	Portugal	Services	31-12-2019	11,611,320	15,873,760	4,262,440	10,923,671	4,135,521	47.73%	51.14%
Sociedade de Investimentos Hoteleiros D. João II, S.A.	Portugal	Hospitality / Timeshare	31-12-2019	1,437,028	4,012,688	2,575,660	665,131	6,246	100.00%	100.00%

(a) 47.73% of the company is owned by Grupo Pestana, S.G.P.S., S.A. which, however, controls the entity by means of a shareholder agreement signed with a minority shareholder for the allocation of 3.41% of voting rights over the Company.

The Joint ventures and associated companies included in the consolidation perimeter, by the equity method, as at 31 December 2019 are as follows:

Description	Headquarters	Activity	Reference date	Share capital	Assets	Liabilities	Revenue	Profit/ (Loss)	% Owned	% Control
Albar - Sociedade Imobiliária do Barlavento, S.A.	Portugal	Real Estate	31-12-2019	1,199,866	1,209,885	10,019	–	(3,508)	49.81%	49.81%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Hospitality	31-12-2019	59,745,881	83,999,398	24,253,517	2,683,321	600,384	49.00%	49.00%
Lean Company Venture II, S.A.	Portugal	Tech innovation	31-12-2019	(17,779)	180,948	198,727	-	(57,492)	10.00%	20.00%
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	Portugal	Hospitality	31-12-2019	7,180,144	14,673,862	7,493,718	4,054,931	616,547	50.00%	50.00%
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2019	1,496,257	4,943,762	3,447,505	1,855,186	(104,192)	50.00%	50.00%
Solpor - Sociedade de Turismo do Porto Santo Lda.	Portugal	Real Estate	31-12-2019	937,891	939,026	1,135	-	(1,274)	50.00%	50.00%

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

Description	Headquarters	Activity	Reference date	Share capital	Assets	Liabilities	Revenue	Profit/ (Loss)	% Owned	% Control
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real Estate	31-12-2018	4,973,952	6,378,474	1,404,522	–	(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 – Soc. de Constr. e Expl. Hoteleiras, S.A.*	Portugal	Hospitality	31-12-2018	56,050,112	96,624,513	40,574,401	25,437,766	5,547,202	100.00%	100.00%
Carvoeiro Golfe – Soc. de Mediação Imob., 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	50,248,427	114,463,512	64,215,085	91,062,738	18,096,985	100.00%	100.00%
Cota Quarenta - Gestão e Adm. de Centros Comercias, 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, Soc. Unipessoal Lda.*	Portugal	Beverages	31-12-2018	7,149,347	31,712,215	24,562,869	27,163,855	(8,984)	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 Desenv. 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 - Fundo de Investimento Imobiliário Fechado	Portugal	Real estate fund	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	2,887,294	274,963	100.00%	100.00%
ITI – Soc. Investimentos Turísticos na Ilha da Madeira, S.A.*	Portugal	Hospitality / Entertainment	31-12-2018	41,897,121	68,792,190	26,895,069	34,656,449	8,998,208	100.00%	100.00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.*	Portugal	Hospitality / Timeshare	31-12-2018	134,102,746	383,473,324	249,370,578	70,920,105	20,162,377	100.00%	100.00%
Mundo da Imaginação - Projectos Animação Turística, S.A.*	Portugal	Touristic entertainment	31-12-2018	2,141,148	4,918,974	2,777,826	660,861	197,888	100.00%	100.00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2018	1,458,407	1,482,713	24,306	48,000	5,136	100.00%	100.00%
Pestana Cidadela - Investimentos Turisticos, S.A.*	Portugal	Hospitality	31-12-2018	8,455,660	17,917,085	9,461,425	6,617,331	923,872	100.00%	100.00%
Ponta da Cruz – Soc. 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 – Soc. de Constr. e Expl. 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	98,851,570	238,367,915	139,516,346	46,227,737	7,538,883	100.00%	100.00%
SDEM – Soc. de Desenv. 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. (a)	Portugal	Services	31-12-2018	11,223,336	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	4,200,583	2,769,801	619,591	62,997	100.00%	100.00%

*Financial statements restated in 2019 with the adoption of IFRS 16 - Leases.

The Joint ventures and associated companies included in the consolidation perimeter, by the equity method, as at 31 December 2018 are as follows:

Description	Headquarters	Activity	Reference date	Share capital	Assets	Liabilities	Revenue	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	1,600,449	5,344,171	3,743,722	1,903,813	(52,114)	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%

39. Changes in the perimeter

In December 2019, Pestana Hotel Group sold 100% of Beloura Hotel e Golfe – Investimentos Turísticos, S.A.'s share capital to Ninaclau, Lda. for the amount of 25,000,000 Euros which generated a gain in the amount of 11,570,122 Euros.

The Statement of financial position of the company which left the consolidation perimeter at the exit date is as follows:

	Beloura, S.A.
Sale price	**25,000,000**
Assets	
Tangible fixed assets	14,343,223
Deferred tax assets	24,138
Trade and other receivables	29,661
Inventories	5,984
Cash and cash equivalents	10,032
Total Assets	**14,413,038**
Liabilities	
Lease liabilities	2,993
Deferred tax liabilities	432,306
Trade and other payables	647,698
Total Liabilities	**1,082,997**
Grupo Pestana share	**13,330,041**
Non-controlling interests	**-**
Net assets	**13,330,041**
Other reserves	99,837
% sold	**100%**
Gains on disposal (Note 33)	**11,570,122**

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

	Beloura, S.A.
Revenue	4,143,802
Cost of goods sold	(331,966)
External services and supplies	(1,464,067)
Personnel expenses	(568,802)
Charges of depreciation and amortization	(423,524)
Impairment of receivables	8,494
Other income	3,626
Other expenses	(165,106)
Profit/(loss) before financial results and taxes	**1,202,456**
Financial expenses	(31,009)
Financial income	3,380
Profit before tax	**1,174,827**
Income tax	(260,669)
Profit for the period	**914,158**
Profit for the period attributable to:	
Shareholders	914,158
Non-controlling interests	–
	914,158
EBITDA	1,626,014

In 2018 there was no change in the consolidation perimeter of Grupo Pestana.

40. Related parties

As at 31 December 2019 and 2018, Grupo Pestana is owned and controlled by Pestana International Holdings S.A., which holds 99% of the share capital. The ultimate owner of the Company is Mr. Dionísio Pestana, who 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 2019 and 2018 the remuneration received by the Board of Directors is described in Note 30.

Transactions and balances with related parties

During 2019, Grupo Pestana carried out the following transactions with the following entities:

	Dividends paid	Inventory purchases	Services obtained	Dividends obtained	Services rendered	Interest earned	Disposal of financial investments
Shareholders	**13,000,000**	**–**	**38,130**	–	**11,725**	**–**	–
Pestana International Holdings S.A.	12,870,000	–	38,130	–	11,725	–	–
Dionísio Fernandes Pestana	130,000	–	–	–	–	–	–
Joint ventures	–	**80**	**26,024**	**316,572**	**151,625**	**107,250**	–
Pestana CR7 - Madeira Invest. Turísticos, S.A.	–	–	17,046	–	150,784	107,250	–
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	–	80	8,978	316,572	841	–	–
Associates	–	**–**	**459,162**	–	**28,330**	**16,418**	–
Enatur - Empresa Nacional de Turismo, S.A.	–	–	459,162	–	28,330	16,418	–
Other Group companies	–	**48,990**	**32,497,903**	–	**10,641,125**	**92,458**	–
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	–	4	2,156	–	1,557	3,701	–
Pestana Management - Serviços de Gestão, S.A.	–	48,154	27,911,129	–	8,716,541	–	–
Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal Lda.	–	–	1,227,827	–	10,884	–	–
Beloura Hotel e Golfe – Invest. Turísticos, S.A.	–	189	212,732	–	–	13,957	–
Intervisa Viagens e Turismo, Unipessoal Lda.	–	643	3,065,213	–	1,197,421	–	–
URP - Urban Renew Promoção Imobiliária, S.A.	–	–	–	–	16,717	–	–
Salvintur - Sociedade de Invest. Turísticos, S.A.	–	–	–	–	1,217	–	–
ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	–	–	10,346	–	–	–	–
Salvorhotéis Moçambique – Invest. Turísticos, S.A.	–	–	–	–	1,102	–	–
Wild Break 29 (PTY), Ltd	–	–	17	–	–	–	–
Empreendimentos Turísticos, Lda.	–	–	–	–	9,955	–	–
Afrotours, S.A.	–	–	–	–	3,002	–	–
Pestana Marrocos, s.a.r.l.	–	–	–	–	16,518	–	–
Brasturinvest Investimentos Turísticos, S.A.	–	–	909	–	627,211	–	–
Argentur Inversiones Turisticas S.A.	–	–	–	–	226	–	–
Pestana Miami LLC	–	–	855	–	1,126	74,800	–
Pestana USA Inc	–	–	–	–	449	–	–
Pestana New York East Side 39 LLC	–	–	–	–	27,756	–	–
Pestana Management UK, Limited	–	–	23,556	–	566	–	–
Pestana Berlim S.A.R.L.	–	–	23,270	–	1,455	–	–
Desarollos Hoteleros Barcelona 2004 S.A.	–	–	4,800	–	199	–	–
Global Mandalay, S.L.U.	–	–	2,257	–	6,702	–	–
Amesteldijk Hotel Ontwkkeling B.V.	–	–	12,836	–	521	–	–
Key management personnel (a)	**–**	**–**	**–**	**–**	**–**	**–**	**25,000,000**
	13,000,000	**49,070**	**33,021,219**	**316,572**	**10,832,805**	**216,126**	**25,000,000**

(a) The amount recognized in Disposal of financial investments related to the disposal of the subsidiary Beloura, S.A. à Ninaclau, Lda., a company owned by Mr. Tomáz Metello and a member of that subsidiary's Board of Directors. As at 31 December 2019, Mr. Tomáz Metello is no longer a member of Pestana Hotel Group's key management personnel and has no function inside Grupo Pestana.

During 2018, the Company performed the following transactions with the following entities:

	Dividends paid	Services obtained	Charges incurred	Dividends obtained	Services rendered	Interest earned
Shareholders	**38,500,000**	**13,055**	**666,719**	**–**	**20,780**	**–**
Pestana International Holdings S.A.	38,115,000	13,055	666,719	–	20,780	–
Dionísio Fernandes Pestana	385,000	–	–	–	–	–
Joint ventures	**–**	**12,721**	**–**	**165,000**	**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	–	165,000	2,583	–
Associates	**–**	**458,679**	**–**	–	**36,908**	**15,644**
Enatur - Empresa Nacional de Turismo, S.A.	–	458,679	–	–	36,850	15,644
Albar - Sociedade Imobiliária do Barlavento, S.A.	–	–	–	–	58	–
Other Group companies	**–**	**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	–	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,	–	3,979	–	–	299	–
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	–	284	–	–	1,660	–
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	–
Brasturinvest Investimentos Turísticos, S.A.	–	299	–	–	709,655	–
Argentur Inversiones Turisticas S.A.	–	198	–	–	–	–
Pestana Miami LLC	–	4,341	–	–	74,847	–
Pestana CR7 Manhattan 39 LLC	–	–	–	–	266	–
Pestana Management UK, Limited	–	28,972	–	–	1,845	–
Pestana Berlim S.A.R.L.	–	16,303	–	–	2,732	–
Desarollos 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	**–**	**–**	**–**	–	**–**	**–**
	38,500,000	**31,783,846**	**666,719**	**165,000**	**12,120,065**	**19,415**

The balances arising from transactions with related parties as at 31 December 2019 are as follows:

	Trade receivables current	Trade receivables non-current	Impairment of trade receivables	Net trade receivables	Trade payables current	Trade payables non-current	Total trade payables
Shareholders	**279**	**–**	**–**	**279**	**11,162**	**–**	**11,162**
Pestana International Holdings S.A.	279	–	–	279	11,162	–	11,162
Joint ventures	**66,040**	**1,916,189**	**–**	**1,982,229**	**1,709**	**–**	**1,709**
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	64,302	1,916,189	–	1,980,491	239	–	239
Solpor - Sociedade de Turismo do Porto Santo Lda.	1,085	–	–	1,085	–	–	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	653	–	–	653	1,470	–	1,470
Associates	**60,390**	**–**	**–**	**60,390**	**49,319**	**–**	**49,319**
Enatur - Empresa Nacional de Turismo, S.A.	55,093	–	–	55,093	49,319	–	49,319
Albar - Sociedade Imobiliária do Barlavento, S.A.	5,297	–	–	5,297	–	–	–
Other Group companies	**1,910,048**	**–**	**–**	**1,910,048**	**7,315,056**	**–**	**7,315,056**
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	29,391	–	–	29,391	3,545	–	3,545
Djebel, S.A.	688	–	–	688	204,969	–	204,969
Pestana Management - Serviços de Gestão, S.A.	1,187,317	–	–	1,187,317	6,242,200	–	6,242,200
Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal Lda.	26,538	–	–	26,538	331,275	–	331,275
Intervisa Viagens e Turismo, Unipessoal Lda.	234,145	–	–	234,145	60,658	–	60,658
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	70	–	–	70	479	–	479
URP - Urban Renew Promoção Imobiliária, S.A.	20,562	–	–	20,562	–	–	–
Salvintur - Sociedade de Investimentos Turísticos, S.A.	1,923	–	–	1,923	124,344	–	124,344
ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	420	–	–	420	148,133	–	148,133
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	1,950	–	–	1,950	–	–	–
Wild Break 29 (PTY), Ltd	–	–	–	–	869	–	869
Empreendimentos Turísticos, Lda.	20,916	–	–	20,916	–	–	–
Afrotours, S.A.	1,069	–	–	1,069	–	–	–
Pestana Marrocos, s.a.r.l.	24,897	–	–	24,897	–	–	–
Brasturinvest Investimentos Turísticos, S.A.	249,977	–	–	249,977	164,695	–	164,695
Argentur Inversiones Turisticas S.A.	–	–	–	–	60	–	60
Pestana Miami LLC	76,345	–	–	76,345	–	–	–
Pestana USA Inc	326	–	–	326	–	–	–
Pestana New York East Side 39 LLC	31,431	–	–	31,431	–	–	–
Pestana International Holdings S.A.	279	–	–	279	11,162	–	11,162
Pestana Inversiones Unipessoal, Lda.	–	–	–	–	15,306	–	15,306
Pestana Management UK, Limited	360	–	–	360	3,130	–	3,130
Pestana Berlim S.A.R.L.	349	–	–	349	2,975	–	2,975
Global Mandalay, S.L.U.	12	–	–	12	1,256	–	1,256
Amesteldijk Hotel Ontwkkeling B.V.	1,083	–	–	1,083	–	–	–
Key management personnel	–	–	–	–	–	–	–
	2,036,757	**1,916,189**	**–**	**3,952,946**	**7,377,246**	**–**	**7,462,685**

The balances arising from transactions with related parties as at 31 December 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 trade payables
Shareholders	**394**	**–**	**–**	**394**	**15,737**	**–**	**15,737**
Pestana International Holdings S.A.	394	–	–	394	15,737	–	15,737
Joint ventures	**42,179**	**1,951,963**	**–**	**1,994,142**	**24,770**	**–**	**24,770**
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	41,037	1,951,963	–	1,993,000	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 Group companies	**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
Intervisa 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
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
Desarollos 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	**1,951,963**	**–**	**5,396,488**	**9,039,753**	**–**	**9,039,753**

41. Note 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:

			Cash free transactions		
	2018	**Cash flows**	**Acquisitions**	**Accrual / Deferral**	**2019**
Bond loans	108,356,437	60,000,000	–	–	**168,356,437**
Lease liabilities	146,617,921	(9,362,997)	29,064,512	–	**166,319,436**
Bank loans	146,948,380	(3,909,476)	–	(23,807)	**143,015,097**
Commercial paper	36,856,215	(11,444,444)	–	–	**25,411,771**
Cash flow from financing activities	**438,778,953**	**35,283,083**	**29,064,512**	**(23,807)**	**503,102,741**

42. Subsequent events

On 28 February 2020, Grupo Pestana paid 65,000,000 Euros of the bond loan maturing on that date.

In recent months the Coronavirus disease has spread to several countries. The relevant health authorities have been acting in coordination and issuing guidelines to contain its spread as soon as possible. It is currently impossible to predict the future development of the disease and its impacts.

So far the impact on the operations of Grupo Pestana has been minimal, but for preventive purposes, as part of its contingency plan, the Grupo Pestana follows closely the guidelines issued by the health authorities of the countries where it operates, in close cooperation with these authorities, implementing whenever possible measures to prevent contamination from the disease, with regard to its customers, suppliers and employees, seeking to ensure the continuity of its operations while minimizing risks. If necessary, operational reorganization measures will be taken in order to minimize the impact of this situation.

Funchal, 6 March 2020

The Certified Accountant

Luís Miguel Miranda Fernandes

The Board of Directors

Dionísio Fernandes Pestana
Chairman

Hermanus Roelof Willem Troskie
Member

José Alexandre Lebre Theotónio
Member

José de Mefo Breyner Roquete
Member

Pedro Miguel Fino da Silva
Member

REPORT AND OPINION OF THE SUPERVISORY BOARD

2019 Period

Dear Shareholders of

Grupo Pestana S.G.P.S, S.A.

In accordance with the law and statutes we present the Report on the supervisory activity developed by the Supervisory Board as well as our 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 notes on the consolidated financial statements presented by **Grupo Pestana S.G.P.S, S.A.**'s Board of Directors (Company) regarding the 2019 period.

While exercizing our powers, we monitored i) the verification of Accounting records and corresponding supporting documentation and ii) the assessment of the accounting policies and valuation criteria adopted by the Company, tasks performed by KPMG & Associados, SROC S.A. (KPMG) as the Company's Auditor.

The Supervisory Board became aware of the terms of the Auditor's Report for the period of 2019, issued with no reserves and with an emphasis.

We also proceeded to analyze the Consolidated management report prepared by the Board of Directors which, in our understanding, is in accordance with the annual report, complements the information presented in the consolidated financial statements, reports the most significant facts regarding the Company's activity, therefore fulfilling all the applicable legal and statutory requirements.

In a with the previously presented, we are of the opinion that **Grupo Pestana S.G.P.S, S.A.**'s General Assembly approve the consolidated management report as well as the remaining accounting documents for the 2019 period.

Finally, the Supervisory Board would like to acknowledge **Grupo Pestana S.G.P.S, S.A.**'s Board of Directors**,** its Finance Directors and remaining employees, as well as the Auditor, KPMG, for the cooperation and support provided while carrying out their work.

Lisbon, 02 April 2020

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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 2019 (showing a total of 1,076,793,554 euros and total equity of 310,748,545 euros, including a profit for the year of 80,509,823 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 2019 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.

Emphasis of matter

We draw attention to Note 42 – Subsequent events to the consolidated financial statements that refers that in the last few months the Coronavirus disease has spread to several countries and it is not possible for the Pestana Group's Board of Directors to predict the future evolution of the disease and its respective impacts. Group Pestana actively follows the guidelines issued by health authorities, implementing preventive measures against disease contamination, whenever possible. With regard to its customers, suppliers and employees, The Group is seeking to ensure the continuity of its operations, but minimizing the risks to be incurred. If necessary, the Group Pestana will take measures to operationally reorganize the teams in order to minimize the impacts of this reality. Our opinion is not modified in respect to this matter.

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

2 April 2020 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)