PESTANA
HOTEL GROUP

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 2020

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Contents

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Consolidated management report for 2020

Dear shareholdres,

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 2020.

1
Message to stakeholders

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2020 was clearly marked by the COVID-19 pandemic. Its impact on the economy in general, on the health and quality of life of the populations, and also on the Tourism sector, was extremely negative on a global scale and will take some years to recover.

Having emerged in China in late 2019, this new coronavirus quickly proved its high contagion rate and dangerousness causing high mortality rates, especially in older populations. The lack of scientific knowledge about its behaviour did not allow to foresee medical solutions (medicine or vaccine) in the short term.

Thus, the governments of various countries tried to delay the contagion with measures restricting the freedom of movement of populations, closing economic activities, closing borders, limiting flights, implementing sanitary measures, and even forcing citizens to be confined to their homes.

The entire tourism sector, and especially in the countries of the Mediterranean basin where Portugal is included, registered successive record years with high levels of occupancy and revenue, with a lack of aircraft to meet the growing demand and a shortage of workers prepared to provide a high quality service to an increasingly demanding tourist. In the space of a month (March 2020) everything changed! With the exclusion of some exceptions provided by law, borders closed, planes were prevented from flying, hotels were prevented from receiving guests and therefore forced to close, as were restaurants, museums, concert halls, bars and nightclubs, shopping malls, among others, all for the common good – pandemic control.

The lack of knowledge, unpreparedness to deal with a crisis of this magnitude and insufficient coordination by governments in general, including those of the EU, caused an asymmetric adoption of unstructured measures and diffuse information aggravating the climate of uncertainty.

In this environment, the affected economic agents had no choice but to follow a strategy of total risk containment, adopting emergency measures to reduce operations, contain fixed costs, ensure liquidity and, in this way, seek to ensure the continuity of their operations and the future of their employees' jobs. It was certainly the most difficult year for the tourism sector in decades.

Like the rest of the sector, Grupo Pestana was coming from successive years of growth due to growing tourism demand, but also to its diversification strategy and sustained growth with a high commitment between excellent service quality and focus on results through strict cost control. It took advantage of these times to reorganize, diversify, modernize, reduce its debt level, and prepare for the future. It reinvested its profits, adopted innovation and cutting-edge technology in its processes. It developed new business models. It trained its professionals based on the best practices in the industry, complementing it by hiring qualified professionals who incorporated know-how and experience, even obtained in other economic sectors.

With the arrival of the crisis it was necessary to implement though measures quickly. In the first phase, the main concern was to safeguard the health and well-being of our customers and employees. To this end, it was essential to adapt new procedures that would allow us to continue to provide a quality service, but taking into account new health rules that safeguarded the health, well-being and working conditions of our employees (in person and in telework).

Once the hotels, restaurants, golf courses and other activities were closed, it was necessary to analyze costs, review processes, reorganize resources, renegotiate contracts, and adopt support and incentive measures available to most of the affected companies. Faced with the huge reduction in its turnover in 2020, the Group made use essentially of two types of measures:

- Employment maintenance support measures (simplified lay-off from 15 April to 31 July and progressive recovery support from August onwards but with much greater incidence after October when the units closed again), having to significantly reduce the respective working hours of its employees;
- Liquidity supporting measures with the legal application of debt moratoriums on bank loan repayments through prior agreements with these entities, deferring these repayments to the end of the respective contracts, however the Group has decided to continue to pay most of the interest on its loans.

Despite the rapid creation by the European Commission of a temporary support framework which extended the amount of state aid permitted under the rules of free competition in the European Union, some states, which already had high levels of debt from previous crises, sought to contain the impact of these measures on their budgets by limiting the extent of the support actually granted, with special emphasis on business groups. This was visible in the support per job received in Portugal in relation with other EU countries where the Group operates.

We thank all the stakeholders who interacted and supported the Group during this difficult time:

- To our guests and other customers who continue to believe in the quality of the Group's service and therefore continued, despite the difficulties and limitations, to privilege us with their reservations in the periods of greatest calm in the pandemic;
- To our employees, who from the first hour were willing to overcome difficulties with flexibility, sacrifice and spirit of mission, adapting procedures to the new sanitary rules and continuing to receive our customers with a smile and friendliness, as well as providing their cooperation in the numerous social support initiatives that the Group has been developing in the regions where it operates;
- To our suppliers who, realizing the gravity of the global situation of the sector, have made themselves available to collaborate in the search for quality solutions, reviewing processes and conditions;
- To the State and public entities of the various countries, for the support that was given throughout the unfolding of the crisis;

- To the investors and financial entities for their confidence in financing the Group, continuing to show total availability for additional funds if necessary, and approving with a large vote the application of waivers on the financial covenants of the respective contracts, namely those relating to EBITDA ratios, committed due to *force majeure* caused by the pandemic.

The central objective of the management measures was to safeguard the financial health of the Group's various companies in order to ensure the integrity of their assets and preserve human capital, essential factors for the post-pandemic activity resumption.

Despite the major challenges encountered in 2020, the Group has always fulfilled its responsibilities to third parties, including the completion of construction work and new hotels which were ongoing at the end of 2019.

As a result of this enormous effort and commitment, Grupo Pestana has presented a positive EBITDA for 2020 in the accounts that consolidate its entire operation. These are excellent news that reward and encourage the team to do even better in 2021. Then, it was also possible to maintain the Group's net debt at similar values to those reported at the end of 2019, if the investment made during the year with the completion of the expansion capex is excluded, which should reassure all our stakeholders.

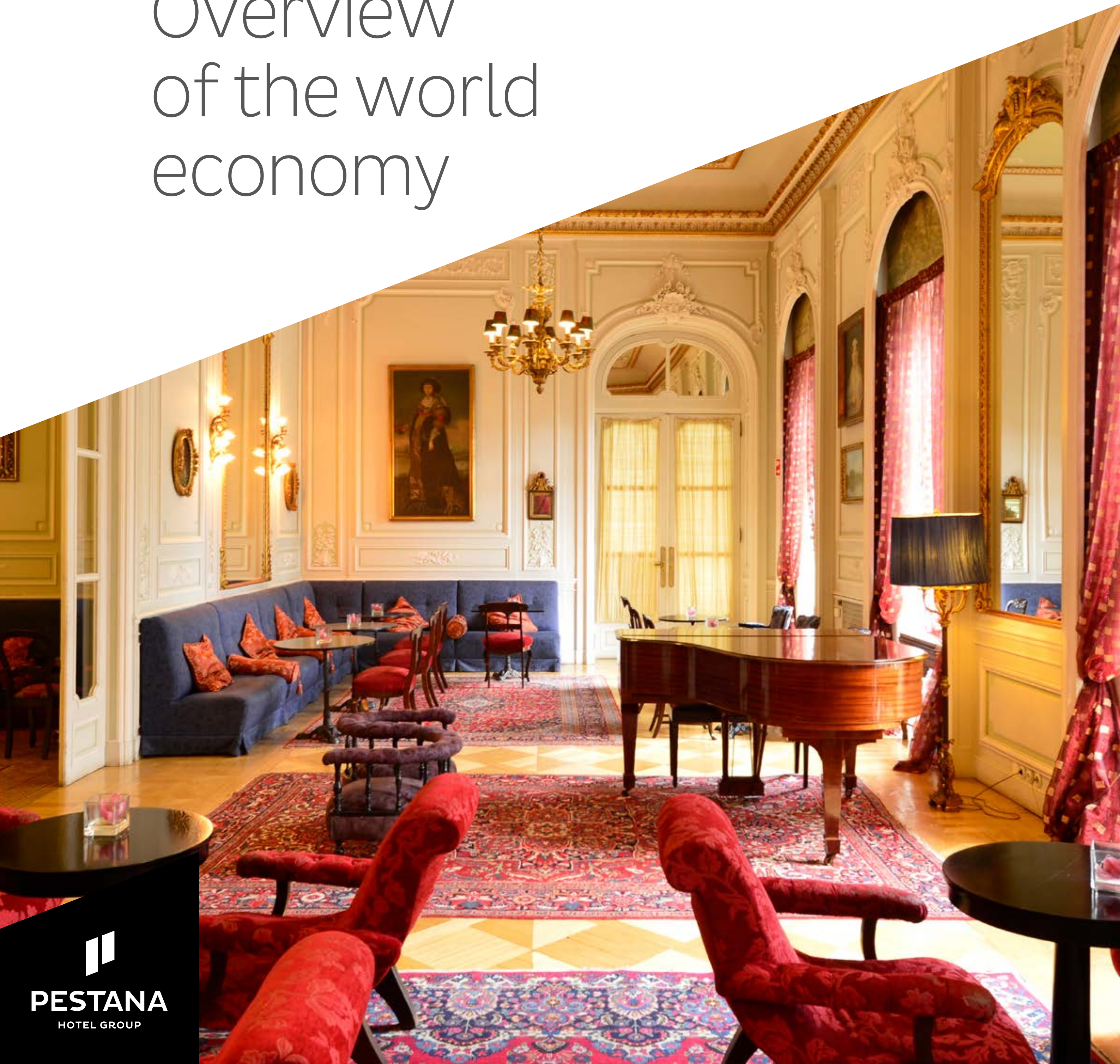
The risk diversification strategy implemented by the Group was a determining factor for this result, since its operations in the tourism and residential real estate business showed enormous resilience to the crisis during the year, with a significant increase in sales.

Now that we have reached this stage, with greater scientific knowledge about the virus and its impact, and with several effective vaccines having already been developed and being administered to the population at an accelerated pace, a gradual reduction of restrictive measures by Governments is expected to occur this spring.

Judging by what happened last summer, after a year without travel, the demand for resort destinations will certainly be high this summer, and although it will not reach the record levels of previous years, it should allow for the beginning of a recovery that we know will be gradual but hopefully sustained.

Grupo Pestana has safeguarded its assets, its core team and its financial structure in order to be prepared to react quickly to growing demand and to take advantage of good opportunities as they arise in this recovery phase. The teams are prepared and motivated, the hotels and other business units are ready to open within a week of this decision, including new hotels whose construction work has been completed, with the safety procedures adopted during the pandemic, in order to continue to provide our customers with "The time of their lives".

2 Overview of the world economy



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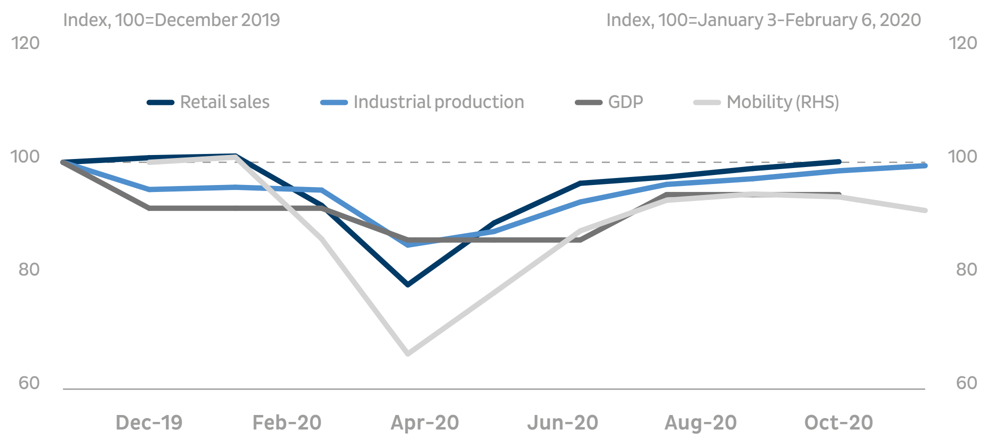
2018 and 2019 were years of pandemic growth in the world economy with global GDP growing 3% and 2.3% respectively (2.2% and 1.6%, respectively for economies of developed countries), despite the adoption of expansionary monetary policies by major countries. The increase in geopolitical tensions and the imposition of customs barriers by the USA contributed to the climate of uncertainty.

It was with this background that the global economy saw a new coronavirus emerge in China at the end of 2019 with high rates of contagion. Impossible to contain within Chinese borders, and with a late response from the World Health Organization (WHO) which had serious limitations in efficiently coordinating actions of various countries, the virus quickly spread on a global scale. The lack of scientific knowledge about the behavior of the virus, the inability to contain it, and the high mortality rate, especially among senior citizens, created a generalized climate of insecurity in the population.

The scientific community assumed the inability to develop an effective medicine or vaccine in the short term. The health systems of several of the countries most affected by the pandemic outbreak of the disease, now known as COVID-19, assumed they were not prepared to deal with to the exponential growth of intensive care unit admissions.

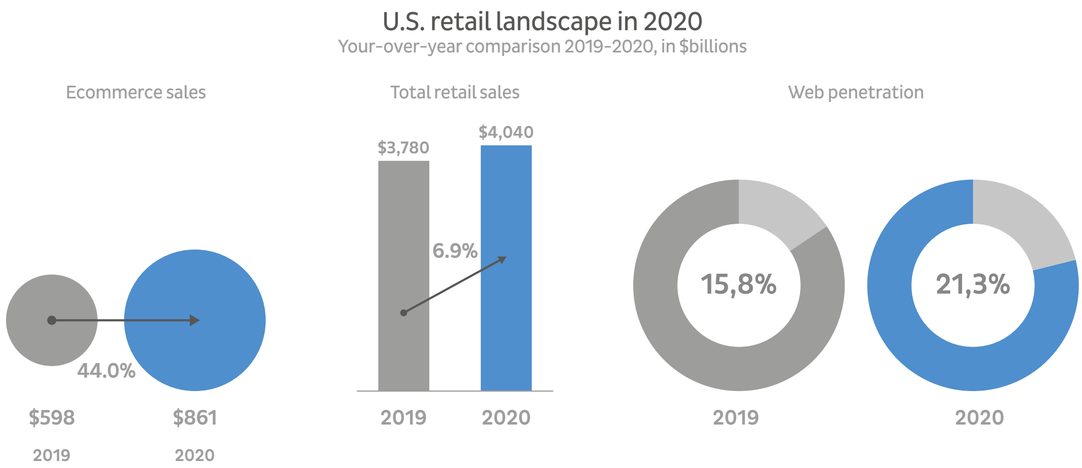
Given this scenario, governments in general adopted freedom of movement restricting measures, seeking to ensure the social distancing necessary to delay the transmission of the virus among people. Most developed countries went into full lockdown in March, April and May 2020, closing borders, limiting flights, shutting down economic activities, forbidding hotels from receiving guests, forcing restaurants, bars, nightclubs, event halls, shopping malls, retail stores, among others to close. In June and the following months, the generalized containment measures were eased, moving to a localized or regional containment phase.

The impact of these restrictive measures affected retail trade across various sectors in the first phase. However, as the months went by, the market adjusted for most of the production and sales of goods sectors, recovering the level of commercial exchanges and consequently the level of industrial production.



Source: World Bank – Global economic prospects Jan/21

As the pandemic continued over the months, there were profound changes in the channels through which goods were sold. Prevented from going to the stores, consumers sought to make their purchases through remote channels. Retailers, in turn, unable to sell through their stores, sought to promote their products online, promoting delivery and takeaway services. The big remote-sellers, e.g. Amazon and Alibaba, grew their market share significantly.



Source: Digital Commerce 360, U.S. Commerce Department

Several countries had in recent years been increasing regulation of cross border services. Faced with the need to continue working while ensuring social distance, with the COVID-19 pandemic, companies and families felt the urgent need to implement technological solutions that would allow them to work remotely. Thus, the digital economy had a disruptive and unprecedented growth during this period, especially in the telecommunications, technology, digital content, software, electronic payments, and cybersecurity sectors. These changes, more than cyclical, have permanently changed some business models and sharply accelerated the need for the digital transformation of organizations.

Inversely, services based on human contact suffered and continue to suffer significantly with the restrictive measures imposed by governments for the common good, namely with the social distance imposed to control the contagion of the virus.

The transport, travel, hotel, restaurant, entertainment, and events sectors are those with the greatest impact and where the negative impacts of these restrictive measures persist.

Therefore, the world economy will see its GDP drop in 2020 to a value around 4.3%, as estimated in January 2021 by the World Bank, broken down into a fall to about 5.4% in developed economies and 2.6% in emerging market countries and developing economies, where the weight of China is relevant, which will end up growing 2% in 2020

In 2021 a reversal is expected, with average growth projected at 4%, however GDP will remain 5% below pre-pandemic projections. This forecast is at risk of being revised downward if there is a reduction in the expected rate of the vaccination during 2021, with special relevance in emerging markets and developing economies, with greater difficulties in the access and administration of vaccines. The delay in implementing measures to support investment or the implementation of retraction policies to reduce the debt levels of the most affected countries, which during this pandemic period have increased considerably, are relevant factors to take into account.

REAL GDP

(PERCENTAGE CHANGE FROM PREVIOUS YEAR)	2017	2018	2019	2020e	2021f	2022f
WORLD	3,2	3,0	2,3	-4,3	4,0	3,8
ADVANCED ECONOMIES	2,4	2,2	1,6	-5,4	3,3	3,5
USA	2,4	3,0	2,2	-3,6	3,5	3,3
EURO AREA	2,5	1,9	1,3	-7,4	3,6	4,0
JAPAN	1,9	0,6	0,3	-5,3	2,5	2,3
EMERGING MARKET & DEVELOPING ECONOMIES	4,5	4,3	3,6	-2,6	5,0	4,2
CHINA	6,8	6,6	6,1	2,0	7,9	5,2
RUSSIA	1,6	2,5	1,3	-4,0	2,6	3,0
BRAZIL	1,3	1,8	1,4	-4,5	3,0	2,5

Source: World Bank Global Economic Prospects Jan/2021

The United States is, among advanced economies, the one whose resilience in facing this crisis stands out. Despite being severely impacted by the COVID-19 pandemic, with a high number of cases and deaths, and with significant governmental instability due to electoral and transition governmental incidences, the strength and regeneration capacity of its economy prevails over the rest, managing to limit the reduction of its GDP to only 3.6%. Also contributing decisively to this result were tax incentives and income support measures that were much higher than those made available during the global financial crisis of 2009.

Likewise, after overcoming the worst phase of the pandemic crisis and the referred political instability, according to World Bank projections, the American economy presents favorable growth conditions, and it is estimated that by the year 2021 the losses verified in 2020 will be almost entirely reversed. The productivity stimulation plan to be implemented by the new presidential executive led by President Biden will be decisive for this growth.

Following the historic collapse of the European economy due to the pandemic, in the third quarter of 2020 there was a resurgence of economic activity, which was quickly interrupted by the re-emergence of new COVID-19 cases at the end of the year, leading to the implementation of further containment measures. The majority of the Eurozone's service sectors, particularly travel and tourism, remains severely affected until an effective control of the pandemic leads to a return of confidence.

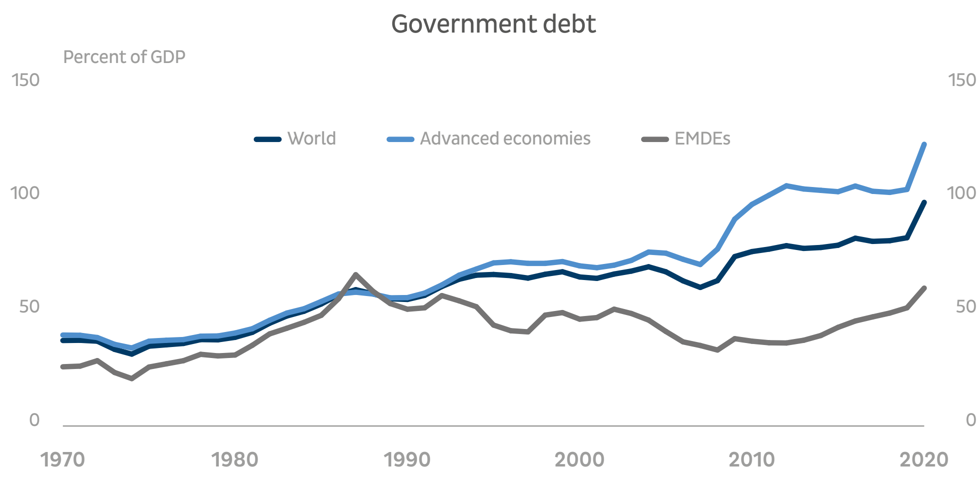
Regardless of the effects of the pandemic, industrial production continues to recover, driven by the increase in external demand, where China plays a major role. This trend and the implementation of measures to stimulate economic development should contribute to the estimated growth for 2021 of 3.6%. The commonly called "European Bazooka" with a total value of 750 billion Euros, whose first tranches are not expected to be delivered before the end of the summer 2021, should focus on development along three axes:

- Recovery and resilience
- Innovation and digital transition
- Climate transition

In the group of developing economies, China plays a relevant role as the engine of the world economy. It was the first country to suffer the consequences of the pandemic, but through strict control it managed to recover quickly, and it was the only country of relevant size to have positive growth in its GDP in 2020 (2%). This growth, heavily supported by state economic recovery stimulus (fiscal and investment), with significant impact on the increase in deficit and debt of the Chinese state, should accelerate in 2021 to about +7.9%, recovering the GDP in this year to pre-pandemic values.

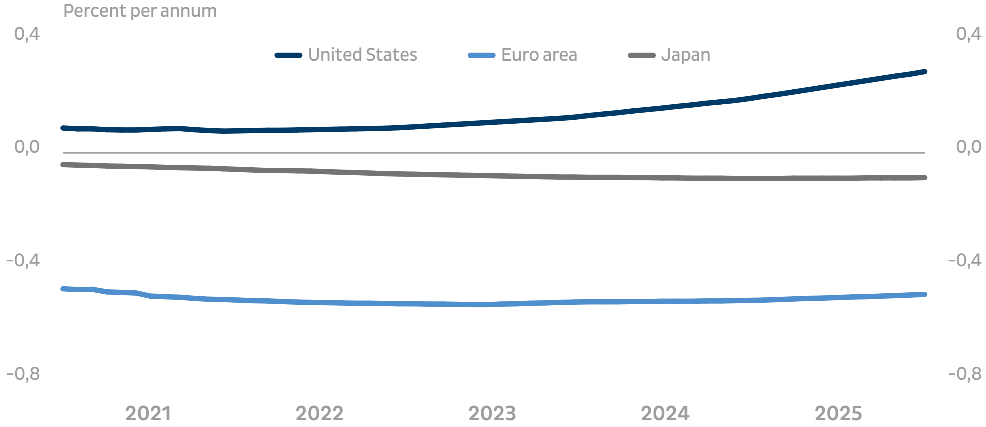
The numerous support measures implemented by governments in general, to limit the reduction in GDP and the increase in unemployment, due to the containment measures adopted, implied a considerable increase in the level of public debt, with special concern for countries, such as Portugal and others in southern Europe, that already carried high debt levels from previous crises.

Although in the short term, with the need for monetary stimulus policies to revitalize economies in general, interest rates are projected to remain low, at a later stage it is expected that the most indebted economies will have difficulty paying off their commitments.



Source: World Bank – Global economic prospects Jan/21

Market-based interest rate expectations

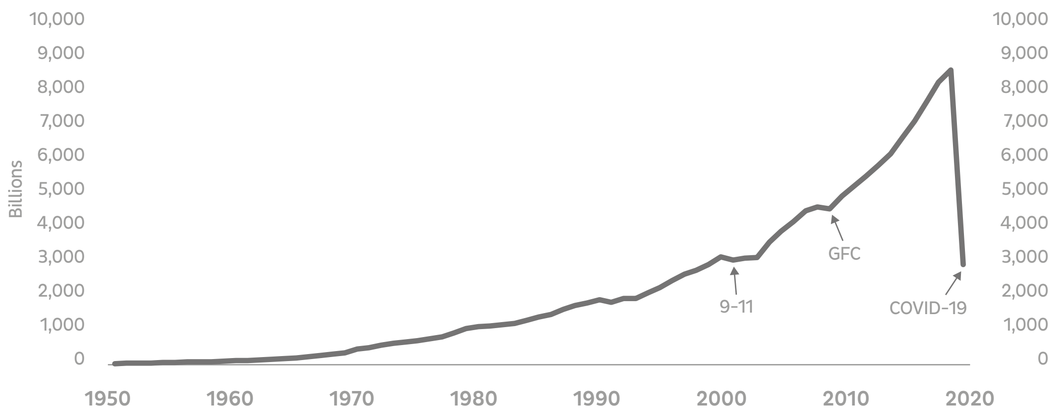


Source: World Bank – Global economic prospects Jan/21

3
Tourism

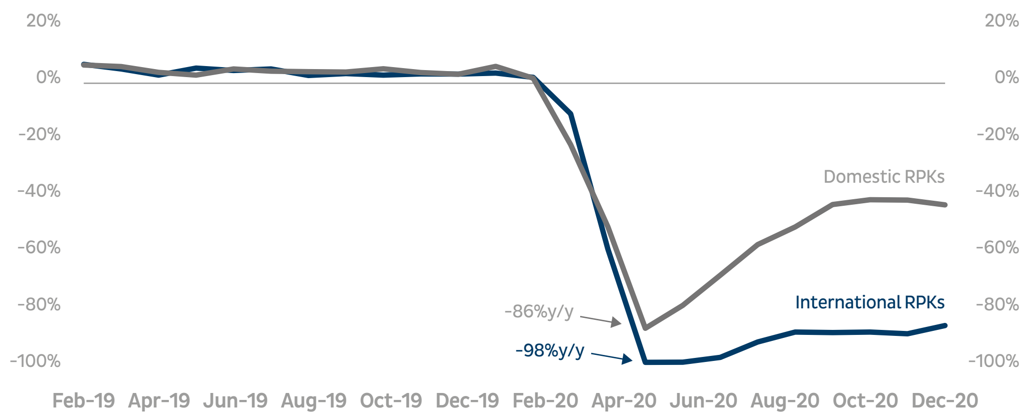
World tourism had been growing consistently and consecutively at an average rate of about 4% per year for the past 50 years. In 2020, the COVID-19 pandemic caused the biggest shock to the air passenger transportation industry and consequently tourism since the second world war. As shown in the table below the previous September 11 and global financial crisis implied slight adjustments in the curve when compared to the current pandemic crisis.

Worldwide revenue passenger kilometers (RPKs) flown annually



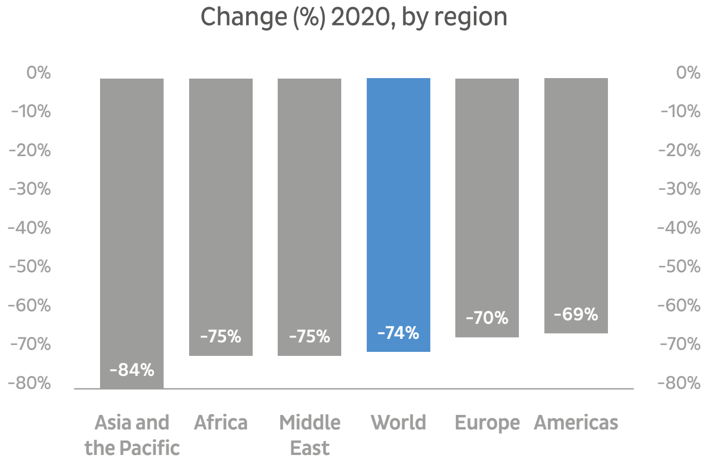
Source: IATA Economics, using data from IATA and ICAO

% year-on-year RPK change



Source: IATA Monthly Statistics

On the one hand, the containment policies imposed by governments in the current crisis began in March 2020 but have lasted for about a year. On the other hand, unlike previous crises that had a greater impact on some countries than others, due to their market structure or financing, for example, in this case the crisis in the tourism area had an identical and transversal impact on practically the entire world, as can be verified in the most recent information on arrivals made available by the UNWTO.



Source: World Tourism Organization (UNWTO) ©
Data as collected by UNWTO, January 2021. Published: 28/01/2021

The impact of the reduction of tourism activity in each country therefore depends on the degree of relevance of tourism in its economy.

Due to the cancellation of flights, forced closures of events, bars, nightclubs, restaurants, museums, shows and hotels due to the practical impossibility of receiving guests, companies in the tourism sector have been forced to reduce their structure, close operations, reduce fixed costs, and make use of the supports created dropwise by the various governments, many of them constrained by the budget limitations of their countries and by the delay in allocating the support defined under the “European bazooka”, whose first funds are expected to reach the real economy only by September 2021.

Thus, in addition to resorting to lay-off measures, tourism companies had to renegotiate contracts, adjust processes and operations, suspend investments, restructure financing, among other cost-cutting and financial reorganization measures, in order to ensure, in an uncertain future, the liquidity that would allow them to continue their operations.

Fortunately, this crisis has found the financial sector stronger and with a more solid capital structure, compared to the global financial crisis of 2009, for example, and therefore more capable of supporting the more resilient groups of companies whose management and operational capacity had already passed previous crises with distinction.

In the summer of 2020, there was an easing of restrictive measures affecting the tourism sector and especially the hospitality sector. Companies quickly adjusted their service level and processes to accommodate the new sanitary procedures advised by health organizations. It was enough to give confidence to customers and employees who, tired of consecutive months of confinement, felt the essential need to go on vacation for a few days/weeks and to resume their professional activity.

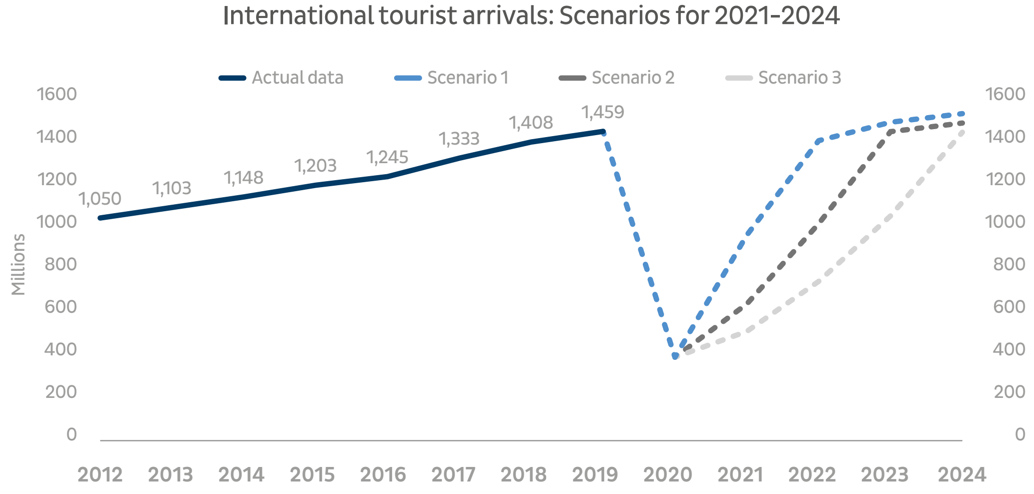
Given the practical impossibility of air travel, this demand was confined to proximity markets, where travel by car made many people's vacations a successful reality. Hotels saw demand for bookings in the domestic and regional proximity markets grow rapidly for the summer. Given the cost reductions they had achieved in previous months, despite relatively low occupancy levels, good results were possible, with some groups even achieving positive operating results. That summer was as a great sign for what is expected to occur in the summer of 2021.

After the summer, the off-season returned and was already expected to be exceptionally long, with the winter months in the northern hemisphere contributing to an increase in the level of pandemic contagion and a consequent return to containment measures.

This crisis served as a lever to enhance some structural changes. Online marketing channels have become the preferred channel for booking trips and stays, bringing new challenges in the marketing and promotion of tourist destinations worldwide. The incorporation of technology, digitalization, and process automation in the tourism sector and with special focus on the hospitality sector have accelerated, requiring significant allocation of capital that requires size and scale to enhance return on investment. The new areas of revenue management, business intelligence and social marketing are now core business areas, allowing for a quick reaction from hotels to market volatility, leading to deep restructuring of commercial areas of hospitality companies.

Even though at this moment the light at the end of the tunnel is already visible with the vaccination process being rapidly implemented, where the British market stands out as determinant for tourism demand in Portugal and other southern European countries, it is still too early to foresee a full recovery of the sector. The year 2021, and especially the first half, will continue to be significantly affected by restrictive measures and considerable uncertainty.

This recovery will always be gradual, given the need to restore confidence among the different tour operators and the general public and the reactivation of air connections between feeder and receiving markets. Depending on the scenario, recovery is expected to occur between 2022 and 2023.



Source: World Tourism Organization (UNWTO) (December 2020)

In this reality it is difficult to highlight the evolution of tourism in each of the regions or countries since its evolution throughout the year 2020 was somewhat uniform. Naturally, countries with better economic indexes, properly structured financing and less dependence on the travel and tourism sector, which invest on a more aggressive vaccination program, will be the ones that will come out of this crisis earlier with relief from its impact.

Conversely, developing countries, for example in Africa, Asia, and South America, with greater difficulties in the level of health care, are expected to emerge from the pandemic crisis later and more gradually.

In any case, the intrinsic factors that led to the success of tourism in several countries, particularly in southern Europe, continue to be present (quality of service, ease of welcome and communication, cultural and artistic diversity, favorable weather and environmental conditions, cost of living differential between the main tourist destinations and the main source markets, among others) and will be the driver for its recovery in the medium term to growth rates similar to those verified in recent years.

4 Key figures

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	2020	2019	Δ	Δ%
Number of rooms	8,201	8.350	(149)	-1.8%
Revenue	163.1	349.1	(186.0)	-53.3%
Gross Operating Profit (GOP)	27.3	127.0	(99.7)	-78.5%
EBITDA	46.6	143.5	(96.9)	-67.6%
Adjusted EBITDA*	41.8	131.6	(89.8)	-68.2%
Net debt	413.0	381.3	31.7	8.3%
Net debt/EBITDA	8.88	2.66	6.22	234.2%
Net debt/Adjusted EBITDA	9.87	2.90	6.97	240.7%
Total Assets	962.7	1,076.8	(114.1)	-10.6%
Total Equity	272.4	310.7	(38.3)	-12.3%
Average Room Rate (ARR)	84.2	102.3	(18.1)	-17.7%
Pestana Hotels & Resorts	73.2	86.7	(13.5)	-15.5%
Pestana Collection	138.9	179.0	(40.1)	-22.4%
Pestana CR7 Lifestyle	90.0	116.8	(26.8)	-23.0%
Pousadas de Portugal	106.1	125.8	(19.7)	-15.7%
% Occupation**	44.8%	68.3%	-23.5%	-34.5%
Pestana Hotels & Resorts	50.2%	70.7%	-20.5%	-29.0%
Pestana Collection	25.4%	68.4%	-43.0%	-62.9%
Pestana CR7 Lifestyle	54.6%	76.2%	-21.6%	-28.4%
Pousadas de Portugal	39.8%	59.3%	-19.5%	-32.9%
Guest Satisfaction Index (GSI)	88.9%	88.8%	0.1%	0.1%
Pestana Hotels & Resorts	86.8%	88.0%	-1.2%	-1.4%
Pestana Collection	92.0%	91.2%	0.8%	0.8%
Pestana CR7 Lifestyle	89.9%	89.3%	0.6%	0.7%
Pousadas de Portugal	90.2%	89.3%	0.9%	0.9%

* Excluding Gains/Losses on financial investments
** Adjusted available inventory during confinement periods

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, is 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 74 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 carried out in 2020 were as follows:

- Continuation of the works in the Rua das Flores building, 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. Construction is estimated to be completed and the hotel to start operating in 2021, having a total project cost of approximately 15,000,000 Euros, of which approximately 14,700,000 Euros have already been incurred, approximately 4,900,000 Euros in 2020.
- Further rehabilitation and construction of the new “Pestana Douro Hotel” with 165 rooms, located with a privileged view over the Douro River, representing an investment of approximately 16,000,000 Euros, of which approximately 15,800,000 Euros have already been incurred (2020: 4,300,000 Euros) and which is scheduled to open in the year 2021, depending on pandemic developments;
- Completion of the new Pestana Lisboa Vintage unit, for which a 17-year, 4-star, 90-room sub-lease agreement had been signed in 2018, at Rua Braamcamp in Lisbon, with opening scheduled for the year 2021, as soon as the pandemic control allows it. The total investment in this project amounted to around 5,800,000 Euros, of which 2,500,000 Euros in 2020;
- Completion of the last 139 rooms of the Pestana Blue Alvor and a restaurant, in Quinta da Amoreira, in the Algarve region, the first five-star all-inclusive hotel, with 491 rooms (352 completed in 2019), 3 restaurants, 2 bars, 6 swimming pools, kids club and spa. Built on a 12.8 Ha site, located between Pestana Alto Golfe and the Pestana Alvor Praia and Pestana Delfim hotels, it has a direct connection to the sand of Three Brothers beach in Alvor. This hotel represented a total investment of approximately 40,000,000 Euros, of which 2,000,000 Euros in 2020;

- Further works on the new 4-star unit located in the center of Câmara de Lobos, Pestana Fisherman, with a capacity for approximately 42 rooms, for which there is a lease agreement for a period of 50 years. The total investment will be approximately 2,400,000 Euros, with 1,200,000 Euros having already been incurred, 1,100,000 Euros of which in 2020. The opening of this unit is scheduled for 2022.
- Completion of the Pousada Vila Real de Santo António, for which a lease agreement was signed in 2017 for a period of 20 years, for the renovation of a set of urban buildings located in the historic center of Vila Real de Santo António. This "Pousada" has 57 rooms, a restaurant and an events room, which is expected to open in 2021, with a total investment of around 3,800,000 Euros, of which 1,000,000 Euros occurred in 2020;
- In 2020, a set of rehabilitation works of different units were completed, with highlight to the Pestana D. João II hotel and the Pousada de Estoi, in the Algarve, and the former condition of the facilities was restored and updated in order to maintain assets in excellent conditions to optimize their exploitation. The total amount spent in the various units in 2020 was approximately 3,000,000 Euros;
- Continuation of the project, for which a lease agreement had been signed, with a term of 27 years, for a new 4-star unit with 84 rooms at Rua Augusta, in Lisbon. The project is in the final stages of licensing, with a planned investment of approximately 7,000,000 Euros;
- Continuation of the project for the 4-star Pousada with 39 rooms, in Rua São Tomé, in the Alfama in Lisbon, for which a lease agreement with a term of 25 years had been signed. The project is in the final stages of licensing, with a total investment of approximately 2,700,000 Euros;

In 2020, the Grupo Pestana continued its commitment to Sustainability, whether in its environmental aspect or in improving the well-being and quality of life of the local communities where the Group operates, promoting their development and greater social equity. As a result, energy efficiency and decarbonization projects were maintained and developed and sustainable investment projects were made, funded with the so called "green bonds". On the other hand, support was maintained for projects of a social nature, such as the support and volunteering at Criamar and in the João 13 Association. In the pandemic context throughout most of the year, support was given to health professionals, from their accommodation at the Pousada do Palácio de Queluz or Cidadela de Cascais, to the donation of goods intended for their medical activity, such as the ventilators donated to the Autonomous Region of Madeira.

5.2 Profit and loss highlights

In 2020, Grupo Pestana recorded sales of 163.1 million Euros, which reflects a decrease of 53% compared to the previous year. Due to the effect of the COVID-19 pandemic, hotel sales decreased by 77%, however, the diversification strategy followed by Grupo Pestana dampened the decrease in its revenue. For example, Vacation Club sales fell by only 35% and golf sales by 47%. The investment in tourist and residential real estate proved to be a winning bet in 2020 as it showed enormous resilience to the crisis during this year, and even showed an 18% increase in sales as the pandemic context caused an increase in the demand for real estate in quieter areas and with outdoor areas with less propensity for virus transmission.

The Tróia Eco-Resort real estate project that the Group is operating in Tróia continues to be the most significant in terms of sales, having grown compared to the previous year. In addition, the Silves Golf Resort real estate project in the Algarve has contributed to the reinforcement of the available inventory and registered its first deliveries in 2020. Two other real estate projects are still under construction, one in the Azores and one in Madeira, and the Group will soon be developing a new project in Comporta, having already acquired a new land in the same region with 45,113 m^2 in 2021.

The COVID-19 pandemic led to the application of severe restrictions on national and international traffic, including the exclusion of Portugal from the air corridor with the United Kingdom, which consequently resulted in a temporary reduction in the activity of the Algarve units. Despite this situation having resulted in a 75% drop in sales, Algarve units managed to achieve a positive gross operating profit (G.O.P.) of 1.9 million Euros, which represented only 56% of the decrease in sales.

In Madeira, there was a decrease of 78% compared to the previous year, with the hospitality operating profit only down 55% of this figure. Due to the worsening of the pandemic in the region, the regional government determined the suspension of the activity of all tourist resorts in March 2020. Additionally, it proceeded to the implementation of quarantine and mandatory social isolation to all passengers disembarking in the airports of the Autonomous Region of Madeira from 15 March 2020, for a mandatory period of 14 days, regardless of the length of stay. These decisions caused an increase in booking cancellations and guests who were staying in the hotel units had to anticipate their departure out of fear of the definitive closure of air traffic from the Region to their countries of origin. Thus, although Madeira Island remained on the list of safe destinations for most countries, such as the United Kingdom, which is one of the Group's main markets, it was negatively affected by the drop in flights to the island and by the negative association to the pandemic evolution recorded in mainland Portugal. It should be noted that the number of deaths and the number of infected people in Madeira was much lower than in the rest of Europe.

The Pousadas de Portugal network, due to its greater tendency towards domestic market demand and the fact that it is mostly located outside large urban centers, was better able to receive the existing market demand, namely in the summer. However, and despite these positive factors, due to the fact that the domestic market already represented just 44% of the Pousadas' customers in 2019, there was a 73% decrease in sales. However, given the high weight of variable expenses in the Group's structure, as what happened in the case of the Algarve and Madeira, the Pousadas' operating profit only decreased by 51% compared to the drop in sales.

The activity in Lisbon and Oporto, where the units belonging to the Pestana Collection brand are located, was more affected by the effect of the pandemic due to the very limited air traffic, as well as to the increased reluctance of tourists to travel to more densely populated cities, where the spread of the virus was more prevalent. As a result, these units showed negative operating profits, mainly due to the 85% decrease in sales, although their operating profit fell by only 60% compared to sales.

Despite the decrease in demand, Grupo Pestana ensured that there were no significant fluctuations in the average price per room in its units, having recorded a decrease of only 18% compared to the previous year, in a year of pandemic crisis, where the average price in 2020 amounted to 84.2 Euros.

The origins of the Group's tourists followed the market trend, being more dependent on the domestic and border markets following the restrictions on air traffic, so there were drops in traditional markets such as the United Kingdom and also in markets on the rise, as was the case of the USA, which had been gaining importance in recent years.

Similarly to what happened in hospitality, the Vacation Club business, sale of periodic housing and Options, recorded a decrease in 2020 compared to the previous year, both in terms of sales of new agreements (a decrease of about 72%) and in terms of maintenance fees (a decrease of about 70%), since the temporary decrease in the activity of the units and the existing air traffic limitations impacted the possibility to use the right contracted and the negotiation of new contracts.

Despite the impact of the pandemic and the decrease in sales in 2020, the Grupo Pestana still had a positive EBITDA. The previously explained strategy of diversification of business areas that has been followed, as well as the relevance of variable expenses, have shown the Group's ability to face times of crisis, with the decrease in EBITDA excluding gains on the sale of financial investments representing only 48% of the drop in sales.

Measures were implemented to control and reduce costs, such as the immediate reduction of variable expenses, especially cleaning, laundry, energy, licenses, temporary work and commissions. Contracts with suppliers were also renegotiated, including lease agreements, with total or partial reductions in the value of fixed rents for a certain period.

Personnel expenses decreased by 44%, due to the use of employment maintenance programs and the partial exemption of social security charges borne by the employer, measures created by the State to support companies in the context of the pandemic, the non-renewal of fixed-term contracts and the non-employment of fixed-term contracts during the summer high season. The flexibility shown by the Group's employees from the beginning to overcome the difficulties allow the relocation of employees, with their prior authorization, from temporarily closed units to open units.

In 31 December 2020, the Group sold the shares representing 47.73% of SDM – Sociedade de Desenvolvimento da Madeira, S.A.'s share capital for 6,813,058 Euros, generating a capital gain of 5,643,367 Euros. As a consequence of this transaction the Group also ceased to have an investment in SDEM – Sociedade de Desenvolvimento Empresarial da Madeira, Sociedade Unipessoal, S.A. The sale price will be received in two tranches, until June 2022 and June 2023. In 2019 the Group sold the investment held in Beloura, S.A., with a capital gain of 11,570,122 Euros.

The tax loss generated in 2020 led to the recognition of deferred tax assets amounting to 6.6 million Euros, which are expected to be recovered within 3 to 4 years.

	2020	2019
Rooms (total keys)	8,201	8,350
Hotel units	74	73
(Amounts in million Euros)		
Revenue	163.1	349.1
Tourist activities	136.0	312.3
Non-tourist activities	27.1	36.8
GOP (a)	27.3	127.0
EBITDA (b)	46.6	143.5
EBITDA excluding gains/losses on financial investments	41.8	131.6
Amortization/Depreciation/Impairment	-53.5	-43.5
EBIT	-6.9	100.1
Net interests	-15.6	-16.0
Taxes (c)	4.4	-3.1
Net profit including non-controlling interests	-18.1	80.5
GOP margin (%)	20%	41%
EBITDA margin (%)	29%	41%
EBIT margin (%)	-4%	29%
ROE (%)	-4.8%	18.9%
EPS	-0.22	0.96
EBITDA / Net interests (..x)	3.0	9.0
Average cost of gross debt (%)	3.8%	4.2%

Notes:
(a) "Gross operating profit" calculated from a management perspective (uniform system of accounts for the lodging industry)
(b) Operating income excluding Depreciation and amortization expense, Impairment losses and reversals of depreciable assets, Casino gambling tax and other minor accounts
(c) includes gambling tax paid by Casino

5.3 Consolidated statement of financial position highlights

Grupo Pestana has a total capital investment of 793.4 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.

As a result of the impact of the pandemic, Grupo Pestana focused on measures to ensure the preservation of its liquidity. Despite having guaranteed the completion of the investments under construction, no projects were started at this stage, and measures were implemented to control and reduce costs. Furthermore, liquidity supporting measures were used, with the legal application of debt moratoriums on bank loan repayments through prior agreements with these entities, deferring these repayments to the end of the respective agreements. However, the Group has decided to continue to pay most of the interest on its loans.

Expansion capex in 2020 amounted to 16.8 Million Euros. If we disregard this effect, as well as the exit of SDM from the consolidation perimeter, Net Debt (including the effect of applying IFRS 16) in 2020 remained stable. The Group also holds working capital of 64.1 million Euros.

Sum of non-remunerated funding: Equity plus cash generated by the Vacation club activity (which in the Statement of financial position are recorded under Liabilities – Deferred revenue) cover 48% of Adjusted Assets, which demonstrates the maintenance of a good debt-to-equity ratio.

The Group's debt is concentrated in the medium/long term, which represents 90% of total financial liabilities. As at 31 December 2020, the Group has cash available in the amount of 57.8 million Euros and credit lines of 89.4 million Euros available in the financial institutions with which it works and which represent in total 31% of the debt value. This ratio increases to 47% when lease liabilities are not included.

Despite the effects of the COVID-19 pandemic, Grupo Pestana continues to show a solid financial position, adequate financial autonomy, with corporate debt representing 22% of the total and with its refinancing risk under control. The Grupo Pestana remains rated at investment grade, according to the Axessor rating agency, and is prepared to meet its short and medium-term commitments, having the necessary financial resources to continue its business as soon as the economic recovery takes place.

(Amounts in million Euros)

Capital investments	2020	% TOTAL	Var 20/19	2019	% TOTAL	Var 19/18	2018 (a)
Investment (Fixed assets) (b)	705.8	89%	-4%	735.7	90%	3%	711.6
Deferred tax liabilities	-11.6	-1%	-38%	-18.7	-2%	-13%	-21.5
Total adjusted fixed assets	**694.2**	**88%**	**-3%**	**717.0**	**88%**	**4%**	**690.1**
Investment (Financial assets) (c)	16.6	2%	-5%	17.5	2%	1%	17.3
Other non-current assets (d)	18.5	2%	55%	11.9	1%	-12%	13.5
Current assets – Current liabilities (e)	64.1	8%	-5%	67.8	8%	56%	43.3
Total Capital investments (Adjusted assets)	**793.4**	**100%**	**-3%**	**814.2**	**100%**	**7%**	**764.2**

Funding origins	2020	% TOTAL	Var 19/18	2019	% TOTAL	Var 18/17	2018 (a)
Equity	272.4	34%	-12%	310.7	38%	26%	247.5
Collected deferred revenues (f)	145.4	18%	-8%	158.5	19%	-10%	175.2
Deferred sales cost (f)	-40.9	-5%	-7%	-44.0	-5%	-23%	-57.4
Total non-remunerated funding	**376.9**	**47%**	**-11%**	**425.2**	**52%**	**16%**	**365.3**
Long term financial debt (g)	424.1	54%	6%	401.2	49%	5%	380.4
Other non-current liabilities (h)	3.5	0%	338%	0.8	0%	-34%	1.2
Total non-current funding	**804.5**	**101%**	**-3%**	**827.1**	**102%**	**11%**	**746.9**
Short term financial debt (g)	46.7	6%	-54%	102.1	13%	74%	58.6
Cash and cash equivalents	-57.8	-7%	-50%	-115.1	-14%	179%	-41.3
Net current debt	**-11.1**	**-1%**	**-15%**	**-12.9**	**-2%**	**-175%**	**17.3**
Total funding origins	**793.4**	**100%**	**-3%**	**814.2**	**100%**	**7%**	**764.2**

Net debt (i)	413.0		6%	388.2		-2%	397.7
EBITDA	46.6		-68%	143.5		4%	137.9
Working capital	64.1		-5%	67.8		56%	43.3
Net capex (j)	23.5		-66%	69.7		-30%	99.5
Capex under construction	51.9		1%	51.4		-20%	64.6
(Net debt – Capex under construction) / EBITDA ratio	7.76		231%	2.35		-3%	2.42
Net debt / EBITDA ratio	8.88		228%	2.70		-6%	2.88
Net debt / EBITDA ratio excluding IFRS 16	8.04			1.72			2.08
Net debt / Equity ratio	1.10		20%	0.91		-16%	1.09
Net debt / Total assets ratio (%)	52%		9%	48%		-8%	52%
Liquidity ratio (%)	12%		-47%	23%		143%	9%

Notes:
(a) Considering the adoption of IFRS 16
(b) Includes Tangible fixed assets, Intangible assets and Investment properties
(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 and Deferred revenue
(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
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.

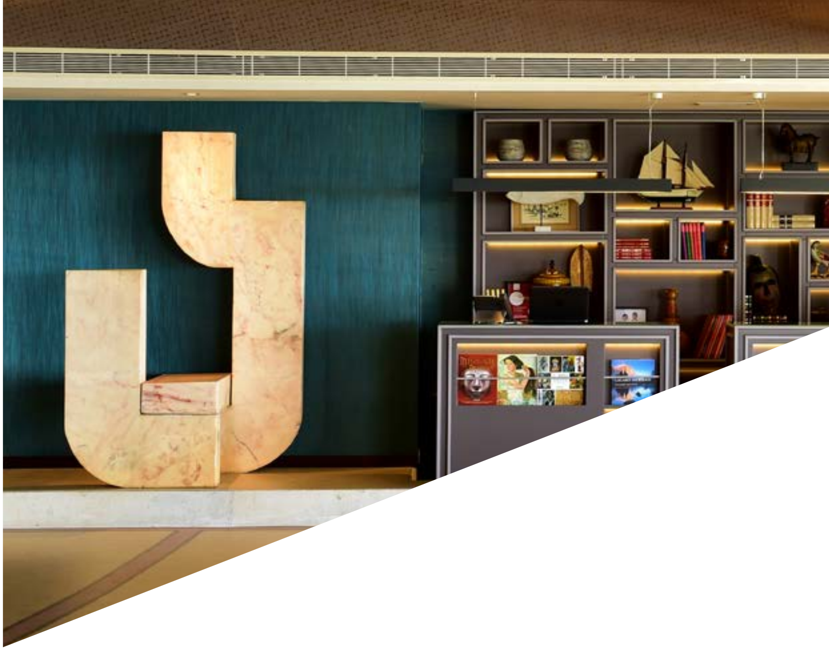
The management of financial risks is described in the Notes to the Consolidated financial statements which are appended.

7
Relevant issues that occurred after the year end

On 1 February 2021, an urban plot in Brejos da Carregueira de Baixo, parish of Comporta, Municipality of Alcácer do Sal, was acquired by public auction, for the sale of plots with approved architectural project. The base value of the sale procedure was 6,870,000 Euros, with Grupo Pestana bidding the amount of 6,952,500 Euros, of which 3,451,000 Euros have already been paid, with the respective adjudication already obtained by the referred Municipality. The remaining amount will be paid when the deed is signed. As a result of the acquisition, Grupo Pestana commits to carry out the urbanization and infrastructure works of the building within a period of 3 to 5 years, which it estimates to invest an amount between 1.75 million Euros and 2 million Euros.

On 5 March 2021, the Portuguese Court of Auditors ("Tribunal de Contas") approved the disposal transaction of SDM – Sociedade de Desenvolvimento da Madeira, S.A. to the Autonomous Region of Madeira regarding the agreement signed between the parties on 31 December 2020 and effective on that same date. This decision was already expected by Grupo Pestana at the date of agreement signature, based on the information provided by its external lawyers who accompanied the transaction.

Consolidated
Management
Report



8
The near future

PESTANA
HOTEL GROUP

The current degree of uncertainty leads the Group to prepare the short-term future with great caution. The general containment measures currently in place in most OECD countries reinforce this position. The budget restrictions of several governments that limit the support granted and the delay in making available the incentives of the so-called "European bazooka" continue to contribute to a cautious attitude that discourages new investment by entrepreneurs and investors.

The current situation may generate countless new opportunities, given the difficulties of some operators in meeting their commitments, with higher levels of financial leverage, allowing other investors to take their place.

The crisis is also an opportunity for companies to reorganize themselves and, once they have successfully overcome this difficult period, to emerge stronger, able to retain and attract talent to meet the challenges of an increasingly global and competitive market.

Grupo Pestana has almost 50 years of history, having gone through several economic and financial crises with evident success, always aware that after recovering another crisis will come. The Group has grown significantly in recent years, taking advantage of the good times in the tourism sector, but always preparing for the future, reinvesting and gaining flexibility. Additionally, it has attracted talent from other business areas, made its cost structure more flexible, incorporated cutting-edge technology into its processes, diversified investments reducing the level of risk and restructured its financing by diversifying origins and ensuring debt service in line with its cash flow generating capacity and investment plans.

When this pandemic arrived, the Group put all possible solutions in place to reduce its cost structure, without taking drastic measures that could lead to situations of rupture, preserving as much as possible its assets, its human, real estate and financial. The Group is thus prepared to the resumption of activity and to enter a new phase of growth that is expected to begin as soon as possible and that will certainly bring new challenges which will be overcome with similar efficiency together with its partners.

Consolidated
Management
Report

9
Recognitions

The members of the Board of Directors wish to express their thanks 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 appreciate 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, 19 March 2021

The Board of Directors

Dionísio Fernandes Pestana

Chairman

Hermanus Roelof Willem Troskie

Member

José Alexandre Lebre Theotónio

Member

José de Melo Breyner Roquete

Member

Pedro Miguel Fino da Silva

Member

Appendix to the Consolidated Annual Report

PESTANA
HOTEL GROUP

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 2020 and 2019, Dionísio Fernandes Pestana holds 835,300 shares of the Grupo Pestana S.G.P.S., S.A. and also the 82,694,700 remaining shares, by virtue of being the last shareholder of the company that holds them directly.

Funchal, 19 March 2021

The Board of Directors

Dionísio Fernandes Pestana

Chairman

Hermanus Roelof Willem Troskie

Member

José Alexandre Lebre Theotónio

Member

José de Melo Breyner Roquete

Member

Pedro Miguel Fino da Silva

Member

Consolidated financial statements

PESTANA
HOTEL GROUP

Contents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts expressed in Euros)	NOTES	31 DECEMBER 2020	31 DECEMBER 2019
ASSETS			
Non-current			
Tangible fixed assets	6	730,277,068	755,612,709
Intangible assets	7	9,561,824	17,083,164
Investment properties	8	6,903,393	6,995,847
Investments in joint ventures	9	4,535,112	4,959,194
Investments in associates	10	12,060,539	12,590,287
Equity instruments at fair value through profit and loss	11	5,939,627	6,925,558
Deferred tax assets	12	292,810	358,266
Trade and other receivables	14	19,018,990	11,587,973
		788,589,363	**816,112,999**
Current			
Inventories	15	69,907,459	83,926,171
Trade and other receivables	14	43,847,266	48,607,150
Income tax receivable	16	2,589,299	13,085,831
Cash and cash equivalents	17	57,781,523	115,061,403
		174,125,547	**260,680,555**
Total assets		**962,714,910**	**1,076,793,554**
EQUITY			
Capital	18	125,420,973	125,420,973
Other reserves	19	31,020,390	27,769,914
Retained earnings	20	127,164,366	65,866,574
Profit for the period attributable to shareholders		(19,162,622)	76,575,701
Non-controlling interests	21	7,996,626	15,115,384
Total equity		**272,439,733**	**310,748,545**
LIABILITIES			
Non-current			
Provisions	22	3,388,477	618,834
Borrowings	23	277,892,398	246,198,345
Lease liabilities	24	143,694,861	154,952,123
Derivatives	25	85,600	174,335
Deferred tax liabilities	12	11,616,735	18,713,367
Deferred revenue	26	127,597,547	130,128,650
Advances from customers	14	631,500	–
		564,907,118	**550,785,654**
Current			
Provisions	22	1,210,431	4,019,540
Borrowings	23	37,866,975	90,772,875
Lease liabilities	24	11,370,256	11,367,313
Deferred revenue	26	17,808,013	28,338,038
Trade and other payables	27	35,652,075	57,503,876
Advances from customers	14	21,149,600	23,165,753
Income tax liabilities	16	310,709	91,959
		125,368,059	**215,259,353**
Total liabilities		**690,275,177**	**766,045,007**
Total equity and liabilities		**962,714,910**	**1,076,793,554**

The following notes form an integral part of the Consolidated statement of financial position for the year ended 31 December de 2020.

CONSOLIDATED INCOME STATEMENT

(Amounts expressed in Euros)	NOTES	Period 2020	2019
Revenue	28	163,105,442	349,092,750
Cost of goods sold	15	(40,410,204)	(51,796,824)
External services and supplies	29	(53,280,394)	(109,942,201)
Personnel expenses	30	(32,716,737)	(57,756,455)
Charges of depreciation and amortization	6;7;8	(42,694,629)	(40,748,672)
Impairment losses of tangible assets	6;7	(10,763,106)	(2,735,333)
Impairment losses of receivables	14	(673,581)	(34,464)
Impairment of inventories	15	(133,264)	(160,336)
Provisions	22	(71,609)	(7,498)
Other income	31	12,448,101	10,865,816
Other expenses	32	(7,359,148)	(10,503,826)
Gains on the disposal of subsidiaries, investments in joint ventures, associates and equity instruments at fair value through profit and loss	33	4,683,495	11,930,156
Operating profit		**(7,865,634)**	**98,203,113**
Finance expenses	34	(15,927,943)	(16,977,513)
Financial income	34	311,499	970,242
Profit before tax		**(23,482,078)**	**82,195,842**
Income tax	35	5,349,242	(1,686,019)
Profit for the period		**(18,132,836)**	**80,509,823**
Profit for the period attributable to:			
Shareholders		(19,162,622)	76,575,701
Non-controlling interests	21	1,029,786	3,934,122
		(18,132,836)	**80,509,823**
EBITDA		46,580,454	143,540,301

The following notes form an integral part of the Consolidated income statement for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts expressed in Euros)	NOTE	Period 2020	2019
Profit for the period		**(18,132,836)**	**80,509,823**
Items that recycled through profit and loss:			
Change in fair value of hedging derivatives	25	66,551	84,174
Other comprehensive income for the period – net of income tax		**66,551**	**84,174**
Total comprehensive income for the period		**(18,066,285)**	**80,593,997**
Profit for the period attributable to:			
Shareholders		(19,096,071)	76,659,875
Non-controlling interests		1,029,786	3,934,122
		(18,066,285)	**80,593,997**

The following notes form an integral part of the Consolidated statement of comprehensive income for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts expressed in Euros)	NOTES	SHARE CAPITAL	OTHER EQUITY INSTRUMENTS	SHARE PREMIUM	OTHER RESERVES	RETAINED EARNINGS	NET PROFIT FOR THE PERIOD	NON-CONTROLLING INTERESTS	TOTAL
		Attributable to shareholders							
AT 1 JANUARY 2020		83,530,000	8,200,000	33,690,973	27,769,914	65,866,574	76,575,701	15,115,384	310,748,545
Changes in the period									
Profit for the period application	19;20				3,213,376	73,362,325	(76,575,701)	–	–
Changes in the consolidation perimeter	21;39				–	–	–	(2,554,633)	(2,554,633)
Other changes recognized in equity	19;20;21				(29,451)	(64,533)	–	117,705	23,721
					3,183,925	**73,297,792**	**(76,575,701)**	**(2,436,928)**	**(2,530,912)**
Change in fair value reserve – hedging derivatives	19				66,551	–	–	–	66,551
Profit for the period							(19,162,622)	1,029,786	(18,132,836)
Comprehensive income					**66,551**	**–**	**(19,162,622)**	**1,029,786**	**(18,066,285)**
					3,250,476	**73,297,792**	**(95,738,323)**	**(1,407,142)**	**(20,597,197)**
Transactions with shareholders in the period									
Reimbursement of equity instruments	21	–	–	–	–	–	–	(3,400,549)	(3,400,549)
Distributions	20;21	–	–	–	–	(12,000,000)	–	(2,311,067)	(14,311,067)
		–	**–**	**–**	**–**	**(12,000,000)**	**–**	**(5,711,616)**	**(17,711,616)**
AT 31 DECEMBER 2020		**83,530,000**	**8,200,000**	**33,690,973**	**31,020,390**	**127,164,366**	**(19,162,622)**	**7,996,626**	**272,439,733**

(Amounts expressed in Euros)	NOTES	SHARE CAPITAL	OTHER EQUITY INSTRUMENTS	SHARE PREMIUM	OTHER RESERVES	RETAINED EARNINGS	NET PROFIT FOR THE PERIOD	NON-CONTROLLING INTERESTS	TOTAL
		Attributable to shareholders							
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	241,461,077
Changes in the period									
Restated profit for the period application	19;20				4,795,695	57,203,656	(61,999,351)	–	–
Changes in the consolidation perimeter	19;39				99,837	–	–	–	99,837
Transfer to profit for the period (derivatives, net of tax)	19				(129,797)	–	–	–	(129,797)
Other changes recognized in equity	20;21				–	(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	19				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									
Shareholder contribution	21	–	–	–	–	–	–	30,000	30,000
Distributions	20;21	–	–	–	–	(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

The following notes form an integral part of the Consolidated statement of changes in equity for the year ended 31 December 2020.

CONSOLIDATED CASH FLOW STATEMENT

(Amounts expressed in Euros)	NOTES	Period ended 31 December 2020	2019
Cash flow from operating activities			
Receipts from customers		156,101,229	332,847,919
Payments to suppliers		(96,041,893)	(164,022,428)
Payments to personnel		(37,436,868)	(57,404,364)
Cash generated from operations		**22,622,468**	**111,421,127**
Income tax received / (paid)		11,760,793	(18,327,922)
Other payments		(518,925)	(142,620)
Net cash flow from operating activities		**33,864,336**	**92,950,585**
Cash flows from investing activities			
Receipts related to:			
Tangible assets		1,166,037	2,441,894
Loans granted	10	343,000	–
Interest income and similar		286,232	546,627
Dividends	9;34	36,560	316,572
Disposal of subsidiaries	39	–	25,000,000
Repayment of additional capital contributions	9	–	500,000
Equity instruments at fair value through profit and loss		–	214,229
Payments related to:			
Tangible assets		(24,897,349)	(39,768,988)
Equity instruments at fair value through profit and loss		–	(6,258,430)
Net cash from investing activities		**(23,065,520)**	**(17,008,096)**
Cash flows from financing activities			
Receipts related to:			
Borrowings		52,000,000	94,732,668
Shareholder contributions		–	30,000
Payments related to:			
Borrowings		(71,960,726)	(50,086,588)
Loan interest expenses and similar charges		(10,500,791)	(11,354,684)
Lease interest expenses		(7,233,753)	(7,374,207)
Dividends		(12,000,000)	(13,000,000)
Dividends to non-controlling interests	21	(2,311,067)	(4,298,737)
Lease liabilities		(7,310,259)	(9,341,657)
Capital reduction for non-controlling interests	21	(3,400,549)	–
Net cash from financing activities		**(62,717,145)**	**(693,205)**
Changes in cash and cash equivalents		**(51,918,329)**	**75,259,318**
Effects of exchange differences		(69,500)	102,422
Changes in the consolidation perimeter	39	(5,436,437)	10,032
Cash and cash equivalents at the beginning of the period	17	114,873,488	39,511,748
Cash and cash equivalents at the end of the period	17	**57,449,222**	**114,873,488**

The following notes form an integral part of the Consolidated cash flow statement for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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, develops its activity 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, the 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, tourist entertainment and distribution. It also includes an investment in the industrial area.

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 102 units of touristic lodging totaling 11,489 rooms, which makes it the largest network of Portuguese origin and one of 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, besides holding 33 hotels (16 in Madeira, 8 in Algarve, 6 in Lisbon/Cascais/Sintra, 2 in Oporto and 1 in the Azores), Grupo Pestana currently holds 9 Vacation Club units, 6 golf courses, 6 real estate/tourist resorts, 1 casino gambling concession in Madeira, 1 entertainment company 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 two hotels resulting from the partnership between Pestana Hotel Group and Cristiano Ronaldo, namely Pestana CR7 Lisbon and Pestana CR7 Funchal.

UNITS	LOCATION
Pestana Carlton Madeira (a)	Madeira
Pestana Madeira Beach Club	Madeira
Pestana Casino Park	Madeira
Pestana Grand	Madeira
Pestana Grand Vacation Club	Madeira
Pestana Porto Santo	Madeira
Pestana Colombos (a)	Madeira
Pestana Ilha Dourada (a)	Madeira
Pestana Promenade	Madeira
Pestana Promenade Vacation Club	Madeira
Pestana Miramar	Madeira
Pestana Miramar Vacation Club	Madeira
Pestana Village	Madeira
Pestana Village Vacation Club	Madeira
Pestana Palms	Madeira
Pestana Palms Vacation Club	Madeira
Pestana Ocean Bay	Madeira
Pestana Atlantic Gardens (a)	Madeira
Madeira Magic (a)	Madeira
Casino da Madeira (a)	Madeira
Pestana CR7 Funchal (a)	Madeira
Pestana Royal (a)	Madeira
Pestana Quinta do Arco (a)	Madeira
Pestana Casino Studios	Madeira
Pestana Churchill Bay (a)	Madeira
Pestana Palace	Lisbon
Pousada de Lisboa (a)	Lisbon
Pestana CR7 Lisboa	Lisbon
Pestana Lisboa Vintage (a)	Lisbon
Pestana Cascais (a)	Cascais

UNITS	LOCATION
Pestana Cidadela Cascais (a)	Cascais
Pestana Vintage Porto	Oporto
Pestana Palácio do Freixo (a)	Oporto
Pestana Sintra Golf (a)	Sintra
Beloura Golf – Pestana Golf & Resort (a)	Sintra
Pestana Tróia Eco-resort	Tróia
Pestana Alvor Praia	Algarve
Pestana Alvor Beach Club	Algarve
Pestana Blue Alvor	Algarve
Pestana Dom João II	Algarve
Pestana Dom João Villas	Algarve
Pestana Dom João II Beach Club	Algarve
Pestana Delfim (a)	Algarve
Pestana Viking (a)	Algarve
Pestana Viking Vacation Club	Algarve
Pestana Alvor Atlântico (b)	Algarve
Pestana Alvor South Beach	Algarve
Pestana Porches Praia	Algarve
Pestana Carvoeiro Gramacho	Algarve
Pestana Carvoeiro Vale da Pinta	Algarve
Pestana Gramacho Residences	Algarve
Gramacho – Pestana Golf & Resort	Algarve
Vale da Pinta – Pestana Golf & Resort	Algarve
Silves – Pestana Golf & Resort	Algarve
Alto Golf – Pestana Golf & Resort (a)	Algarve
Vila Sol – Pestana Golf & Resort (a)	Algarve
Pestana Vila Sol (a)	Algarve
Pestana Bahia Praia	Azores
Pousadas de Portugal (Network) (a)	Portugal

(a) Leases / concession
(b) Management contract

These Consolidated financial statements were approved by the Board of Directors on the meeting held on 19 March 2021. The Board of Directors believes that the consolidated financial statements give a true and fair view of the performance of Grupo Pestana, S.G.P.S., S.A., as well as its consolidated financial position and its consolidated cash flows.

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

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

The Consolidated financial statements are prepared by Grupo Pestana in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and effective as at 1 January 2020. IFRS include standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor Board. IFRS were adopted by the Group for the first time in the year ended 31 December 2010.

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

In March 2020, the COVID-19 pandemic was declared by the World Health Organization, which required a quick response and adaptation from Pestana Hotel Group to the new context in order to safeguard its employees, customers and business. This pandemic led to the declaration of a state of emergency in several countries, including Portugal, preventing some hotel units from receiving guests in April and May. Despite the progressive opening of some units thereafter, major restrictions were maintained throughout the year in order to mitigate the spread of the virus, which limited the business activity (Note 28).

With the arrival of autumn, the pandemic situation got worse in Portugal, as well as around the world, and new restrictions have been established, namely on the movement of people. Thus, in November, the Group anticipated the suspension of the activity of some units that usually didn't operate in the in winter and decided to temporarily close almost all of them until March 2021 inclusive, when the gradual recovery of tourism is expected, so the state of emergency decreed on 15 January 2021 did not change the existing situation.

Due to the impact of the pandemic, Pestana Hotel Group has focused on measures would guarantee the preservation of its liquidity, having kept its level of indebtedness stable and having available 57.8 million Euros of cash and cash equivalents, 89.4 million Euros of unused credit lines and 64.1 million Euros of working capital. Despite having guaranteed the completion of the investments under construction, it didn't start new projects at this stage (Note 6). Measures were implemented to control and reduce costs, such as the immediate reduction of variable expenses (Note 29), the fixed-term contracts were not renewed (Note 30), the relocation of employees, with their prior approval, from temporarily closed units to open units and the renegotiation of contracts with suppliers, including leases (Note 24). Government supports were also used, namely debt moratoriums (Note 23), but with the Group deciding to continue to pay most of the interest loans, government job maintenance programs and partial exemption of social security charges borne by the employer (Note 30), as well as exemption of advance payments for corporate income tax (Note 16).

The implementation of these measures, the relevance of the variable costs and the fact that this pandemic crisis came at a time when the Group was in a strong financial position, allow for the continuity of its operations in the medium term. Performing an extreme stress test in a limit situation, which is not expected to happen, only through its current cash available and the approved but unused financing lines, its subsistence would be safeguarded for at least 2 years, without the need for additional financing or the sale of assets, which are mostly recognized at values substantially below market values and mostly free of liens.

Expectations are positive considering that vaccination against COVID-19 has already started in Europe and North America, countries with greater purchasing power worldwide, which recover quicker from crisis and where the majority of the Group's customers are located. Thus, according to its analyses, projections and expectations, the Group is convinced that the activity will gradually return to the levels of the recent past over a period of 3 to 5 years.

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.

The consolidated financial statements have been prepared on a going concern basis under historical cost principle, except for the derivative financial instruments and equity instruments at fair value through profit and loss, valued at fair value.

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

New standards and interpretations

a) The impact of the adoption of standards that became effective on or after 1 January 2020 is as follows:

- 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: IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRS 2, IFRS 3, IFRS 6, IFRS 14, 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. This amendment had no impact on the Group's Consolidated financial statements.

- IAS 1 and IAS 8 (amendment), 'Definition of material'. These amendments revise 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. This amendment had no impact on the Group's Consolidated financial statements.
- IFRS 3 (amendment), 'Definition of a business'. The amendment revises the definition of a business in order to account for business combinations. The new definition requires that an acquisition to 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. This amendment had no impact on the Group's Consolidated financial statements.
- IFRS 9, IAS 39 and IFRS 7 (amendment), 'Interest rate benchmark (IBOR) reform – phase 1'. 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 reliefs relate to hedge accounting, regarding: 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, the objective being that interest rate benchmark reform does not cause hedge accounting to be discontinued. However, any hedge ineffectiveness should continue to be recorded in the income statement. This amendment had no impact on the Group's Consolidated financial statements.
- IFRS 16 (amendment), 'Leases – COVID-19 related rent concessions. This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether the rent concessions granted by lessors due to the COVID-19 pandemic are a modification to the lease contract, when three criteria are cumulatively met: i) the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change; ii) any reduction in lease payments only affects payments due on or before June 30, 2021; and iii) there are no substantive changes to other lease terms and conditions. Lessees that elect to apply this practical expedient, recognize the change in rent payments, as variable rents in the period(s) in which the event or condition that triggers the reduced payment occurs. This amendment is applied retrospectively with the impacts reflected as an adjustment to retained earnings (or another equity component, as appropriate) at the beginning of the annual reporting period in which the lessee applies this amendment for the first time. The impact of adopting this amendment is explained in Notes 24 and 31.

b) Amendments to standards that are mandatory for accounting periods beginning on or after 1 January 2021 but which the EU has not yet endorsed:

- IAS 1 (amendment), 'Presentation of financial statements – classification of liabilities'. This amendment intends to clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by expectations (the assessment should determine whether a right exists, but should not consider whether or not the entity will exercise that right), or by events occurred after the reporting date, such as non-compliance with a covenant. This amendment also introduces a new definition of "settlement" of a liability. This amendment is applied retrospectively. The Group will apply this amendment when it become effective with no expected impacts on the Group's Consolidated financial statements.
- IAS 16 (amendment) 'Proceeds before intended use'. This amendment changes the accounting treatment of the proceeds obtained from the sale of products that resulted from the production test phase of property, plant and equipment, prohibiting their deduction to the acquisition cost of assets. This amendment is applied retrospectively without restating comparatives. The Group will apply this amendment when it becomes effective with no expected impacts on the Group's Consolidated financial statements.
- IAS 37 (amendment) 'Onerous contracts – cost of fulfilling a contract'. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to labour and materials as well as the allocation of other expenses directly related to the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment must be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without restating comparatives. The Group will apply this amendment when it becomes effective with no expected impacts on the Group's Consolidated financial statements.
- Annual Improvements 2018 – 2020. This cycle of improvements impacts the following standards: IAS 41, IFRS 1, IFRS 9 and IFRS 16. The Group will apply these amendments when they become effective with no expected impacts on the Group's Consolidated financial statements.
- IFRS 3 (amendment) 'Reference to the Conceptual framework'. This amendment updates the references to the Conceptual framework published in the text of IFRS 3, without changing the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be given to liabilities and contingent liabilities within the scope of IAS 37 and IFRIC 21, incurred separately versus within in a business combination. This amendment is applied prospectively. The Group will apply this amendment when it become effective with no expected impacts on the Group's Consolidated financial statements.
- IFRS 9, IAS 39, IFRS 7 and IFRS 16 (amendments), 'Interest rate benchmark (IBOR) reform – phase 2'. These amendments address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one, providing exceptions as: i) changes to designations and hedging documentation; ii) amounts accumulated in the cash flow hedge reserve;

iii) assessment of retrospective effectiveness on a hedge relationship under IAS 39; iv) amendments to hedge relationships for groups of items; v) presumption that an alternative benchmark rate designated as a non-contractually specified risk component is separately identifiable and qualifies as a hedged risk; and vi) update the effective interest rate, with no gain or loss recognized, for financial instruments measured at amortized cost with changes in the contractual cash flows as a result of IBOR reform, including leases that are indexed to an IBOR. The Group will apply this amendment when it become effective with no expected impacts on the Group's Consolidated financial statements.

3. Main accounting policies

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

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 the 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 for 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 purchaser 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 financial 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	31-12-2020	31-12-2019
CAD – Canadian Dollar	1.5644	1.4604
CHF – Swiss Franc	1.0804	1.0851
DKK – Danish Crown	7.4408	7.4713
GBP – Pound Sterling	0.8981	0.8512
NOK – Norwegian Krone	10.4698	9.8648
SEK – Swedish Crown	10.0284	10.4480
USD – US Dollar	1.2268	1.1230

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 it has the expectation of using 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 consolidated 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 on the financial reporting date, that is expected to apply in the period when the deferred tax assets are realized or the deferred tax liabilities are 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 flows.

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 2020 and 2019, 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, villas and apartments 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 and apartments 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 and apartments 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 only recognized when Grupo Pestana when a present legal or constructive obligation resulting from past events exists, it is probable that an outflow of internal resources will be necessary to settle this obligation and its 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 present value of estimated costs to settle the obligation using a pre-tax rate that reflects the market assessment for the period of the discount and the risk of the provision.

3.16. Financial liabilities

Financial liabilities are classified into two categories:

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

(ii) Financial liabilities at amortized cost.

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

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

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

Purchase and sale of investments in financial liabilities are registered at the transaction date meaning the date in which the 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 contracts 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 an underlying asset to the sublease contract; and ii) as a discount rate the sublease's implicit tax rate or the main lease agreement'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.

In accordance with the practical expedient COVID-19 – Related Rent Concessions – Amendment to IFRS 16, rent concessions granted as a direct consequence of the COVID-19 pandemic were not accounted as lease modifications, having been recognized in Other income.

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 to subsidize wages and salaries or other charges with employees are recognized as a decrease in Personnel expenses in the Consolidated income statement in the same period in which the related costs are incurred and recorded. Other 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.

Revenue relating to maintenance costs defined contractually as an amount to be billed to timeshare customers, separately from the value of the accommodation right, is recognized on the agreed date during the contract period as Pestana Hotel Group has the right to receive this amount on that date, regardless of the use of the accommodation unit by the customer.

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 and apartments, 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. It does not include the recharge, without margin, of costs to the building owners.

(iv) Construction contracts

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

Revenue in these types 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 completion 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.

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 repayment dates. On the other hand, the hotel business presents a significant exposure to the variability of economic cycles and 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.

Short-term cash treasury excesses, when existent, are firstly used 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 Grupo Pestana already works and with whom presents most of its medium and 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.

Grupo Pestana's risk management strategy has not changed due to the fact that there is a worldwide pandemic situation. Considering the Group's cost structure, it is expected that results will follow the evolution of the economic recovery, after the vaccination against COVID-19 in Portugal and worldwide has started. Tourism is expected to return to 2019 levels within 3 to 5-year period. In addition, the Group has taken the measures it considers to be the most appropriate in order to quickly adapt to the new context, ensuring the safety of customers, employees and business continuity.

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 2020 and 2019.

Considering Pestana Hotel Group's consolidated net debt (excluding Lease liabilities) as at 31 December 2020, an increase of 0.25% in the interest rate would result in the increase in the net financial expenses for the year of approximately 645,000 Euros (31 December 2019: 555,000 Euros).

ii. Credit risk

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

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

In order to increase the credit risk hedging, Grupo Pestana has a credit insurance from a leading insurance company in the Portuguese market, which includes the most significant part of the credit on companies and tour operators from the main feeder markets for the Group's units. Due to the current pandemic context, there was a decrease in the ceilings of this insurance. This impact was reduced since transactions with companies and operators with assigned credit were fewer, while revenue in 2020 presented a significant weight of direct customers, who have no credit risk.

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 Long term bank deposits (domestic) rating, credit ratings for the Group's bank deposits, classified as Cash and cash equivalents are as follow:

	Bank deposits		Borrowings	
	2020	2019	2020	2019
Rating				
A2	16,391,327	66,193,003	74,055,581	30,041,206
A3	3,145,323	833,760	4,000,000	4,000,000
Aa3	109,504	–	–	–
Baa1	13,954,555	4,216,013	36,431,513	33,281,642
Baa3	16,669,382	13,126,283	37,171,408	35,326,752
B1	1,004,559	470,838	8,365,079	9,079,365
B2	4,028,657	27,495,511	6,431,361	8,319,997
No classification	1,776,530	1,362,643	22,087,990	24,062,382
Total	**57,079,837**	**113,698,051**	**188,542,932**	**144,111,344**

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.

Due to the impact of the COVID-19 pandemic, Grupo Pestana focused on measures that guarantee the preservation of its liquidity, having cash available in the amount of 57.8 million Euros, unused credit lines in the amount of 89.4 million Euros and 64.1 million Euros of working capital. Despite having guaranteed the completion of the investments under construction, the level of indebtedness remained stable and there was no investment in new projects at this stage. This pandemic crisis emerged at a time when the Group had a strong financial position, enabling it to ensure the continuity of its operations in the medium term. Performing an extreme stress test in a limit situation, which is not expected to happen, the Group's subsistence would be safeguarded for at least 2 years with only the current cash available and the approved but unused financing lines, without the need for additional financing or the sale of assets, which are mostly recognized at values substantially below market value and mostly free of liens. In addition, some of the support created by the State in maintaining employment and supporting liquidity were also used, such as debt moratoriums on borrowings and exemption of advance payments for corporate income tax.

Regular analysis are carried out over estimated cash flows both in the short term and in the medium and long term, so as to adjust the type and amount of appropriate financing. Whenever necessary, the Company supports its subsidiaries by ensuring that they continue to have a solid financial capacity.

The following table analyses 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:

	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEAR	MORE THAN 5 YEARS
31 DECEMBER 2020			
Borrowings:	43,555,390	199,498,757	105,844,780
- bank loans	6,354,271	85,226,418	96,962,243
- bond loans	27,500,000	75,000,000	–
- commercial paper	2,944,444	21,777,776	444,447
- bank overdrafts	332,301	–	–
- undiscounted interests payable until maturity	6,424,374	17,494,563	8,438,090
Lease liabilities	11,370,256	43,035,454	100,659,407
Trade and other payables – non group	30,300,809	–	–
Derivatives	59,962	25,638	–

	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEAR	MORE THAN 5 YEARS
31 DECEMBER 2019			
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	50,126,630	–	–
Derivatives	92,013	82,322	–

4.2. Capital risk management

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

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

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

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 2020 and 2019 were as follows:

	31-12-2020	31-12-2019
Total borrowings	315,759,373	336,971,220
Total lease liabilities	155,065,117	166,319,436
Less: cash and cash equivalents	57,781,523	115,061,403
Net debt	**413,042,967**	**388,229,253**
Equity	272,439,733	310,748,545
Total capital	**685,482,700**	**698,977,798**
Gearing	**60%**	**56%**

If we considered the deferred revenue from Pestana Vacation Club 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:

	31-12-2020	31-12-2019
Total borrowings	315,759,373	336,971,220
Lease liabilities	155,065,117	166,319,436
Less: cash and cash equivalents	57,781,523	115,061,403
Net debt	**413,042,967**	**388,229,253**
Equity adjusted	404,858,826	449,100,316
Total capital	**817,901,793**	**837,329,569**
Gearing adjusted	**51%**	**46%**

4.3. Accounting for derivative financial instruments

As at 31 December 2020 and 2019, 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 judgement, 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 judgements 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

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).

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 computation of the fair value of assets imply a high degree of judgment by the Board of Directors regarding the identification and evaluation of different impairment triggers, expected cash flows, applicable discount rates and useful lives. Pestana Hotel Group's results obtained in this sector, during almost 50 years, are however, a good indicator to assess the estimates that have been used.

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.

5.6. Income tax

Judgement is required in determining the Group's provision for income tax. For certain transactions the ultimate tax determination is uncertain, requiring judgement for the accounting or disclosure of the uncertain positions.

Deferred tax assets related to carry forward losses were assessed taking into consideration the existence of deferred tax liabilities and/or future taxable profit, under the same tax authority, as well as the existence of any restriction to its deductibility.

6. Tangible fixed assets

During the year ended as at 31 December 2020 and 2019 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 2020									
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**
Changes in 2020									
Additions	–	7,583,293	3,214,380	193,002	271,886	2,905	1,165,460	11,982,745	24,413,671
Disposals – acquisition cost	(58,373)	(341,291)	(685,751)	(64,456)	–	–	–	(54,958)	(1,204,829)
Disposals – accumulated depreciation	–	23,796	652,640	49,630	–	–	–	–	726,066
Write offs – acquisition cost	–	(436,131)	–	(112,554)	(3,519)	–	–	–	(552,204)
Write-offs – accumulated depreciation	–	50,378	–	39,671	3,519	–	–	–	93,568
Transfers to and from Inventories	–	–	–	–	–	–	–	(1,482,928)	(1,482,928)
Transfers	–	6,084,229	953,663	–	55,157	–	111,602	(7,204,651)	–
Depreciation	–	(32,012,788)	(9,048,587)	(544,068)	(284,750)	(11,044)	(679,598)	–	(42,580,835)
Perimeter exits – acquisition cost	–	(29,951,453)	(483,391)	(216,486)	(461,156)	–	(4,647)	(28,455)	(31,145,588)
Perimeter exits – accumulated depreciation	–	28,507,480	475,292	214,351	460,931	–	2,490	–	29,660,544
Impairment – charge	–	(449,465)	(42,861)	–	(946)	(234)	–	(2,769,600)	(3,263,106)
	(58,373)	**(20,941,952)**	**(4,964,615)**	**(440,910)**	**41,121**	**(8,373)**	**595,307**	**442,153**	**(25,335,640)**
31 DECEMBER 2020									
Acquisition cost	125,429,446	991,725,593	256,370,553	6,616,960	18,278,452	622,856	12,473,684	55,397,941	1,466,915,486
Accumulated depreciation	–	(499,647,985)	(193,350,264)	(5,530,965)	(17,650,254)	(583,992)	(8,859,425)	–	(725,622,885)
Accumulated impairment	–	(7,378,931)	(88,615)	–	(1,085)	(509)	–	(3,546,393)	(11,015,533)
Net book value	**125,429,446**	**484,698,677**	**62,931,674**	**1,085,995**	**627,113**	**38,355**	**3,614,259**	**51,851,548**	**730,277,068**

	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 – accumulated 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 – accumulated 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**

During the year ended as at 31 December 2020 and 2019, 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 2020				
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**
Changes in 2020				
Additions	1,125,025	27,972	193,000	1,345,997
Write offs – acquisition cost	(435,529)	–	(112,554)	(548,083)
Write-offs – accumulated depreciation	49,776	–	39,671	89,447
Depreciation	(12,648,329)	(161,746)	(428,607)	(13,238,682)
Impairment – charge	(440,715)	–	–	(440,715)
	(12,349,772)	**(133,774)**	**(308,490)**	**(12,792,036)**
31 DECEMBER 2020				
Acquisition cost	219,739,843	833,590	2,045,607	222,619,040
Accumulated depreciation	(88,230,948)	(703,591)	(1,438,568)	(90,373,107)
Accumulated impairment	(5,054,742)	–	–	(5,054,742)
Net book value	**126,454,153**	**129,999**	**607,039**	**127,191,191**

	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**

Additions, excluding Right-of-use assets and Assets under construction

The main additions in 2020 refer essentially to:

- Several renovation investments in the hotel units Pestana D. João II, Pousada de Estói, Palácio do Freixo, Pousada de Viana do Castelo and Pestana Ocean Bay, amounting to a total of approximately 3,000,000 Euros;
- Completion of the Pestana Lisboa Vintage hotel for which the Group had already entered into a sub-lease agreement in 2018 for a period of 17 years and with fixed rents updated with inflation, for the renovation and construction of its new 4-star unit with 90 rooms, on Rua Braamcamp in Lisbon. 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, for a total investment of approximately 5,800,000 Euros, of which 2,550,000 Euros were invested in 2020. The opening date of this hotel will take place as soon as the pandemic control allows it;
- Completion of the last 139 rooms and a restaurant of the Pestana Blue Alvor, a 491-key, 5-star hotel 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 Three Brothers beach in Alvor having spent in 2020 of 2,013,787 Euros, for a total investment of 39,932,011 Euros;
- Capitalization of direct costs on Vacation Club contract negotiations (Note 3.4) amounted to 1,124,301 Euros in 2020 (2019: 3,139,851 Euros).
- Completion of the necessary improvements in the urban buildings located in the historic center of Vila Real de Santo António that make up the new Pousada de Vila de Real Santo António and which were provided for in the urban lease agreement signed in 2017 for a period of 20 years for the installation and operation of a "Pousada" hotel unit. This "Pousada" has 57 rooms, a restaurant and an events room, which is expected to open in 2021, depending on the pandemic evolution, with a total investment of 3,759,091 Euros, of which 959,170 Euros occurred in 2020.

Also excluding the additions of Right-of-Use Assets and Assets under construction, the main additions in 2019 refer to:

- Completion of the Pestana Blue Alvor, with expenditures during 2019 of 9,674,463 Euros, having started its operation in May 2019;
- Construction of Pestana Churchill Bay, a 4-star superior 57-key hotel, built using the old facilities of the fish market, in the Câmara de Lobos bay, for the amount of 2,477,935 Euros;
- Refurbishment of the Madeira Beach Club, a timeshare unit, in the amount of 1,760,352 Euros which the beginning of the operations in the first few months of 2019;

Right-of-use assets additions

As at 31 December 2020, Right-of-use assets essentially relate to buildings and other constructions, as presented in Note 24.

The additions in the year 2020 of Right-of-Use Assets essentially result from adjustments made to reflect changes to the lease payments resulting from a change in Consumer Price Index as well as the extension of the term of some low-value lease agreements, in the amount of 1,345,997 Euros.

In 2019 Right-of-use assets additions refer to:

- 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 cancellation 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, it was registered the extension of the period of the contract and of the Right of use assets and Lease liabilities 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. 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. The project is currently in its final stages of licensing, with an estimated total investment of 2,700,000 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;
- Pestana Fisherman, resulting from an assignment of a contractual position contract celebrated in 2019 for the lease of the building with the aim of opening a hotel for a 50-year period in the amount of 1,534,344 Euros;
- Beloura golf course which had its lease agreement defined in 2019 for 4 years in the amount of 594,557 Euros.

In 2019, a number of renovation and remodeling investments were 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.

Disposals

In 2020, disposals refer mainly to the sale of 7 apartments from Pestana Gramacho Residences, in Algarve, in the amount of 952,602 Euros, obtaining a gain in the amount of 532,599 Euros (Note 31) (2019: 8 accommodation units from Pestana Gramacho Residences, in Algarve, for the amount of 1,171,337 Euros, obtaining a gain in the amount of 650,103 Euros).

Write-offs

With effect from 1 January 2020, the Write-offs refer mainly to the termination of the concession agreement for the exploitation of the Recreational Area of Penedo do Sono in Porto Santo for a period of 20 years ending in 2037, due to causes beyond the control of the Group and parcel domain of the property owner.

Transfers to and from inventories

In 2020, due to the change in the purpose to be given to the D. Fernando Project, namely to a real estate nature, the value related to the land and costs incurred to date in the amount of 1,926,288 Euros was transferred to Inventories (Note 15) and the Porto Santo land that was in inventories (Note 15) has been integrated in the Pestana Dunas project and, as such, was transferred to Tangible fixed assets in the amount of 443,360 Euros.

Transfers

The hotels Pestana Lisboa Vintage and Pousada de Vila Real de Santo António, which were under construction in the previous year, became available for use in 2020, and their respective inaugurations will take place as soon as the pandemic is under control.

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

Assets under construction

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

	2020	2019
Hotel Pestana Douro (Oporto)	15,767,389	11,479,112
Hotel in Rua das Flores (Oporto)	14,722,152	9,733,952
Pestana Dunas project (Porto Santo)	8,103,539	10,098,004
Quinta da Amoreira project (Algarve)	6,345,437	6,345,437
North of Gramacho land (Algarve)	2,179,793	2,168,556
Pestana Fisherman Hotel	1,216,675	108,547
Golf course project (Algarve)	1,199,852	1,199,852
Pousada de Alfama	311,992	382
Hotel in Rua Augusta	286,088	248,845
Hotel Pestana Lisboa Vintage	–	3,249,008
Pousada Vila Real Santo António (Algarve)	–	2,799,920
D. Fernando land (Algarve)	–	1,926,288
Other	1,718,631	2,051,492
	51,851,548	51,409,395

Hotel Pestana Douro refers to the rehabilitation of a building bought in 2018, in the Municipality of Oporto, which is intended for the construction of a new hotel with 165 keys that benefits 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 completion of this project occurred in early 2021, and its opening will occur as soon as the control over the pandemic allows it. The investment amounted to approximately 16,000,000 Euros

The Hotel in Rua das Flores refers to a 4-star 87-key hotel in Oporto's historic city center which will result from the refurbishment of a building acquired in 2018 for 8,000,000 Euros, in advanced state of deterioration. The project is estimated to be completed by 2021, with a total cost of approximately 15,000,000 Euros.

Pestana Dunas project relates to a new hotel in Porto Santo with a total of 396 beds, with a total of 396 rooms and a total area of 60,000 m^2. Pestana Dunas will be built using innovative and more environmentally sustainable techniques, in a similar way to the hotel built along the same lines, the Pestana Casino Studios, although it is expected to have lower construction costs. Pestana Dunas will confine with Pestana Porto Santo on the west. This proximity will allow operations between the two to be concentrated and optimized. It is still in licensing stage.

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), next to the Pestana Blue Alvor.

The land located at North of Gramacho, with a total area of approximately 100 ha. Following the 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 Grupo Pestana a total building area of 39,760 m^2 for the development of a new real estate project of 303 villas and apartments (Note 15). Projects were also submitted for an 18-hole golf course and respective Club House. In January 2019 the real estate project was approved and the licensing process for the golf course and the Club House were concluded in the 4th quarter of 2020, with the issuance of the construction permit. Additionally, the Group is developing a Project for a Rural Hotel with a construction area of 2,000 m², located at the East entrance of Ferragudo, which will certainly have greater potential after the construction of the golf course, as well as with the renovation planned by the Lagoa City Council for this entrance of the Town which will extend to the center of Ferragudo. It is also developing a project for an ETER – 'Empreendimento Turístico em Espaço Rural' (Tourism Development in Rural Areas), located north of the Gramacho Golf Course and the Pestana Gramacho Residences, with a total area of 24,710 m².

The Pestana Fisherman Hotel involves the construction of a new 4-star hotel to be built in the Torre Bela building, an old vacant municipal building located in the center of the city of Câmara de Lobos, with a capacity for around 42 rooms, for which there is a lease agreement for a period of 50 years. The total investment will be approximately 2,400,000 Euros and is expected to open in 2022.

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

The Pousada de Alfama project involves the construction of a new 4-star Pousada with 39 rooms, in Rua São Tomé, in the Alfama area of Lisbon. This unit has an underlying lease with a 25-year term, starting from the hotel's entry into operation, automatically renewable for an equal period, unless waived by either party. As at 31 December 2020, the right-of-use related to this asset is 5,086,534 Euros, and this project is in its final stage of licensing, in a planned investment of approximately 2,700,000 Euros.

The project in Rua Augusta, in the municipality of Lisbon, relates to the refurbishment and construction of a new 4-star hotel with 89 rooms in Rua Augusta, in the municipality of Lisbon, for which a lease agreement had been signed for a period of 27 years. As at 31 December 2020, the right-of-use relating to this asset is 11,827,442 Euros. The project is currently in its stage of licensing, with an estimated investment of 7,000,000 Euros;

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 2020 amounts to 8,649,181 Euros (as at 31 December 2019: 8,288,229 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is lower.

Perimeter exits

Perimeter exits in 2020 refer to the exit of the building owned by SDM – Soc. Desenvolvimento da Madeira, S.A., as a consequence of its sale (Note 39).

Perimeter exits in 2019 refer to the exit of the Pestana Sintra Golf hotel, resulting from the sale of Beloura Hotel e Golfe – Investimentos Turísticos, S.A. (Note 39).

Impairment

Grupo Pestana has historically made very prudent investments, generally having a reduced cost per room in its fixed assets. Additionally, a significant part of these same assets have been revalued under IFRS 1 in 2010, with reference to their fair value as of 31 December 2008, but using actual cash flows from 2009 and 2010 and budgets for 2011, in full economic and financial crisis. All of these assets have been depreciated since then.

Despite the impact of the pandemic on the activity of Grupo Pestana in 2020, significant improvements are expected after the entry into force of vaccination plans in Portugal and in countries with greater purchasing power worldwide, as the Group interacts with very mature markets, such as the United Kingdom, Germany, United States, France and Spain, which have historically recovered more quickly from economic crises.

In 2020, from a prudent perspective and given the pandemic context, the possible existence of impairment was analyzed for all of the Group's tangible fixed assets, taking into account external and internal indicators, namely variations of discount rates, analysis of market transactions, cost per room ratios in the regions where the Group holds assets, temporary reduction of the activity of some units and, in the specific case of right-of-use assets, variations in market yields and rental values per room were also analyzed.

Grupo Pestana assessed the recoverability of these assets based on the following hierarchy: market indicators, external evaluations and internal evaluations. However, external evaluations were only used occasionally given how difficult they are to prepare in a pandemic context. Thus, when appropriate, internal evaluations were carried our in accordance with the discounted cash flows method, which reflects the best expectation to date on the evolution of the activity for the next 5 years, using a discount rate that reflects the risk and the expected return by stakeholders. Extraordinarily in 2020, with the projections subject to several external variables due to the COVID-19 pandemic, the current value of the assets was determined by weighting three scenarios according to the expectation of which year the cash flows would return to those registered before the crisis: expected scenario (2024) – 50%; optimistic scenario (2023) – 30%; pessimistic scenario (2025) – 20%.

Based on this approach, in 2020 the impairments registered are mainly related to the land where Pestana Dunas will be constructed in the amount of 2,769,600 Euros and the right-of-use asset of Pestana Colombos Resort hotel in the amount of 440,715 Euros, whose contract ends in 2021 and which the Group has no intention of renewing.

For all the Group's other assets no impairments were identified.

In 2019, Grupo Pestana registered impairment losses on Madeira Magic and on the right of use asset of 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 by the exploration of these assets. Considering the estimated future cash flows and the applicable discount rate, the fair value of this asset is now lower than its net book value.

Sensitivity analyses were performed on the valuation model, with the following assumptions: (i) pessimistic scenario: increase in the WACC rate by 0.5% and simultaneously reduction in cash flows of 10%, as well as: (ii) optimistic scenario: maintenance of the WACC rate and an increase in cash flows of 10%, none of which has been considered as probable to occur. If we had used the assumptions under the pessimistic scenario accumulated impairment losses recognized as at 31 December 2020 would have increased by 390,000 Euros.

There are no onerous contracts.

7. Intangible assets

During the year ended as at 31 December 2020 and 2019 the movements occurred in Intangible assets are as follows:

	GOODWILL	*WEBSITE AND SOFTWARE*	TOTAL
1 JANUARY 2020			
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**
Changes in 2020			
Perimeter exits – acquisition cost	–	(19,897)	(19,897)
Perimeter exits – accumulated amortization	–	19,897	19,897
Amortization	–	(21,340)	(21,340)
Impairment	(7,500,000)	–	(7,500,000)
	(7,500,000)	**(21,340)**	**(7,521,340)**
31 DECEMBER 2020			
Acquisition cost	9,500,000	611,625	10,111,625
Accumulated amortization	–	(549,801)	(549,801)
Accumulated impairment	–	–	–
Net book value	**9,500,000**	**61,824**	**9,561,824**

	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**

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 indicators of loss of value. 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 the Board and using the discount rate that the Grupo Pestana considers that it reflects the best estimate of the associated specific risks. As at 31 December 2020, in a pandemic context and consequent review of future cash flows of Empresa de Cervejas da Madeira, Sociedade Unipessoal, Lda. and the respective discount rate, there was a partial non-recoverability and, as such, a loss of value of this asset in the amount of 7,500,000 Euros.

Sensitivity analyses to the valuation model were performed according to the following assumptions: (i) pessimistic scenario: increase in the WACC rate by 0.5% and 10% decrease in cash flows, as well as: (ii) optimistic scenario: maintenance of the WACC rate and a 10% increase in cash flows, neither of which are considered likely to occur. When applying the pessimistic scenario assumption of an increase in the WACC rate, the partial non-recoverability of goodwill as at 31 December 2020 would be higher by 3,500,000 Euros. When applying the assumption of a 10% decrease in cash flows, the partial non-recoverability of goodwill would be higher by 2,700,000 Euros.

8. Investment properties

During the years ended as at 31 December 2020 and 2019 the movements occurred in Investment properties are as follows:

	2020	2019
1 JANUARY		
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**
Disposals – acquisition cost	–	(61,808)
Disposals – accumulated impairment	–	61,808
Transfers to Inventories (Note 15)	–	(1,239,950)
Depreciation	(92,454)	(92,453)
	(92,454)	**(1,332,403)**
31 DECEMBER		
Acquisition cost	9,966,592	9,966,592
Accumulated depreciation	(3,008,830)	(2,916,376)
Accumulated impairment	(54,369)	(54,369)
Net book value	**6,903,393**	**6,995,847**

In 2020, from a prudent perspective and given the pandemic context, the possible existence of impairment was analyzed for all of the Group's investment properties, either by analysis of external or internal indicators. Pestana Hotel Group assessed the recoverability of these assets based on the best market information available at the time, and no impairments were recognized.

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 2020 and 2019 Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2020	2019
Commercial properties leased to third parties, Algarve	2,774,396	2,847,602
Funchal land, Madeira	1,269,455	1,269,455
Angra dos Reis land, Brazil	962,902	962,902
São Gonçalo houses, Madeira	678,427	695,310
Other	1,218,213	1,220,578
	6,903,393	**6,995,847**

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

	2020	2019
Rents obtained	191,674	284,333
Operating expenses	(58,002)	(49,450)
Depreciations	(92,454)	(92,453)
	41,218	**142,430**

9. Investments in joint ventures

The movements occurred in Investments in joint ventures during 2020 and 2019 are presented as follows:

	2020	2019
1 JANUARY	4,959,194	5,518,276
(Losses) / gains from equity accounting (Note 33)	(424,082)	257,490
Reimbursements of accessory capital contributions	–	(500,000)
Dividends	–	(316,572)
31 DECEMBER	**4,535,112**	**4,959,194**

On December 2015, a Joint Venture Framework 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.

In 2019 dividends amounting to 316,572 Euros were received from Pestana CR7 – Lisboa Hotel Investimentos Turísticos, S.A., which also proceeded to the reimburse of accessory capital contributions in the amount of 500,000 Euros.

As at 31 December 2020 Investments in joint ventures refer to the following entities:

		Financial investments			Accessory capital contributions			
Description	% OWNED	EQUITY METHOD	IMPAIRMENT LOSS	TOTAL	INVESTMENT AMOUNT	IMPAIRMENT LOSS	TOTAL	TOTAL INVESTMENT
Solpor – Sociedade de Turismo do Porto Santo Lda.	50.00%	2,238,870	–	2,238,870	430,000	–	430,000	2,668,870
Pestana CR7 – Lisboa Hotel Invest.Turísticos, S.A.	50.00%	–	–	–	1,375,000	–	1,375,000	1,375,000
Pestana CR7 – Madeira Investimentos Turísticos, S.A.	50.00%	53,742	–	53,742	437,500	–	437,500	491,242
		2,292,612	–	2,292,612	2,242,500	–	2,242,500	4,535,112

As at 31 December 2019 Investments in joint ventures refer to the following entities:

		Financial investments			Accessory capital contributions			
Description	% OWNED	EQUITY METHOD	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 Investimentos 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 2020, despite the COVID-19 pandemic, there are no indications of impairment that affect the value of investments in joint ventures.

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 2020 and 2019 are as follows:

	2020	2019
1 JANUARY	12,590,287	11,737,961
Accessory capital contributions granted	–	64,885
Repayment of loans granted	(343,000)	–
(Losses) / gains from equity accounting (Note 33)	(186,748)	287,441
Transfers (Note 11)	–	500,000
31 DECEMBER	12,060,539	12,590,287

In 2020 the associate Enatur – Empresa Nacional de Turismo, S.A. proceeded with the partial repayment of the loan granted in the amount of 343,000 Euros.

In 2019, after the acquisition of an additional 2,500 shares of Lean Company Ventures II, S.A., representing a further 5% of the capital and 10% of the voting rights of that company, the Group now controls 20% of the voting rights, thus reclassifying the amount of the investment, in the amount of 500,000 Euros, from the caption of Equity instruments at fair value through profit and loss to Investments in associates (Note 11).

As at 31 December 2020 Investments in associates refer to the following entities:

Entity	% OWNED	Financial investments: EQUITY METHOD	Financial investments: IMPAIRMENT LOSS	Financial investments: TOTAL	Accessory capital contributions: INVESTMENT AMOUNT	Accessory capital contributions: IMPAIRMENT LOSS	Accessory capital 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%	10,365,403	–	10,365,403	–	–	–	847,593	–	847,593	11,212,996	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%	287,658	–	287,658	64,885	–	64,885	–	–	–	352,543	–
		10,653,061	–	10,653,061	64,885	–	64,885	1,342,593	–	1,342,593	12,060,539	3,837,382

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

Entity	% OWNED	Financial investments: EQUITY METHOD	Financial investments: IMPAIRMENT LOSS	Financial investments: TOTAL	Accessory capital contributions: INVESTMENT AMOUNT	Accessory capital contributions: IMPAIRMENT LOSS	Accessory capital 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	–
		11,441,403	–	11,441,403	64,885	–	64,885	1,685,593	–	1,685,593	12,590,287	3,837,382

As at 31 December 2020, despite the COVID-19 pandemic, there are no indications of impairment that affect the value of investments in associates. Regarding the goodwill included therein, no impairment was identified.

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 2020 and 2019 are as follows:

	2020	2019
1 JANUARY	6,925,558	1,577,373
Perimeter exits (Note 39)	(654,808)	–
Impairment losses	(331,123)	–
Acquisitions	–	6,258,430
Disposals	–	(508,224)
Gains of the period (Note 33)	–	97,979
Transfers (Note 10)	–	(500,000)
31 DECEMBER	5,939,627	6,925,558

The perimeter exits relate to the 7.5% of voting rights held on that date by SDEM – Sociedade de Desenvolvimento Empresarial da Madeira, Sociedade Unipessoal, S.A. in Hotel Rauchstrasse 22, S.A.R.L.

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. In 2020 an impairment loss was recognized for the investment held in this Fund in the amount of 331,123 Euros, determined by the valuation of the participation units by the fund's quote.

In 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 and entered into an intercompany loan agreement with this same subsidiary for the amount of 247,500 Euros. With this acquisition, the Group now controls 20% of the voting rights of this company, being considered as an Associate from that moment forward (Note 10).

Disposals in 2019 relate to several investments, all of reduced value, generating a loss in the amount of 184,897 Euros (Note 33).

As at 31 December 2020, 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	(331,123)	5,669,807	–	–	–	5,669,807
Others	–	552,325	(292,979)	259,346	10,474	–	10,474	269,820
		6,553,255	(624,102)	5,929,153	10,474	–	10,474	5,939,627

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

12. Deferred tax assets and liabilities

As at 31 December 2020 and 2019, the balance recognized as Deferred taxes is presented in the Statement of financial position at its net value.

The impacts of the movements occurred in Deferred tax items, for 2020 and 2019, are as follows:

	2020	2019
Impact on Income statement		
Deferred tax assets	5,942,830	1,263,237
Deferred tax liabilities	(1,788,933)	1,024,622
	4,153,897	2,287,859
Impact on perimeter changes (Note 39)		
Deferred tax assets	–	(24,138)
Deferred tax liabilities	987	432,306
	987	408,168
Net effect of deferred taxes	4,154,884	2,696,027

In 2019 tax period, due to 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 correspondent amounts registered had no fiscal relevance; and that ii) the simultaneous recognition of the Right-of-use asset and the Lease liability did not fit into the initial recognition exemption foreseen in IAS 12 and, therefore, registered deferred tax assets and liabilities at the commencement date, submitted the tax returns for this financial year in accordance with this tax treatment.

After the deadline for the submission of the income tax forms 'modelo 22' regarding the 2019 tax period, the Portuguese Tax Authorities issued Circular no. 7/2020, of 13 August, which established the following understanding on the tax treatment of the adoption of IFRS 16:

(i) The right-of-use asset is an asset subject to depreciation for tax purposes (by the straight-line method and considering the depreciation rates applicable to the underlying assets), since all expectations or provisions included in the lease payments are excluded for tax purposes (namely an estimate of costs to be incurred in dismantling and removing an asset, an expected amount to be paid under residual value guarantees, penalties for terminating the lease and the exercise price of a purchase option);

(ii) The positive or negative adjustments made on the transition date related to leases for assets which were improved with constructions, are deductible in the taxable income, since the depreciation amounts of the underlying assets were the same than in previous years and which were not considered in the taxable income previously;

(iii) The interest on operating lease liabilities (as on financial leases) are relevant for the maximum deductible net financing expenses as defined in the article 67 of the Corporate Income Tax Code.

In this context, the Group has decided to present a gracious complaint regarding the 2019 income tax. As at 31 December 2019, the tax effect of this transition implies the decrease in the tax payable of that year in the amount of Euro 7,118,044 and consequently a decrease in the tax benefits then considered and deducted in the amount of Euro 4,585,457, resulting in an tax receivable of Euro 2,532,587 (Note 16).

As a result of this amendment, the tax benefits relating to the Investment support tax (RFAI – *Regime fiscal de apoio ao investimento*) and System of tax incentives for research and development of businesses (SIFIDE – *Sistema de incentivos fiscais à investigação e ao desenvolvimento empresarial*) in the amount of 4.585.457 Euros will be corrected once the new tax result is not sufficient to deduct them. However, these benefits may be deductible in subsequent years, namely for the period of eight years in the case of SIFIDE and ten years in the case of RFAI, reason for which a deferred tax asset was recorded in the same amount and is expected to be recovered in 3 years.

The deferred tax assets recognized at the transition date to this standard were reversed, in the amount of 5,012,419 Euros. In cases where the useful life of the underlying assets for tax purposes is less than the period of the lease, the Group recognized a deferred tax liability in the amount of 2,962,501 Euros. The tax estimate for the 2020 tax period has already been calculated in accordance with the tax treatment set out in Circular no. 7/2020.

As at 31 December 2020, due to the impact of the COVID-19 pandemic on the Pestana Group's activity, tax losses were determined for which deferred tax assets amounting to 6,637,431 Euros have been recorded, of which 2,876,292 Euros have been recorded against Payables to Group companies belonging to the Special Taxation Regime for Group Companies (RETGS) (Note 27), but which do not belong to this consolidation perimeter (Note 38). These losses can be deducted from taxable profits over the next twelve years. Considering the expectation of a gradual recovery of tourism, namely that the activity will gradually return to the levels of the recent past within 3 to 5 years, Grupo Pestana estimates recovering this deferred tax asset over the next 3 years.

As at 31 December 2020, due to the fact that it is not possible to deduct the tax benefit related to investments ('RFAI'), deferred tax assets in the amount of 2,111,532 Euros have been recorded. This benefit can be deductible up to the 10th subsequent tax period, and the Group estimates recovering it in 4 years.

As at 31 December 2020, considering that part of the net financial expenses of the period are not tax deductible because of the reduction in EBITDA calculated for tax purposes, deferred tax assets amounting to 720,730 Euros have been recorded. These net financial expenses can be deductible up to the 5th subsequent tax period, and the Group expects to recover this asset within that timeframe.

Following the increases in share capital in 2020 and 2019 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 for the period in which it is made and the following five tax periods up to a limit of 2,000,000 Euros of contributions made per company. Thus, in 2020 and 2019 the deferred tax asset corresponding to the benefits that will be received in the following years, in the amounts of approximately 620,000 Euros and 125,000 Euros, respectively, was recorded. This asset was recorded in the income statement as the capital increases were all carried out in the Group's subsidiaries.

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

	TAX BENEFITS	CARRY FORWARD TAX LOSSES	LEASES	SHARE CAPITAL'S CONVENTIONAL REMUNERATION	NET FINANCING CHARGES	CHANGES IN FAIR VALUE	DEEMED COST (IFRS 1) ON TANGIBLE ASSETS	IMPAIRMENT LOSSES ON TRADE RECEIVABLES	OTHER	TOTAL
1 JANUARY 2020	–	–	7,080,177	941,251	–	1,098,727	311,449	31,564	3,049,311	12,512,479
Charge through income statement:										
Impact of transition to IFRS 16	4,585,457	–	–	–	–	–	–	–	–	4,585,457
Others	2,111,532	3,761,139	–	620,334	720,730	–	–	98,849	10,152	7,322,736
Reversal through income statement										
Impact of transition to IFRS 16	–	–	(5,012,419)	–	–	–	–	–	–	(5,012,419)
Others	–	–	–	(221,324)	–	(691,994)	(39,626)	–	–	(952,944)
Charges through payables	–	2,876,292	–	–	–	–	–	–	–	2,876,292
Changes in the period	**6,696,989**	**6,637,431**	**(5,012,419)**	**399,010**	**720,730**	**(691,994)**	**(39,626)**	**98,849**	**10,152**	**8,819,122**
	6,696,989	**6,637,431**	**2,067,758**	**1,340,261**	**720,730**	**406,733**	**271,823**	**130,413**	**3,059,463**	**21,331,601**
Offset of Deferred tax liabilities	(6,696,989)	(6,462,221)	(2,067,758)	(1,222,661)	(720,730)	(406,733)	(271,823)	(130,413)	(3,059,463)	(21,038,791)
31 DECEMBER 2020	–	175,210	–	117,600	–	–	–	–	–	292,810

	LEASES	SHARE CAPITAL'S CONVENTIONAL REMUNERATION	CHANGES IN FAIR VALUE	DEEMED COST (IFRS 1) ON TANGIBLE ASSETS	IMPAIRMENT LOSSES ON TRADE RECEIVABLES	HEDGING RESERVES	OTHER	TOTAL
1 JANUARY 2019	6,379,985	798,478	446,197	335,590	77,097	47,180	3,188,852	11,273,379
	–	–	–	–	–	–	–	–
Charge through income statement:	700,192	142,773	652,530	–	–	–	–	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	**700,192**	**142,773**	**652,530**	**(24,141)**	**(45,533)**	**(47,180)**	**(139,542)**	**1,239,099**
	7,080,177	**941,251**	**1,098,727**	**311,449**	**31,564**	**–**	**3,049,311**	**12,512,479**
Offset of Deferred tax liabilities	(6,846,537)	(816,651)	(1,098,727)	(311,449)	(31,538)	–	(3,049,311)	(12,154,213)
31 DECEMBER 2019	233,640	124,600	–	–	26	–	–	358,266

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

	DEEMED COST (IFRS 1) ON TANGIBLE ASSETS	LEGAL REVALUATIONS (PREVIOUS STANDARD)	CHANGES IN FAIR VALUE	DIFFERENCES IN DEPRECIATION RATE	OTHER	TOTAL
1 JANUARY 2020	29,171,044	22,980	163,248	–	1,510,308	30,867,580
Charge through income statement:						
Impact of transition to IFRS 16	–	–	–	2,962,501	–	2,962,501
Reversal through income statement	(795,905)	(22,980)	(163,248)	–	(191,435)	(1,173,568)
Perimeter exits	–	–	–	–	(987)	(987)
Changes in the period	**(795,905)**	**(22,980)**	**(163,248)**	**2,962,501**	**(192,422)**	**1,787,946**
	28,375,139	**–**	**–**	**2,962,501**	**1,317,886**	**32,655,526**
Offset of Deferred tax assets	(21,034,680)	–	–	–	(4,111)	(21,038,791)
31 DECEMBER 2020	7,340,459	–	–	2,962,501	1,313,775	11,616,735

	DEEMED COST (IFRS 1) ON TANGIBLE ASSETS	LEGAL REVALUATIONS (PREVIOUS STANDARD)	CHANGES IN FAIR VALUE	OTHER	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

Deferred tax liabilities include the non-deduction for tax purposes of 100% of the excess recorded for the determination of deemed cost and 40% of the legal revaluation carried out.

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 2020	ASSETS / LIABILITIES AT AMORTIZED COST	ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS	OTHER NON-FINANCIAL ASSETS / LIABILITIES	TOTAL
Financial assets					
Cash and cash equivalents	57,781,523	–	–	–	57,781,523
Trade and other receivables	39,086,635	–	–	23,779,622	62,866,257
Equity instruments at fair value through profit and loss	–	–	5,939,627	–	5,939,627
	96,868,158	**–**	**5,939,627**	**23,779,622**	**126,587,407**
Financial liabilities					
Borrowings	315,759,373	–	–	–	315,759,373
Derivatives	–	64,200	21,400	–	85,600
Trade and other payables	19,796,097	–	–	15,855,978	35,652,075
Advances from customers	21,781,100	–	–	–	21,781,100
	357,336,570	**64,200**	**21,400**	**15,855,978**	**373,278,148**

31 DECEMBER 2019	ASSETS / LIABILITIES AT AMORTIZED COST	ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	ASSETS / LIABILITIES AT 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	35,767,981	–	–	21,735,895	57,503,876
Advances from customers	23,165,753	–	–	–	23,165,753
	395,904,954	**130,751**	**43,584**	**21,735,895**	**417,815,184**

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, and are as follows:

	31-12-2020			31-12-2019		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
Financial assets						
Equity instruments at fair value through profit and loss	–	–	5,939,627	–	–	6,925,558
	–	–	5,939,627	–	–	6,925,558
Financial liabilities						
Derivatives	–	85,600	–	–	174,335	–
	–	85,600	–	–	174,335	–

14. Trade and other receivables and Advances from customers

As at 31 December 2020 and 2019 Trade and other receivables and Advances from customers are detailed as follows:

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Trade and other receivables						
Trade receivables (i)	13,620,851	–	13,620,851	20,968,331	–	20,968,331
Other receivables (ii)	3,213,671	8,701,004	11,914,675	5,415,077	1,869,387	7,284,464
Prepayments (iii)	1,625,086	10,316,898	11,941,984	2,858,806	9,713,559	12,572,365
Accrued income (iv)	11,836,550	1,088	11,837,638	10,438,656	5,027	10,443,683
Taxes receivable (v)	13,551,108	–	13,551,108	8,926,280	–	8,926,280
	43,847,266	19,018,990	62,866,256	48,607,150	11,587,973	60,195,123
Advances from customers (vi)	(21,149,600)	(631,500)	(21,781,100)	(23,165,753)	–	(23,165,753)

Trade and other receivables and Advances from customers have no significant difference between their carrying amount and their fair value.

(i) Trade receivables

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Trade receivables – group (Note 40)	1,560,927	–	1,560,927	1,062,314	–	1,062,314
Trade receivables – other	12,059,924	–	12,059,924	19,906,017	–	19,906,017
Doubtful debtors	4,459,072	–	4,459,072	9,780,977	–	9,780,977
	18,079,923	–	18,079,923	30,749,308	–	30,749,308
Impairment of trade receivables	(4,459,072)	–	(4,459,072)	(9,780,977)	–	(9,780,977)
	13,620,851	–	13,620,851	20,968,331	–	20,968,331

Impairment — movements of the year:

	2020	2019
1 JANUARY	9,780,977	10,398,085
Increases	606,065	34,464
Utilizations	(206,903)	(608,758)
Transfers	(47,321)	164,913
Perimeter exits	(5,673,746)	(207,727)
31 DECEMBER	4,459,072	9,780,977

(ii) Other receivables

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Other debtors – group (Note 40)	384,018	1,887,946	2,271,964	974,443	1,916,189	2,890,632
Other receivables – other	3,003,000	6,813,058	9,816,058	4,452,342	–	4,452,342
Impairment	(173,347)	–	(173,347)	(11,708)	(46,802)	(58,510)
	3,213,671	8,701,004	11,914,675	5,415,077	1,869,387	7,284,464

As at 31 December 2019, Trade and other receivables balances related to the subsidiaries that left the consolidation perimeter, amounted to 3,031,011 Euros (Note 39).

As at 31 December 2020 and 2019, the caption of Other debtors – group includes the receivable balance from the sublessee, in the amount of 1,887,947 Euros and 1,916,189 Euros, respectively, resulting from the derecognition of the Right-of-use assets relating to the sub-lease agreement made in 2016 for the use of the Pestana CR7 Funchal hotel until 2044, with the company Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A. (Note 3.18).

Other debtors – group include receivables from companies included in the Special Taxation Regime for Group Companies (Note 12), but which are not part of the consolidation perimeter, amounting to 77,862 Euros and 579,914 Euros in 2020 and 2019, respectively.

The change in Other debtors – other, non-current, relates mainly to the amount receivable from the Autonomous Region of Madeira for the sale in 2020 of SDM – Sociedade de Desenvolvimento da Madeira, S.A., amounting to 6,813,058 Euros, which will be received in two equal amounts, until 30 June 2022 and 30 June 2023 (Note 39).

Impairment — movements of the year:

	2020	2019
1 JANUARY	58,510	230,268
Increases	67,516	–
Transfers	47,321	(164,913)
Perimeter exits	–	(6,845)
31 DECEMBER	173,347	58,510

The ageing of balances without impairment is as follows:

	2020	2019
Between 0 and 6 months	16,485,307	20,317,758
Between 6 and 12 months	1,687,402	2,131,388
Between 12 and 18 months	2,710,260	1,191,921
Between 18 and 24 months	1,004,354	1,047,546
more than 24 months	3,648,205	3,564,182
	25,535,528	**28,252,795**

The ageing of overdue balances with impairment is as follows:

	2020	2019
Between 0 and 6 months	233,491	417,679
Between 6 and 12 months	556,791	287,143
Between 12 and 18 months	815,155	204,397
Between 18 and 24 months	256,109	99,633
more than 24 months	2,770,873	8,830,635
	4,632,419	**9,839,487**

Impairment losses are calculated as described in Note 3.9. iii). Considering the increased collectability risk in the market due to the COVID 19 pandemic, the impairment losses were calculated considering the effect of this situation in each account receivable.

Despite the pandemic and the 2020 economic crisis, which significantly affected most of the travel and tourism operators, it is worth noting that, due to the careful management that Grupo Pestana applies in the attribution of credit and respective collections, there is no significant incidents of default on receivables from customers so far. Therefore, and despite the risk covered by credit insurance, it was not necessary in 2020 to use this coverage, nor to recognize any relevant impairment in these amounts.

(iii) Prepayments

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Commissions	303,524	10,316,897	10,620,421	1,162,891	9,713,266	10,876,157
Rents	1,500	-	1,500	199,415	-	199,415
Insurance	228,230	-	228,230	180,194	-	180,194
Other services	1,091,832	-	1,091,832	1,316,306	293	1,316,599
	1,625,086	**10,316,897**	**11,941,983**	**2,858,806**	**9,713,559**	**12,572,365**

As at 31 December 2020 and 2019, the balance of Commissions relates mainly to commissions paid for sales of Pestana Vacation Club – Options (Note 3.22 ii).

(iv) Accrued income

As at 31 December 2020 and 2019, this caption relates essentially to the amounts that will be received upon completion of the deeds of the housing units already delivered to owners, of 10,554,610 Euros and 9,885,291 Euros, respectively.

(v) Tax receivable

As at 31 December 2020 and 2019 this caption is mainly related to VAT receivable.

(vi) Advances from customers

Refers mainly to the amounts received along the construction works, amounting in total to 13,550,188 Euros (31 December 2019: 12,971,871 Euros) and maintenance fees charged in advance under timeshare contracts amounting to 4,767,348 Euros (31 December 2019 5,679,121 Euros). The remaining amount is related to reservations made by tour operators and individual customers.

15. Inventories

As at 31 December 2020 and 2019 Inventories are detailed as follows:

	2020	2019
Goods	847,647	805,295
Raw and subsidiary materials	2,270,150	2,571,382
Finished goods	771,379	1,044,566
Work in progress	66,440,722	79,884,676
	70,329,898	**84,305,919**
Impairment of inventories	(422,439)	(379,748)
	69,907,459	**83,926,171**

Finished goods and Work in progress are detailed as follows:

	2020	2019
Silves Golf Resort Project (Algarve)	27,893,809	30,668,890
Tróia Eco-Resort Project	8,789,866	25,219,670
North of Gramacho land (Algarve)	7,933,597	7,886,584
Abrunheira Project (Portalegre)	6,349,235	6,345,335
Coliseu project (Azores) (Note 8)	4,885,233	1,249,709
A Fábrica, Apartaments & Lofts Project (Madeira, Portugal)	4,040,034	3,992,295
Pestana Comporta Village Residences	3,577,776	3,576,673
D. Fernando Project (Algarve) (Note 6)	2,285,653	–
Beverages and packaging	859,182	774,079
Porto Santo land	–	443,360
S. Martinho land (Funchal)	–	359,750
Other	597,716	412,897
	67,212,101	**80,929,242**

The Silves Golf Resort project is a touristic project which includes two 4-star tourist resorts with 232 accommodation units with a total expected investment of 47,000,000 Euros. In 2020 the construction of one block of 4 apartments and one villa was completed. The construction of 4 more villas has started and will be completed during 2021.

The Tróia Eco-Resort Project concerns the construction of the houses, apartments and respective infrastructures of the tourist village. The variation occurred in 2020 relates essentially to the development and completion of the construction of apartments in *Lote* 1, with 54 units having been delivered and 13 units still to be delivered.

The land North of Gramacho relates to the real estate project still in development as explained in Note 6.

In an area of about 450 hectares, the Abrunheira Project comprises 13 tourist developments, divided into 10 tourist villages, 2 tourist apartments with houses and 1 apart-hotel, besides 32 plots of equipment, infrastructures and leisure areas, including a golf course, a Club House and an equestrian Centre. This project is intended to be undertaken through phases with the first one 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. In 2020, the application to PDR 2020 (Rural Development Program) has been approved to start an intensive olive grove project with an extension of 100 ha, which involves the construction of dams for its supply, which will enhance the attractiveness of the real estate component.

The Fábrica, Apartaments & Lofts project, located in the center of the city of Funchal, concerns the urban rehabilitation of Madeira's old brewery into a close-gated luxury development. This project started in 2020, with a total investment of approximately 11 million Euros, and is expected to be completed in 2022.

The Pestana Comporta Village Residences is located 200 meters from Comporta Village and 2 Km from the beach where 75 units of type T1 and T2 with swimming pool will be developed. The real estate project is in the licensing process and the construction will start at the end of 2021. In October 2020 the sales process was started and due to the high demand for this type of real estate project, 56 reservations have already been made with advances amounting to 631,500 Euros.

In 2020, the D. Fernando land, located south of Gramacho, started to be used in the construction of a real estate project with 77 independent units intended for sale, with a total estimated construction value of 16,000,000 Euros, having thus been transferred the amount of 1,926,288 Euros from Tangible Fixed Assets to Inventories.

In 2020, the Porto Santo Land was transferred to Tangible fixed assets as it became an integral part of the Pestana Dunas project (Note 6).

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 Coliseu Micaelense with 56 apartments and which represents a total investment of 8,500,000 Euros. As at 31 December 2020, 46 promissory contracts had already been signed, with the completion of the works and the delivery of the apartments to the clients expected to take place in 2021.

In 2020, Cost of goods sold and materials consumed amounted to 40,410,204 Euros (31 December 2019: 51,796,824 Euros). Due to the impact of the COVID-19 pandemic on the hotel business in 2020, and more specifically on the Food & Beverage business, there was a decrease of 20,277,660 Euros in the Cost of goods sold compared to the previous period. By contrast, the real estate activity continued to grow, with its cost of sales amounting to 27,735,650 Euros in 2020 and 18,844,610 Euros in 2019.

Impairment of Inventories – movements of the period:

	2020	2019
1 JANUARY	379,748	324,904
Increases	133,264	160,336
Utilizations	(90,573)	(104,813)
Perimeter exits	–	(679)
31 DECEMBER	422,439	379,748

As at 31 December 2020, despite the COVID-19 pandemic, there are no additional signs of impairment.

16. Income tax

The balances of Current income tax for the years ended 31 December 2020 and 2019 are as follows:

	31/12/2020		31/12/2019	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Income tax	2,589,299	310,709	13,085,831	91,959
	2,589,299	310,709	13,085,831	91,959

The balance of Income tax is detailed as follows:

	2020	2019
Advance payments	–	14,394,839
Additional advance payments	1,255,278	2,227,973
Withholding taxes	287,083	555,421
Current income tax estimate	(1,796,358)	(4,184,361)
Income Tax Correction 2019 – Impact of transition to IFRS 16 (Note 12 and 35)	2,532,587	–
	2,278,590	12,993,872

Grupo Pestana, S.G.P.S., S.A. is covered by the Special Taxation Regime for Group Companies (R.E.T.G.S.). 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. For companies not covered by the special taxation regime, current income tax is calculated based on their respective taxable profit and loss, according to the tax rules in the country of each company. In 2020, the tax receivable from subsidiaries not covered by the R.E.T.G.S. is 56,712 Euros.

In 2020, Grupo Pestana only made additional advance payments since it was exempted from making the first two payments on account following the measures created by the State for economic and financial support of companies arising from the COVID-19 pandemic, since the drop in turnover was greater than 40%. Additionally, in accordance with the law, the third advance payment was not paid since, at the date of its possible demand, it was already estimated that there would be a tax loss for 2020.

The balance payable in 2020 corresponds to the amount of surcharges and autonomous taxation less advance payments and additional advance payments made in the year and withholdings, as well as an amount payable resulting from a correction identified during a tax inspection of a subsidiary in 2020.

17. Cash and cash equivalents

As at 31 December 31 December 2020 and 2019, the detail of Cash and cash equivalents is as follows:

	31-12-2020	31-12-2019
Cash	701,686	1,363,352
Bank deposits	57,079,837	113,698,051
	57,781,523	**115,061,403**

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 2020 and 2019, is as follows:

	31-12-2020	31-12-2019
Cash	701,686	1,363,352
Bank overdrafts	(332,301)	(187,915)
Bank deposits	57,079,837	113,698,051
	57,449,222	**114,873,488**

As at 31 December 2019, the Cash and cash equivalents balances of the subsidiaries that left the consolidation perimeter in 2020 amounted to 10,624,313 Euros (Note 39).

18. Capital

As at 31 December 2020 and 2019 Capital is detailed as follows:

	2020	2019
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) Capital

As at 31 December 2020 and 2019, 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 2020 and 2019 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 at 31 December 2020 and 2019, basic earnings per share are negative by 0.22 Euros and positive by 0.96 Euros, respectively, and net earnings per share are negative by 0.22 Euros and positive by 0.96 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

As at 31 December 2020 and 2019, accessory contributions relate to the two Shareholders of Grupo Pestana, S.G.P.S., S.A., in the following amounts: 5,700,000 Euros paid-up by Mr. Dionísio Pestana and 2,500,000 Euros paid-up by Pestana International Holdings S.A..

These Accessory contributions do not bear any interest nor have a defined repayment term. 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 2020 and 2019 Other reserves had the following movements:

	LEGAL RESERVE (I)	FREE RESERVES	FAIR VALUE RESERVE C.F.H. (II)	TOTAL
1 JANUARY 2019	22,986,177	21,408	(87,580)	22,920,005
Changes in perimeter (Note 39)	99,837	–	–	99,837
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
Profit for the period application	3,213,376	–	–	3,213,376
Change in fair value reserve – hedging derivatives (net of tax)	–	–	66,551	66,551
Transfers (Note 20)	–	(29,451)	–	(29,451)
31 DECEMBER 2020	31,087,042	–	(66,652)	31,020,390

(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 subsidiary's issued share capital. This reserve is usually not available for distribution until the company's liquidation but may be used to absorb losses, after all other available reserves have been extinguished, and to increase share capital.

(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.

20. Retained earnings

As at 31 December 2020 and 2019, the movements in Retained earnings were as follows:

	TOTAL
1 JANUARY 2019	21,838,351
Profit for the period application	57,203,656
Distributions (Note 36)	(13,171,924)
Other	(3,509)
31 DECEMBER 2019	65,866,574
Profit for the period application	73,362,325
Distributions (Note 36)	(12,000,000)
Transfers (Note 19)	29,451
Other	(93,984)
31 DECEMBER 2020	127,164,366

21. Non-controlling interests

Non-controlling interests' movements were as follows:

	2020	2019
1 JANUARY	15,115,384	15,282,398
Profit for the period	1,029,786	3,934,122
Shareholder contributions	–	30,000
Reimbursement to non-controlling interests	(3,400,549)	–
Dividends (Note 36)	(2,311,067)	(4,126,813)
Other	117,705	(4,323)
Changes in the perimeter (Note 39)	(2,554,633)	–
31 DECEMBER	7,996,626	15,115,384

Reimbursement to non-controlling interests in 2020 are related to the share capital reduction in the subsidiary SDM – Sociedade de Desenvolvimento da Madeira, S.A. in the total amount of 6,505,738 Euros, of which 3,400,549 Euros were paid to non-controlling interests according to the respective proportion of voting rights (Note 39).

Changes in perimeter in 2020 relate to the sale of the subsidiary SDM – Sociedade de Desenvolvimento da Madeira, S.A. and the consequent participation it held in SDEM – Sociedade de Desenvolvimento Empresarial da Madeira, Sociedade Unipessoal, S.A. (Note 39).

Dividends paid by the subsidiaries of Grupo Pestana to Non-controlling interests during 2020 amounted to 2,311,067 Euros (2019: 4,126,813 Euros).

Non-controlling interests relate to the following investments:

	31-12-2020		31-12-2019	
	% HELD	VALUE	% HELD	VALUE
Ponta da Cruz – Sociedade Imobiliária e de Gestão de Hotéis, S.A.	48.00%	5,209,622	48.00%	5,469,701
Porto Carlton – Soc. de Construção e Exploração Hoteleira, S.A.	40.00%	2,787,004	40.00%	3,051,263
SDM – Sociedade de Desenvolvimento da Madeira, S.A.	–	–	52.27%	6,423,120
SDEM – Soc. de Des. Empresarial da Madeira, Soc. Unip., S.A.	–	–	52.27%	171,300
		7,996,626		**15,115,384**

22. Provisions

As at 31 December 2020 and 2019, the movements in Provisions were as follows:

	LITIGATIONS AND CLAIMS IN PROGRESS (i)	CUSTOMER GUARANTEES (ii)	OTHER PROVISIONS (iii)	TOTAL
1 JANUARY 2020	2,770,841	271,010	1,596,523	4,638,374
Increases	35,001	33,572	3,036	71,609
Utilizations	–	–	(111,075)	(111,075)
Changes on period	35,001	33,572	(108,039)	(39,466)
31 DECEMBER 2020	**2,805,842**	**304,582**	**1,488,484**	**4,598,908**
Current balance	50,789	114,878	1,044,764	1,210,431
Non-current balance	2,755,053	189,704	443,720	3,388,477
	2,805,842	**304,582**	**1,488,484**	**4,598,908**

	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

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

(i) Litigations 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 lawsuit is currently under judicial review and there are no further developments that imply changes to the balance of the provision previously presented as a current liability. According to the external lawyer in charge of monitoring this process, it is not expected that it will be concluded and paid within one year, so this provision was reclassified to non-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 accommodation unit in the Pestana Tróia 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 2017, 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 the Group decided to book a provision in the same amount in the eventuality that the Portuguese state executes the mentioned bank guarantee.

In 2020 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:

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Bank loans	6,354,271	182,188,661	188,542,932	22,647,954	121,463,390	144,111,344
Bank overdrafts	332,301	–	332,301	187,915	–	187,915
Commercial paper	2,944,444	22,222,223	25,166,667	1,444,444	23,944,445	25,388,889
Bond loans	27,500,000	75,000,000	102,500,000	65,000,000	102,500,000	167,500,000
	37,131,016	279,410,884	316,541,900	89,280,313	247,907,835	337,188,148
Interest payable – accrual	1,252,503	–	1,252,503	2,095,169	–	2,095,169
Interest payable – deferral	(516,544)	(1,518,486)	(2,035,030)	(602,607)	(1,709,490)	(2,312,097)
	37,866,975	277,892,398	315,759,373	90,772,875	246,198,345	336,971,220

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

The future payments of the outstanding bank loans, commercial paper and bond loans, by currency of denomination, as at 31 December 2020 and 2019, are as follows:

	2021	2022	2023	2024	2025	FOLLOWING YEARS	TOTAL
Bond loans							
Euro	27,500,000	15,000,000	–	–	60,000,000	–	102,500,000
	27,500,000	15,000,000	–	–	60,000,000	–	102,500,000
Bank loans							
Euro	6,354,271	25,416,784	20,113,750	19,767,895	19,927,989	96,962,243	188,542,932
	6,354,271	25,416,784	20,113,750	19,767,895	19,927,989	96,962,243	188,542,932
Commercial paper							
Euro	2,944,444	444,444	20,444,444	444,444	444,444	444,447	25,166,667
	2,944,444	444,444	20,444,444	444,444	444,444	444,447	25,166,667
	36,798,715	40,861,228	40,558,194	20,212,339	80,372,433	97,406,690	316,209,599

	2020	2021	2022	2023	2024	FOLLOWING YEARS	TOTAL
Bond 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
Bank 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
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

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

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

Also in February 2020, the Group received the funds of the loan contracted at the end of 2019, in the amount of 45,000,000 Euros for 15-year period, with a fixed rate and repayable in 60 quarterly instalments of principal and payment of interest, the first instalment having been paid in March.

In February and April 2020, the Business Development Institute of the Autonomous Region of Madeira communicated the conclusion of the analysis and assessment of the results of two repayable grants granted in 2018 under the Valorizar 2020 program, having attributed a degree of compliance of 0.90 and 1.01, respectively, which resulted in an exemption of reimbursement in the amount of 540,530 Euros and 396,600 Euros, respectively (Note 26 and 31).

In October 2020, the Group used the financing already contracted in 2018 in the amount of 5,000,000 Euros.

The COVID-19 pandemic led the Portuguese State to adopt several measures to mitigate its financial impact on companies, including the provision of subsidized credit lines with State guarantee and capital moratoriums in borrowings. Thus, Grupo Pestana benefited from moratoriums on capital in the amount of 19,233,583 Euros, which in some cases implied the extension of the term of the agreement or whose payment will occur in 2021 and obtained subsidized credit lines with State guarantees in the amount of 2,000,000 Euros. With regard to interests, the Group has decided to continue with its payment.

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. Due to the impact of this pandemic crisis on the Grupo Pestana's results and although no difficulties are foreseen in the compliance of its financial responsibilities, considering its strong financial structure, the Group agreed to suspend the covenants provided in the loan agreements for 2020. Regarding the green bond loan issued in September 2019 in the amount of 60 million Euros, the exemption from monitoring of these covenants for the years 2020 and 2021 was obtained with great success, with the presence and votes in favor of about 80% of the investors. Regarding the bond loan of 15,000,000 million Euros, the exemption from the monitoring these covenants for a period of two years was also obtained.

In September 2019, Grupo Pestana entered into a paying service agreement 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, 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 recording entity of which is the Central Depository for Securities, managed by Interbolsa.

As at 31 December 2020, 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 25,166,667 Euros are used, 24,722,223 Euros in non-current and 444,444 Euros in current. These issues are remunerated at the Euribor rate for the respective issue term plus spread.

Grupo Pestana holds, as at 31 December 2020, a set of unused contracted credit lines in Financial Institutions with a total amount 89,400,000 Euros related to authorized credit lines and overdrafts.

24. Lease liabilities

As at 31 December 2020 and 2019 Lease liabilities refer to:

	31-12-2020	31-12-2019
Current	11,370,256	11,367,313
Non-current:		
1 and 5 years	43,035,454	45,301,432
More than 5 years	100,659,407	109,650,691
	155,065,117	166,319,436

As at 31 December 2020 and 2019, Lease liabilities mainly refer to the following Right-of-use assets (Note 6):

- Alto Golf – Pestana Golf & Resort
- Beloura – Pestana Golf & Resort
- Casino da Madeira
- Madeira Magic
- Pestana Atlantic Gardens
- Pestana Carlton Madeira
- Pestana Cascais
- Pestana Churchill Bay
- Pestana Cidadela Cascais
- Pestana Colombos
- Pestana CR7 Funchal
- Pestana Delfim
- Pestana Fisherman
- Pestana Ilha Dourada
- Pestana Lisboa Vintage
- Pestana Palácio do Freixo
- Pestana Quinta do Arco
- Pestana Royal
- Pestana Rua Augusta
- Pestana Sintra Golf
- Pestana Viking
- Pestana Vila Sol
- Pousada de Alfama
- Pousada de Lisboa
- Pousada Vila Real de Santo António
- Pousadas de Portugal (Network)
- Vila Sol – Pestana Golf & Resort

Following the COVID-19 pandemic, some lease agreements were renegotiated in order to obtain reductions in the value of fixed rents or moratoriums in order to minimize the impact registered by the temporary reduction of activity. The impact of this renegotiation on the decrease in lease liabilities was 4,887,823 Euros (Note 31).

25. Derivatives

As at 31 December 2020 and 2019, Grupo Pestana had interest rate swaps (hedging derivatives) as follows:

	31-12-2020		31-12-2019	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate swaps - non-current	-	85,600	-	174,335
	-	85,600	-	174,335

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

CLASSIFICATION IFRS 9	INITIAL REFERENCE VALUE	MATURITY	PAYMENT PERIOD	FEES RECEIVABLE/ PAYABLE	FAIR VALUE AT 31-12-2020	FAIR VALUE AT 31-12-2019	VARIATION
Proportion hedge	7,000,000	26-09-2022	Semiannual	6m Euro / 4.82%	(85,600)	(174,335)	88,735
					(85,600)	(174,335)	88,735

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 2020 and 2019 were as follows:

	2020	2019
1 JANUARY	174,335	485,180
Hedging derivatives - fair value changes (Note 19)	(66,551)	(84,174)
Hedging derivatives - fair value changes (Note 34)	(22,184)	(28,058)
Settlement	-	(198,613)
31 DECEMBER	85,600	174,335

The changes in the fair value reserve related to cash flow hedges in 2020 and 2019 were as follows:

	2020	2019
1 JANUARY	(133,203)	(87,580)
Hedging derivatives - fair value changes (Note 19)	66,551	84,174
Liquidation (net of tax)	-	(129,797)
31 DECEMBER	(66,652)	(133,203)

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 recorded 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 2020 and 2019 the detail of Deferred revenue is as follows:

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Pestana Vacations Club – D.R.H.P. (i)	12,552,350	86,699,243	99,251,593	13,694,376	90,790,566	104,484,942
Pestana Vacations Club – Options (ii)	971,753	32,195,747	33,167,500	3,422,927	30,443,900	33,866,827
Government grants (iii)	383,877	5,871,891	6,255,768	436,065	5,426,071	5,862,136
Temporary transfer of Pestana Trademark (iv)	2,333,333	-	2,333,333	6,333,333	-	6,333,333
Others	1,566,700	2,830,666	4,397,366	4,451,337	3,468,113	7,919,450
	17,808,013	**127,597,547**	**145,405,560**	**28,338,038**	**130,128,650**	**158,466,688**

As at 31 December 2019, the balance of Deferred revenue related to subsidiaries that left the consolidation perimeter relate essentially to the deferred annual fees of S.D.M. – Sociedade de Desenvolvimento da Madeira, S.A., in the amount of 2,741,255 Euros (Note 39).

(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.

The temporary reduction in the activity of the units due to the pandemic as well as the existing limitations in air transportation has impacted the possibility of use of the right contracted and the negotiation of new contracts. Thus, for accommodation units for which use was made impossible by the pandemic and whose maintenance fees were paid, Grupo Pestana decided to allow that right of use during the remaining period of the contract, with an impact of 5,363,064 Euros.

(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) Government grants

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

(iv) Temporary transfer of Pestana Trademark

As at 31 December 2020 and 2019, the Temporary transfer of Pestana Trademark refers in its entirety to the temporary transfer fee for the exploitation of the trademark in Portugal, whose renewal was signed in December 2017 for the period from 2018 to 2020, for a total amount of 19,000,000 Euros. The term having been extended to 2021 inclusive by agreement between the parties, due to the effect of the COVID-19 pandemic. The valuation of the trademark was performed by a specialized and independent entity, using the "royalty relief" valuation approach.

Pestana Management – Serviços de Gestão S.A. is 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.

27. Trade and other payables

As at 31 December 2020 and 2019, Trade and other payables are detailed as follows:

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Trade payables						
Suppliers (i)	12,541,933	–	12,541,933	26,767,806	–	26,767,806
Other payables						
Other payables	1,380,336	–	1,380,336	2,036,117	–	2,036,117
Other payables – group (Note 40) (ii)	2,769,347	–	2,769,347	502,959	–	502,959
Suppliers of property, plant and equipment	989,051	–	989,051	3,881,668	–	3,881,668
Taxes payable (iii)	2,115,430	–	2,115,430	2,579,431	–	2,579,431
Accrued expenses						
Personnel	7,242,247	–	7,242,247	11,479,256	–	11,479,256
Other	8,613,731	–	8,613,731	10,256,639	–	10,256,639
	35,652,075	–	35,652,075	57,503,876	–	57,503,876

As at 31 December 2019, Trade and other payables balances referring to the subsidiaries that left the consolidation perimeter, amounted to 1,256,358 Euros (Note 39).

The balances of Trade and other payables presented have no significant difference between carrying amount and fair value.

(i) Suppliers

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Suppliers – group (Note 40)	2,581,919	–	2,581,919	6,874,287	–	6,874,287
Other suppliers	9,960,014	–	9,960,014	19,893,519	–	19,893,519
	12,541,933	–	12,541,933	26,767,806	–	26,767,806

(ii) Other payables – group

Other payables – group essentially include the amount payable for tax losses ascertained in 2020 and 2019 by the companies included in the Special Taxation Regime for Group Companies (Note 12), but which are not part of the consolidation perimeter, amounting to 2,731,132 Euros and 487,703 Euros, respectively.

(iii) Taxes payable

	31-12-2020			31-12-2019		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
Personnel income tax withheld	514,041	–	514,041	566,797	–	566,797
Value added tax	650,107	–	650,107	1,063,445	–	1,063,445
Social security contributions	834,527	–	834,527	767,271	–	767,271
Others	116,755	–	116,755	181,918	–	181,918
	2,115,430	–	2,115,430	2,579,431	–	2,579,431

28. Revenue

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

	2020	2019
Real estate (i)	53,403,138	44,964,971
Hospitality business (ii)	48,004,792	205,158,207
Beverages (industry)	19,206,090	25,869,738
Vacation Club (iii)	18,761,552	29,070,477
Golf	6,018,320	11,264,367
Entertainment	5,057,356	11,364,161
Others (iv)	12,654,194	21,400,829
	163,105,442	349,092,750

(i) Real estate

The risk diversification strategy always followed by Grupo Pestana, such as the investment in the touristic and residential real estate business, which demonstrated an enormous resilience to the crisis this year, allowed minimizing the impact of the drop in revenue registered in hospitality.

The real estate revenue continued to grow and to record good results in 2020, since the pandemic context causing an increase in demand for properties in quieter and safer areas, with ample spaces and outdoor areas, with less propensity for virus transmission. Thus, Pestana Tróia Eco-Resort continued to be even more an excellent alternative for real estate investments, with 8 villas from Lots 3 and Lots 4 being delivered for 7,267,350 Euros (2019: 5 villas: 4,089,000 Euros) and 54 accommodation units from Lot 1 in the amount of 31,211,498 Euros (2019: 47.75 accommodation units in the amount of 24,672,150 Euros). In Silves Golf Resort the first 5.3 accommodation units were delivered, in the amount of 4,423,560 Euros.

As at 31 December 2020 and 2019, Real estate also 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 120,942 Euros (2019: 819,405 Euros). For all Construction contracts in progress it was possible to make a reliable estimate of their outcome.

(ii) Hospitality

Hospitality business was strongly affected by the COVID-19 pandemic declared by the World Health Organization on 11 March 2020. Due to the restrictions imposed by law in this context, all units of Grupo Pestana were prevented from receiving guests during the months of April and May. From June onwards, after implementing an internal protocol of procedures with the aim of offering the best conditions of safety and hygiene to guests and employees, in line with the guidelines of the Portuguese Directorate-General of Health, some units of Grupo Pestana were progressively reopened, having as principle the safeguard of the average price per room, whenever possible. However, the strong air restrictions and the need for mandatory quarantine on return to some countries, namely the United Kingdom, led the Group to be almost entirely dependent on the reaction of domestic tourism, which in 2019 represented only 34% of its activity. With the arrival of autumn, the pandemic situation got worse in Portugal, as well as around the world, and new restrictions were established, namely on the people's movement. Thus, in November, the Group anticipated the suspension of the activity of some units that already usually did not operate in the winter and decided to temporarily close almost all of them until March 2021 inclusive, when the gradual recovery of tourism is expected, so the state of emergency decreed on 15 January 2021 did not change the existing situation.

The quality and reliability of the service provided to the guests of Grupo Pestana suggest that demand will continue to exist as soon as the pandemic is mitigated or overcome, as was verified during the period when there were no travel restrictions between Portugal and the United Kingdom.

In Madeira there was a 77.9% decrease in revenue compared with the previous year (2020: 15.2 million Euros). The impact of COVID-19 was significant since, despite Madeira Island remaining on the list of safe destinations for most countries, namely the United Kingdom, which is one of the Group's main markets, it was penalized by the decrease in flights to the island and by the negative association to the pandemic evolution recorded in mainland Portugal. It should be noted that the number of deaths and the number of infected people in Madeira was much lower than in the rest of Europe.

The hotel units in the Algarve reached revenue of around 12.1 million Euros, which represents an increase of 74.5% compared to the previous year. Even so, it is worth highlighting the sporting events that took place in Portimão, namely the Formula 1, which helped to minimize this impact, an event that will be repeated in 2021 and outside the summer high season.

The Pousadas de Portugal network, due to its greater tendency towards domestic market demand and the fact that it is mostly located outside large urban centers, was better able to receive the existing market demand, namely in the summer. However, and despite these positive factors, due to the fact that the domestic market already represented just 44% of the Pousadas' customers in 2019, there was a 72.7% decrease in revenue.

The activity in greater Lisbon and Oporto, where the units belonging to the Pestana Collection brand are located, was more affected by the pandemic due to the very limited air traffic, as well as the reduced confidence of tourists in travelling to more densely populated cities, where the spread of the virus was more prevalent, with a decrease in revenue of 83.5%.

The 2020 and 2019 detail of sales and services rendered in Hospitality business, by country of origin, are as follows:

	Hospitality business	
Country	2020	2019
Portugal	53.7%	34.1%
United Kingdom	11.8%	18.7%
Germany	9.4%	9.9%
France	4.4%	5.6%
Spain	4.3%	3.5%
Netherlands	1.8%	1.8%
United States	1.4%	6.0%
Brazil	1.4%	2.0%
Switzerland	1.2%	1.7%
Sweden	1.1%	1.2%
Belgium	1.0%	1.2%
Italy	1.0%	1.0%
Denmark	0.9%	1.1%
Poland	0.8%	0.1%
Luxembourg	0.6%	0.3%
Ireland	0.5%	2.0%
Norway	0.5%	1.1%
Others	4.2%	8.7%
	100%	**100%**

(iii) Pestana Vacation Club

The Vacation Club business relates to the sale of periodic accommodation and Options, having registered a decrease of 35% in 2020 compared with the previous year.

Similarly to what happened with hospitality business, the temporary reduction in the activity of the units and the existing limitations in air traffic had an impact on the possibility to use the right contracted and negotiation of new contracts. Thus, for accommodation units for which use was made impossible by the pandemic and whose maintenance fees were paid, Grupo Pestana decided to allow that right of use during the remaining period of the contract.

The detail of Sales and services rendered in Hospitality business (value of Sales and Services Rendered) and Vacation Club (number of customers with signed agreements) by country of origin of the customer, for 2020 and 2019, is presented as follows:

	Pestana Vacation Club	
Country	2020	2019
United Kingdom	54.7%	55.8%
Germany	12.5%	11.6%
Portugal	9.2%	10.6%
Finland	7.1%	7.3%
Sweden	3.2%	2.9%
Others	13.3%	11.8%
	100%	100%

(iv) Others

The caption Others includes Sales and Services Rendered in 2020 by the subsidiaries that left the consolidation perimeter in the amount of 7,910,797. In 2019 the Sales and Services Rendered referring to these subsidiaries amounted to 10,938,711 Euros (Note 39).

In 2020 and 2019, Others includes 4,000,000 Euros and 6,333,333 Euros, respectively, 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:

	2020	2019
Subcontracts	11,902,744	21,317,703
Professional fees	8,640,116	26,744,733
Cleaning	6,748,875	16,872,327
Energy	5,813,180	10,547,368
Advertising	4,947,286	8,537,010
Maintenance	4,110,798	6,120,801
Property management exploration counterpart	2,959,030	2,985,200
Commissions	2,955,364	9,033,855
Rents	1,095,867	1,858,830
Insurance	1,068,110	1,084,570
Others	3,039,024	4,839,804
	53,280,394	**109,942,201**

External services and supplies for 2020, related to the subsidiaries that left the consolidation perimeter, amounted to 1,837,626 Euros. In 2019 the expenses with External services and supplies referring to these subsidiaries amounted to 3,164,071 Euros (Note 39).

Grupo Pestana has a high weight of variable expenses in its structure, which allows it to have flexibility in its management according to the evolution of sales, a decisive factor in achieving positive operating profit despite the impact caused by the COVID-19 pandemic. Thus, measures were immediately implemented to control and reduce costs, and so the impact on External supplies and services was mainly at the level of variable expenses, in particular the decrease in cleaning, laundry, energy, licenses, temporary work, commissions and rents. In addition, the decrease in activity and the restrictions imposed also led to the reduction of advertising expenses and the renegotiation of contracts with multiple specialized service suppliers and subcontracts.

Pursuant to paragraph b), no. 1 of article no. 66 A of the Portuguese Commercial Companies Code, audit fees for the 2020 annual accounts of the Statutory Auditors of all subsidiaries of Grupo Pestana were 87,400 Euros. The fees for 2020 of the other Statutory Auditors of the companies included in the consolidation perimeter were 16,250 Euros.

30. Personnel expenses

The detail of Personnel expenses is as follows:

	2020	2019
Board of directors		
Wages and salaries	1,018,119	1,827,205
Social security contributions	199,235	318,530
	1,217,354	2,145,735
Staff		
Wages and salaries	24,951,072	44,048,383
Social security contributions	5,254,013	9,680,119
Other	1,294,298	1,882,218
	31,499,383	55,610,720
	32,716,737	57,756,455

Personnel expenses for 2020 relating to the subsidiaries that left the consolidation perimeter amounted to 1,344,282 Euros. In 2019 the Personnel expenses referring to these subsidiaries amounted to 1,900,298 Euros (Note 39).

The average number of employees of Grupo Pestana companies that comprise this consolidation perimeter in 2020 was 2,293 (31 December 2019: 2,735).

In 2020, fixed-term employment contracts were not renewed and there were no temporary contracts to deal with the summer high season. The reduction in Personnel expenses also results from the adherence to job maintenance programs, namely simplified lay-offs, support mechanism for progressive recovery and extraordinary incentive to the normalization of business activity and partial exemption from social security contributions borne by the employer, measures created by the State as a response to the COVID-19 pandemic and which allowed for a reduction in personnel expenses of about 7,695,000 Euros.

In 2019, Personnel expenses included the amount of 1,766,295 Euros relating to profit sharing expenses.

31. Other income

The detail of Other income is presented as follows:

	2020	2019
Rent concessions	4,887,823	-
Supplementary income	3,499,127	4,276,372
Foreign currency exchange gains	961,605	1,874,732
Gains on disposal of tangible fixed assets	724,407	848,891
Government grants	543,498	448,706
Others	1,831,641	3,417,115
	12,448,101	10,865,816

Other income for 2020 related to the subsidiaries that left the consolidation perimeter amounted to 67,009 Euros. In 2019, the Other income relating to these subsidiaries amounted to 37,733 Euros (Note 39).

In 2020 the Rent concessions relate to total or partial reductions in the value of fixed rents during a certain period.

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

In 2020, 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 564,694 Euros (2019: 650,103 Euros) (Note 6).

The change recorded in Government grants is related to the repayment exemption granted by the Business Development Institute of the Autonomous Region of Madeira under the Valorizar 2020 Program (Note 23).

The variation in the caption Others, essentially corresponds to the restitution received in 2019 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, to the entities The Coca Cola Company and The Coca Cola Export Corporation. In this lawsuit, the subsidiary has requested a customer compensation due for the termination of the distribution agreement and for the investments made before the termination of the agreement, 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. On 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:

	2020	2019
Taxes	4,474,445	7,083,014
Foreign currency exchange losses	688,380	858,939
Donations	548,483	194,821
Credit card commissions	228,121	1,215,788
Inventory offers and samples	140,922	188,085
Losses on inventories	118,775	68,940
Other	1,160,022	894,239
	7,359,148	10,503,826

Other expenses for 2020 related to the subsidiaries that left the consolidation perimeter amounted to 1,653,293 Euros. In 2019, the Other expenses relating to these subsidiaries amounted to 1,689,754 Euros (Note 39).

Taxes refers mainly to expenses incurred with property taxes, solid waste and sewage conservation rates as well as the annual installation fees due to the Autonomous Region of Madeira by the companies installed in the International Business Center of Madeira.

Donations include the amount of 428,883 Euros regarding the donation of 20 ventilators to the Health Service of the Autonomous Region of Madeira, which are intended to support the hospital units of the region in the treatment of patients infected with COVID-19.

The caption Others in 2020 includes the amount of 397,750 Euros related with the contractual penalty associated with the termination of the agreement for the provision of hotel management and brand licensing services to the Porto Goldsmith hotel owned by the company Silvermoments Investimentos Turísticos e Imobiliários, S.A.

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:

	2020	2019
Disposal of the subsidiaries SDM, S.A. and SDEM, S.A. (Note 39)	5,643,367	–
Liquidation of subsidiary Imóveis Brisa F.I.I.F. (Note 39)	(17,919)	–
(Losses)/Gains from equity method – Joint ventures (Note 9):		
Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A.	(256,887)	(52,096)
Pestana CR7 – Lisboa Hotel Investimentos Turísticos, S.A.	(164,154)	308,273
Solpor – Sociedade de Turismo do Porto Santo, Lda.	(3,041)	1,313
(Losses)/Gains from equity method – Associates (Note 10):		
Enatur – Empresa Nacional de Turismo, S.A.	(182,383)	294,188
Albar – Sociedade Imobiliária do Barlavento, S.A.	(4,365)	(1,747)
Lean Company Ventures II, S.A.	–	(5,000)
Impairment losses in Equity instruments at fair value through profit and loss (Note 11)	(331,123)	–
Disposal of the subsidiary Beloura, S.A. (Note 39)	–	11,570,122
Losses in disposal of Equity instruments at fair value through profit and loss (Note 11)	–	(184,897)
	4,683,495	11,930,156

34. Financial expenses and income

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

	2020	2019
Finance expenses		
Interest expense	7,295,185	7,943,008
Lease liabilities' interest	7,233,753	7,504,661
Commissions and guarantee fees	1,246,190	1,212,582
Interest rate swaps	83,316	316,138
Foreign currency exchange losses	69,499	1,124
	15,927,943	16,977,513
Finance income		
Guarantees fees	196,940	78,570
Interest income	55,815	404,219
Dividends	36,560	–
Derivaives fair value (Note 25)	22,184	28,058
Swap liquidation	–	325,677
Foreign currency exchange gains	–	103,548
Others	–	30,170
	311,499	970,242

The financial income net of financial expenses for 2020, related to the subsidiaries that left the consolidation perimeter, amounted to 2,322 Euros. In 2019, the financial income net of financial expenses relating to these subsidiaries amounted to 403,965 Euros (Note 39).

The variation in fair value of swaps refers to the variation of fair value of derivative financial instruments considered as held for trading (Note 25).

In 2020, dividends were obtained from Iberis Bluetech Fund, FCR EuVeca ("Fundo Bluetech").

35. Income tax

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

	2020	2019
Current income tax:		
Current period income tax	(1,796,358)	(4,184,406)
Adjustments in respect of prior year estimates	459,116	210,528
Impact of transition to IFRS 16 (Note 12)	2,532,587	–
	1,195,345	**(3,973,878)**
Deferred income tax:		
Origin and reversal of temporary differences	7,543,360	2,287,859
Impact of transition to IFRS 16 (Note 12)	(3,389,463)	–
	4,153,897	**2,287,859**
	5,349,242	**(1,686,019)**

Excluding Impact of transition to IFRS 16, the tax on Grupo Pestana'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:

	2020	2019
Profit before tax	(23,482,078)	82,195,842
Tax rates	21%	21%
	4,931,237	**(17,261,127)**
Differences of tax rates on income and deferred taxes	156,942	575,399
Income not subject to tax	2,221,296	8,308,022
Expenses not deductible for tax purposes	(2,539,243)	(952,143)
	161,005	**7,931,278**
Utilization of losses	–	652,655
RFAI (Investment tax benefit)	2,111,532	3,805,239
SIFIDE (tax benefit in Portugal)	–	4,950,302
Municipal surcharge	(77,282)	(476,714)
State surcharge	(660,135)	(1,328,282)
Autonomous taxation	(234,119)	(169,898)
Perimeter exits	(163,226)	–
Shortfalls/(Excess) in income tax estimates	459,116	210,528
	6,206,118	**(1,686,019)**

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 ("CIRC").

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 fulfilment of all obligations imposed on the dominating company.

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

The income not subject to tax mainly refers to capital gains obtained on the disposal of subsidiaries (Note 39) and expenses not deductible for tax purposes mainly refer to impairment losses.

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. Thus, on 5 May 2020, the Group submitted the respective applications to obtain this eligibility, which were approved by the National Innovation Agency, S.A. on 13 November 2020 and on 2 December 2020, confirming the allocation of the tax credit of 4,950,302 Euros considered in the 2019 income statement.

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:

	2020	2019
Tax rates	20% – 21%	20% – 21%
Municipal surcharge	0.0% – 1.5%	0.0% – 1.5%
State surcharge:		
> 1,500,000 e < 7,500,000	3.00%	3.00%
> 7,500,000 e < 35,000,000	5.00%	5.00%
> 35,000,000	9.00%	9.00%

36. Dividends

Dividends paid to shareholders during 2020 amounted to 12,000,000 Euros, corresponding to 0.14 Euros per share (2019: 13,171,924 Euros, resulting in 0.16 Euros per share).

Dividends paid by the subsidiaries of Grupo Pestana to non-controlling interests during 2020 amounted to 2,311,067 Euros (2019: 4,126,813 Euros).

37. Contingencies

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

	2020	2019
Mortgages		
Mortgages over buildings	147,874,483	120,510,731
Mortgages over lands	1,750,000	1,750,000
	149,624,483	**122,260,731**
Guarantees		
Liability Guarantees and Hedging	11,386,094	12,208,600
Bank guarantees	44,040,005	39,248,527
	55,426,099	**51,457,127**

Contingent assets

The special tax regime in Portugal for pure Holding Companies (with the legal status of "S.G.P.S."), in effect until 31 December 2013, foresaw that capital gains or losses arising from the sale, under specified conditions, of equity shares held by these companies, would not concur for the calculation of taxable profit. On the other hand, this regime did not allow for the tax deduction of financial expenses associated with the acquisition of said equity shares. However, this regime was revoked on 1 January 2014, without the creation of any transitional regime.

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

In this context, in March 2017, Grupo Pestana, S.G.P.S., S.A. filed a gracious grievance requesting the recovery of the financial expenses, the deductibility of which was not allowed for, as referred above, at the same time that no tax exemption could be applied for capital gains or losses obtained under the regime, and for which it will not be possible to benefit from in the future since this tax regime was revoked. As a consequence of the developments verified in 2017, Grupo Pestana, 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 proceeding No. 312320101010700, 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 2020, Grupo Pestana has ongoing claims, assessed as contingent liabilities of, approximately, 330,000 Euros.

38. Consolidation perimeter

The Subsidiaries included in the consolidation perimeter, by the full consolidation method as at 31 December 2020 are as follows:

Description	HEAD-QUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	ASSETS	LIABILITIES	REVENUE	PROFIT/ (LOSS)	% OWNED	% CONTROL
Amoreira – Aldeamentos Turísticos, Lda.	Portugal	Real Estate	31-12-2020	4,900,591	6,360,453	1,459,862	–	(27,474)	100.00%	100.00%
Carlton Palácio – Soc. de Constr. e Exploração Hoteleiras, S.A.	Portugal	Hospitality	31-12-2020	46,820,716	137,136,130	90,315,414	5,408,272	(4,608,915)	100.00%	100.00%
Carvoeiro Golfe – Soc. de Mediação Imobiliária, Unip. Lda.	Portugal	Real Estate	31-12-2020	303,832	510,169	206,337	1,202,575	296,332	100.00%	100.00%
Carvoeiro Golfe, S.A.	Portugal	Golf / Real Estate	31-12-2020	63,793,778	105,531,397	41,737,619	61,864,590	12,613,687	100.00%	100.00%
Cota Quarenta – Gestão e Adm. Centros Comercias, S.A.	Portugal	Real Estate	31-12-2020	21,194,458	21,397,837	203,379	496,236	(87,126)	100.00%	100.00%
ECM – Empresa Cervejas da Madeira, Soc. Unipessoal Lda.	Portugal	Beverages	31-12-2020	7,307,926	28,563,501	21,255,575	19,354,143	(1,229,691)	100.00%	100.00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2020	15,817,631	18,168,698	2,351,067	5,100,381	674,304	100.00%	100.00%
Grupo Pestana Pousadas – Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2020	47,031,362	59,846,539	12,815,177	12,020,128	(4,333,505)	100.00%	100.00%
Herdade da Abrunheira – Projectos Des. Tur. e Imobiliário, S.A.	Portugal	Real Estate	31-12-2020	6,590,351	6,710,599	120,248	–	(35,255)	100.00%	100.00%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hospitality	31-12-2020	3,916,080	11,090,210	7,174,130	514,692	(628,844)	100.00%	100.00%
ITI – Soc. de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hospitality / Entertainment	31-12-2020	55,053,341	68,489,334	13,435,993	8,603,076	(2,971,280)	100.00%	100.00%
M. & J. Pestana – Sociedade de Turismo da Madeira, S.A.	Portugal	Hospitality / Timeshare	31-12-2020	147,930,334	357,717,552	209,787,218	25,060,079	(16,685,907)	100.00%	100.00%
Mundo da Imaginação – Projectos de Animação Turística, S.A.	Portugal	Touristic entertainment	31-12-2020	1,445,145	4,041,562	2,596,417	181,642	(901,654)	100.00%	100.00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2020	1,491,422	1,513,608	22,186	98,927	28,462	100.00%	100.00%
Pestana Cidadela – Investimentos Turisticos, S.A.	Portugal	Hospitality	31-12-2020	11,337,561	17,172,019	5,834,458	666,259	(1,237,104)	100.00%	100.00%
Ponta da Cruz – Soc. Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hospitality / Timeshare	31-12-2020	10,790,853	23,575,600	12,784,747	1,977,455	(541,812)	52.00%	52.00%
Porto Carlton – Soc. de Constr. e Exploração Hoteleira, S.A.	Portugal	Hospitality	31-12-2020	6,967,510	13,606,319	6,638,809	1,000,018	(660,648)	60.00%	60.00%
Salvor – Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hospitality / Timeshare	31-12-2020	93,247,042	235,015,773	141,768,731	16,663,078	(6,850,428)	100.00%	100.00%
Sociedade de Investimentos Hoteleiros D. João II, S.A.	Portugal	Hospitality / Timeshare	31-12-2020	1,331,956	3,826,799	2,494,843	323,929	(105,072)	100.00%	100.00%

The Joint ventures and associated companies included in the consolidation perimeter, by the equity method, as at 31 December 2020 are as follows:

Description	HEAD-QUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	ASSETS	LIABILITIES	REVENUE	PROFIT/ (LOSS)	% OWNED	% CONTROL
Albar – Sociedade Imobiliária do Barlavento, S.A.	Portugal	Real Estate	31-12-2020	1,191,102	1,195,397	4,295	–	(8,764)	49.81%	49.81%
Enatur – Empresa Nacional de Turismo, S.A.	Portugal	Hospitality	31-12-2020	57,500,706	80,317,322	22,816,616	1,348,008	(372,211)	49.00%	49.00%
Lean Company Ventures II	Portugal	Tech innovation	31-12-2020	981,918	984,086	2,168	–	38,082	10.00%	20.00%
Pestana CR7 – Lisboa Hotel Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2020	6,506,185	13,471,777	6,965,592	471,444	(673,959)	50.00%	50.00%
Pestana CR7 – Madeira Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2020	982,484	4,593,059	3,610,575	338,851	(513,773)	50.00%	50.00%
Solpor – Sociedade de Turismo do Porto Santo Lda.	Portugal	Real Estate	31-12-2020	935,708	937,717	2,009	–	(2,183)	50.00%	50.00%

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

Description	HEAD-QUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	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. Constr. 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 Des. Tur. e Imobiliário, S.A.	Portugal	Real Estate	31-12-2019	6,625,606	6,708,889	83,283	–	(167,884)	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%
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%
ITI – Soc. de Inv. 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 Desenv. Empresarial da Madeira, 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) Company only 47.73% 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	HEAD-QUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	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 Ventures II	Portugal	Tech innovation	31-12-2019	(17,779)	180,948	198,727	–	(57,492)	10.00%	20.00%
Pestana CR7 – Lisboa Hotel Investimentos 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%

39. Changes in the perimeter

On 31 December 2020, Grupo Pestana sold the shares representing 47.73% of the share capital of the subsidiary SDM – Sociedade de Desenvolvimento da Madeira, S.A. to the Autonomous Region of Madeira for the amount of 6,813,058 Euros, having the sale value been determined by an external entity accredited for this purpose, resulting in a gain of 5,643,367 Euros (Note 33 and 42). The payment of the sale price will be made in two instalments of 50% each, until 30 June 2022 and 30 June 2023, respectively (Note 14). Additionally, as a result of this transaction the Group also ceased to have any investment in SDEM – Sociedade de Desenvolvimento Empresarial da Madeira, Sociedade Unipessoal, S.A.

Grupo Pestana decided to to proceed with the liquidation of Fundo Imóveis Brisa – Fundo de Investimento Imobiliário Fechado, which occurred on 6 November 2020, due to its high maintenance costs. The impact on the consolidated results of the Group was negative by 17,919 Euros.

The financial position of former subsidiaries that left the consolidation perimeter with reference to the date of leaving is presented as follows:

	SDM – SOC. DESENVOLVIMENTO DA MADEIRA, S.A.	SDEM – SOC. DESENVOLVIMENTO EMPRESARIAL DA MADEIRA, UNIP. S.A.	IMÓVEIS BRISA – FUNDO DE INVESTIMENTO IMOBILIÁRIO FECHADO	TOTAL
Sale price	**6,813,058**	**–**	**–**	**6,813,058**
ASSETS				
Tangible fixed assets	1,485,044	–	–	1,485,044
Equity instruments at fair value through profit and loss	5,589	649,219	–	654,808
Trade and other receivables	3,692,322	2,405	–	3,694,727
Income tax receivable	92,987	4,313	–	97,300
Inventories	–	–	–	–
Cash and cash equivalents	5,238,315	167,135	30,985	5,436,435
Total Assets at fair value	**10,514,257**	**823,072**	**30,985**	**11,368,314**
LIABILITIES				
Deferred tax liabilities	–	–	987	987
Deferred revenue	3,397,400	–	2,500	3,399,900
Trade and other payables	3,735,143	319,663	9,579	4,064,385
Income tax payable	160,800	–	–	160,800
Total liabilities at fair value	**7,293,343**	**319,663**	**13,066**	**7,626,072**
Grupo Pestana interests	**802,043**	**367,647**	**17,919**	**1,187,609**
Non-controlling interests	**2,418,871**	**135,762**	**–**	**2,554,633**
Net assets	**3,220,914**	**503,409**	**17,919**	**3,742,242**
% sold	**47.73%**	**47.73%**	**100.00%**	
Gains / (losses) on disposal (Note 33)	**6,011,015**	**(367,648)**	**(17,919)**	**5,625,448**

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

	SDM – SOC. DESENVOLVIMENTO DA MADEIRA, S.A.	SDEM – SOC. DESENVOLVIMENTO EMPRESARIAL DA MADEIRA, UNIP. S.A.	IMÓVEIS BRISA – FUNDO DE INVESTIMENTO IMOBILIÁRIO FECHADO	TOTAL
Revenue	7,910,297	–	500	7,910,797
External services and supplies	(1,821,930)	(15,696)	–	(1,837,626)
Personnel expenses	(1,198,835)	(78,074)	(67,374)	(1,344,283)
Charges of depreciation and amortization	(77,206)	–	–	(77,206)
Impairment of depreciable assets	–	–	(2,767,000)	(2,767,000)
Impairment (losses)/reversals on receivables	(2,322)	–	500	(1,822)
Impairment of inventories	–	–	(950)	(950)
Other income	61,937	4,627	445	67,009
Other expenses	(1,646,864)	(2,098)	(4,331)	(1,653,293)
Operating profit	**3,225,077**	**(91,241)**	**(2,838,210)**	**295,626**
Financial expenses	(83)	–	(330)	(413)
Financial income	2,671	64	–	2,735
Profit before tax	**3,227,665**	**(91,177)**	**(2,838,540)**	**297,948**
Income tax	(163,226)	–	–	(163,226)
Profit for the period	**3,064,439**	**(91,177)**	**(2,838,540)**	**134,722**
Profit for the period attributable to:				
Shareholders	1,462,656	(43,658)	(2,838,540)	(1,419,542)
Non-controlling interests	1,601,783	(47,519)	–	1,554,264
	3,064,439	**(91,177)**	**(2,838,540)**	**134,722**
EBITDA	3,279,097	(91,241)	(71,210)	3,116,646

The financial position of former subsidiaries that left the consolidation perimeter in 2020 with reference to 31 December 2019 is presented as follows:

	SDM – SOC. DESENVOLVIMENTO DA MADEIRA, S.A.	SDEM – SOC. DESENVOLVIMENTO EMPRESARIAL DA MADEIRA, UNIP. S.A.	IMÓVEIS BRISA – FUNDO DE INVESTIMENTO IMOBILIÁRIO FECHADO	TOTAL
ASSETS				
Tangible fixed assets	1,527,132	10,229	9,834,602	11,371,963
Equity instruments at fair value through profit and loss	–	654,808	–	654,808
Trade and other receivables	2,978,707	–	52,304	3,031,011
Income tax receivable	17,187	24,251	–	41,438
Inventories	–	–	359,750	359,750
Cash and cash equivalents	9,800,455	347,785	476,074	10,624,314
Total Assets at fair value	**14,323,481**	**1,037,073**	**10,722,730**	**26,083,284**
LIABILITIES				
Deferred tax liabilities	–	–	1,342	1,342
Deferred revenue	2,738,255	–	3,000	2,741,255
Trade and other payables	1,159,889	33,293	63,176	1,256,358
Total liabilities at fair value	**3,898,144**	**33,293**	**67,518**	**3,998,955**
Grupo Pestana interests	**4,002,217**	**832,480**	**10,655,212**	**15,489,909**
Non-controlling interests	**6,423,120**	**171,300**	**–**	**6,594,420**
Net assets	**10,425,337**	**1,003,780**	**10,655,212**	**22,084,329**

The Income Statement of the former subsidiaries that left the consolidation perimeter in 2020 corresponding to the period from 1 January 2019 to 31 December 2019 is presented as follows:

	SDM – SOC. DESENVOLVIMENTO DA MADEIRA, S.A.	SDEM – SOC. DESENVOLVIMENTO EMPRESARIAL DA MADEIRA, UNIP. S.A.	IMÓVEIS BRISA – FUNDO DE INVESTIMENTO IMOBILIÁRIO FECHADO	TOTAL
Revenue	10,923,671	9,540	5,500	10,938,711
External services and supplies	(3,006,264)	(56,331)	(101,476)	(3,164,071)
Personnel expenses	(1,714,124)	(186,174)	–	(1,900,298)
Charges of depreciation and amortization	(122,227)	(5,114)	–	(127,341)
Impairment of depreciable assets	–	–	(627,343)	(627,343)
Reversal of impairment losses on receivables	4,610	100,420	–	105,030
Other income	30,311	30	7,393	37,734
Other expenses	(1,672,871)	(7,756)	(9,128)	(1,689,755)
Operating profit	**4,443,106**	**(145,385)**	**(725,054)**	**3,572,667**
Financial expenses	(23,113)	(842)	(380)	(24,335)
Financial income	358,126	70,174	–	428,300
Losses on investments in associates	–	(184,897)	–	(184,897)
Profit before tax	**4,778,119**	**(260,949)**	**(725,434)**	**3,791,735**
Income tax	(249,659)	(4,787)	–	(254,447)
Profit for the period	**4,528,460**	**(265,737)**	**(725,434)**	**3,537,289**
Profit for the period attributable to:				
Shareholders	2,161,434	(126,836)	(725,434)	1,309,164
Non-controlling interests	2,367,026	(138,901)	–	2,228,125
	4,528,460	**(265,737)**	**(725,434)**	**3,537,289**
EBITDA	4,594,775	(325,168)	(97,711)	4,171,896

In December 2019, Grupo Pestana sold the shares representing the entire share capital of Beloura Hotel and Golfe – Investimentos Turísticos, S.A. for 25,000,000 Euros, generating a capital gain 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 at fair value	**14,413,038**
LIABILITIES	
Lease liabilities	2,993
Deferred tax liabilities	432,306
Trade and other payables	647,698
Total liabilities at fair value	**1,082,997**
Grupo Pestana interest	**13,330,041**
Non-controlling interests	**–**
Net assets	**13,330,041**
Other reserves	99,837
% sold	**100,00%**
Gains / (losses) 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)
Reversal of impairment losses on receivables	8,494
Other income	3,626
Other expenses	(165,106)
Operating profit	**1,202,456**
Finance 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

40. Related parties

As at 31 December 2020 and 2019, 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 2020 and 2019 the remuneration received by the Board of Directors is described in Note 30.

Transactions and balances with related parties

During 2020, Grupo Pestana carried out the following transactions with the following entities:

	DIVIDENDS PAID	SERVICES OBTAINED	CHARGES INCURRED	SERVICES RENDERED	INTEREST EARNED
Shareholders	**12,000,000**	**23,699**	**20,031**	**–**	**–**
Pestana International Holdings S.A.	11,880,000	23,699	20,031	–	–
Dionísio Fernandes Pestana	120,000	–	–	–	–
Joint ventures	**–**	**130,988**	**–**	**138,719**	**105,248**
Pestana CR7 – Madeira Investimentos Turísticos, S.A.	–	65,742	–	138,602	105,248
Pestana CR7 – Lisboa Hotel Investimentos Turísticos, S.A.	–	65,246	–	117	–
Associates	**–**	**31,473**	**–**	**33,076**	**14,947**
Enatur – Empresa Nacional de Turismo, S.A.	–	31,473	–	28,576	14,947
Albar – Sociedade Imobiliária do Barlavento, S.A.	–	–	–	4,500	–
Other Group companies	**–**	**13,250,825**	**–**	**7,207,234**	**187,172**
Hotéis do Atlântico – Sociedade Imobiliária e de Gestão de Hotéis, S.A.	–	–	–	381	3,701
Pestana Management – Serviços de Gestão, S.A.	–	11,200,619	–	5,108,336	–
Pestana Segurança – Serviços de Segurança e Vigilância, Unipessoal Lda.	–	1,185,666	–	9,492	–
Intervisa Viagens e Turismo, Unipessoal Lda.	–	817,156	–	375,481	–
URP – Urban Renew Promoção Imobiliária, S.A.	–	–	–	1,624,737	–
Salvintur – Sociedade de Investimentos Turísticos, S.A.	–	–	–	127	–
ESGAP – Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	–	6,939	–	–	–
Salvorhotéis Moçambique – Investimentos Turísticos, S.A.	–	–	–	333	–
Wild Break 29 (PTY), Ltd	–	689	–	–	–
Empreendimentos Turísticos, Lda.	–	–	–	2,308	–
Pestana Marrocos, s.a.r.l.	–	61	–	–	–
Brasturinvest Investimentos Turísticos, S.A.	–	–	–	83,813	–
Pestana Miami LLC	–	16,061	–	4	68,471
Pestana USA Inc	–	55	–	–	–
Pestana New York East Side 39 LLC	–	155	–	144	–
Pestana Management UK, Limited	–	3,755	–	–	–
Pestana Berlim S.A.R.L.	–	14,028	–	–	–
Desarollos Hoteleros Barcelona 2004 S.A.	–	1,475	–	113	–
Global Mandalay, S.L.U.	–	3,112	–	1,763	–
Amesteldijk Hotel Ontwkkeling B.V.	–	1,054	–	202	115,000
Key management personnel	**–**	**–**	**–**	**–**	**–**
	12,000,000	13,436,985	20,031	7,379,029	307,367

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 Investimentos Turísticos, S.A.	–	–	17,046	–	150,784	107,250	–
Pestana CR7 – Lisboa Hotel Investimentos 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**	**–**
Hotéis do Atlântico – Soc. 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, Unip. Lda.	–	–	1,227,827	–	10,884	–	–
Beloura Hotel e Golfe – Investimentos Turísticos, S.A.	–	189	212,732	–	–	13,957	–
Intervisa Viagens e Turismo, Unipessoal Lda.	–	643	3,065,213	–	1,197,421	–	–
URP – Urban Review Promoção Imobiliária, Lda.	–	–	–	–	16,717	–	–
Salvintur – Sociedade de Investimentos Turísticos, S.A.	–	–	–	–	1,217	–	–
ESGAP – Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	–	–	10,346	–	–	–	–
Salvorhotéis Moçambique – Investimentos 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. to Ninaclau, Lda., a company owned by Mr. Tomáz Metello and a member of that subsidiary's Board of Directors. As at 31 December 2020 and 2019, Mr. Tomáz Metello is no longer a member of the key management personnel and has no function inside Grupo Pestana.

At the end of 2020 and 2019, loans with related parties are detailed as follows:

	31-12-2020		31-12-2019	
	BORROWINGS	LOANS GRANTED	BORROWINGS	LOANS GRANTED
Associates	–	847,593	–	1,190,593
Enatur – Empresa Nacional de Turismo, S.A.	–	847,593	–	1,190,593
Key management personnel	–	–	–	–
	–	847,593	–	1,190,593

The balances arising from transactions with related parties as at 31 December 2020 are as follows:

	CURRENT RECEIVABLES	NON-CURRENT RECEIVABLES	IMPAIRMENT OF RECEIVABLES	NET RECEIVABLES	CURRENT PAYABLES
Shareholders	**87**	**–**	**–**	**87**	**4,486**
Pestana International Holdings S.A.	87	–	–	87	4,486
Joint ventures	**49,414**	**1,887,947**	**–**	**1,937,361**	**5,678**
Pestana CR7 – Madeira Investimentos Turísticos, S.A.	48,307	1,887,947	–	1,936,254	2,041
Solpor – Sociedade de Turismo do Porto Santo Lda.	1,085	–	–	1,085	–
Pestana CR7 – Lisboa Hotel Investimentos Turísticos, S.A.	22	–	–	22	3,637
Associates	**81,198**	**–**	**–**	**81,198**	**–**
Enatur – Empresa Nacional de Turismo, S.A.	81,095	–	–	81,095	–
Albar – Sociedade Imobiliária do Barlavento, S.A.	103	–	–	103	–
Other Group companies	**1,814,246**	**–**	**–**	**1,814,246**	**5,341,102**
Hotéis do Atlântico – Sociedade Imobiliária e de Gestão de Hotéis, S.A.	3,926	–	–	3,926	589,991
Djebel, S.A.	225	–	–	225	205,397
Pestana Management – Serviços de Gestão, S.A.	446,088	–	–	446,088	3,655,135
Pestana Segurança – Serviços de Segurança e Vigilância, Unipessoal Lda.	36,775	–	–	36,775	407,796
Intervisa Viagens e Turismo, Unipessoal Lda.	61,505	–	–	61,505	52,292
Rotas de África – Investimentos Turísticos e imobiliários, S.A.	–	–	–	–	6,566
URP – Urban Renew Promoção Imobiliária, S.A.	1,057,394	–	–	1,057,394	–
Salvintur – Sociedade de Investimentos Turísticos, S.A.	228	–	–	228	143,029
ESGAP – Empresa de Serv. de Gestão e Administrativos Partilhados, S.A.	225	–	–	225	143,134
Salvorhotéis Moçambique – Investimentos Turísticos, S.A.	369	–	–	369	299
Wild Break 29 (PTY), Ltd	4	–	–	4	–
Empreendimentos Turísticos, Lda.	1,047	–	–	1,047	–
Afrotours, S.A.	9,000	–	–	9,000	–
Rotas de África, Lda.	807	–	–	807	–
São Tomé Invest S.A.	258	–	–	258	–
Pestana Marrocos, s.a.r.l.	925	–	–	925	551
Brasturinvest Investimentos Turísticos, S.A.	6,378	–	–	6,378	123,996
Argentur Inversiones Turisticas S.A.	–	–	–	–	60
Pestana Miami LLC	68,471	–	–	68,471	12,856
Pestana USA Inc	90	–	–	90	–
Pestana New York East Side 39 LLC	310	–	–	310	–
Pestana Inversiones Unipessoal, Lda.	3,422	–	–	3,422	–
Pestana Berlim S.A.R.L.	1,679	–	–	1,679	–
Desarollos Hoteleros Barcelona 2004 S.A.	120	–	–	120	–
Amesteldijk Hotel Ontwkkeling B.V.	115,000	–	–	115,000	–
Key management personnel	**–**	**–**	**–**	**–**	**–**
	1,944,945	**1,887,947**	**–**	**3,832,892**	**5,351,266**

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

	CURRENT RECEIVABLES	NON-CURRENT RECEIVABLES	IMPAIRMENT OF RECEIVABLES	NET RECEIVABLES	CURRENT PAYABLES
Shareholders	**279**	**–**	**–**	**279**	**11,162**
Pestana International Holdings S.A.	279	–	–	279	11,162
Joint ventures	**66,040**	**1,916,189**	**–**	**1,982,229**	**1,709**
Pestana CR7 – Madeira Investimentos Turísticos, S.A.	64,302	1,916,189	–	1,980,491	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
Associates	**60,390**	**–**	**–**	**60,390**	**49,319**
Enatur – Empresa Nacional de Turismo, S.A.	55,093	–	–	55,093	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**
Hotéis do Atlântico – Sociedade Imobiliária e de Gestão de Hotéis, S.A.	29,391	–	–	29,391	3,545
Djebel, S.A.	688	–	–	688	204,969
Pestana Management – Serviços de Gestão, S.A.	1,187,317	–	–	1,187,317	6,242,200
Pestana Segurança – Serviços de Segurança e Vigilância, Unipessoal Lda.	26,538	–	–	26,538	331,275
Intervisa Viagens e Turismo, Unipessoal Lda.	234,145	–	–	234,145	60,658
Rotas de África – Investimentos Turísticos e imobiliários, S.A.	70	–	–	70	479
URP – Urban Review Promoção imobiliária, S.A.	20,562	–	–	20,562	–
Salvintur – Sociedade de Investimentos Turísticos, S.A.	1,923	–	–	1,923	124,344
ESGAP – Empresa de Serv. de Gestão e Administrativos Partilhados, S.A.	420	–	–	420	148,133
Salvorhotéis Moçambique – Investimentos Turísticos, S.A.	1,950	–	–	1,950	–
Wild Break 29 (PTY), Ltd	–	–	–	–	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
Argentur Inversiones Turisticas S.A.	–	–	–	–	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
Pestana Inversiones, S.L.	–	–	–	–	15,306
Pestana Management UK, Limited	360	–	–	360	3,130
Pestana Berlim S.A.R.L.	349	–	–	349	2,975
Global Mandalay, S.L.U.	12	–	–	12	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**

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			
	2019	CASH FLOWS	ACQUISITIONS	TRANSFERS	RENT CONCESSIONS	CONTRACT TERMINATION	ACCRUAL / DEFERRAL	2020
Bond loans	168,356,437	(65,000,000)	–	–	–	–	(1,015,703)	102,340,734
Lease liabilities	166,319,436	(7,310,259)	1,345,997	–	(4,887,823)	(402,233)	–	155,065,118
Bank loans	143,015,097	45,261,496	–	(829,908)	–	–	310,366	187,757,051
Commercial paper	25,411,771	(222,222)	–	–	–	–	139,737	25,329,286
Cash flow from financing activities	503,102,741	(27,270,985)	1,345,997	(829,908)	(4,887,823)	(402,233)	(565,600)	470,492,189

42. Other information

EBITDA refers to net income for the period excluding financial results, income tax, depreciation, amortization and impairment of depreciable/amortizable assets, and also includes other low value items.

43. Subsequent events

On 1 February 2021, an urban plot in Brejos da Carregueira de Baixo, parish of Comporta, Municipality of Alcácer do Sal, was acquired by public auction, for the sale of plots with approved architectural project. The base value of the sale procedure was 6,870,000 Euros, with Grupo Pestana bidding the amount of 6,952,500 Euros, of which 3,451,000 Euros have already been paid, with the respective adjudication already obtained by the referred Municipality. The remaining amount will be paid when the deed is signed. As a result of the acquisition, Grupo Pestana commits to carry out the urbanization and infrastructure works of the building within a period of 3 to 5 years, which it estimates to invest an amount between 1.75 million Euros and 2 million Euros.

On 5 March 2021, the Portuguese Court of Auditors ("Tribunal de Contas") approved the disposal transaction of SDM – Sociedade de Desenvolvimento da Madeira, S.A. to the Autonomous Region of Madeira regarding the agreement signed between the parties on 31 December 2020 and effective on that same date. This decision was already expected by Grupo Pestana at the date of agreement signature, based on the information provided by its external lawyers who accompanied the transaction.

Funchal, 19 March 2021

The Certified Accountant

Luis Miguel Miranda Fernandes

The Board of Directors

Dionísio Fernandes Pestana
Chairman

Hermanus Roelof Willem Troskie
Member

José Alexandre Lebre Theotónio
Member

José de Melo Breyner Roquete
Member

Pedro Miguel Fino da Silva
Member

Report and Opinion of the Supervisory Board

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

2020 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 Directors 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 2020 period.

While exercising 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 2020, issued with no reserves and with an emphasis of matter.

We also proceeded to analyse the Consolidated Directors 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 Directors report as well as the remaining accounting documents for the 2020 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, 13 May 2021

SIGNED ON THE ORIGINAL

Dr. José Manuel Castelão Costa
(President)

Dra. Rita de Sousa Franco Pais Beirôco Gonçalves
(Member)

Dr. João Albino Cordeiro Augusto
(Member)

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.
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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 2020 (showing a total of 962,714,910 euros and total equity of 272,439,733 euros, including a loss attributable to the shareholders for the year of 19,162,622 euros), and the consolidated income statement by nature, the consolidated statement of comprehensive income, consolidat statement of changes in equity and 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 financial statements give a true and fair view, in all material respects, of the consolidated financial position of **Grupo Pestana, SGPS, S.A.** as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards 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 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 Notes 2 and 4.1.iii of the financial statements that report the impact of the Covid 19 pandemic on the Group's liquidity and activity. Our opinion is not modified in respect to this matter.

Responsibilities of management and the supervisory body for the financial statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's 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 consolidated management report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of 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's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's 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 skepticism 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 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 consolidated financial statements represent the underlying transactions and the events in a manner that achieves fair presentation; and,
- 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 consolidated 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.

13 May 2021

SIGNED ON THE ORIGINAL

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
João Paulo da Silva Pratas (ROC nr. 965)

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