

# **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 2021

## Contents

Consolidated management report for 2021 .....	3
1. Message to the Stakeholders .....	3
2. Overview of the world economy .....	4
3. Tourism.....	9
4. Key figures.....	14
5. Activity of Grupo Pestana, S.G.P.S., S.A. ....	16
6. Objectives and policies of Grupo Pestana regarding risk .....	23
7. Relevant issues that occurred after the year end.....	24
8. The near future .....	24
9. Recognitions .....	25
Appendix to the Consolidated Annual Report .....	26
Consolidated financial statements.....	27
Report and Opinion of the Supervisory Board	
Auditor's Report	

# Consolidated management report for 2021

In accordance with the Portuguese Commercial Companies Code ("Código das Sociedades Comerciais"), we have the honour to submit for consideration and approval the consolidated management report and the consolidated financial statements for the year ended as at 31 December 2021.

## 1. Message to the Stakeholders

The year 2021 was again dominated by the worldwide pandemic, especially in the regions where Pestana Hotel Group is present. Nevertheless, this period confirmed that Tourism is an essential service for the health and well-being of the population. Despite the continued imposition of restrictive measures to combat the pandemic, as soon as the market opened most people chose to go on holiday, albeit favouring nearby destinations.

This resulted in a gradual recovery, especially at resort destinations, starting from June and reaching significant numbers from mid-August onwards, allowing for a summer with already very interesting levels of tourist activity.

City destinations, which are the most dependent on long-haul markets and entertainment or corporate events, experienced a slower recovery that started only in late summer 2021. It was unfortunately quickly interrupted by the outbreak of the Omicron wave in December, which led to tighter restrictions.

After major reorganisation work in 2020, Grupo Pestana benefited from this situation. It reacted quickly to economic upturns by reopening most of its hotels, including most of the new hotels that were in the pipeline in 2019. We must thank our staff for their undeniable and crucial support and availability for the good results achieved, which are excellent considering the current situation. Many of them agreed to travel and provide added-value services in the hotels that opened first or where there was higher demand.

Having realised the resilience of the real estate sector to the effects of the pandemic crisis, the Group took full advantage of this business window by putting new projects on sale. The quality of the projects, their location and the delivery capability of the Pestana brand were key factors in the strong customer demand. Projects like Pestana Comporta, Brejos da Carregueira or Madeira Palace Residences sold out in just a few months.

Following its strategy of financial consistency and soundness, the Group worked in 2021 on refinancing its debt service. It successfully completed, both in terms of maturity and (fixed) rate, two operations for a total of 79 million Euros, restoring its liquidity level and preparing it to react to future opportunities and challenges.

The recovery of the touristic activity in the second part of the year and the success of the real estate sector afforded Grupo Pestana not only a significant growth in its EBITDA, which rose from EUR 47 million to 88 million, but above all to achieve a profit for the year of EUR 30 million, which is a remarkable milestone for a Group primarily in the hotel sector in the current circumstances while facing the pandemic challenge in 2021.

Our strong commitment to cutting-edge technology, human resources' training, significant scale gains from the creation of excellence centres, ongoing innovation, but without losing focus on efficiency and fixed cost reduction, were the decisive factors for achieving these results, and they will continue, in 2022, to give consistency to this recovery by bringing the Group closer to the historic results achieved in 2019, leveraging new investments in the tourism sector with innovation, sustainability and the creation of skilled jobs.

In 2022, the air transport factor will regain importance with the recovery of the medium- and long-haul markets, with particular emphasis on the North American and Brazilian markets. A positive progress from TAP, taking into account Portuguese tourist destinations, and the growth of low-cost companies, where the start of Ryanair's operations in Madeira should be highlighted, will certainly make important contributions to this recovery.

The resumption of activity will once again lend visibility to the labour shortage in the tourism sector, but will also impact the industrial, construction and agricultural sectors. Pestana Hotel Group maintains its structural focus on attracting talent by improving working and pay conditions, creating career opportunities, training and retraining its human resources, which are fundamental to the provision of a distinctive and high-quality service.

The inflationary pressures on the markets in recent months, now accentuated by the war in Ukraine, have led to an increase in product prices, particularly in energy prices. Although they may have a significant economic impact, this increase in costs makes it advisable to protect the price factor in the accommodation marketing process in the medium term and to continue to focus on developing channels with the lowest marketing cost, namely direct and digital channels.

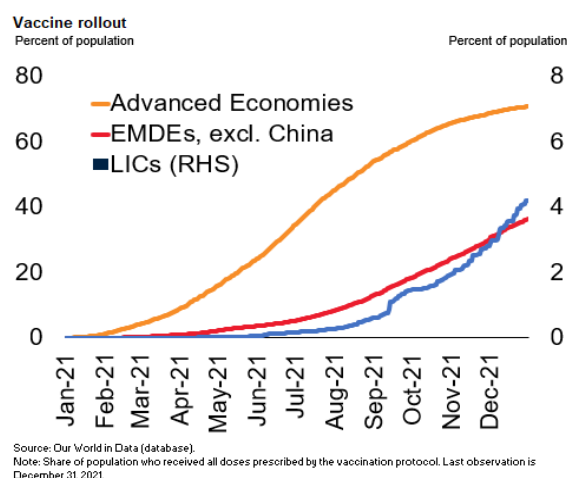
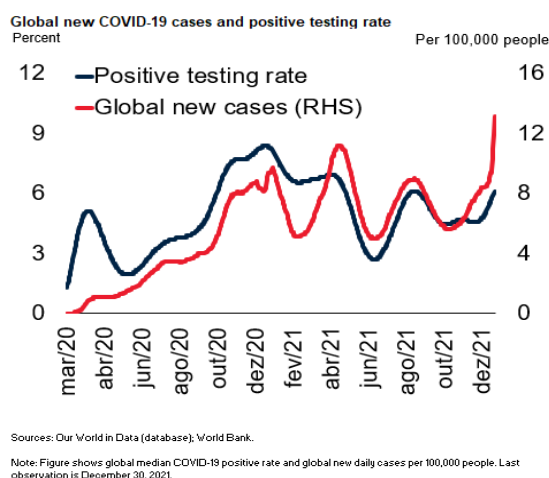
Pestana Hotel Group will remain very active in ESG matters, with the sustainability of its operations being a key pillar of action. Social initiatives that have been particularly evident during the pandemic, which sought to help the local communities most in need, to support the medical community in providing essential care, or to provide housing in Group units, will continue in 2022. Initiatives on environmental sustainability, carbon footprint reduction and governance will take on a new dynamic in the years to come.

The Omicron variant began the endemic phase of the coronavirus, with a low level of hospital admissions compared to the enormous number of cases. This gives the market confidence in a sustained recovery in tourism, evident in recent interactions with operators and airlines seriously engaged in resuming operations from spring 2022 onwards.

Pestana Hotel Group is set to be an active and trusted market player in 2022, with experienced and motivated staff and an improved inventory, while continuing to provide its customers with unique and memorable experiences.

## **2. Overview of the world economy**

The years of 2020 and 2021 were definitely marked by the COVID-19 pandemic. After several years of moderate growth, the pandemic has severely constrained the development of the world economy. The overloading of health systems, restrictions on population mobility, limitations on proximity and gatherings of people and the adoption of unprecedented public health measures have led to difficulties in production and supply chains, causing market supply failures and reduced income, particularly affecting the poorest countries. These events pushed the global economy's GDP into a deep recession.

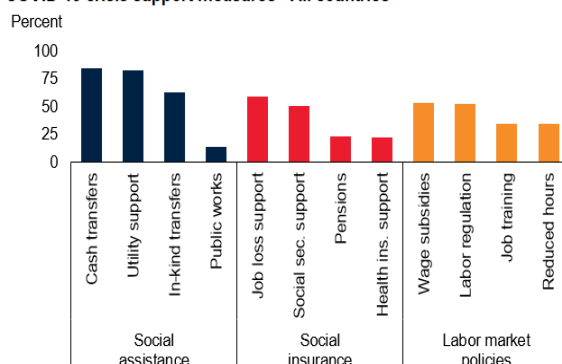


In early 2021, with the emergence of coronavirus vaccines, began a long, volatile and unbalanced recovery path where uncertainty rules. The more developed countries that invested in the development of vaccines were the first to feel the benefits as early as the end of the first half of 2021, reducing mortality associated with the growing number of cases by vaccinating high-risk groups first (the elderly and people with comorbidities). However, it soon became clear that the process of vaccination was going to be long and unequal among countries, to the detriment of poorer countries, which have lower quality public health services and were also unable to implement a process of general vaccination of the population in a similar way to richer countries.

At the same time that the vaccination process was unfolding, new variants of the virus appeared, requiring booster vaccinations, which added complexity and uncertainty to the process. The Omicron variant produced a new wave of new cases later in the year. Its high infection rate accelerated the spread of the virus, which meant the adoption of new restrictive measures, however, its reduced severity (admissions to intensive care and mortality) marked the entry into the endemic phase, allowing for the expectation of a sustained reduction of the measures in the near future.

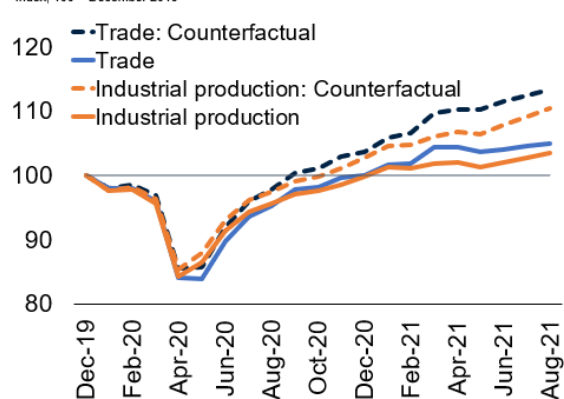
Unlike many previous crises, governments responded from the very beginning of the pandemic with comprehensive and relatively coordinated economic policies that were decisive in containing significant short-term economic and social impacts.

**COVID-19 crisis support measures - All countries**



Sources: Gentilini et al. (2021); World Bank.  
Note: The data reflect the period March 20, 2020 - May 14, 2021. Sample includes 214 economies.

**Impact of supply bottlenecks on global trade and industrial production**  
Index, 100 = December 2019



Sources: Haver Analytics; World Bank.

These measures broadly comprised support for maintaining employment in the sectors affected by the restrictive measures, support for maintaining household income, financing on favourable terms for firms in

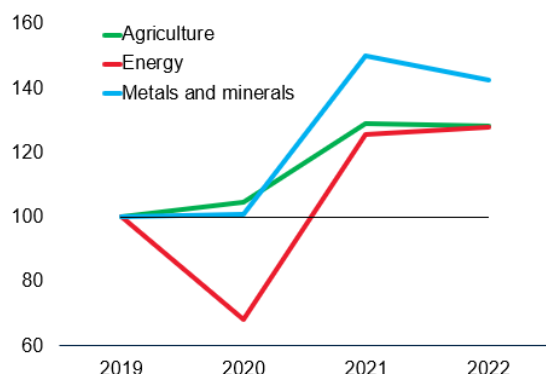
difficulties caused by the pandemic, including moratoria on existing debt, supported by central banks' financial market asset purchase programmes.

The broad response to the crisis, while necessary and effective in mitigating its worst impacts, led to an overall increase in public debt, which has given rise to renewed concerns about some countries' debt sustainability and widened the gap between emerging and advanced economies, a trend that needs to be reversed in the years ahead.

Shortcomings in the distribution and supply of certain products associated with the resumption of economic activity post pandemic control caused market imbalances, leading to higher prices for these products. Energy tops this list with significant increases in the price of oil, gas and consequently electricity, boosting a chain reaction in the various productive sectors where this factor is decisive. Also, raw materials in general suffered significant falls in production, giving rise to price increases throughout the production chain. These increases are therefore expected to raise general inflation rates. Their impact will depend on whether they turn out to be due to transitory or structural factors.

Commodity prices

Index, 100 = 2019

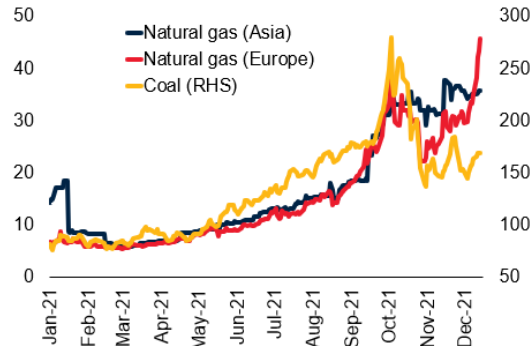


Source: World Bank.

Natural gas and coal prices

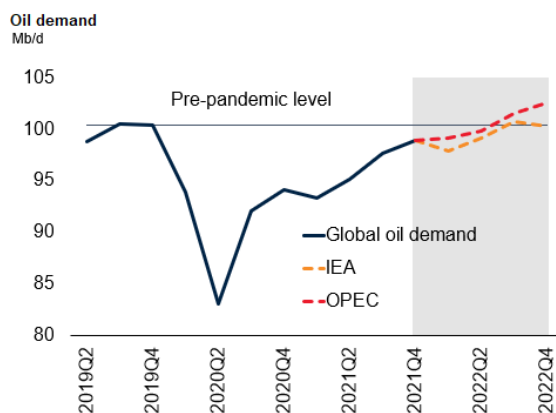
US\$/mmbtu

US\$/mt

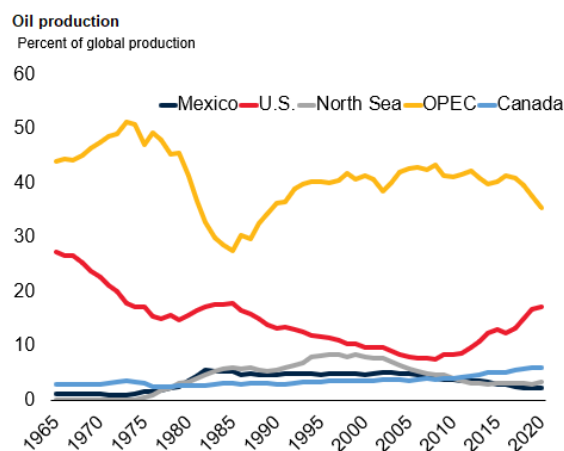


Sources: Bloomberg, World Bank.  
Note: Last observation is December 16, 2021.

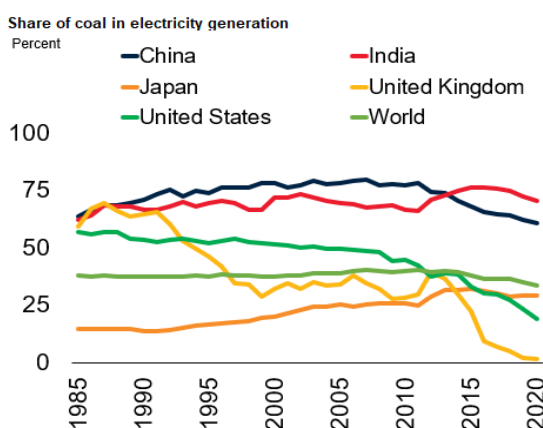
Although some of the main countries, such as Japan, the Eurozone countries or the United States of America, have already taken substantial steps towards decarbonising their economies, dependence on oil and coal is still a key factor in most of the world's economies, and there is a long way to go to reach the desired "zero-carbon" point. China first, but followed by India and other countries in southern Asia have a longer road to travel and must yet reverse the current upward trend.



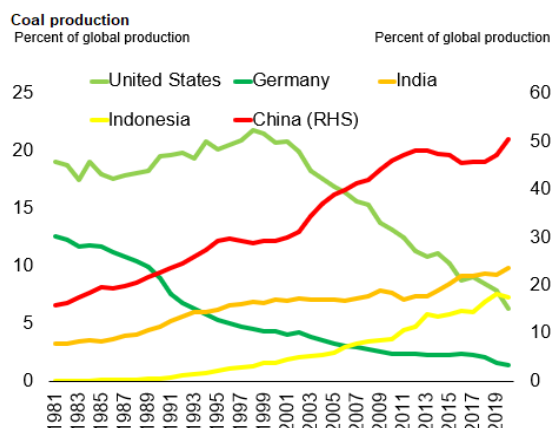
Sources: IEA (2021a); OPEC (2021); World Bank.  
Note: Horizontal black line indicates pre-pandemic level. Dashed lines are forecasts, taken from the IEA's December Oil Market Report (IEA 2021a) and OPEC's December Monthly Oil Market Report (OPEC 2021).



Sources: BP Statistical Review; World Bank.

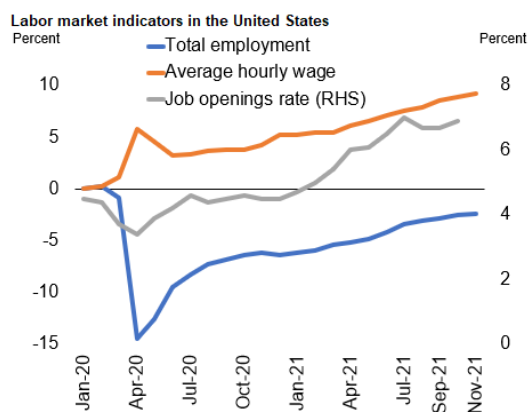


Sources: Our World in Data (database); World Bank.  
Note: Share of electricity that comes from coal.



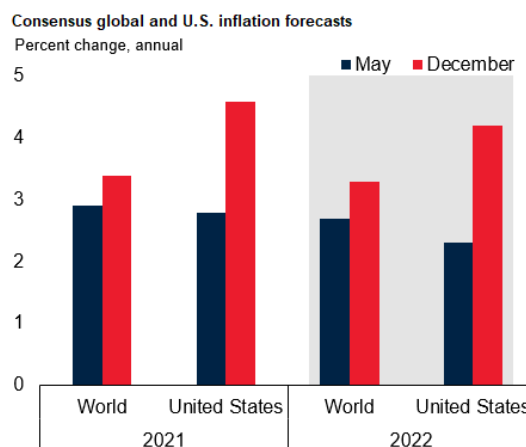
Sources: BP Statistical Review; World Bank.  
Note: Share of coal production in global production.

With the need to quickly reactivate the production cycle, while much of the labour force was either prevented from working or encouraged not to work, and emigration greatly reduced due to pandemic containment measures, inflationary pressure also hit the labour market driving a general rise in wages in various functions.



Sources: Haver Analytics; U.S. Bureau of Labor Statistics; World Bank.

Note: Blue and red lines show the percentage deviation from the number of employees on nonfarm payrolls and average hourly wage, in January 2020. Last observation is November 2021 for the number of employees on nonfarm payrolls and average hourly wage, and October 2021 for the job openings rate.



Sources: Consensus Economics; World Bank.

Note: Figure shows *Consensus Economics* consumer price inflation. World includes 59 countries and is aggregated using 2020 GDP at market exchange rates. Shaded area indicates *Consensus Economics*.

As we can see from the table below, global GDP decreased -3.4% in 2020 and is estimated to have recovered +5.5% in 2021 due to reduced uncertainty about the effects of the coronavirus and the resulting relaxation of pandemic measures. However, the growth forecast for the years 2022 and beyond is again moderate, due to the budget constraints faced by several countries.

China was the first country affected by the pandemic. It imposed severe control measures early on and was the only important economy to achieve no reduction in its GDP in 2020 compared to the previous year (increase of only 2.2%), and recovered in 2021 with an expected growth of +8%. However, growth prospects for the following years are more moderate, in the order of 5% as a result of a tighter regulatory environment and a deleveraging movement in the Chinese real estate sector.

The United States of America recorded a drop of -3.4% in 2020, having recovered in 2021 with an estimated growth of +5.6%. The forecast growth in the following years is moderated, on the one hand, by the impacts in 2022 of the Omicron variant and, on the other, by the inflationary tendencies that led the central bank to accelerate the withdrawal of the monetary support policy from the financial system and the consequent increase in interest rates.

The European Union suffered a more significant impact in 2020 with its GDP falling by around -6.4%, and its recovery was more gradual with an estimated increase for 2021 of only +5.2% and for 2022 of only +4.2%. The resurgence of COVID-19 with the Omicron variant at the end of 2021 and the difficulties experienced relating to the resumption of economic activity, significantly affected by the high dependency on the operability of supply chains, and the rapid rise in energy costs are the main causes of this more moderate growth.

Real GDP (percentage change from previous year)	2017	2018	2019	2020	2021e	2022f	2022f
<b>World</b>	3,2	3,0	2,6	-3,4	5,5	4,1	3,2
<b>Advanced Economies</b>	2,4	2,2	1,7	-4,6	5,0	3,8	2,3
USA	2,4	3,0	2,3	-3,4	5,6	3,7	2,6
Euro Area	2,5	1,9	1,6	-6,4	5,2	4,2	2,1
Japan	1,9	0,6	-0,2	-4,5	1,7	2,9	1,2
<b>Emerging market &amp; developing economies</b>	4,5	4,3	3,8	-1,7	6,3	4,6	4,4
China	6,8	6,6	6,0	2,2	8,0	5,1	5,3
Russia	1,6	2,5	2,0	-3,0	4,3	2,4	1,8
Brazil	1,3	1,8	1,2	-3,9	4,9	1,4	2,7

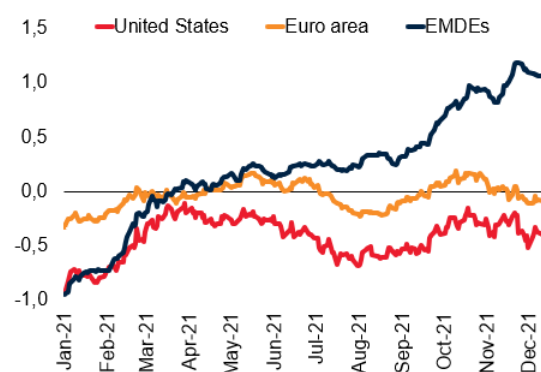
Source: World Bank Global Economic Prospects Jan/2022



The rise in prices for relevant production factors is creating inflationary pressures in the economy. A number of governments, starting with the United States of America, have begun to cut back on financial market support programmes and have caused interest rates to rise in the interbank market. The European Central Bank, however, still resists these measures, basing its decision on the transitory nature of price increases caused by pandemic limitations on the normal functioning of markets.

Accordingly, both US and Eurozone long-term interest rates are still characterised by stability. However, the perception of risk to emerging or developing countries has increased, leading to an increase in the respective rates.

**10-year government bond yields, difference from pre-pandemic average**  
Percentage point difference

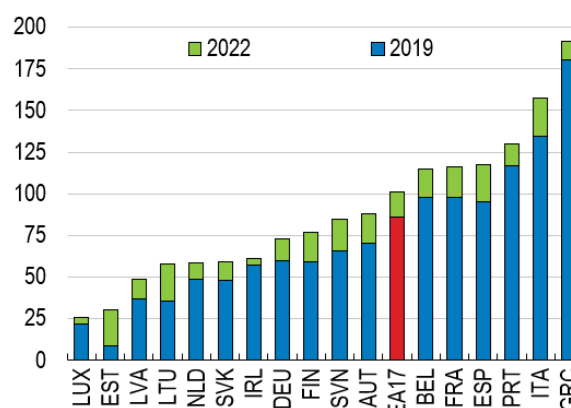


Sources: Bloomberg; Haver Analytics; World Bank.

Note: EMDEs = emerging market and developing economies. Figure shows the difference in nominal yields on 10-year government bonds from December 2019 averages (5.7 percent for EMDEs, 1.9 percent for the United States, and -0.3 for the euro area). EMDEs calculated as the average yield for 18 EMDEs, excluding Turkey. Last observation is December 15, 2021.

**Debt to GDP will rise to new highs**

Maastricht definition, as a percentage of GDP



Note: Data for 2022 are forecasts.

Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database).

At the start of 2022, tensions between Ukraine and Russia increased, adding further uncertainty to the economic and social climate in Europe. If the confrontation between these two countries spreads to neighbours, the impact could be dramatic on a global scale. If the conflict is kept between these two countries, its effects will be smaller, although they may still have some significance, notably in the energy and cereals markets.

### 3. Tourism

Early 2021 was marked by hope for the recovery of Tourism due to the development of vaccines capable of reducing the severity of COVID-19 cases. After the peak of the second pandemic wave in January 2021, for the less attentive, the conditions for the recovery of the sector seemed to have been met.

Conditions have actually improved compared to the previous year but are still far from those in 2019. Health systems in most developed countries have experienced significant relief and have been able to recover from the efforts made in the two 2020 pandemic waves, but in emerging countries the difficulties have continued to be felt due to weaker social and health structures.

The global vaccination process is long and carried out at different rates in each country/region, resulting in imbalances and lags, which leads to the emergence of new coronavirus variants and consequently new vaccination cycles.

With each new wave, the respective governments introduced new restrictive measures against COVID-19 related to infection, hospital admission and mortality numbers. Border controls were maintained

throughout the year in most countries, as was the requirement to conduct pre- and post-arrival testing and quarantine periods upon arrival in some countries. During the pandemic peak periods, health measures included imposed working from home on the majority of workers who were able to do so, prevented movement out of their home area, and forced contacts regarded as dangerous to quarantine for 10 days. This latter case affected hundreds of thousands of people.

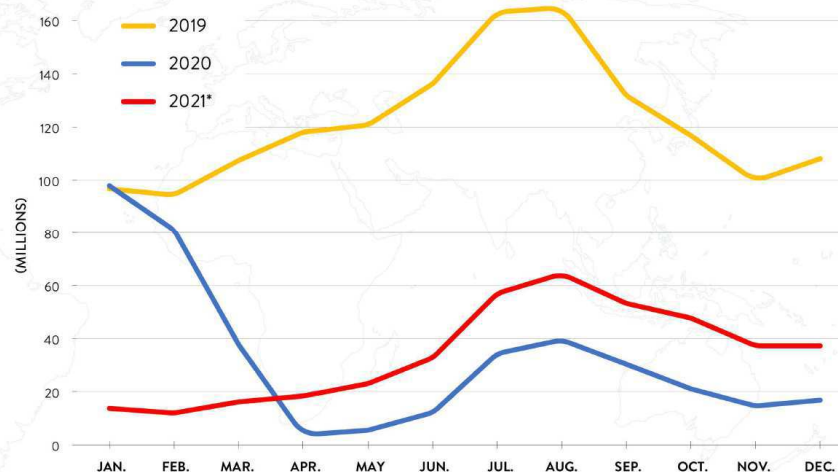
In the face of this reality, long journeys almost ceased to exist. However, after more than a year of restrictions, most people thought it crucial to take a holiday. They made short trips to their chosen resorts, in a period of pandemic calm that coincided with summer in the northern hemisphere.

### INTERNATIONAL TOURIST ARRIVALS BY MONTH (MILLIONS) 2019-2021

\* Provisional data



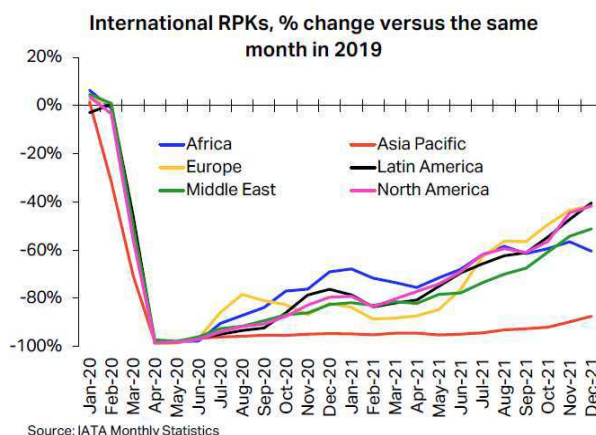
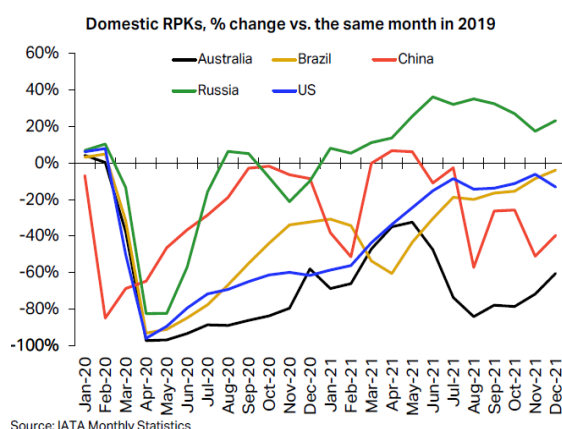
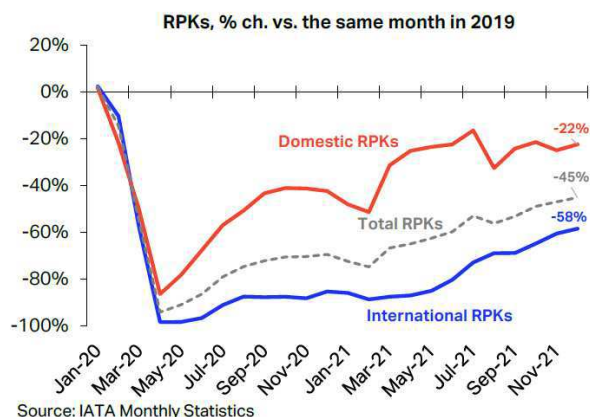
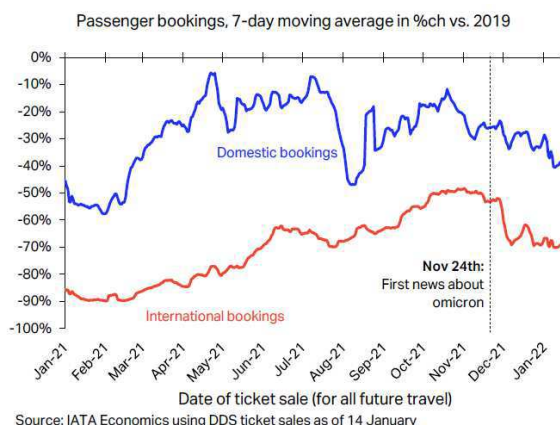
SOURCE: UNWTO  
(DATA AS OF JANUARY 2022)



Thus, resort hotels saw very significant growth in activity during the summer months of 2021. They were essentially occupied with families who needed a change in their environment, soak up some sun and have fun together, preferably in rural or beach environments. In view of the continuing restrictions on catering, these customers in many cases opted to eat within the hotels/resorts in which they were staying, thus reducing the unpredictability of the gastronomic experience. In turn, hotels, with limitations in terms of occupancy, were able to provide their customers with a high-quality service in order to ensure social distancing.

The tourist industry, despite all the difficulties, thus showed its resilience and the companies in the sector their competence in adapting to different and more demanding standards.

The big cities took longer to recover their activity. Without major cultural, professional or sporting events, with most employees working from home and the market for meetings and conferences hostage to companies' containment strategies, city centres took a long time to get going, open up their shops, restaurants, cafés, museums, etc.. Only at the end of summer did they begin to receive some tourists who mostly travelled by car from nearby cities.



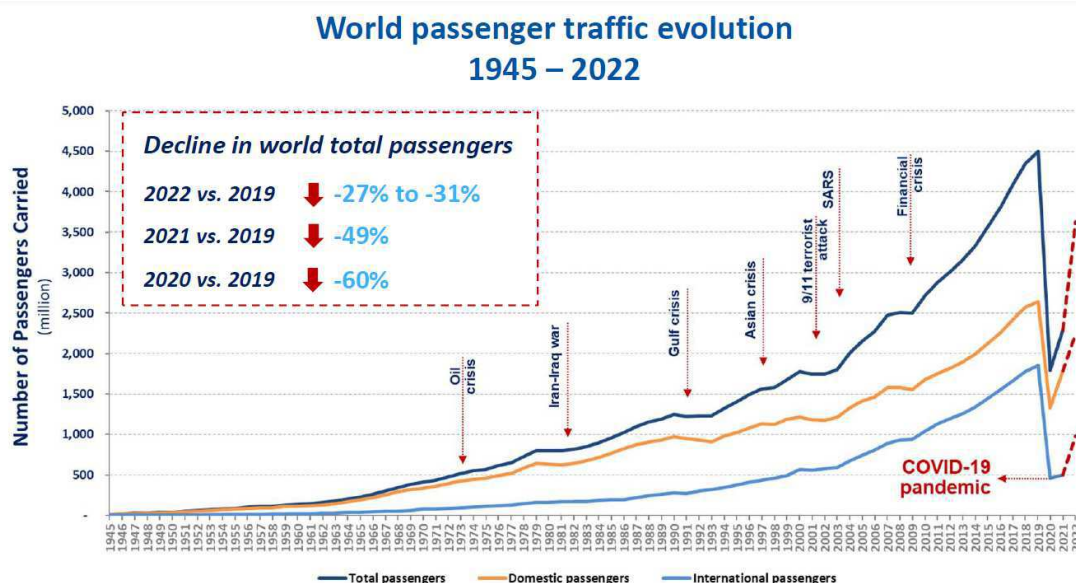
In addition to hotel operators, tour operators along with airline companies were the economic agents that suffered significantly from the pandemic's restrictive measures. The easing of restrictions and a weekend in the sun boosted bookings at a frenetic pace, so that as the number of contagious cases rose, and new restrictive measures were taken, they had to record cancellations at an even faster rate.

Demand volatility was causing increasing difficulties for economic operators in the tourism sector. Fixed and infrastructure costs are important in a capital-intensive activity, leading these actors to innovate by reorganising their business model. It was imperative to reduce costs and lighten structures, but without losing the capacity to react to market fluctuations.

Larger hotel operators, with more skilled staff incorporating cutting-edge technology into their processes, were better prepared to cope with the demands of this crisis than smaller and isolated operators.

Governments, in general, were called upon to help the sector with different support measures. Funding moratoria, lay-offs and furlough measures, reduction of social security contributions for companies, financing with reduced financial costs and support for fixed costs not covered were some of the most relevant examples of incentives adopted in most developed countries to support job retention at companies in difficulty in the face of the substantial drop in turnover. In emerging countries, measures of this nature have been much less prominent. However, there were significant differences in the support made available to companies in the sector in more developed countries as well. Companies based in countries such as Germany, the Netherlands or the United Kingdom had significantly more support than that made available, for example, in Portugal or Spain.

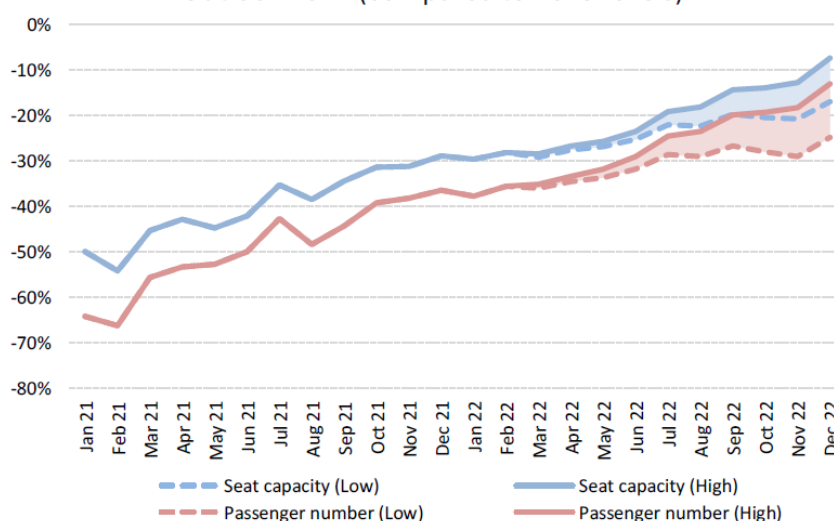
Acknowledging that Tourism has become a basic and essential service to all people and knowing that the characteristics and intrinsic value of the sector and, consequently, of the main tourist destinations and operators have not been lost with the pandemic, the financial sector, which entered this crisis in better health than 10 years ago during the global financial crisis, has managed to provide tour operators with better support conditions to face this crisis.



Source: ICAO

So

#### Outlook 2022 (compared to 2019 levels)



Source: ICAO

Once the worst phase of the pandemic had been overcome, the Omicron variant with a high contagion rate, but much lower severity, began the endemic phase of the virus. Although some care is still being taken, it is already possible for tour operators to plan operations some time in advance, hiring aircrafts and hotels for that purpose. This summer is expected to be stronger than 2021. Southern European

destinations will benefit from their safer image in the main markets compared to their competitors in the Middle East, North Africa and the Caribbean.

This poses new challenges at this stage of growth in Tourism. It is necessary to recruit labour that during the pandemic went to other less affected activities. Customers are becoming ever more demanding. The incorporation of cutting-edge technology into tourist management was accelerated by the pandemic. It is therefore necessary to recruit better-qualified workers and to place even more emphasis on training all workers in the industry by taking advantage of new forms of work and organisation.

The speed with which the economy has been digitised has vastly increased as a result of the pandemic. Tourism remains at the forefront of this process, whether in the process of marketing and booking more and more online, or in increasingly informal check-in and check-out processes, or during stays where the customer is only a click away from a huge range of services, including payment for same.

Customer retention and maximisation of added value over the course of their lives are increasingly important in organisations' investment decisions, and require massive investments in CRM, Loyalty, Customer Satisfaction, Revenue Management and Analytics and escalate the complexity of managing a hotel complex.

Moreover, the new generations of customers are more aware of ecology and the principles of planet sustainability, generating new challenges in Tourism. In May 2021, the G20 tourism ministers' summit issued a set of recommendations for the transition to Green Travel and Tourism, which will lead most tour operators to implement projects in the sustainability area.

Cutting energy consumption, reducing the use of single-use plastics, preserving biodiversity, climate transition, population mobility, governance of organisations, social inclusion and the impact on local communities are all areas of particular importance in the adoption of these measures by the Tourism sector and will transform tourist services of the future. In other words, the ESG agenda is here to stay and is already a strategic factor in the management of tourist companies.

#### 4. Key figures

	2021	2020	Δ	Δ%	2019
Number of rooms	8,578	8,201	377	4.6%	8,350
Revenue	262.2	163.1	99.1	60.7%	349.1
Gross Operating Profit (GOP)	77.2	27.3	49.9	183.0%	127.0
EBITDA	87.6	46.6	41.0	88.1%	143.5
Adjusted EBITDA*	79.6	41.8	37.7	90.2%	131.6
Net total financial debt	271.1	251.0	21.1	6%	221.9
Net debt**	417.9	413.0	4.9	1.2%	388.2
Net debt/EBITDA	4.77	8.88	(4.11)	-46.3%	2.35
Net debt/Adjusted EBITDA	5.25	9.87	(4.62)	-46.8%	2.90
Total Assets	1,001.6	962.7	38.8	4.0%	1,076.8
Total Equity	287.0	272.4	14.6	5.4%	310.7
Average Room Rate (ARR)	106.6	84.2	22.3	26.5%	102.3
Pestana Hotels & Resorts	97.5	73.2	24.3	33.2%	86.7
Pestana Collection	163.5	138.9	24.5	17.6%	179.0
Pestana CR7 Lifestyle	101.2	90.0	11.2	12.5%	116.8
Pousadas de Portugal	120.2	106.1	14.1	13.3%	125.8
% Occupation**	53.5%	45.3%	8.2%	18.1%	68.3%
Pestana Hotels & Resorts	55.9%	50.2%	5.7%	11.3%	70.7%
Pestana Collection	37.4%	25.4%	12.0%	47.5%	68.4%
Pestana CR7 Lifestyle	60.2%	54.6%	5.6%	10.2%	76.2%
Pousadas de Portugal	52.2%	39.8%	12.4%	31.2%	59.3%
Guest Satisfaction Index (GSI)	87.3%	88.9%	-1.6%	-1.8%	88.8%
Pestana Hotels & Resorts	85.4%	86.8%	-1.4%	-1.6%	88.0%
Pestana Collection	90.1%	92.0%	-1.9%	-2.1%	91.2%
Pestana CR7 Lifestyle	91.0%	89.9%	1.1%	1.2%	89.3%
Pousadas de Portugal	88.6%	90.2%	-1.6%	-1.7%	89.3%

\* Excluding impact of gains/losses on financial investments

\*\* Including IFRS 16

\*\*\* Adjusted available inventory during confinement periods

The detail of hotels and rooms available for sale in 2021 and 2020 was as follows:

##### i) Hospitality, Pestana Vacation Club and Residence

Open inventory	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2021
Hotels	22%	14%	17%	21%	56%	71%	79%	82%	92%	94%	89%	89%	61%
Rooms	25%	16%	26%	29%	55%	66%	73%	76%	84%	89%	78%	78%	58%
Open inventory	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2020
Hotels	91%	94%	94%	8%	8%	21%	39%	54%	63%	62%	55%	37%	52%
Rooms	74%	78%	78%	6%	6%	17%	39%	45%	52%	56%	43%	30%	44%



## ii) Hospitality

Open inventory	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2021
Hotels	14%	6%	9%	13%	54%	71%	79%	82%	90%	93%	86%	86%	57%
Rooms	16%	8%	17%	20%	45%	56%	61%	64%	69%	73%	63%	63%	46%
Open inventory	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2020
Hotels	90%	93%	93%	0%	0%	13%	32%	51%	60%	60%	53%	33%	48%
Rooms	58%	62%	62%	0%	0%	10%	29%	36%	41%	45%	32%	21%	33%

For the units that were open the occupancy rates were:

## i) Hospitality, Pestana Vacation Club and Residence

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2021	23%	19%	20%	23%	44%	50%	58%	80%	72%	66%	55%	37%	53%
2020	53%	54%	41%	62%	33%	29%	43%	66%	55%	41%	22%	32%	47%

## ii) Hospitality

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2021	20%	16%	17%	23%	49%	52%	57%	81%	74%	66%	52%	34%	54%
2020	51%	53%	39%	0%	0%	23%	38%	63%	56%	40%	19%	31%	45%

If all units were open, excluding the usual effect of seasonality, the occupancy rates that would be obtained would be as follows:

## i) Hospitality, Pestana Vacation Club and Residence

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2021	10%	6%	6%	8%	18%	32%	47%	69%	67%	65%	59%	41%	37%
2020	51%	62%	31%	1%	1%	4%	13%	32%	30%	24%	12%	14%	23%

## ii) Hospitality

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2021	7%	3%	4%	6%	16%	27%	40%	60%	57%	53%	45%	31%	30%
2020	50%	50%	23%	0%	0%	2%	8%	25%	24%	19%	9%	10%	17%

## 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"), with registered office in Funchal, is characterised by its role as manager of shareholdings of all companies in the Pestana Hotel Group with operating units in Portugal.

Grupo Pestana'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 78 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 internationalisation.

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, tourist animation and tourist real estate developments, and an investment in the industrial sector.

The main projects carried out in 2021 were as follows:

- The former Madeira Palácio hotel, acquired for a total of 48.1 million Euros, located in one of the most modern residential areas of Funchal. This transaction included three components. A real estate component (Madeira Palácio Residences) ready to be sold, in a luxury condominium and first sea line, acquired for 28.8 million Euros which was quickly sold to a real estate developer for 40 million Euros. A second component concerning the former hotel that will be converted into 181 T1 to T4 apartments for sale acquired for 17.1 million Euros and with a total planned investment of 53 million Euros, including its acquisition cost. A third component that involves the construction of a new hotel with around 160 rooms next to Pestana Bay, acquired for 2.2 million Euros and with a total planned investment of 14 million Euros, including its acquisition cost;
- Conclusion and opening of Pestana Fisherman Village, a new four-star hotel located in the emblematic historic center of Câmara de Lobos. The hotel has 42 rooms located in two buildings, fully refurbished, maintaining the original architectural features of the old Municipal building of Torre Bela. This project represented a total investment of 2.3 million of Euros, of which 1.1 million Euros in 2021. For this asset, a lease contract was signed with the owner of the property for a 50-year period, which foresees an annual fixed rent payment;
- Completion and opening of the Pousada do Porto - Flores with 84 rooms and suites, a Gastro Bar, indoor pool, sauna, fitness centre, meeting room and an interior patio with a vertical garden, in a privileged location in the city of Oporto that stands out for its historical interest with buildings with more than five centuries of existence. The total investment of the project amounted to 15.3 million Euros, of which 0.6 million Euros incurred in 2021;
- Acquisition of a building next to Pestana Vintage Porto, on Rua dos Bacalhoeiros, for 1.4 million Euros with the objective of creating 20 additional rooms. The additional investment expected is 1.3 million Euros;
- Completion of Pestana Douro Riverside resulting from the rehabilitation of a building acquired in 2018, in Municipality of Oporto, for the construction of a new 165-room hotel that benefits from a privileged view over the Douro River. The conclusion of this project took place in April and its opening took place in March 2022. The total investment was approximately 16 million Euros, of which 0.2 million Euros in 2021;



- Opening of the new four-star unit, Pestana Lisboa Vintage, with 121 rooms, on Rua Braamcamp in Lisbon. This hotel was completed in 2020 and opened on 5 November, with a total investment of around 5.8 million Euros;
- Continuation of the Rua Augusta project regarding the refurbishment of a building for a new four-star unit with 89 rooms in Lisbon. It is a lease contract concluded in 2018 with a duration of 28 years. The project is already licensed, having a total planned investment of 7.8 million Euros. Investment has already been made in amount of 1.6 million Euros, of which 1.3 million Euros occurred in 2021;
- Continuation of the project for the 4-star Pousada with 39 rooms, on Rua de São Tomé, in Alfama in Lisbon, for which a lease contract had been signed in 2019 for a period of 27 years. The project is already licensed and has a total planned investment of 2.9 million Euros. An investment of 0.8 million Euros has already been carried out, of which 0.4 million Euros were incurred in 2021;
- Opening of the new Pousada Vila Real de Santo António, for which an urban lease contract was signed in 2017 for a 20-year period, for the refurbishment of a set of urban buildings located in the historic center of this city. This Pousada has 57 rooms, a restaurant, an outdoor swimming pool, a bar and an events hall, having been completed in 2020, with a total investment of around 3.8 million Euros;
- In 2021, rehabilitation works in different units were completed returning facilities to their previous condition or updating them in order to maintain the assets in ideal conditions to optimise their operation. The total amount spent in the various units in 2021 was approximately 1.4 million Euros.

## 5.2 Profit or loss highlights

The economic recovery began in 2021 due to the acceleration of the vaccination process and the reopening of borders, although the first quarter was still affected by pandemic restrictive and containment measures, namely the declaration of a state of emergency. Thus, Grupo Pestana began the process of reopening gradually, based fundamentally on domestic tourism, which allowed it to have most of its units in operation at the end of June.

As of July, movement restrictions for people were effectively reduced, which, combined with the Group's ability to reopen units in a few days, allowed the opening of around 80% of its units as soon as demand installed. The Group managed in the most relevant period of the year, to achieve occupancy rates above 50% in July and 80% in August, maintaining the strategy followed in the previous year of safeguarding the average price. At the beginning of September, Portugal already had 75% of the population fully vaccinated and became the first country in the world to reach the target of 85% a month later. Thus, there was a gradual increase in people's confidence in city tourism, leading to the reopening of practically all the Group's units during the last quarter, including the inauguration of most units completed during the pandemic period. At the end of November, the first cases of the new Omicron variant were detected, which led to the entry into force of new preventive measures that limited activity during the month of December. However, the state of calamity decreed on 1 December 2021 did not have the same impact as the one that occurred at the beginning of the year.

In 2021, Grupo Pestana presented sales of 262.2 million Euros, which reflects an increase of 61% year-on-year and already represents 75% of sales recorded in 2019, the best year ever for the Group. This increase in revenue is the result not only of the easing of restrictions on circulation and the recovery that is already beginning to be seen in the economy, but also of the diversification strategy followed.

In Madeira there was a 145% growth in sales year-on-year. This region had an excellent recovery in 2021, both in Porto Santo, which even in pandemic times reached its best year ever, and in the island of Madeira itself, essentially between August and November, due already to the contribution of the international market, with those months having approached the homologous months of 2019. In 2020, this region had been penalised by the drop in flights and by the negative association with the pandemic

evolution that was registered in mainland Portugal. As a whole, and despite the impact suffered in the first months of the year, this region has already managed to reach 55% of the activity registered in 2019.

The hotel units in the Algarve recorded an increase of 144% over the previous year. This increase results from the strong demand from the domestic market, but also from the English market whenever Portugal was included on the list of safe countries to travel to. These units were also able to capture important new markets for the diversification of markets of origin. Noteworthy, too, was the excellent level of activity in this region in August, with sales already approaching those of the same month of 2019.

The units making up the Pousadas de Portugal network were among the first to reopen in 2021, still during the second quarter, as they have a greater propensity to domestic market demand. The Pousadas network saw its demand reinforced in the summer season due to the fact that it is mostly located outside large urban centres with a lower propensity for virus transmission. In 2020, for these same reasons, they were the most capacitated units to receive the existing demand in the market, but they were still penalised by the collapse of the international market that already represented the majority of their turnover before the pandemic. Thus, there was an increase in sales of 72% over the previous year.

The activity in Lisbon and Oporto, where the units belonging to the Pestana Collection brand are located, was the last to recover, as the confidence of tourists in traveling to cities with greater population density only occurred after the achievement of high vaccination rates in the country. Thus, from August onwards, there was a significant increase in sales in these cities. Despite the restrictions that took place, which impacted a significant part of the year, including limitations on air traffic, revenue increased by around 100%.

As has been the case in recent years, the real estate sales and management business continued to show a growth trend and to record excellent results in 2021, driven by the successful wager on three new real estate projects with rapid returns.

The project Madeira Palácio Residences, located in one of Funchal's most modern residential areas, was sold for 40 million Euros, with a margin of 10.7 million Euros. The 56-apartment Coliseu Residences project, located in São Miguel in the Azores, were all sold in 2021 for a total amount of 13.9 million Euros, generating a margin of 4.8 million Euros. Finally, the new Pine Village project which refers to a plot of land acquired in 2021 at a public auction, located in Brejos da Carregueira, in one of the most attractive and sought-after areas of the Portuguese coast, on which customers can build luxury villas based on previously defined model houses. In this project, the Group will only sell the lots and not build villas, unless the clients reach out to the Group for this very reason. Of the 59 plots of land for sale, in 2021, 22 were sold for a total amount of 8.4 million Euros with a margin of 4.2 million Euros.

In 2021 the Group's main real estate project from the last years, Pestana Tróia Eco Resort, reached its conclusion with the delivery of the last units from Lot 1 in the amount of 7.7 million Euros. Lot 3 is also practically concluded with the delivery of 4 villas for the amount of 5.4 million Euros with only 7 lots remaining.

The Group also has other projects which will reinforce the available inventory, namely, Madeira Acqua Residences, Silves Golf Resort, Pestana Comporta Village, Pestana Valley Nature Village, Fábrica, Apartaments & Lofts and the newly acquired Quinta das Maravilhas. By continuing to bet on the development of new real estate projects, the Group will also reinforce the growth of its Residence business through the signing of touristic exploration contracts.

The resumption of the Vacation Club activity was also progressive and gradual, considering the existing limitations and restrictions. The reactivation of the main feeder markets for the Vacation Club activity, the United Kingdom and Germany, allowed for, as far as possible, the use of the weeks contracted and the signing of new contracts, having thus already recorded an increase of 17% year-on-year.

In the beverages industry, commercial activity continued to be strongly affected by the pandemic crisis in the first third of the year, given all the constraints that existed in that period. The curfew imposed in the first quarter of 2021, as well as the substantial reduction in tourist arrivals significantly affected the

performance of this activity in that part of the year. With the progressive lifting of restrictions that conditioned consumption in bars and restaurants, a gradual recovery in sales began. In the summer months, there was even a recovery to pre-pandemic consumption levels, with sales at this stage performing similarly to 2019, with an emphasis on the month of October, which recorded the best performance in recent years.

During the period in which there were restrictions on the movement of people and, consequently, in which the units were temporarily closed, the Group also adhered to the employment maintenance support measures created by the State and continued with the measures to control and reduce costs followed in the previous year, namely the renegotiation of contracts with suppliers, including leases. With the gradual recovery, it implemented measures that allowed an efficient management of resources, such as the analysis of demand to decide the ideal moment for the reopening of its units and the relocation of employees, with their prior agreement. The high weight of variable costs in the Group's structure, complemented by these measures, allowed the Group to already obtain, in 2021, an EBITDA of 60% of that obtained in 2019.

In December 2021, the Group sold its participation in Pestana CR7 – Lisboa, S.A. for 6.7 million Euros, as well as the respective Accessory capital contributions, transacted at their nominal value in the amount of 1.6 million Euros, corresponding to a total of 8.3 million Euros and a capital gain of 6.7 million Euros. The participation was sold to the other Shareholder of that entity, CR7 Lifestyle Unipessoal, Lda.. Also in December 2021, Pestana CR7 Madeira, S.A. entered a lease contract with the property owner for a period of 15 years, contemplating the payment of an annual fixed rent. Additionally, the owner of the property proceeded with the definitive cession of the commercial establishment of Pestana CR7 Lisboa Lifestyle, with effect from 1 January 2022, with the contents of the hotel continuing to be held by the owner of the property.

	2021	2020	2019
Rooms (total keys)	8,578	8,201	8,350
Hotel units	78	74	73
(Amounts in million Euros)			
Revenue	262.2	163.1	349.1
Tourist activities	239.4	136.0	312.3
Non-tourist activities	22.8	27.1	36.8
GOP (a)	77.2	27.3	127.0
EBITDA (b)	87.6	46.6	143.5
EBITDA excluding gains on financial investments	79.6	41.8	131.6
Depreciation / Impairment / Investment subsidies	(40.2)	(53.5)	(43.5)
EBIT	47.4	(6.9)	100.1
Interest net	(15.6)	(15.6)	(16.0)
Income taxes (c)	(1.8)	4.4	(3.1)
Net income including non-controlling interests	30.0	(18.1)	80.5
GOP margin (%)	32%	20%	41%
EBITDA margin (%)	33%	29%	41%
EBIT margin (%)	18%	-4%	29%
ROE (%)	7.7%	-4.8%	18.9%
EPS	0.36	(0.22)	0.96
EBITDA/Net interest (...x)	5.6	3.0	9.0
Average cost of gross debt (%)	3.7%	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 Charges of depreciation and amortization, Impairment losses and reversals of depreciable assets, Gambling tax paid by Casino and other minor accounts

(c) includes Gambling tax paid by Casino

### 5.3 Consolidated statement of financial position (Balance sheet) highlights

Grupo Pestana has a total capital investment of 808.9 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.

Much like in 2020, the Group continued to focus on measures that assured its liquidity, maintaining high amounts of cash and cash equivalents as well as unused credit lines and working capital while having a stable indebtedness level. Not only did the Group conclude ongoing investments but remained attentive to any opportunities that arose which aligned with its diversification strategy and with high short-term profitability, namely in real estate. This pandemic crisis happened at a stage when the Group had a strong financial position and no need to resort to the sale of assets, which are mainly booked at amounts significantly below market value and free of liens.

In line with the liquidity policy previously defined, the Group sought to restructure its debt by refinancing the amounts to disburse through the emission, in October, of a new bond loan in the amount of 29 million Euros with a maturity of more than 5 years and a fixed interest rate and through the negotiation of a new long-term 50 million Euro bank loan also at a fixed interest rate signed in January 2022. The Group also obtained some financing through economy support credit lines and capital moratoriums on bank loans until September 30th, 2021 while still paying for interest

In 2021, Net Debt increased by around 1%, however, excluding expansion CAPEX of 7.5 million Euros, it is possible to verify that Net Debt decreased, even including the high investments recently made in the real estate area and that are still ongoing. The Group also has working capital of 109.4 million Euros and unused credit lines in the amount of 73.7 million Euros. It is also noteworthy that the Group's debt is mainly medium or long term and its debt service is aligned with the capacity to generate funds.

The sum of the non-remunerated funding covers 48% of the Adjusted assets, with this balance being maintained stable in recent years, which is yet another indicator of the quality of the management carried out by the Group and demonstrates the maintenance of a good financial autonomy ratio.

Despite the effects of the COVID-19 pandemic in the last two years, Grupo Pestana continues to present a solid financial position and adequate financial autonomy and continues to be classified at investment level according to the rating agency Axessor.

(Amounts in million Euros)							
Capital investments	2021	% TOTAL	Change 21/20	2020	% TOTAL	Change 20/19	2019
Investment in fixed assets (a)	684.4	85%	-3%	705.8	89%	-4%	735.7
Deferred tax liabilities	-10.0	-1%	-14%	-11.6	-1%	-38%	-18.7
<b>Total Adjusted fixed assets</b>	<b>674.4</b>	<b>83%</b>	<b>-3%</b>	<b>694.2</b>	<b>88%</b>	<b>-3%</b>	<b>717.0</b>
Investment in financial assets (b)	15.0	2%	-10%	16.6	2%	-5%	17.5
Other non-current assets (c)	10.1	1%	-45%	18.5	2%	55%	11.9
Working capital (d)	109.4	14%	71%	64.1	8%	-5%	67.8
<b>Total Capital investments (Adjusted assets)</b>	<b>808.9</b>	<b>100%</b>	<b>2%</b>	<b>793.4</b>	<b>100%</b>	<b>-3%</b>	<b>814.2</b>
Funding sources	2021	% TOTAL	Change 21/20	2020	% TOTAL	Change 20/19	2019
Equity	287.0	35%	5%	272.4	34%	-12%	310.7
Deferred revenue (e)	138.6	17%	-5%	145.4	18%	-8%	158.5
Deferred sales costs (e)	-38.0	-5%	-7%	-40.9	-5%	-7%	-44.0
<b>Total Non-remunerated funding</b>	<b>387.6</b>	<b>48%</b>	<b>3%</b>	<b>376.9</b>	<b>47%</b>	<b>-11%</b>	<b>425.2</b>
Medium-/Long-term financial debt (f)	426.0	53%	0%	424.1	54%	6%	401.2
Other non-current liabilities (g)	3.3	0%	-6%	3.5	0%	338%	0.8
<b>Total Non-current funding</b>	<b>816.9</b>	<b>101%</b>	<b>2%</b>	<b>804.5</b>	<b>101%</b>	<b>-3%</b>	<b>827.1</b>
Short term financial liabilities (f)	66.1	8%	41%	46.7	6%	-54%	102.1
Cash and cash equivalents	-74.1	-9%	28%	-57.8	-7%	-50%	-115.1
<b>Net current debt</b>	<b>-8.0</b>	<b>-1%</b>	<b>-28%</b>	<b>-11.1</b>	<b>-1%</b>	<b>-15%</b>	<b>-12.9</b>
<b>Total Funding sources</b>	<b>808.9</b>	<b>100%</b>	<b>2%</b>	<b>793.4</b>	<b>100%</b>	<b>-3%</b>	<b>814.2</b>
Net debt (h)	417.9		1%	413.0		6%	388.2
Net debt excluding IFRS 16	271.1		5%	258.0		16%	221.9
EBITDA	87.6		88%	46.6		-68%	143.5
Working capital	109.4		71%	64.1		-5%	67.8
Net capex (i)	15.5		-34%	23.5		-66%	69.7
Capex in progress	25.7		-50%	51.9		1%	51.4
(Net debt - Capex in progress)/EBITDA ratio	4.48		-42%	7.76		231%	2.35
Net debt/EBITDA ratio	4.76		-46%	8.88		228%	2.70
Net debt/EBITDA ratio (excluding IFRS 16)	3.87			8.04			1.72
Net debt/Equity ratio	1.08		-2%	1.10		20%	0.91
Net debt/Total assets ratio (%)	52%		-1%	52%		9%	48%
Liquidity ratio (%)	15%		23%	12%		-47%	23%

## Notes:

(a) Includes Tangible fixed assets, Intangible assets and Investment properties

(b) Includes Investments in joint ventures and associates

(c) Includes Deferred tax assets and Trade and other receivables net of Non-current advances from customers

(d) Excludes Cash and cash equivalents, Borrowings, Lease liabilities and Deferred revenue and includes Financial assets at fair value through profit or loss

(e) Collected sales of Pestana Vacation Club ("timeshare")

(f) Includes Lease liabilities

(g) Includes Provisions and Derivatives

(h) Medium-/Long-term financial debt plus Net current debt

(i) 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 depending on the business model and portfolio;
- Financial risks;
- Corporate structure risks;
- Technological and cybersecurity risks;
- Human capital risks;
- Other risks.

Strategic and operational risks depending on the business model and portfolio include risks associated with ownership, brand, service quality, guest satisfaction, guest behaviour, 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 the shareholder succession and the corporate governance structure.

Technological 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 and the monitoring of cybersecurity risks became vital.

Human capital risks in a labour-intensive activity with significant developments underway include the risks of lack of availability of qualified professionals, need for intensive recruitment, training and retention plans to provide the human capital necessary to support the 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 31 January 2022, Grupo Pestana contracted a loan of 50 million Euros, which includes the payment of principal and interest in 60 quarterly instalments, with the first payment of interest and principal starting in May 2022. The loan has a 15-year maturity date with fixed interest rate and the funds received are intended to meet current liabilities, as well as to support the investment projects that the Group has in progress.

Recent geopolitical events in Ukraine culminating in the Russian military invasion on 24 February 2022 and the current war situation are affecting global markets, in particular logistics and supply chains, energy prices and the prospects for the evolution of inflation and interest rates. Although the impacts of this situation have not been relevant to date, Grupo Pestana is monitoring the evolution of the conflict and the consequences arising from same.

## 8. The near future

The entry into the endemic phase has led tour operators to plan operations in a structured way for the summer of 2022. The airlines, mostly supported by their respective governments, now hope to be able to return their aircrafts to the sky by, reactivating medium- and long-haul routes. Hotel operators are developing the necessary recruitment processes to be able to open hotels to their regular customers.

The absence of major bankruptcies after two years of pandemic leads to believe that infrastructure and organisations have shown significant resilience to overcome this crisis by lightening cost structures and thereby making it easier to quickly achieve positive results in the recovery phase.

The signs of recovery in the sector are increasingly evident, with customer's demand for bookings gaining momentum each day. Companies and other organisations are also starting to plan their events for the near future.

Grupo Pestana therefore expects 2022 to be a better year for tourism than 2021, especially in the second half, although still below its best years (2017 to 2019).

On the other hand, there are also uncertainty factors in the economy, such as inflationary pressures, with particular emphasis on energy, labour and raw materials, which have been worsened by the Ukraine-Russia conflict and which, if to continue, will certainly have an effect on rising market interest rates in the coming years.

The outbreak of war between Russia and Ukraine is in itself also a factor of uncertainty for economic activity and to which the tourist sector is naturally also subject.

Moreover, the support programmes implemented by most governments in conjunction with their GDPs' reduction have put more pressure on these countries' debt levels, forcing subsequent measures for financial equilibrium which may have a negative effect on the economy.

Grupo Pestana celebrates 50 years this year and accumulates the experience of those who have faced various economic crises with the same vigour with which they have prepared for the recovery phases, and it is certain that numerous opportunities will arise once the crisis eases. The Group will continue to make sure that it is prepared, in financial, human and technical terms, to seize these opportunities and overcome the challenges that will certainly arise by continuing to provide a quality service and tremendous added value and to offer experiences to its customers that make Pestana a trusted hotel brand in the various markets where it operates.



## 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 emphasise this, the high level of professionalism and sense of duty of our employees is worthy of recognition. Your effort and dedication are the reason that makes possible the creation of value of Grupo Pestana.

Funchal, 29 March 2022

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

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 2021 and 2020, Dionísio Fernandes Pestana holds 835,300 shares of Grupo Pestana S.G.P.S., S.A. and also the 82,694,700 remaining shares, by virtue of being the ultimate shareholder of the company that holds them directly.

Funchal, 29 March 2022

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

### Table of Contents

Consolidated statement of financial position .....	29
Consolidated income statement .....	30
Consolidated statement of comprehensive income .....	31
Consolidated statement of changes in equity.....	32
Consolidated cash flow statement.....	34
Notes to the consolidated financial statements .....	35
1. General information .....	35
2. Accounting standards used in the preparation of the Financial Statements .....	37
3. Main accounting policies .....	40
4. Financial risk management policies .....	54
5. Main accounting estimates and judgments .....	58
6. Tangible fixed assets.....	61
7. Intangible assets.....	69
8. Investment properties .....	71
9. Investments in joint ventures .....	72
10. Investments in associates .....	76
11. Financial assets at fair value through profit or loss .....	79
12. Deferred tax assets and liabilities.....	81
13. Financial assets and liabilities .....	87
14. Trade and other receivables and Advances from customers.....	88
15. Inventories .....	91
16. Corporate income tax .....	94
17. Cash and cash equivalents .....	95
18. Capital.....	95
19. Other reserves .....	96
20. Retained earnings.....	97
21. Non-controlling interests.....	97
22. Provisions .....	98
23. Borrowings.....	100
24. Lease liabilities .....	103
25. Derivatives.....	104
26. Deferred revenue.....	105
27. Trade and other payables.....	107
28. Revenue .....	108
29. External supplies and services .....	113

30.	Personnel expenses .....	114
31.	Other income .....	115
32.	Other expenses .....	116
33.	Gains on the disposal of investments, equity method and financial assets at fair value through profit or loss .....	117
34.	Financial expenses and income .....	117
35.	Income tax .....	118
36.	Dividends .....	119
37.	Contingencies .....	120
38.	Consolidation perimeter .....	121
39.	Changes in the perimeter .....	124
40.	Related parties .....	126
41.	Note to the Consolidated cash flow statement .....	134
42.	Other information .....	135
43.	Subsequent events .....	135

## Consolidated statement of financial position

(Amounts expressed in Euros)

		31 December	
	Notes	2021	2020
<b>Assets</b>			
<b>Non-current</b>			
Tangible fixed assets	6	706,716,455	730,277,068
Intangible assets	7	9,548,304	9,561,824
Investment properties	8	6,146,765	6,903,393
Investments in joint ventures	9	3,325,404	4,535,112
Investments in associates	10	11,624,633	12,060,539
Financial assets at fair value through profit or loss	11	7,698,928	5,939,627
Deferred tax assets	12	434,817	292,810
Trade and other receivables	14	15,167,912	19,018,990
		<b>760,663,218</b>	<b>788,589,363</b>
<b>Current</b>			
Inventories	15	88,799,842	69,907,459
Trade and other receivables	14	75,460,691	43,847,266
Income tax receivable	16	2,490,383	2,589,299
Cash and cash equivalents	17	74,138,656	57,781,523
		<b>240,889,572</b>	<b>174,125,547</b>
<b>Total Assets</b>		<b>1,001,552,790</b>	<b>962,714,910</b>
<b>Equity</b>			
Capital	18	125,000,000	125,420,973
Other reserves	19	31,371,668	31,020,390
Retained earnings	20	92,695,300	127,164,366
Profit/(Loss) for the period attributable to shareholders		29,576,756	(19,162,622)
Non-controlling interests	21	8,392,242	7,996,626
<b>Total Equity</b>		<b>287,035,966</b>	<b>272,439,733</b>
<b>Liabilities</b>			
<b>Non-current</b>			
Provisions	22	3,233,365	3,388,477
Borrowings	23	292,167,743	277,892,398
Lease liabilities	24	133,857,633	143,694,861
Derivatives	25	25,822	85,600
Deferred tax liabilities	12	10,037,115	11,616,735
Deferred revenue	26	118,351,531	127,597,547
Advances from customers	14	5,498,410	631,500
		<b>563,171,619</b>	<b>564,907,118</b>
<b>Current</b>			
Provisions	22	1,151,548	1,210,431
Borrowings	23	53,041,436	37,866,975
Lease liabilities	24	13,020,831	11,370,256
Deferred revenue	26	20,250,085	17,808,013
Trade and other payables	27	51,932,336	35,652,075
Advances from customers	14	11,797,814	21,149,600
Income tax liabilities	16	151,155	310,709
		<b>151,345,205</b>	<b>125,368,059</b>
<b>Total Liabilities</b>		<b>714,516,824</b>	<b>690,275,177</b>
<b>Total Equity and Liabilities</b>		<b>1,001,552,790</b>	<b>962,714,910</b>

The following notes form an integral part of the Consolidated statement of financial position as at 31 December de 2021.

## Consolidated income statement

(Amounts expressed in Euros)

	Notes	Period	
		2021	2020
Revenue	28	262,187,385	163,105,442
Cost of goods sold	15	(77,319,092)	(40,410,204)
External supplies and services	29	(70,310,700)	(53,280,394)
Personnel expenses	30	(36,734,665)	(32,716,737)
Charges of depreciation and amortization	6;7;8	(42,132,992)	(42,694,629)
Reversals and impairment losses of tangible assets	6;7;8	1,624,654	(10,763,106)
Impairment of receivables	14	(332,959)	(673,581)
Impairment of inventories	15	(121,224)	(133,264)
Provisions	22	158,816	(71,609)
Other income	31	6,759,272	12,448,101
Other expenses	32	(5,272,741)	(7,359,148)
Gains on disposal of investments, equity method and financial assets at fair value through profit or loss	33	8,071,918	4,683,495
<b>Operating profit/(loss)</b>		<b><u>46,577,672</u></b>	<b><u>(7,865,634)</u></b>
Financial expenses	34	(16,118,473)	(15,927,943)
Financial income	34	490,747	311,499
<b>Profit/(Loss) before tax</b>		<b><u>30,949,946</u></b>	<b><u>(23,482,078)</u></b>
Income tax	35	(977,573)	5,349,242
<b>Profit/(Loss) for the period</b>		<b><u>29,972,373</u></b>	<b><u>(18,132,836)</u></b>
<b>Profit/Loss for the period attributable to:</b>			
Shareholders		29,576,756	(19,162,622)
Non-controlling interests	21	395,617	1,029,786
		<b><u>29,972,373</u></b>	<b><u>(18,132,836)</u></b>

The following notes form an integral part of the Consolidated income statement for the year ended 31 December 2021.

EBITDA	87,631,791	46,580,454
--------	------------	------------

## Consolidated statement of comprehensive income

(Amounts expressed in Euros)

	Note	Period	
		2021	2020
<b>Profit/(Loss) for the period</b>		<b><u>29,972,373</u></b>	<b><u>(18,132,836)</u></b>
<b>Items that can be recycled through profit or loss:</b>			
Change in fair value of hedging derivatives	25	<u>44,833</u>	<u>66,551</u>
<b>Other comprehensive income for the period - net of income tax</b>		<b><u>44,833</u></b>	<b><u>66,551</u></b>
<b>Total comprehensive income/(loss) for the period</b>		<b><u>30,017,206</u></b>	<b><u>(18,066,285)</u></b>
<b>Profit/(Loss) for the period attributable to:</b>			
Shareholders		29,621,589	(19,096,071)
Non-controlling interests		<u>395,617</u>	<u>1,029,786</u>
		<b><u>30,017,206</u></b>	<b><u>(18,066,285)</u></b>

The following notes form an integral part of the Consolidated statement of comprehensive income for the year ended 31 December 2021.

## Consolidated statement of changes in equity

		Attributable to shareholders							
		Share capital	Other equity instruments	Share premium	Other reserves	Retained earnings	Profit/(loss) for the period	Non-controlling interests	Total
Notes									
<b>As at 1 January 2021</b>		83,530,000	8,200,000	33,690,973	31,020,390	127,164,366	(19,162,622)	7,996,626	272,439,733
<b>Changes in the period</b>									
Profit/(Loss) for the period application	19;20				306,445	(19,469,066)	19,162,622	–	–
					<b>306,445</b>	<b>(19,469,066)</b>	<b>19,162,622</b>	<b>–</b>	<b>–</b>
Change in fair value reserve - hedging derivatives	19				44,833	–	–	–	44,833
Profit/(Loss) for the period							29,576,756	395,617	29,972,373
<b>Comprehensive income/(loss)</b>					<b>44,833</b>	<b>–</b>	<b>29,576,756</b>	<b>395,617</b>	<b>30,017,206</b>
					<b>351,278</b>	<b>(19,469,066)</b>	<b>48,739,378</b>	<b>395,617</b>	<b>30,017,206</b>
<b>Transactions with shareholders in the period</b>									
Distributions	18;20	–	(420,973)	–	–	(15,000,000)	–	–	(15,420,973)
		–	(420,973)	–	–	(15,000,000)	–	–	(15,420,973)
<b>As at 31 December 2021</b>		<b>83,530,000</b>	<b>7,779,027</b>	<b>33,690,973</b>	<b>31,371,668</b>	<b>92,695,300</b>	<b>29,576,756</b>	<b>8,392,242</b>	<b>287,035,966</b>

(Amounts expressed in Euros)



Attributable to shareholders								
(Amounts expressed in Euros)								
Notes	Share capital	Other equity instruments	Share premium	Other reserves	Retained earnings	Profit/(Loss) for the period	Non-controlling interests	Total
<b>As at 1 January 2020</b>	83,530,000	8,200,000	33,690,973	27,769,914	65,866,574	76,575,701	15,115,384	310,748,545
<b>Changes in the period</b>								
Profit/(Loss) for the period application	19;20			3,213,376	73,362,325	(76,575,701)	–	–
Changes in the consolidation perimeter	19			–	–	–	(2,554,633)	(2,554,633)
Other changes recognized in equity	20;21			(29,451)	(64,533)	–	117,705	23,721
				<b>3,183,925</b>	<b>73,297,792</b>	<b>(76,575,701)</b>	<b>(2,436,928)</b>	<b>(2,530,912)</b>
Change in fair value reserve - hedging derivatives	19			66,551	–	–	–	66,551
Profit/(Loss) for the period				–	–	(19,162,622)	1,029,786	(18,132,836)
<b>Comprehensive income/(loss)</b>				<b>66,551</b>	<b>–</b>	<b>(19,162,622)</b>	<b>1,029,786</b>	<b>(18,066,285)</b>
				<b>3,250,476</b>	<b>73,297,792</b>	<b>(95,738,323)</b>	<b>(1,407,142)</b>	<b>(20,597,197)</b>
<b>Transactions with shareholders in the period</b>								
Capital reduction		–	–	–	–	–	(3,400,549)	(3,400,549)
Distributions	20;21	–	–	–	–	(12,000,000)	–	(12,000,000)
		–	–	–	–	–	(5,711,616)	(5,711,616)
<b>As at 31 December 2020</b>	<b>83,530,000</b>	<b>8,200,000</b>	<b>33,690,973</b>	<b>31,020,390</b>	<b>127,164,366</b>	<b>(19,162,622)</b>	<b>7,996,626</b>	<b>272,439,733</b>

The following notes form an integral part of the Consolidated statement of changes in equity for the year ended 31 December 2021.

## Consolidated cash flow statement

(Amounts expressed in Euros)

	Notes	Period ended 31 December	
		2021	2020
<b>Cash flow from operating activities</b>			
Receipts from customers		222,570,683	156,101,229
Payments to suppliers		(134,482,933)	(96,041,893)
Payments to personnel		(36,313,353)	(37,436,868)
<b>Cash generated from operations</b>		<b>51,774,397</b>	<b>22,622,468</b>
Income tax received/(paid)		(1,330,797)	11,760,793
Other payments		(36,445)	(518,925)
<b>Net cash flow from operating activities</b>		<b>50,407,155</b>	<b>33,864,336</b>
<b>Cash flows from investing activities</b>			
Receipts related to:			
Tangible assets		724,110	1,166,037
Investment properties		612,233	–
Financial investments	9;11	8,349,968	–
Loans granted	10	441,000	343,000
Interest and similar income		268,702	286,232
Dividends	9;34	21,923	36,560
Payments related to:			
Tangible and intangible assets		(11,268,611)	(24,897,349)
Financial investments	9;11	(1,171,448)	–
Changes in consolidation perimeter	39	–	(5,436,437)
<b>Net cash from investing activities</b>		<b>(2,022,123)</b>	<b>(28,501,957)</b>
<b>Cash flows from financing activities</b>			
Receipts related to:			
Borrowings	23	70,415,566	52,000,000
Payments related to:			
Borrowings	23	(59,928,775)	(71,960,726)
Interest and similar expenses		(9,702,250)	(10,500,791)
Lease liabilities		(17,344,407)	(14,544,012)
Capital reduction of non-controlling interests	21	–	(3,400,549)
Reimbursement of own equity instruments	18	(420,973)	–
Dividends	20;36	(15,000,000)	(12,000,000)
Dividends to non-controlling interests	21;36	–	(2,311,067)
<b>Net cash from financing activities</b>		<b>(31,980,839)</b>	<b>(62,717,145)</b>
<b>Changes in cash and cash equivalents</b>		<b>16,404,193</b>	<b>(57,354,766)</b>
Effects of exchange differences		81,597	(69,500)
Cash and cash equivalents at the beginning of the period	17	57,449,222	114,873,488
Cash and cash equivalents at the end of the period	17	<b>73,935,012</b>	<b>57,449,222</b>

The following notes form an integral part of the Consolidated cash flow statement for the year ended 31 December 2021.

## Notes to the consolidated financial statements

### 1. General information

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

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

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

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

Nowadays, Grupo Pestana is the largest Portuguese group in the Tourism sector, with an operation focused on hotels, but complemented by other activities such as timeshare (Vacation Club), real estate, residential tourism, golf, tourist entertainment and distribution. It also includes an investment in Industry.

Through the promotion of the "Pestana" brand and the "Pousadas de Portugal", as well as the launch in 2016 of the "Pestana CR7" brand, the Pestana Hotel Group currently operates 107 units of tourist lodging totalling 12,212 rooms, which makes it the largest network of Portuguese origin, being in the top 25 European hotel network 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 incorporated (referred to in this document as "Grupo Pestana" or "Group") in 2003, aggregating the businesses in Portugal.

In the leisure area, in Portugal, Grupo Pestana has 35 hotels (16 in Madeira, 8 in Algarve, 6 in Lisbon/Cascais/Sintra, 4 in Oporto and 1 in the Azores), 9 Vacation Club units, 6 golf courses, 6 real estate/tourist resorts, 1 casino gambling concession for the Casino da Madeira, 1 entertainment company and the management of the network of 37 "Pousadas de Portugal". These numbers include two hotels resulting from the partnership between Grupo Pestana and Cristiano Ronaldo, namely Pestana CR7 Lisboa and Pestana CR7 Funchal.

Units	Location	Units	Location
Casino da Madeira (a)	Madeira	Pestana Douro Riverside	Oporto
Madeira Magic (a)	Madeira	Pestana Palácio do Freixo (a)	Oporto
Pestana Atlantic Gardens (a)	Madeira	Pestana Porto - A Brasileira (b)	Oporto
Pestana Carlton Madeira (a)	Madeira	Pousada do Porto - Flores	Oporto
Pestana Casino Park	Madeira	Pestana Vintage Porto	Oporto
Pestana Casino Studios	Madeira	Pestana Tróia Eco-resort (b)	Tróia
Pestana Churchill Bay (a)	Madeira	Beloura Golf - Pestana Golf & Resort (a)	Sintra
Pestana Colombos (a)	Madeira	Pestana Sintra Golf (a)	Sintra
Pestana CR7 Funchal (a)	Madeira	Alto Golf - Pestana Golf & Resort (a)	Algarve
Pestana Fisherman Village (a)	Madeira	Gramacho - Pestana Golf & Resort	Algarve
Pestana Grand	Madeira	Pestana Alvor Atlântico (b)	Algarve
Pestana Grand Vacation Club	Madeira	Pestana Alvor Beach Club	Algarve
Pestana Ilha Dourada (a)	Madeira	Pestana Alvor Praia	Algarve
Pestana Madeira Beach Club	Madeira	Pestana Alvor South Beach	Algarve
Pestana Miramar	Madeira	Pestana Blue Alvor	Algarve
Pestana Miramar Vacation Club	Madeira	Pestana Carvoeiro Gramacho (b)	Algarve
Pestana Ocean Bay	Madeira	Pestana Carvoeiro Vale da Pinta (b)	Algarve
Pestana Palms	Madeira	Pestana Delfim (a)	Algarve
Pestana Palms Vacation Club	Madeira	Pestana Dom João II	Algarve
Pestana Porto Santo	Madeira	Pestana Dom João II Beach Club	Algarve
Pestana Promenade	Madeira	Pestana Dom João II Villas	Algarve
Pestana Promenade Vacation Club	Madeira	Pestana Gramacho Residences (b)	Algarve
Pestana Quinta do Arco (a)	Madeira	Pestana Porches Praia (b)	Algarve
Pestana Royal (a)	Madeira	Pestana Vila Sol (a)	Algarve
Pestana Village	Madeira	Pestana Viking (a)	Algarve
Pestana Village Vacation Club	Madeira	Pestana Viking Vacation Club	Algarve
Pestana CR7 Lisboa	Lisbon	Vale da Pinta - Pestana Golf & Resort	Algarve
Pestana Lisboa Vintage (a)	Lisbon	Vila Golf - Pestana Golf & Resort (a)	Algarve
Pestana Palace	Lisbon	Silves - Pestana Golf & Resort	Algarve
Pousada de Lisboa (a)	Lisbon	Pestana Bahia Praia	Azores
Pestana Cascais (a)	Cascais	Pousadas de Portugal (Network) (a)	Portugal
Pestana Cidadela Cascais (a)	Cascais		

(a) Lease/Concession contracts

(b) Management contract

The economic recovery began in 2021 due to the acceleration of the vaccination process and the reopening of borders, although the first four months were still affected by restrictive and containment measures against the pandemic, namely through the declaration of the state of emergency. Thus, Grupo Pestana started the process of reopening gradually, based mainly on internal tourism, which allowed it to have most of its units in activity at the end of June.

As of July, restrictions on the movement of people were effectively reduced, which combined with the Group's ability to reopen units in a few days, allowed the opening of around 80% of its units as soon as demand installed. Thus, in the most relevant period of the year, it managed to achieve occupancy rates above 50% in July and 80% in August, maintaining the strategy followed in the previous year of safeguarding the average price. At the beginning of September, Portugal already had 75% of the population fully vaccinated and became the first country in the world to reach the target of 85% one month later. Thus, there was a gradual increase in people's confidence in city tourism, leading to the reopening of practically all the Group's units during the last quarter, including the inauguration of most of the units completed during the pandemic period. At the end of November, the first cases of the new

Omicron variant were detected, which led to the entry into force of new preventive measures that limited activity during the month of December. However, this limitation was mitigated by the fact that there were units of the Group that usually no longer operated during the winter, so the state of calamity decreed on 1 December 2021 did not significantly change the usual activity and that planned for that time of year.

Much like in 2020, the Group continued to focus on measures that assured its liquidity, maintaining high amounts of cash and cash equivalents as well as unused credit lines and working capital while having a stable indebtedness level. Not only did the Group conclude ongoing investments but remained attentive to any opportunities that arose which aligned with its diversification strategy and with high short-term profitability, namely in real estate. This pandemic crisis happened at a stage when the Group had a strong financial position and no need to resort to the sale of assets, which are mainly booked at amounts significantly below market value and free of liens.

In line with the liquidity policy previously defined, the Group sought to restructure its debt by refinancing the amounts to disburse through the emission, in October, of a new bond loan in the amount of 29 million Euros with a maturity of more than 5 years and a fixed interest rate and through the negotiation of a new long-term 50 million Euro bank loan also at a fixed interest rate signed in January 2022. The Group also obtained some financing through economy support credit lines and capital moratoriums on bank loans until September 30th, 2021 while still paying for interest.

The Group also adhered to the employment maintenance support measures created by the State and continued with the measures to control and reduce costs followed in the previous year, namely the renegotiation of contracts with suppliers, including leases. With the gradual recovery, it implemented measures that allowed an efficient management of resources, such as the analysis of demand to decide the ideal moment for the reopening of its units and the relocation of employees, with their prior agreement. The high weight of variable costs in the Group's structure, complemented by these measures, allowed the Group to already obtain, in 2021, an EBITDA of 60% of that obtained in 2019.

Expectations for the future are very positive as the effectiveness of vaccines has restored confidence to tourists, who already revealed a willingness to travel in 2021, especially for leisure, whenever conditions allowed. Thus, in view of the evolution observed and the analyses, projections and expectations of economic agents, the Group is convinced that activity will gradually return to the levels of the recent past, within a period of 2 to 3 years.

These Consolidated financial statements were authorised for issue by the Board of Directors in the meeting held on 29 March 2022, being subject to approval by the shareholders. The Board of Directors believes that the consolidated financial statements provide a true and fair view of the consolidated operations of Grupo Pestana, S.G.P.S., S.A., as well as of its consolidated financial position, financial performance and 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 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 2021. 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 their predecessor Boards. 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.

The preparation of 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 a 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 financial assets at fair value through profit or loss, measured at fair value.

Although, these estimates are based on the best experience of the Board of Directors and its best expectations in relation to 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).

### Amendments to the standards

a) The impact of the adoption of the amendments to standards that became effective as of 1 January 2021 is as follows:

- **IFRS 9, IAS 39, IFRS 7, IFRS 4 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 exemptions like: 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. These amendments had no relevant impact on the Group's Consolidated financial statements.
- **IFRS 16** (amendment), 'Leases – COVID-19 related rent concessions beyond 30 June 2021'. This amendment extends the date of application of the IFRS 16 – 'Leases – COVID-19 related rent concessions' amendment from 30 June 2021 to 30 June 2022. The conditions required to apply the practical expedient mostly remained unchanged. This amendment is applied retrospectively with the impacts reflected as an adjustment to the opening balance of retained earnings 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 2022 which the EU has already endorsed:

- **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 direct labor and materials and 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.

- **IFRS 3** (amendment) 'Reference to the Conceptual framework'. This amendment updates the references to the Conceptual Framework 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 contingent liabilities and liabilities under IAS 37 and IFRIC 21, incurred separately versus within a business combination. This amendment is applied prospectively. 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: IFRS 1, IFRS 9 and IFRS 16 and IAS 41. The Group will apply these amendments when they become effective with no expected impacts on the Group's Consolidated financial statements.
- c) Amendments to standards that are mandatory for accounting periods beginning on or after 1 January 2022 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 the entity's 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 occurring after the reporting date, such as the non-compliance with a given "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 becomes effective with no expected relevant impacts on the Group's Consolidated financial statements.
  - **IAS 1** (amendment), 'Disclosure of accounting policies'. Amendment to the requirement to disclose the accounting policies based on "material" instead of "significant". The information is expected to be material if, in its absence, the users of the financial statements would be unable to understand other material information in those same financial statements. Immaterial accounting policy information need not be disclosed. The Group will apply this amendment when it becomes effective with no expected impacts on the Group's Consolidated financial statements.
  - **IAS 8** (amendment), 'Disclosure of accounting estimates'. Introduction of the concept of accounting estimate and the way it is distinct from changes to accounting policies. The accounting estimates are defined as corresponding to monetary amounts that are subject to measurement uncertainty, used to achieve an accounting policy's objective(s). The Group will apply this amendment when it becomes effective with no expected impacts on the Group's Consolidated financial statements.
  - **IAS 12** (amendment), 'Deferred tax related to assets and liabilities arising from a single transaction'. IAS 12 will require entities to recognize deferred tax on specific transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These apply to the recognition of: i) right-of-use assets and lease liabilities; and ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related asset, when not relevant for tax purposes. Such temporary differences are no longer subject to the initial recognition exemption for deferred taxes. The cumulative effect of initially applying the amendment is recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the earliest comparative period presented. The Group will apply this amendment when it becomes 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 its 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 the identifiable net assets acquired, the difference is directly recognized in the Consolidated income statement.

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

Transactions, balances and unrealised gains in transactions with Group companies are eliminated. Unrealised losses are also eliminated, except if considered 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 the subsidiary of Grupo Pestana.

The accounting policies of the subsidiaries are changed, whenever needed, to ensure their 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 their 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 the 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 the 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 their 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 considered non-recoverable.

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

### **3.1.4. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or 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. Dividends from these investments are recognized as gains in the financial year in which they are assigned.

Entities that qualify as Financial assets at fair value through profit or 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 acquisitions 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 as 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 or income if related to 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	31-12-2021	31-12-2020
CHF - Swiss Franc	1.0329	1.0804
DKK - Danish Crown	7.4361	7.4408
GBP - Pound Sterling	0.8401	0.8981
SEK - Swedish Crown	10.2518	10.0284
USD - US Dollar	1.1326	1.2268

### 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, timeshare and golf businesses, 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 they relate 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 its intended conditions of use. The financial costs incurred with loans obtained for the construction of tangible assets are recognized as part of the construction cost of the asset.

For buildings allocated in part or in whole to the timeshare business, initial direct costs incurred in negotiating and accepting these contracts, such as commissions paid to promoters, were added to the carrying amount of the leased asset in accordance with 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 a recurring nature are recognized in the income statement as incurred.

Depreciation is calculated on a straight-line basis, using estimated useful lives, the most significant being 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 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 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 and after deducting any discounts, and ii) any costs directly attributable to preparing the asset for its intended use.

When purchased as part of a business combination, separate from goodwill, intangible assets are valued at fair value, as determined in the scope of the application of the 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 Grupo Pestana.

Expenditure on studies and valuations conducted during the course of the 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 occurring 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 of goodwill are not reversible.

The website refers to the expenditures incurred in the development of internet sites to carry out sales bookings/services. The capitalised amount refers to costs incurred with the development of the application infrastructure, graphics 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, the most significant being related to software, which are amortized over 6 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 Group 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, an impairment loss is recorded.

An impairment loss is recognized by the excess of the book value of the asset over its recoverable amount, the recoverable amount being 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) exist.

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

When impairment losses are recognized or reversal, the respective depreciation/amortization of the related assets is recalculated prospectively in accordance with the recoverable amounts adjusted by the impairment recognized.

### **3.8. Fair value of assets and liabilities**

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

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

Grupo Pestana 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 or 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.

### **3.9. Financial assets**

#### **i. Classification**

Financial asset classification depends on the business model used in the management of financial assets (cash flow receipts or appropriation of fair value changes) and on the contractual terms associated with cash in-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 changed 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 for which management's business model is the receipt of contractual cash flows 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) For debt instruments, this category includes financial assets which correspond exclusively to the payment of the nominal value and interest and for which management's business model is contractual cash flow receipts or occasionally its sale;
  - b) For 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 was irrevocably decided at the time of initial recognition that it would 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 at fair value through other comprehensive income, whether they are debt or equity instruments.

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

## **ii. Measurement**

Grupo Pestana initially measures financial assets 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 or loss. Transaction costs of financial asset at fair value through profit or loss are recognized in profit or loss in the financial year 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 at fair value through other comprehensive income which constitute debt instruments are subsequently measured at fair value and fair value changes are recognized in other comprehensive income except for changes concerning impairment losses, interest earned and exchange rate gains/(losses) which are recognized in profit or 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 or loss, on the date they are attributed.

## **iii. Impairment**

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

The expected credit loss model is applied based on debtor's nature and credit risk profile, considering reasonable and support information that is available and that is relevant for the specific financial instrument being assessed.

Trade receivables or contract assets that result from transactions with customers are due to be always measured at an amount equal to lifetime expected credit losses.

Grupo Pestana's debtors arising from the hospitality (tour operators and travel agencies), beverages industry, vacation club and golf are assessed for impairment when there are contractual payments overdue for more than 1 year, available information that indicates that a default may occur before that period.

Grupo Pestana's debtors arising from the real estate business (property owners) are subject to impairment analysis on an individual basis. Amounts owed to Grupo Pestana may result from revenue increases from works not yet invoiced and from revenue increases from properties sold but awaiting the public deed celebration.

Grupo Pestana's impairment loss calculation is based on qualitative information of its debtors' market performance, business model sustainability and other relevant information. For this purpose, the only balances considered are those not covered by guarantees obtained, namely a credit insurance contract, bank guarantees or retention of legal title to the properties until the respective public deed occurs.

As at 31 December 2021 and 2020, all related parties have the ability to pay, with the probability of default considered to be close to 0% and, therefore, no impairment has been recognized.

#### **iv. Write-offs**

Financial assets' gross carrying amount is written-off when the entity has no reasonable expectation of recovering the financial asset, which occurs fundamentally when the customer ceases its core activities and/or litigations are dismissed.

#### **v. Derecognition**

Financial assets are derecognized when the rights to receive cash flows originating from these assets expire or are transferred. Regarding financial assets at fair value through other comprehensive income that constitute debt instruments, on the derecognition date the gains/(losses) previously recognized in equity/other comprehensive income are reclassified from the corresponding equity captions to profit or loss.

### **3.10. Inventories**

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

Inventories are measured at acquisition cost, which includes all direct expenditure incurred with the purchase. Subsequently, inventories are valued at the lower of cost and net realisable 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 realisable 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 apartments built for sale. Land and apartments are valued at the lower of acquisition/construction cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the cost to complete the work and the selling expenses.

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

Inventories also include materials, raw materials and consumables initially measured by the purchase price increased by 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, houses and apartments are recognized at their specific cost.

### **3.11. 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.

The Group periodically assesses the positions taken in tax returns with respect to situations in which tax legislation is subject to interpretation and where it is considered probable that the tax authority may

question the tax treatment adopted. The Group measures tax balances based on the most probable value or the expected value, depending on the method that provides the best forecast for resolving the uncertainty considered in the tax return submitted.

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 realised, 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 differences. 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/(loss) 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) Grupo Pestana is able to control the timing of the reversal of the temporary difference, and ii) it is probable that the temporary difference will not reverse in the foreseeable future.

### **3.12. Cash and cash equivalents**

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

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

### **3.13. 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 shareholder contributions without issuance of shares, without any repayment obligations or defined remuneration and for which repayment is not estimated in a reduced period of time, are recognized as Other equity instruments.

### **3.14. Provisions**

Provisions are only recognized when Grupo Pestana has a present legal or constructive obligation resulting from past events, 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 of 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 through profit or loss.

Provisions are measured at the present value of the best estimate of the expenditure required to settle a present obligation at the end of the reporting period, based on a discount rate that reflects the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as interest expense.

### **3.15. 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 issue of the financial liability, when 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, recognized at fair value. Financial liabilities at amortized cost are measured according to the effective interest rate method 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 credit balance.

Purchases and sales of investments in financial liabilities are registered as at the transaction date, this being the date on which Grupo Pestana commits to purchase or liquidate the liability.

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

### **3.16. Borrowings**

Borrowings are initially recognized at fair value, net of transaction costs incurred directly attributable to the issue. Borrowings are subsequently measured at amortized cost, with the difference between the 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.

### **3.17. 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 (including non-consecutive periods 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 a contract is or includes a lease at the contract's commencement date. In a lease contract, the Group registers Right-of-use assets, with the corresponding Lease liability, at the date on 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 initial 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 to do so; penalty payments for terminating the contract in the event the termination of the lease reflects the exercise of the termination option.

The Group elected to consider as part of the lease payments the entire amount of the rents negotiated with lessors, even when these include the value of services or products that the Group could obtain the right of use separately. This option is applied to all categories of assets classified as Right of use assets.

Lease liabilities are measured using the effective interest rate 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 contract's effective date, increased by 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 to 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 Grupo Pestana transfers an asset to a third party and simultaneously enters 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, Grupo Pestana 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 payments do not correspond to market values, Grupo Pestana 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 made by the third party to the Group.

When the Group acts as a lessor in a contract that gives a lessee the right to control an identified asset, it is necessary to assess whether it qualifies as an operating or finance lease based on the assessment of

whether all the risks and returns associated with the underlying asset are substantially transferred (finance lease) or whether substantially all the risks and returns associated with the underlying asset are retained (operating lease).

The Group acts as a lessor under an operating lease in what regards to timeshare contracts, which give the lessee the right to use a timeshare unit during a defined period (weeks) that is repeated annually over a number of years, ranging from 3 to 30 years. The rents to be recognized as income refer to the upfront fee as defined in the contract. When payment is deferred and an interest is charged to the customer, this amount is added to the amount to be recognized as rents on a straight-line basis during the contract.

When Grupo Pestana 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, Grupo Pestana determines at the lease's commencement date if a lease qualifies as finance or operating considering: i) the Right of use asset recognized in the main lease contract as the underlying asset to the sublease contract; and ii) as the discount rate the sublease's implicit interest rate or the main lease contract's incremental interest rate.

When a sublease contract qualifies as a finance lease, Grupo Pestana derecognizes the Right of use asset and recognizes a receivable balance which is subsequently "settled" by the recording of the interest accrued 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.

### **3.18. Derivatives**

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

A derivative is considered as hedging when: i) there is an economic relationship between the item hedged and the hedging instrument which the Group has defined as being between 85% and 125%; ii) the changes in fair value do not mainly result from credit risk; and iii) the hedging ratio designated by the Group, in each transaction, is the relation between 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 financial income or financial 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 Consolidated income statement.

If a hedging relationship ceases to satisfy the hedging efficacy criteria relating to the hedging ratio defined but the objective for risk management and the designated hedging relationship continues to be the same,

the Group will readjust the hedging ratio (rebalance) in order to once again satisfy the eligibility criteria to be recognized as hedge accounting.

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

### **3.19. 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 subsidise 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 financial year in which the related costs are incurred and recorded.

The support of the Government in the form of repayable borrowings at a reduced interest rate are discounted on the date of initial recognition based on the market interest rate at grant date, with the 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 subsidise.

Non-reimbursable grants granted to Grupo Pestana to finance tangible fixed asset acquisitions are recorded in the statement of financial position as deferred revenue and recognized in the Consolidated income statement in proportion to the depreciation of the tangible fixed assets subsidised.

### **3.20. Income and Expenses**

Income and expenses are recorded in the period to which they relate, regardless of their 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.

### **3.21. 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 assesses for each transaction the performance obligations it assumes vis-à-vis 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 the 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 in a continuous manner and over 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 Vacation club, from the commencement date of customer's right to use the timeshare unit and throughout the contract's period.

Timeshare contracts include two revenue streams, namely, the right to use a unit of the timeshare resort accounted in accordance with IFRS 16 (see Note 3.16) and revenue from maintenance fees contractually defined as an amount to be charged to timeshare customers. The maintenance fee is recognized as revenue on the agreed date during the contract period since Pestana Hotel Group has the right to receive this amount regardless of the use of the accommodation unit by the customer at that time. These maintenance fees include the management services performed by the Group as well as a component associated with the costs incurred by the Group relating to maintenance, insurance, cleaning, repairs and replacement of equipment at the timeshare units and resorts.

In cases of the 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. Revenue associated with these points is recognized by usage or at their expiration date, considering the historic average of expired points and the consumption rhythm of the existing points (breakage), as provided for in IFRS 15.

## (iii) Tourist real estate business

Revenue refers primarily to the sale of land and apartments and, to a much lesser extent, rents on investment properties and management services rendered to condominiums and tourist 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 but may also occur when the tradition of the land is verified and the client has the possibility to start the licencing and construction process.

In the case of villas and apartments, built at the risk of Grupo Pestana for sale to third parties (Inventories), revenue is recognized when control is transferred to the customer. This happens at the date in which the asset's key is handed to the customer and may be prior to the date of signature of the property's deed.

Revenue from management services for condominiums is recognized throughout the contract's period because it is considered that services rendered transfer benefits to the owners as they are rendered. Revenue to be recognized corresponds to the commission negotiated and does not include the recharge of costs inherent to the building/resort management, without margin, to the owners.

## (iv) Construction contracts

Grupo Pestana's touristic real estate business also includes construction services (villas) for clients. Since the construction of assets is a performance obligation in which the customer controls 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 in function of the estimated total costs of each contract, with the recognition of the estimated margin for the contract. Any changes to the contract are only considered in the revenue calculation 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 of the services to the customer. Estimated warranty costs are excluded from the contract's total estimated costs and do not affect the percentage of completion in each reporting period.

(v) Tourist 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 prizes payable and accrued gambling tax.

### **3.22. Subsequent events**

Events after the reporting period that provide additional information about conditions that existed at the end of the reporting period (adjusting events or events after the reporting period that give rise to adjustments) are reflected in the Consolidated financial statements. Events after the reporting period that provide information on conditions occurring after the end of the reporting period (non-adjusting events or events after the statement of financial position date that do not lead to 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: 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 market risk, credit risk, the use of derivatives and other non-derivative financial instruments, as well as the investment of liquidity surplus.

#### **i. Market risk**

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

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

The risk associated with variable 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 follows a growth strategy which implies significant volumes of investments with relatively long return dates and, therefore, associated with financing sources with adequate refund dates. On the other hand, the hotel business presents a significant exposure to the variability of economic cycles and 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 for each new significant investment its medium and/or long-term financial structure and, whenever possible, with fixed rate interest.

Short-term treasury surpluses, when existent, are firstly used in the reduction of short-term debt, then on the more expensive medium and/or long-term debt, and on the equity financing component of the new projects. To reduce treasury risk, the remaining excess is applied on very short-term deposits with financial institutions with which Grupo Pestana already works and with which it presents most of its medium and long-term debt.

The Group's risk management is based on a highly variable cost structure that allows flexibility in the face of adverse scenarios, such as the decrease in sales, a factor that was crucial in achieving positive operating results even in the context of a pandemic. In 2021, after high vaccination rates against COVID-19 and the consequent decrease in the number of serious cases, it was possible to restore confidence to tourists, increasing operational results. Considering the evolution of the economic recovery, the Group saw its expectations reinforced that national and international tourism will return to 2019 levels in the next 2 to 3 years. During the pandemic period, the Group took the measures it considered most appropriate to quickly adapt to the new context, guaranteeing the safety of customers, employees and business continuity.

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

A sensitivity analysis was performed, based on Grupo Pestana's total debt, net of cash and cash equivalents as at 31 December 2021 and 2020.

Considering Grupo Pestana's consolidated net debt (excluding Lease liabilities) as at 31 December 2021, an increase of 0.25% in the interest rate would result in the increase in the net financial expenses for the year of approximately 678,000 Euros (31 December 2020: 645,000 Euros).

#### **ii. Credit risk**

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

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

In order to increase credit risk hedging, Grupo Pestana has a credit insurance from a leading insurance company in the Portuguese market, which includes a significant part of the credit on corporate customers and tour operators from the main feeder markets for the Group's units. However, the pandemic context accelerated an already existing trend of change in the way tourists arrived at the Group's units, with a decrease in transactions through corporate customers and tour operators with credit granted in return for a significant increase in the use of direct channels or digital platforms, which have no collection risk and which already represented most bookings in 2021.



The follow up of credit risk is made centrally by the finance department of Grupo Pestana, overseen by the Board of Directors, based on the credit rating attributed by the insurance company, the customer's institutional nature, the type of transactions which originate the credit, the experience of past transactions, the established credit limits for each customer and their financial information made available by a recognized entity specialised 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, the credit ratings for the Group's bank deposits, classified as Cash and cash equivalents are as follow:

Rating	Bank deposits		Borrowings	
	2021	2020	2021	2020
A1	60,236	–	–	–
A2	24,473,454	16,391,327	86,764,921	74,055,581
A3	23,786,378	3,145,323	51,065,373	6,666,667
Aa2	125,571	–	–	–
Aa3	–	109,504	–	–
Baa1	–	13,954,555	–	36,431,513
Baa2	18,539,156	–	70,912,174	22,500,000
Ba3	326,364	16,669,382	8,020,635	37,171,408
B1	3,607,193	1,004,559	4,956,690	8,365,079
B2	–	4,028,657	–	6,431,361
No classification	1,970,147	1,776,530	21,269,655	22,087,990
<b>Total</b>	<b>72,888,499</b>	<b>57,079,837</b>	<b>242,989,448</b>	<b>211,709,599</b>

### iii. Liquidity risk

The cash needs are managed centrally by Grupo Pestana's finance department, overseen by the Board of Directors, managing the liquidity surpluses and deficits of each of the group companies. Specific cash needs are covered, first by the existing funds available in other group companies and then by maintaining credit lines 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 shareholder remuneration and debt repayment.

As a result of the impact of the COVID-19 pandemic, Grupo Pestana focused on measures that ensured the preservation of its liquidity, while continuing to have available high amounts of cash and cash equivalents, as well as unused credit lines and working capital. Despite having concluded the investments under construction and being attentive to opportunities that could arise within the scope of its high short-term profitability diversification strategy, its level of indebtedness remained stable. This pandemic crisis arose at a time when the Group had a strong financial position, 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 mortgages, which will enable it to ensure the continuity of its operations in the medium term. In addition, some of the support created by the State in maintaining employment and supporting liquidity were also used, such as debt moratoria on Borrowings.

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



The following table analyses Grupo Pestana's financial liabilities and its derivative financial instruments, by relevant maturity groupings, based on the remaining period to contractual maturity at the reporting date. The amounts in the table are contractual future cash flows:

<b>As at 31 December 2021</b>	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>More than 5 years</b>
Borrowings:	58,136,045	186,021,181	132,481,775
- bank loans	38,104,084	76,685,440	95,977,702
- bond loans	13,479,675	60,000,000	29,000,000
- commercial paper	444,444	31,777,778	–
- bank overdrafts	203,644	–	–
- undiscounted interest payable until maturity	5,904,198	17,557,963	7,504,073
Lease liabilities	13,020,831	43,954,569	89,903,064
Trade and other payables - non group	42,399,285	–	–
Derivatives	25,822	–	–
<b>As at 31 December 2020</b>	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>More than 5 years</b>
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	–

#### 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 analysed through the weighting of such factors as the cost of financing and the investment needs.

In general, borrowings are obtained 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, 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 2021 and 2020 were as follows:

	31-12-2021	31-12-2020
Total borrowings	345,209,179	315,759,373
Total lease liabilities	146,878,464	155,065,117
Less: cash and cash equivalents	74,138,656	57,781,523
Net debt	417,948,987	413,042,967
Equity	287,035,966	272,439,733
Total capital	704,984,953	685,482,700
<b>Gearing</b>	<b>59%</b>	<b>60%</b>

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

	31-12-2021	31-12-2020
Total borrowings	345,209,179	315,759,373
Lease liabilities	146,878,464	155,065,117
Less: cash and cash equivalents	74,138,656	57,781,523
Net debt	417,948,987	413,042,967
Adjusted equity	412,162,625	404,858,826
Total capital	830,111,612	817,901,793
<b>Adjusted gearing</b>	<b>50%</b>	<b>51%</b>

#### 4.3. Accounting for derivative financial instruments

As at 31 December 2021 and 2020, and whenever appropriate, Grupo Pestana has hedged its economic exposure to cash flows from existing borrowings through the negotiation of interest rate swaps.

If no hedge designation is made for a derivative financial instrument it is 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, considering the historical performance, the accumulated experience and the expectations about future events considered reasonable under the circumstances.

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

### **5.1. Entities included in the consolidation perimeter**

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

This assessment 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 a direct impact on the consolidated financial statements.

### **5.2. Tangible fixed assets**

The determination of the useful lives of assets, as well as the depreciation method to apply is crucial to determine the amount of depreciation to be recognized 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 of non-financial assets**

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

The identification of impairment indicators, the estimate of future cash flows and the computation of the fair value of assets imply a high degree of judgment by the Board of Directors regarding the identification and assessment of different impairment triggers, expected cash flows, applicable discount rates and useful lives. Grupo Pestana's results obtained in this sector, for the last 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.

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 tax 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 their deductibility.

## 6. Tangible fixed assets

During the years ended as at 31 December 2021 and 2020 the movements occurring 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
<b>As at 1 January 2021</b>									
Acquisition cost	125,429,446	991,725,593	256,370,553	6,616,960	18,278,452	622,856	12,473,684	51,851,548	1,463,369,093
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)	–	–	(7,469,140)
<b>Net book value</b>	<b>125,429,446</b>	<b>484,698,677</b>	<b>62,931,674</b>	<b>1,085,995</b>	<b>627,113</b>	<b>38,355</b>	<b>3,614,259</b>	<b>51,851,548</b>	<b>730,277,068</b>
<b>Changes in 2021</b>									
Additions	–	6,782,134	2,205,708	405,210	124,504	541	1,161,018	6,181,831	16,860,946
Disposals - acquisition cost	(18,372)	(683,473)	(168,149)	(173,246)	(26,495)	–	(318,927)	–	(1,388,662)
Disposals - accumulated depreciation	–	207,396	63,410	173,246	26,476	–	305,239	–	775,767
Write offs - acquisition cost	–	(623,363)	(212,198)	(12,164)	(9,605)	(606)	–	–	(857,936)
Write-offs - accumulated depreciation	–	574,716	171,266	12,164	8,658	372	–	–	767,176
Write-offs - impairment	–	8,750	42,861	–	946	234	–	–	52,791
Transfers from Inventories	110,681	515,014	–	–	–	–	–	–	625,695
Transfers	2,504,916	27,199,521	2,500,827	–	107,899	–	(2,260)	(32,310,903)	–
Depreciation	–	(31,711,819)	(8,657,193)	(579,916)	(309,653)	(9,844)	(756,811)	–	(42,025,236)
Impairment - reversal	–	1,628,846	–	–	–	–	–	–	1,628,846
	<b>2,597,225</b>	<b>3,897,722</b>	<b>(4,053,468)</b>	<b>(174,706)</b>	<b>(77,270)</b>	<b>(9,303)</b>	<b>388,259</b>	<b>(26,129,072)</b>	<b>(23,560,613)</b>
<b>As at 31 December 2021</b>									
Acquisition cost	128,026,671	1,024,915,426	260,696,741	6,836,760	18,474,755	622,791	13,313,515	25,722,476	1,478,609,136
Accumulated depreciation	–	(530,577,692)	(201,772,781)	(5,925,471)	(17,924,773)	(593,464)	(9,310,997)	–	(766,105,178)
Accumulated impairment	–	(5,741,335)	(45,754)	–	(139)	(275)	–	–	(5,787,503)
<b>Net book value</b>	<b>128,026,671</b>	<b>488,596,399</b>	<b>58,878,206</b>	<b>911,289</b>	<b>549,843</b>	<b>29,052</b>	<b>4,002,518</b>	<b>25,722,476</b>	<b>706,716,455</b>

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Tools	Other tangible assets	Assets under construction	Total
<b>As at 1 January 2020</b>									
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)
<b>Net book value</b>	<b>125,487,819</b>	<b>505,640,629</b>	<b>67,896,289</b>	<b>1,526,905</b>	<b>585,992</b>	<b>46,728</b>	<b>3,018,952</b>	<b>51,409,395</b>	<b>755,612,709</b>
<b>Changes in 2020</b>									
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)
	<b>(58,373)</b>	<b>(20,941,952)</b>	<b>(4,964,615)</b>	<b>(440,910)</b>	<b>41,121</b>	<b>(8,373)</b>	<b>595,307</b>	<b>442,153</b>	<b>(25,335,640)</b>
<b>As at 31 December 2020</b>									
Acquisition cost	125,429,446	991,725,593	256,370,553	6,616,960	18,278,452	622,856	12,473,684	51,851,548	1,463,369,093
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)	–	–	(7,469,140)
<b>Net book value</b>	<b>125,429,446</b>	<b>484,698,677</b>	<b>62,931,674</b>	<b>1,085,995</b>	<b>627,113</b>	<b>38,355</b>	<b>3,614,259</b>	<b>51,851,548</b>	<b>730,277,068</b>

During the years ended 31 December 2021 and 2020 the movements occurring in Right of use assets, by asset type, are as follows:

	<b>Buildings and other constructions</b>	<b>Basic equipment</b>	<b>Transport equipment</b>	<b>Total</b>
<b>As at 1 January 2021</b>				
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)
<b>Net book value</b>	<b>126,454,153</b>	<b>129,999</b>	<b>607,039</b>	<b>127,191,191</b>
<b>Changes in 2021</b>				
Additions	3,206,010	97,445	372,748	3,676,203
Write offs - acquisition cost	(577,907)	–	(12,164)	(590,071)
Write-offs - accumulated depreciation	538,009	–	12,164	550,173
Depreciation	(11,784,138)	(85,077)	(486,269)	(12,355,484)
Impairment - reversal	1,628,846	–	–	1,628,846
	<b>(6,989,180)</b>	<b>12,368</b>	<b>(113,521)</b>	<b>(7,090,333)</b>
<b>As at 31 December 2021</b>				
Acquisition cost	222,367,946	931,035	2,406,191	225,705,172
Accumulated depreciation	(99,477,077)	(788,668)	(1,912,673)	(102,178,418)
Accumulated impairment	(3,425,896)	–	–	(3,425,896)
<b>Net book value</b>	<b>119,464,973</b>	<b>142,367</b>	<b>493,518</b>	<b>120,100,858</b>

	<b>Buildings and other constructions</b>	<b>Basic equipment</b>	<b>Transport equipment</b>	<b>Total</b>
<b>As at 1 January 2020</b>				
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)
<b>Net book value</b>	<b>138,803,925</b>	<b>263,773</b>	<b>915,529</b>	<b>139,983,227</b>
<b>Changes in 2020</b>				
Additions	1,125,025	27,972	193,000	1,345,997
Terminations - acquisition cost	(435,529)	–	(112,554)	(548,083)
Terminations - 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)
	<b>(12,349,772)</b>	<b>(133,774)</b>	<b>(308,490)</b>	<b>(12,792,036)</b>
<b>As at 31 December 2020</b>				
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)
<b>Net book value</b>	<b>126,454,153</b>	<b>129,999</b>	<b>607,039</b>	<b>127,191,191</b>

Additions, excluding Right of use assets and Assets under construction

The main additions in 2021 refer essentially to:

- Completion of Pestana Fisherman Village – Câmara de Lobos Boutique hotel, a new luxury four-star hotel located in the emblematic historic center of Câmara de Lobos. The hotel has 42 rooms and started its activity in August 2021, located in two buildings, fully refurbished, maintaining its original architectural features of the old Municipal building of Beautiful Tower. The total investment was 2,280,000 Euros, of which 1,062,000 Euros in 2021 (2020: 1,108,000 Euros). For this asset, the Group entered into a 50-year lease agreement with the owner of the property that implies the payment of an annual fixed rent;
- Completion of the construction of Pousada do Porto – Rua das Flores, a 4-star tourist development in the historic centre of Oporto with 84 rooms and suites, resulting from the refurbishment of a building acquired in 2018 for 8,000,000 Euros, which was in a high state of degradation. Including the acquisition cost, a total of 15,300,000 Euros was invested, of which 610,000 Euros occurred in 2021 (2020: 4,990,000 Euros). This unit opened in October 2021;
- Completion of the Pestana Douro Riverside hotel, rehabilitating a building acquired in 2018 in the region of Oporto, for the construction of a new hotel with 165 rooms that benefits from a privileged view over the Douro River, located in the old floral soap factory in Gondomar, right next to Pestana Palácio do Freixo. This project was concluded in April 2021, and its opening will take place in the first half of 2022. The total investment was 15,990,000 Euros, of which 214,000 Euros occurred in 2021 (2020: 4,290,000 Euros);
- Capitalisation of direct costs on Vacation Club contract negotiations (Note 3.4) amounted to approximately 1,330,000 Euros (2020: around 1,120,000 Euros);
- The remaining additions refer to renovations, rehabilitations and acquisition of equipment necessary for the normal operation of the Group's units.

The main additions in 2020 refer essentially to:

- Refurbishments and renovations in existing hotel units, namely, Pestana D. João II, Pousada de Estói, Palácio do Freixo, Pousada de Viana do Castelo and Pestana Ocean Bay for a total amount of approximately 3,000,000 Euros;
- Completion of the new Pestana Lisboa Vintage hotel for which the Group had celebrated a 17-year period lease contract in 2018 for the renovation and refurbishment of its new 121-key 4-star unit on Rua Braamcamp in Lisbon. The hotel's construction and refurbishment necessary to recover and adapt the building for hospitality purposes, as well as all furniture and equipment are Grupo Pestana's responsibility. The Group's total investment was approximately 5,800,000 Euros, of which 2,550,000 Euros occurred in 2020. This hotel opened in November 2021;
- Completion of the last 139 rooms and a restaurant of Pestana Blue Alvor, a 491-key, 5-star hotel on a plot of land of 12.8 ha situated between Pestana Alto Golfe and the hotels Pestana Alvor Praia and Pestana Delfim, with a direct connection to the 3 Irmãos beach in Alvor, having spent in 2020 2,014,000 Euros of a total investment of 39,930,000 Euros;
- Completion of the necessary improvements in the urban buildings located in the historic centre of Vila Real de Santo António that make up the new Pousada de Vila de Real Santo António and which were provided in the lease agreement signed in 2017 for a period of 20 years, for the installation and operation of a new unit under the brand "Pousada". This "Pousada", which opened in July 2021, has 57 rooms, a restaurant and an events rooms and a total investment of 3,760,000 Euros, of which 960,000 Euros occurred in 2020.



Right of use assets additions

As at 31 December 2021 and 2020, Right of use assets refer, mainly, to buildings and other constructions, as presented in Note 24.

Lease modification resulting from a promissory purchase agreement signed in December 2021 for the lot where ECM – Empresa de Cervejas da Madeira, Lda.'s factory is built for 2.952.320 Euros. The Group paid 20% of the price as a down payment, in the amount of 590.464 Euros. The promissory purchase agreement defines a set of conditions for the execution of the public deed which the Group is not responsible for. If these conditions are not fulfilled until as many months have passed as correspond to the value of the down payment counting from the date of signature of this agreement, the previous agreement of promise of constitution of surface rights is reinstated and the down payment will be written off as a payment for the rents during this period which is approximately 5 years.

As the execution of the public deed is conditioned, the Group maintains the existing right of use. The down payment in the amount of 590.464 Euros was considered an anticipation of the Lease Liability's cash flow and therefore a lease modification was registered by discounting the revised lease payments using a revised discount rate. The impact of the remeasurement of the Lease Liability amounts to 1.176.000 Euros.

In 2021, the right of use contracts for Pestana Colombos and Pestana Ilha Dourada were also renewed, with the respective terms being extended to October 2023 and May 2024, respectively, and with a total impact of 1,721,537 Euros.

The remaining additions of Right of use assets in 2021 are essentially related to the updating of the rent value according to inflation, including the extension of the term of some contracts.

Additions of Right of Use assets in 2020 essentially result from adjustments made to reflect changes to the lease payments resulting from a change in the Consumer Price Index as well as the extension of the term of some lease contracts, in the amount of 1,345,997 Euros.

Disposals

In 2021, disposals refer mainly to the sale of 3 apartments from Pestana Gramacho Residences, in the amount of 449,379 Euros, obtaining a gain of 254,976 Euros (Note 31) (2020: 7 apartments from Pestana Gramacho Residences for 952,602 Euros, generating a gain of 532,599 Euros).

Transfers to and from inventories

In 2021, the transfer from Inventories refers to Silves Golf Resort's Clubhouse in the amount of 625,695 Euros.

In 2020, due to the change in the purpose for the D. Fernando project to real estate, the amount relating to land and costs incurred to date in the amount of 1,926,288 Euros was transferred to Inventories (Note 15). The Porto Santo land which was previously classified as Inventories (Note 15) has been integrated in the Pestana Dunas project and, consequently, the amount of 443,360 Euros was transferred to Tangible fixed assets.

Transfers

The transfers in 2021 refer to the hotels Pestana Fisherman, the Pousada do Porto – Flores and Pestana Douro Riverside, which were under construction in the previous year and became available for use in 2021.

The Pousada de Vila Real de Santo António and Pestana Lisboa Vintage hotel, inaugurated in July 2021 and November 2021, respectively, became available for use in 2020 and consequently relate, essentially, to the transfers made in that period.

Assets under construction

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

	2021	2020
Pestana Dunas project (Porto Santo)	8,399,072	8,103,539
Quinta da Amoreira project (Algarve)	6,345,437	6,345,437
Land located north of Gramacho (Algarve)	2,278,136	2,179,793
Madeira Palácio Beach Club hotel project (Madeira)	2,170,628	–
Rua Augusta project (Lisbon)	1,567,454	286,088
Pestana Vintage Porto expansion project (Oporto)	1,416,941	–
Golf Course project (Algarve)	1,199,852	1,199,852
Pousada de Alfama project (Lisbon)	755,704	311,992
Hotel Pestana Douro Riverside (Oporto)	–	15,767,389
Pousada do Porto – Flores (Oporto)	–	14,722,152
Hotel Pestana Fisherman (Madeira)	–	1,216,675
Other	1,589,252	1,718,631
	<b>25,722,476</b>	<b>51,851,548</b>

Pestana Dunas relates to a new hotel in Porto Santo with a total of 396 beds and a total area of 60.000 sqm. Pestana Dunas will be built with innovative and more environmentally sustainable techniques. Pestana Dunas will confine with Pestana Porto Santo on the west and the proximity will allow for concentration and optimization between operations. Its profitability per room is expected to be similar to Pestana Porto Santo.

Quinta da Amoreira project refers to a pre-project for a 98-apartment aparthotel on a plot of land in the Alvor region in Portimão (Algarve), near Pestana Blue Alvor.

The land located north of Gramacho has a total area of approximately 100 ha. Following the development of the real estate project on the land on the north side of the road which connects Gramacho to Vila de Ferragudo, an change in the Urbanisation Plan for UPG-1 of UP1 from Ferragudo to Calvário – Lagoa was approved, granting Grupo Pestana a total building area of 39,760 sqm for the development of a new real estate project. With this urbanisation plan alteration, the Group presented the required projects to the City Hall to licence the construction of 303 villas and apartments with a construction area of 39,671 m<sup>2</sup> (Note 15). It was also possible to submit the projects for an 18-hole golf course and respective Clubhouse also to be located on this land.

Madeira Palácio Beach Club hotel project refers to the former Madeira Palácio hotel acquired for 48,051,200 Euros, located in one of the most modern residential areas in Funchal. This transaction had three components, a real estate component (Madeira Palácio Residences) ready to be sold, in a luxury condominium on the first line of sea, acquired for 28,751,200 Euros (Notes 15 and 28), a second component relating to the former hotel that will be transformed into 181 T1 to T4 apartments for sale acquired for 17,149,400 Euros (Note 15), and a third component that involves the construction of a new hotel with around 160 rooms next to Pestana Bay, acquired for 2,150,600 Euros and with an estimated investment of 14,000,000 Euros including its acquisition cost.

The Rua Augusta project, in Lisbon, relates to the refurbishment and construction of a new 4-star hotel unit with 89 rooms in Lisbon. The license was obtained in the beginning of 2022 and the total expected investment amounts to 7.750.000 Euros.

The Pestana Vintage Porto expansion project refers to the acquisition of a building in 2021, located on Rua dos Bacalhoeiros, right next to the existing hotel. The architectural project was already started and foresees an increase of 20 rooms in this unit.

The Golf Course project is related to 20 ha land surrounding the hotels Pestana Alvor Praia and Pestana Delfim. Given its location, next to 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 concerns the construction of a new 4-star hotel unit with 39 rooms, on Rua de São Tomé, in Alfama, Lisbon. This unit has an underlying lease contract signed in July 2019 with a total estimated investment of 2.9 million Euros. At the start of 2022, the Group obtained its licencing.

#### Assets which are reversible to the State

Grupo Pestana recognizes in its financial statements assets related with the concession of the Pousadas de Portugal network and with gambling activities, 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 2021 amounts to 6,775,118 Euros (as at 31 December 2020: 8,649,181 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is shorter.

Under the exploration assignment agreement, due to the units that were withdrawn from the Pousadas network the last few years, the Group already has now, as a definitive compensation without any conditions, an additional period of 3 years, with the guaranteed minimum term of this contract being extended to 31 December 2026.

Additionally, due to the cancellation, by the competent entities, of the financing operation of the Pousada da Serra da Estrela to Enatur, with the need already materialized to reintegrate the amounts of the Community funds in respect of the installation of the Pousada to the Portuguese State, and under this contract, Enatur recognized in 2019 the Group's right to compensation for a period of 5.8 years. This recognition is subject to the resolute condition that Enatur wins the lawsuit brought against the Portuguese State for the return of said sums, since it acted in good faith at the time when it signed the respective contracts.

Considering the maximum time limit for compensation provided for in the concession agreement, the Group will only be able to extend the contract to 31 December 2028. In the preparation of the Consolidated financial statements in 2019, the useful lives of the tangible fixed assets associated with the concession of the Pousadas network were revised since Enatur did not recognize in its own financial statements the reimbursement of the lawsuit brought against the State.

#### Perimeter exits

Perimeter exits in 2020 refer to the building owned by SDM - Sociedade Desenvolvimento da Madeira, S.A., because of the sale of this subsidiary (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 at 31 December 2008, but using actual cash flows from 2009 and 2010 and budgets for 2011, in full economic and financial crisis. All these assets have been depreciated since then (Notes 15 and 28).

Despite the impact of the pandemic on the activity of Grupo Pestana, the high levels of vaccination against COVID-19 in 2021 and consequent decrease in cases with severe illness, allowed developing tourists' confidence and reinforced the Groups expectations as to the recovery of the tourism sector. This expectation is even more boosted by the start, already verified, of the economic recovery and by the fact

that the Group interacts with very mature markets, such as the United Kingdom, Germany, United States, France and Spain, and which historically recover more quickly from economic crises.

In 2021 and 2020, from a prudent perspective and given the pandemic context, the possible existence of impairment indications was analysed for all of the Group's tangible fixed assets, taking into account external and internal indicators, namely changes in 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, for the specific case of right-of-use assets, changes in market yields and rental values per room were also analysed.

When any indications of impairment were identified, Grupo Pestana assessed the recoverability of these assets based on the following hierarchy: market indicators, external valuations and internal valuations. However, external valuations were only used occasionally given how difficult they are to prepare in a pandemic context. Thus, when appropriate, internal valuations were carried out in accordance with the discounted cash flows method, which reflects the best expectation at that date of the evolution of the activity for the next 5 years, considering a perpetual growth rate of circa 1.5% and using discount rates between 5.5% and 8% reflecting the risk and the expected return for stakeholders.

The projections are subject to several external variables due to the COVID-19 pandemic, so in 2021 and 2020 the current value of the assets was determined by weighting three scenarios according to the expectation as to during which year the cash flows would return to those registered before the crisis. In 2021, the weighting was as follows: expected scenario (between 2023 and 2024) - 50%; optimistic scenario (2023) - 30%; pessimistic scenario (between 2024 and 2025) - 20%. In 2020, the weighting was as follows: expected scenario (2024) - 50%; optimistic scenario (2023) - 30%; pessimistic scenario (2025) - 20%.

Based on this approach, in 2021 the impairment loss on Pestana Quinta do Arco Natures & Rose Garden hotel's building, in Madeira, in the amount of 1,628,846 Euros was reversed. 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.

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. As at 31 December 2021, on applying the assumptions under the pessimistic scenario accumulated impairment losses recognized would increase by 390,000 Euros and under the optimistic scenario they would decrease by 450,000 Euros.

For all remaining Group assets no impairments were identified.

## 7. Intangible assets

During the years ended as at 31 December 2021 and 2020, the movements occurring in Intangible assets are as follows:

	<b>Goodwill</b>	<b>Website and software</b>	<b>Total</b>
<b>As at 1 January 2021</b>			
Acquisition cost	9,500,000	611,625	10,111,625
Accumulated amortization	–	(549,801)	(549,801)
Accumulated impairment	–	–	–
<b>Net book value</b>	<b>9,500,000</b>	<b>61,824</b>	<b>9,561,824</b>
<b>Changes in 2021</b>			
Additions	–	5,500	5,500
Amortization	–	(19,020)	(19,020)
	<b>–</b>	<b>(13,520)</b>	<b>(13,520)</b>
<b>As at 31 December 2021</b>			
Acquisition cost	9,500,000	617,125	10,117,125
Accumulated amortization	–	(568,821)	(568,821)
Accumulated impairment	–	–	–
<b>Net book value</b>	<b>9,500,000</b>	<b>48,304</b>	<b>9,548,304</b>

	<b>Goodwill</b>	<b>Website and software</b>	<b>Total</b>
<b>As at 1 January 2020</b>			
Acquisition cost	17,000,000	631,522	17,631,522
Accumulated amortization	–	(548,358)	(548,358)
Accumulated impairment	–	–	–
<b>Net book value</b>	<b>17,000,000</b>	<b>83,164</b>	<b>17,083,164</b>
<b>Changes in 2020</b>			
Perimeter exits – acquisition cost (Note 39)	–	(19,897)	(19,897)
Perimeter exits – accumulated amortization (Note 39)	–	19,897	19,897
Amortization	–	(21,340)	(21,340)
Impairment	(7,500,000)	–	(7,500,000)
	<b>(7,500,000)</b>	<b>(21,340)</b>	<b>(7,521,340)</b>
<b>As at 31 December 2020</b>			
Acquisition cost	9,500,000	611,625	10,111,625
Accumulated amortization	–	(549,801)	(549,801)
Accumulated impairment	–	–	–
<b>Net book value</b>	<b>9,500,000</b>	<b>61,824</b>	<b>9,561,824</b>

In June 2016, and following the corporate restructuring of Grupo Pestana, 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, a growth rate in perpetuity of 1.5% and a discount rate of about 6% that Grupo Pestana considers that 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 and the respective discount rate of Empresa de Cervejas da Madeira, Sociedade Unipessoal, Lda., there was a partial non-recoverability and, as such, a loss of value of this asset in the amount of 7,500,000 Euros.

A sensitivity analysis of the valuation model was performed considering a pessimistic scenario of an increase in the WACC rate by 0.5% and a 10% decrease in cash flows. On the application of this pessimistic scenario there would be no risk of a partial non-recoverability of goodwill as at 31 December 2021.

## 8. Investment properties

During the years ended as at 31 December 2021 and 2020, the movements occurring in Investment properties are as follows:

	2021	2020
<b>As at 1 January</b>		
Acquisition cost	9,966,592	9,966,592
Accumulated depreciation	(3,008,830)	(2,916,376)
Accumulated impairment	(54,369)	(54,369)
<b>Net book value</b>	<b>6,903,393</b>	<b>6,995,847</b>
Disposals - acquisition cost	(813,488)	–
Disposals - accumulated depreciation	149,788	–
Depreciation	(88,736)	(92,454)
Impairment - charge	(4,192)	–
	<b>(756,628)</b>	<b>(92,454)</b>
<b>As at 31 December</b>		
Acquisition cost	9,153,104	9,966,592
Accumulated depreciation	(2,947,778)	(3,008,830)
Accumulated impairment	(58,561)	(54,369)
<b>Net book value</b>	<b>6,146,765</b>	<b>6,903,393</b>

Disposals refer to the sale of two houses in São Gonçalo, Funchal, for 279,000 Euros and 330,000 Euros, with a gain of 27,767 Euros (Note 31) and a loss of 55,362 Euros (Note 32), respectively.

As at 31 December 2021 and 2020, Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2021	2020
Commercial properties leased to third parties, Algarve	3,656,331	2,774,396
Funchal land, Madeira	1,269,455	1,269,455
Angra dos Reis land, Brazil	1,030,075	962,902
São Gonçalo houses, Madeira	–	678,427
Others	190,904	1,218,213
	<b>6,146,765</b>	<b>6,903,393</b>

As at 31 December 2021 and 2020, the fair value of each of the assets classified as Investment properties is not less than its carrying amount.

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

	2020	2019
Rents obtained	201,756	191,674
Operating expenses	(42,993)	(58,002)
Depreciation	(88,736)	(92,454)
	<b>70,027</b>	<b>41,218</b>

## 9. Investments in joint ventures

The movements occurring in Investments in joint ventures during 2021 and 2020 are as follows:

	2021	2020
<b>As at 1 January</b>	4,535,112	4,959,194
Share capital increases	250,000	–
Accessory contributions granted	250,000	–
Losses from equity accounting (Note 33)	(84,708)	(424,082)
Disposals (Note 39)	(1,625,000)	–
<b>As at 31 December</b>	<b>3,325,404</b>	<b>4,535,112</b>

On December 2015, a Joint Venture Framework Agreement had been signed between Grupo Pestana 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 March 2021, a share capital increase was realised in Pestana CR7 – Madeira Investimentos Turísticos, S.A., in the amount of 250,000 Euros, thus reinforcing the permanent capital of the investee to face its current liabilities. Accessory capital contributions were also made to Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A., in the amount of 250,000 Euros.

On 21 December 2021, the Group sold its investment in Pestana CR7 – Lisboa, S.A. for 6,713,711 Euros, as well as the accessory contributions granted at their nominal value of 1,625,000 Euros. The disposed shares were sold to the other partner, CR7 Lifestyle Unipessoal, Lda. for a total price of 8,338,711 Euros, with a gain of 6,713,711 Euros (Note 33).



In December 2021, Pestana CR7 Madeira, S.A. merged the hotel business in Portugal resulting from the partnership between Cristiano Ronaldo and Grupo Pestana, acquiring the right to use the asset Pestana CR7 Lisboa Lifestyle, with effect on 1 January 2022. For this asset, the Company entered into a lease agreement with the owner of the property for a period of 15 years, contemplating the payment of an annual fixed rent. Additionally, the property owner proceeded to the definitive transfer of the commercial establishment of Pestana CR7 Lisboa Lifestyle, with effect from 1 January 2022, with the equipments of the hotel continuing to be held by the property owner.

As at 31 December 2021 Investments in joint ventures refer to the following entities:

Description	% Owned	Financial investments			Accessory contributions			Total investment
		Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total	
Solpor - Sociedade de Turismo do Porto Santo Lda.	50.00%	2,238,213	–	2,238,213	430,000	–	430,000	2,668,213
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	50.00%	219,691	–	219,691	437,500	–	437,500	657,191
		<b>2,457,904</b>	<b>–</b>	<b>2,457,904</b>	<b>867,500</b>	<b>–</b>	<b>867,500</b>	<b>3,325,404</b>

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

Description	% Owned	Financial investments			Accessory contributions			Total investment
		Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total	
Solpor - Sociedade de Turismo do Porto Santo Lda.	50.00%	2,238,870	–	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
		<b>2,292,612</b>	<b>–</b>	<b>2,292,612</b>	<b>2,242,500</b>	<b>–</b>	<b>2,242,500</b>	<b>4,535,112</b>

The reconciliation between net assets, excluding accessory contributions and loans granted, and the carrying amount of the Investments in joint ventures in 2021 and 2020 is as follows:

	2021		2020		
	Solpor - Sociedade Turismo do Porto Santo, Lda.	Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	Solpor - Sociedade Turismo do Porto Santo, Lda.	Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.
<b>Opening net assets as at 1 January</b>	<b>75,708</b>	<b>107,484</b>	<b>4,430,144</b>	<b>77,891</b>	<b>621,257</b>
Profit for the period	(1,312)	(168,101)	(673,959)	(2,183)	(513,773)
Share capital increase	–	500,000	–	–	–
<b>Closing net assets as at 31 December</b>	<b>74,395</b>	<b>439,383</b>	<b>3,756,185</b>	<b>75,708</b>	<b>107,484</b>
Group's share %	50.00%	50.00%	50.00%	50.00%	50.00%
Group's share in value	37,198	219,691	1,878,093	37,854	53,742
Adjustment of purchase price allocation	2,201,015	–	–	2,201,016	–
Consolidation adjustments	–	–	(1,878,093)	–	–
<b>Carrying amount as at 31 December</b>	<b>2,238,213</b>	<b>219,691</b>	<b>–</b>	<b>2,238,870</b>	<b>53,742</b>

As at 31 December 2021 and 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 occurring in Investments in associates during 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
<b>1 January</b>	12,060,539	12,590,287
Repayment of loans granted	(441,000)	(343,000)
Gain/(Losses) from equity accounting (Note 33)	<u>5,094</u>	<u>(186,748)</u>
<b>31 December</b>	<b><u>11,624,633</u></b>	<b><u>12,060,539</u></b>

In 2021 and 2020, Enatur - Empresa Nacional de Turismo, S.A. proceeded with the partial repayment of the shareholder loans granted, in the amount of 441,000 Euros and 343,000 Euros, respectively.

As at 31 December 2021 the Investments in associates refer to the following entities:

Entity	% Owned	Financial investments			Accessory contributions			Loans granted			Total investment	Goodwill included
		Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total		
Enatur - Empresa Nacional de Turismo, S.A.	49.00%	10,371,573	–	10,371,573	–	–	–	406,593	–	406,593	10,778,166	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%	286,582	–	286,582	64,885	–	64,885	–	–	–	351,467	–
		<b>10,658,155</b>	<b>–</b>	<b>10,658,155</b>	<b>64,885</b>	<b>–</b>	<b>64,885</b>	<b>901,593</b>	<b>–</b>	<b>901,593</b>	<b>11,624,633</b>	<b>3,837,382</b>

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

Entity	% Owned	Financial investments			Accessory contributions			Loans granted			Total investment	Goodwill included
		Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total		
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	–
		<b>10,653,061</b>	<b>–</b>	<b>10,653,061</b>	<b>64,885</b>	<b>–</b>	<b>64,885</b>	<b>1,342,593</b>	<b>–</b>	<b>1,342,593</b>	<b>12,060,539</b>	<b>3,837,382</b>

The reconciliation between net assets, excluding accessory contributions and loans granted, and the carrying amount of the investments in associates in 2021 and 2020 is as follows:

	2021			2020		
	Enatur - Empresa Nacional de Turismo, S.A.	Albar - Sociedade Imobiliária do Barlavento, S.A.	Lean Company Ventures II, S.A.	Enatur - Empresa Nacional de Turismo, S.A.	Albar - Sociedade Imobiliária do Barlavento, S.A.	Lean Company Ventures II, S.A.
<b>Opening net assets as at 1 January</b>	<b>57,500,706</b>	<b>1,131,102</b>	<b>389,775</b>	<b>59,745,881</b>	<b>1,139,866</b>	<b>380,005</b>
Profit for the period	12,591	(2,161)	559,815	(372,211)	(8,764)	9,770
Other changes in equity	(2,013,328)	–	–	(1,872,964)	–	–
<b>Closing net assets as at 31 December</b>	<b>55,499,970</b>	<b>1,128,941</b>	<b>949,590</b>	<b>57,500,706</b>	<b>1,131,102</b>	<b>389,775</b>
Group's share in %	49.00%	49.81%	20.00%	49.00%	49.81%	20.00%
Group's share in value	27,194,985	562,326	189,918	28,175,346	563,402	77,955
Goodwill	3,837,382	–	–	3,837,382	–	–
Conversion to IFRS	(20,660,794)	–	–	(21,647,325)	–	–
Consolidation adjustments	–	(275,744)	(189,918)	–	(275,744)	(77,955)
<b>Carrying amount as at 31 December</b>	<b>10,371,573</b>	<b>286,582</b>	<b>–</b>	<b>10,365,403</b>	<b>287,658</b>	<b>–</b>

As at 31 December 2021, despite the COVID-19 pandemic, there are no indications of impairment that affect the value of Investments in associates.

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

## 11. Financial assets at fair value through profit or loss

The movements occurred in Financial assets at fair value through profit or loss during 2021 and 2020 are as follows:

	<b>2021</b>	<b>2020</b>
<b>1 January</b>	5,939,627	6,925,558
Acquisitions	671,448	–
Capital reimbursements	(349,968)	–
Changes in fair value (Note 33)	1,437,821	(331,123)
Perimeter exits (Note 39)	–	(654,808)
<b>31 December</b>	<b>7,698,928</b>	<b>5,939,627</b>

On 27 October 2021, the Group acquired 1.500.000 Participation Units (UP's) of the Faber Tech II fund – Venture Capital Fund (“Faber Tech II Fund”) from Quanlux Unipessoal, Lda. which had subscribed the entire amount but only paid up the corresponding capital of 608.276 UP's until the date of the sale, in the amount of 608.276 Euros. Thus, the Group acquired on this date the 608.276 UP's for 608.276 Euros and took the responsibility for the payment of the remaining subscribed UP's in the amount of 891.724 Euros. In December, the Group paid up capital corresponding to 63.172 UP's in the amount of 63.172 Euros.

In November and December 2021, the Iberis Bluetech Fund, FCR, EuVeca (“Bluetech”) made two capital distributions to its investors. The Group received the amounts of 57.980 Euros and 291.988 Euros, in a total of 349.968 Euros through a capital reduction without any redemption of participation units.

As at 31 December 2021, changes in fair value correspond to the valuation of the participation units based on the quote of Bluetech Fund in the amount of 711,761 Euros and of Faber Tech II in the amount of 848,764 Euros. The negative change in fair value corresponds to the interest in Sociedade Turística Palheiro Golfe, S.A. in the amount of 122,704 Euros.

As at 31 December 2020, a negative change in fair value had been recorded in the Bluetech Fund, in the amount of 331,123 Euros, determined through the valuation of the participation units using their quotations. The quotation of these funds is classified in Level 2 of the fair value hierarchy (Note 13).

The change in the fair value of Financial Assets at fair value through profit or loss was determined through the valuation of the investment units at the Fund's quotation at the end of the year. The quotation of this fund is classified in Level 2 of the fair value hierarchy (Note 13).

The perimeter exits relate, essentially, to the 7.5% 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. (Note 39).

As at 31 December 2021 the Financial assets at fair value through profit or loss have the following detail:

Entity	% Owned	Fair value	Loans granted	Total investment
Iberis Bluetech Fund, FCR, EuVECA	n.a.	6,031,602	–	6,031,602
Faber Tech II, FCR	n.a.	1,520,211	–	1,520,211
Other (various)	-	147,115	–	147,115
		<b>7,698,928</b>	<b>–</b>	<b>7,698,928</b>

As at 31 December 2020 the Financial assets at fair value through profit or loss have the following detail:

Entity	% Owned	Fair value	Loans granted	Total investment
Iberis Bluetech Fund, FCR, EuVECA	n.a.	5,669,807	–	5,669,807
Other (various)	-	259,346	10,474	269,820
		<b>5,929,153</b>	<b>10,474</b>	<b>5,939,627</b>



## 12. Deferred tax assets and liabilities

As at 31 December 2021 and 2020 the balance recognized as Deferred taxes is presented in the Statement of financial position at net value.

The impacts of the movements occurred in deferred taxes' items are as follows:

	<u>2021</u>	<u>2020</u>
Impact on Income statement		
Deferred tax assets	(2,299,568)	5,942,830
Deferred tax liabilities	<u>4,021,195</u>	<u>(1,788,933)</u>
	<u>1,721,627</u>	<u>4,153,897</u>
Impact on perimeter changes (Note 39)		
Deferred tax liabilities	<u>–</u>	<u>987</u>
	<u>–</u>	<u>987</u>
<b>Net effect of deferred taxes</b>	<b><u>1,721,627</u></b>	<b><u>4,154,884</u></b>

The tax rate applied to measure the tax differences at the Statement of financial position date as at 31 December 2021 and 2020, ranges between 14.7% and 25.58%.

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

	<b>RFAI &amp; SIFIDE</b>	<b>Carry forward tax losses</b>	<b>Net financing charges</b>	<b>Impairment of tangible fixed assets</b>	<b>Leases</b>	<b>Conventional share capital remuneration</b>	<b>Other</b>	<b>Total</b>
<b>As at 1 January 2021</b>	6,696,989	6,637,431	720,730	1,510,909	983,989	1,048,578	683,392	18,282,018
Impact of transition to IFRS 16	(2,264,530)	–	–	–	–	–	–	(2,264,530)
Constitution through income statement	4,433,790	–	614,773	–	–	22,890	–	5,071,453
Reversal through income statement	(975,483)	(3,346,244)	–	(342,083)	(85,164)	(259,014)	(98,503)	(5,106,491)
<b>Changes on period</b>	<b>1,193,777</b>	<b>(3,346,244)</b>	<b>614,773</b>	<b>(342,083)</b>	<b>(85,164)</b>	<b>(236,124)</b>	<b>(98,503)</b>	<b>(2,299,568)</b>
	7,890,766	3,291,187	1,335,503	1,168,826	898,825	812,454	584,889	15,982,450
Offset of Deferred tax liabilities	(7,626,332)	(3,120,824)	(1,335,503)	(1,168,826)	(898,825)	(812,454)	(584,868)	(15,547,633)
<b>As at 31 December 2021</b>	<b>264,434</b>	<b>170,363</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>20</b>	<b>434,817</b>

	<b>RFAI &amp; SIFIDE</b>	<b>Tax losses</b>	<b>Net financing charges</b>	<b>Impairment of tangible fixed assets</b>	<b>Leases</b>	<b>Conventional share capital remuneration</b>	<b>Other</b>	<b>Total</b>
<b>As at 1 January 2020</b>	–	–	–	1,098,727	7,080,177	941,251	3,392,324	12,512,479
Constitution through income statement:								
Impact of transition to IFRS 16	4,585,457	–	–	–	–	–	–	4,585,457
Other	2,111,532	3,761,139	720,730	–	–	620,334	109,001	7,322,736
Reversal through income statement:								
Impact of transition to IFRS 16	–	–	–	–	(5,012,419)	–	–	(5,012,419)
Other	–	–	–	(691,994)	–	(221,324)	(39,626)	(952,944)
Constitution through accounts payable	–	2,876,292	–	–	–	–	–	2,876,292
Transfers	–	–	–	1,104,176	(1,083,769)	(291,683)	(2,778,307)	(3,049,583)
<b>Changes on period</b>	<b>6,696,989</b>	<b>6,637,431</b>	<b>720,730</b>	<b>412,182</b>	<b>(6,096,188)</b>	<b>107,327</b>	<b>(2,708,932)</b>	<b>5,769,539</b>
	6,696,989	6,637,431	720,730	1,510,909	983,989	1,048,578	683,392	18,282,018
Offset of Deferred tax liabilities	(6,696,989)	(6,462,221)	(720,730)	(1,510,909)	(983,989)	(930,978)	(683,392)	(17,989,208)
<b>As at 31 December 2020</b>	<b>–</b>	<b>175,210</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>117,600</b>	<b>–</b>	<b>292,810</b>

Impact of transition to IFRS 16

In the 2019 tax period, considering the context of uncertainty regarding the tax treatment to be given, regarding IFRS 16 adoption, 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 corresponding 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, recorded deferred tax assets and liabilities at the commencement date and submitted the tax returns for 2019 in accordance with this tax treatment.

After the deadline for submission of the income tax forms for the 2019 tax period, the Portuguese tax authority issued a clarification on August 13, 2020, with the following understanding for the tax treatment to be given for IFRS 16:

- (i) The right of use asset is an asset subject to depreciation for tax purposes (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) Interest on operating lease liabilities (as on finance leases) are relevant for the maximum deductible net financing expenses as defined in article 67 of the Corporate Income Tax Code.

In this context, in 2020, the Group decided to present a gracious complaint regarding the 2019 income tax submitted. As of 31 December 2019, the tax effect of this transition implied the decrease in the tax payable of that year in the amount of Euro 7,118,044 and, consequently, a decrease in tax benefits then considered and deducted in the amount of Euro 4,585,457, resulting in a tax receivable of Euro 2,532,587 (Note 16).

Consequently, tax benefits deducted in 2019 for incentives for investment (RFAI - *Regime fiscal de apoio ao investimento*) and for research and development (SIFIDE - *Sistema de incentivos fiscais à investigação e ao desenvolvimento empresarial*) in the amount of 4,585,457 Euros were corrected once the new tax result was not sufficient to deduct them. However, these benefits may be deductible in subsequent years, SIFIDE for eight years and RFAI for ten years, reason for which a deferred tax asset was recorded in the same amount and which is expected to be recovered in 2 years.

In 2020, Deferred tax assets recognized on the transition date for IFRS 16 were reversed in the amount of 5,012,419 Euros. When 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.

In 2021, during the preparation work for the aforementioned gracious complaint, after consulting its consultants again in order to verify the most current understanding of the aforementioned clarification, the Group assumed in the complaint filed on 19 May 2021 that the useful life of the underlying assets for tax purposes, when lower than the period of the lease, is the fiscal useful life period, when higher than the lease agreement, it is the useful life of the underlying assets, having thus cancelled the deferred tax liability recorded in 2020 in the amount of 2,755,456 Euros and determined a decrease in the tax benefits considered and deducted in 2019 of 2,264,530 Euros. This understanding was accepted by the Tax Authorities within the scope of the granting, in March 2022, of the gracious complaint filed against the corporate income tax self-assessment for the 2019 tax period.

Investment ("RFAI") and research ("SIFIDE") incentives

As of 31 December 2021 and 2020, due to the fact that it was not possible to deduct the entire tax benefit related to the incentive for investment (RFAI), deferred tax assets were recorded in the amounts of 1,282,429 Euros and 2,111,532 Euros, respectively.

In 2021, the Group verified that its tax situation referring to the periods of 2020 and 2019 did not fully reflect the applicable tax benefits generated within the scope of the activities developed, since, for two of its subsidiaries, the appropriate deduction of the tax benefit generated under RFAI, solely and exclusively due to the methodology then adopted for calculation purposes, namely in relation to the application of the deduction rate to be applied to the relevant investments depending on their geographical location. Thus, a total amount of missing deductions of 2,653,285 Euros was calculated for the years of 2020 (1,351,849 Euros) and 2019 (1,301,436 Euros), having proceeded in November 2021 to the replacement of the corporate income tax declaration and in December 2021 submitted an addendum to the gracious complaint for 2019, previously filed in 2020. For these amounts, due to the fact that it is not possible to deduct the full tax benefit related to the RFAI, deferred tax assets were recorded in the amount of 2,653,285 Euros.

Also in 2021, in the sphere of the company Empresa de Cervejas da Madeira Lda., two applications were accepted within the scope of SIFIDE-RAM (Tax Incentives for Research and Development in the Autonomous Region of Madeira), with these approvals only being communicated by the Regional Association for the Development of Research, Technology and Innovation on 29 June 2021 and 17 November 2021, confirming the allocation of tax credits in the amounts of 286,418 Euros and 211,658 Euros, respectively, related to the years of 2019 and 2020 and that will be used in the sphere of the tax group. For the amount referring to 2019, an addendum to the administrative appeal of 2019, previously presented in 2020, was presented. The content of this addendum was acceded by the Tax Authorities. So that this tax credit could be considered in the assessment of that year, a deferred tax asset was recorded in the amount of 286,418 Euros. The amount referring to 2020 was fully deducted from the Group's tax payable for the year of 2021, in the amount of 211,658 Euros.

As regards deferred tax assets relating to RFAI and SIFIDE, the Group expects to recover them in two years.

Carry forward tax losses

As at 31 December 2020, due to the impact of the COVID-19 pandemic on Grupo Pestana's activity, tax losses were determined for which deferred tax assets in the amount of 6,637,431 Euros were 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 tax losses can be deducted from taxable profits over the next twelve years.

As at 31 December 2021 there was already a recovery of Grupo Pestana's activity, with a tax profit having been calculated from which part of the tax losses generated in 2020, in the amount of 3,223,915 Euros, as well as RFAI for 2020 in the amount of 763,825 Euros were deducted. Consequently, deferred tax assets in the same amounts were reversed. In May 2021, with the submission of the Group's corporate income tax form, it was found that the tax loss of 2020 was lower by 122,329 Euros, and on that date the corresponding deferred tax asset was reversed. The Group expects to recover the rest of this deferred tax asset in the coming year.

Net financing charges

In 2021 and 2020, considering that part of the net financial expenses of the period are not tax deductible because of the reduction verified in EBITDA calculated for tax purposes, deferred tax assets were recorded in the amount of 614,773 Euros and 720,730 Euros, respectively. These net financial expenses can be deductible up to the 5<sup>th</sup> subsequent tax period and the Group's expectation is that they will be recovered within two years.

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

	Deemed cost (IFRS 1) on tangible fixed assets	Differences in depreciation/ amortization rates	Others	Total
<b>As at 1 January 2021</b>	25,059,860	2,962,501	1,583,582	29,605,943
Impact of transition to IFRS 16	–	(2,755,456)	–	(2,755,456)
Constitution through income statement	–	–	48,741	48,741
Reversal through income statement	(1,295,298)	(19,182)	–	(1,314,480)
<b>Changes on period</b>	<b>(1,295,298)</b>	<b>(2,774,638)</b>	<b>48,741</b>	<b>(4,021,195)</b>
	23,764,562	187,863	1,632,323	25,584,748
Offset of Deferred tax assets	(14,057,843)	(187,863)	(1,301,927)	(15,547,633)
<b>As at 31 December 2021</b>	<b>9,706,719</b>	<b>–</b>	<b>330,396</b>	<b>10,037,115</b>

	Deemed cost (IFRS 1) in tangible fixed assets	Differences in depreciation/ amortization rates	Others	Total
<b>As at 1 January 2020</b>	29,171,044	–	1,696,536	30,867,580
Constitution through income statement	–	–	–	–
Impact of transition to IFRS 16	–	2,962,501	–	2,962,501
Reversal through income statement	(795,905)	–	(377,663)	(1,173,568)
Perimeter exits	–	–	(987)	(987)
Transfers	(3,315,279)	–	265,696	(3,049,583)
<b>Movement in the period</b>	<b>(4,111,184)</b>	<b>2,962,501</b>	<b>(112,954)</b>	<b>(1,261,637)</b>
	25,059,860	2,962,501	1,583,582	29,605,943
Offset of Deferred tax assets	(17,719,401)	–	(269,807)	(17,989,208)
<b>As at 31 December 2020</b>	<b>7,340,459</b>	<b>2,962,501</b>	<b>1,313,775</b>	<b>11,616,735</b>

Deferred tax liabilities include the non-deduction for tax purposes of 100% of the excess recorded on the determination of the deemed cost.

### 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 2021	Assets/liabilities at amortized cost	Assets at fair value through other comprehensive income	Assets/liabilities at fair value through profit or loss	Other non- financial assets/liabilities	Total
<b>Financial assets</b>					
Cash and cash equivalents	74,138,656	–	–	–	74,138,656
Trade and other receivables	79,317,544	–	–	11,311,059	90,628,603
Financial assets at fair value through profit or loss	–	–	7,698,928	–	7,698,928
	<b>153,456,200</b>	<b>–</b>	<b>7,698,928</b>	<b>11,311,059</b>	<b>172,466,187</b>
<b>Financial liabilities</b>					
Borrowings	345,209,179	–	–	–	345,209,179
Derivatives	–	19,366	6,456	–	25,822
Trade and other payables	44,155,919	–	–	7,776,417	51,932,336
Advances from customers	–	–	–	17,296,224	17,296,224
	<b>389,365,098</b>	<b>19,366</b>	<b>6,456</b>	<b>25,072,641</b>	<b>414,463,561</b>
31 December 2020	Assets/liabilities at amortized cost	Assets at fair value through other comprehensive income	Assets/liabilities at fair value through profit or loss	Other non- financial assets/liabilities	Total
<b>Financial assets</b>					
Cash and cash equivalents	57,781,523	–	–	–	57,781,523
Trade and other receivables	39,086,635	–	–	23,779,622	62,866,257
Financial assets at fair value through profit or loss	–	–	5,939,627	–	5,939,627
	<b>96,868,158</b>	<b>–</b>	<b>5,939,627</b>	<b>23,779,622</b>	<b>126,587,407</b>
<b>Financial liabilities</b>					
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
	<b>357,336,570</b>	<b>64,200</b>	<b>21,400</b>	<b>15,855,978</b>	<b>373,278,148</b>

According to IFRS 13, Grupo Pestana established the way it obtains the fair value of its Financial assets and liabilities. The levels used are presented in Note 3.9.

	31-12-2021			31-12-2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets</b>						
Financial assets at fair value through profit or loss	–	7,698,928	–	–	5,939,627	–
	<u>–</u>	<u>7,698,928</u>	<u>–</u>	<u>–</u>	<u>5,939,627</u>	<u>–</u>
<b>Financial liabilities</b>						
Derivatives	–	25,822	–	–	85,600	–
	<u>–</u>	<u>25,822</u>	<u>–</u>	<u>–</u>	<u>85,600</u>	<u>–</u>

#### 14. Trade and other receivables and Advances from customers

As at 31 December 2021 and 2020 Trade and other receivables and Advances from customers are detailed as follows:

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
<b>Trade and other receivables</b>						
Trade receivables (i)	45,200,044	–	45,200,044	13,620,851	–	13,620,851
Other receivables (ii)	8,055,028	5,215,445	13,270,473	3,213,671	8,701,004	11,914,675
Prepayments (iii)	1,358,592	9,952,467	11,311,059	1,625,086	10,316,898	11,941,984
Accrued revenue (iv)	9,853,297	–	9,853,297	11,836,550	1,088	11,837,638
Taxes receivable (v)	10,993,730	–	10,993,730	13,551,108	–	13,551,108
	<u>75,460,691</u>	<u>15,167,912</u>	<u>90,628,603</u>	<u>43,847,266</u>	<u>19,018,990</u>	<u>62,866,256</u>
<b>Advances from customers (vi)</b>	<u>(11,797,814)</u>	<u>(5,498,410)</u>	<u>(17,296,224)</u>	<u>(21,149,600)</u>	<u>(631,500)</u>	<u>(21,781,100)</u>

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



## i) Trade receivables

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables - Group (Note 40)	384,926	–	384,926	1,560,927	–	1,560,927
Trade receivables - others	44,815,118	–	44,815,118	12,059,924	–	12,059,924
Doubtful debtors	3,661,739	–	3,661,739	4,459,072	–	4,459,072
	<u>48,861,783</u>	<u>–</u>	<u>48,861,783</u>	<u>18,079,923</u>	<u>–</u>	<u>18,079,923</u>
Impairment of trade receivables	<u>(3,661,739)</u>	<u>–</u>	<u>(3,661,739)</u>	<u>(4,459,072)</u>	<u>–</u>	<u>(4,459,072)</u>
	<b><u>45,200,044</u></b>	<b><u>–</u></b>	<b><u>45,200,044</u></b>	<b><u>13,620,851</u></b>	<b><u>–</u></b>	<b><u>13,620,851</u></b>

As at 31 December 2021, the balance of Trade receivable – others includes 25,468,507 Euros related to the real estate transaction Madeira Palácio Residences (Notes 15 and 28). This amount has as real guarantee the apartments not sold to third parties.

Impairment — movements of the year:

	2021	2020
<b>As at 1 January</b>	4,459,072	9,780,977
Increases	450,651	606,065
Reversals	(272,943)	–
Utilisations	(975,041)	(206,903)
Transfers	–	(47,321)
Perimeter exits	<u>–</u>	<u>(5,673,746)</u>
<b>As at 31 December</b>	<b><u>3,661,739</u></b>	<b><u>4,459,072</u></b>

## ii) Other receivables

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
Other debtors - Group (Note 40)	529,128	1,823,157	2,352,285	384,018	1,887,946	2,271,964
Other debtors - others	<u>7,854,498</u>	<u>3,392,288</u>	<u>11,246,786</u>	<u>3,003,000</u>	<u>6,813,058</u>	<u>9,816,058</u>
Impairment of other receivables	<u>(328,598)</u>	<u>–</u>	<u>(328,598)</u>	<u>(173,347)</u>	<u>–</u>	<u>(173,347)</u>
	<b><u>8,055,028</u></b>	<b><u>5,215,445</u></b>	<b><u>13,270,473</u></b>	<b><u>3,213,671</u></b>	<b><u>8,701,004</u></b>	<b><u>11,914,675</u></b>

As at 31 December 2021 and 2020, the caption Other debtors - Group includes the receivable amount of 1,865,640 Euros and 1,887,947 Euros, respectively, from the sub-lease resulting from the derecognition of the Right of use asset concerning the sub concession agreement signed in 2016 for the private use of Pestana CR7 Funchal hotel until 2044, with Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A. (Note 3.17).

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 7,879 Euros and 77,862 Euros, in 2021 and 2020, respectively.

As at 31 December 2021 and 2020, Other debtors - others, includes the amount receivable from the Autonomous Region of Madeira for the sale, in 2020, of SDM - Sociedade de Desenvolvimento da Madeira, S.A., in the amount of 6,813,058 Euros, that will be received in two tranches of the same amount, until 30 June 2022 and 30 June 2023.

Impairment — movements of the year:

	<b>2021</b>	<b>2020</b>
<b>As at 1 January</b>	173,347	58,510
Increases	155,251	67,516
Transfers – Trade receivables	–	47,321
<b>As at 31 December</b>	<b>328,598</b>	<b>173,347</b>

The ageing of overdue balances without impairment is as follows:

	<b>2021</b>	<b>2020</b>
0 to 6 months	49,689,496	16,485,307
6 to 12 months	4,025,405	1,687,402
12 to 18 months	888,261	2,710,260
18 to 24 months	1,056,751	1,004,354
more than 24 months	2,810,604	3,648,203
	<b>58,470,517</b>	<b>25,535,526</b>

The ageing of overdue balances with impairment is as follows:

	<b>2021</b>	<b>2020</b>
0 to 6 months	247,131	233,491
6 to 12 months	875,013	556,791
12 to 18 months	354,804	815,155
18 to 24 months	187,639	256,109
more than 24 months	2,325,750	2,770,873
	<b>3,990,337</b>	<b>4,632,419</b>

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

Despite the pandemic and the 2020 economic crisis, which significantly affected most of travel and tourism operators, it is worth noting that, due to the Group's careful management in the attribution of credit and respective collections, there are no significant incidents of default on receivables from customers so far. Therefore, despite the risk covered by credit insurance, it was not necessary in 2021 and 2020 to use this coverage, nor recognize any relevant impairment in these values.

## iii) Prepayments

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
Contract costs	266,301	9,952,467	10,218,768	303,524	10,316,898	10,620,422
Rents	–	–	–	1,500	–	1,500
Insurance	168,437	–	168,437	228,230	–	228,230
Other services	923,854	–	923,854	1,091,832	–	1,091,832
	<b>1,358,592</b>	<b>9,952,467</b>	<b>11,311,059</b>	<b>1,625,086</b>	<b>10,316,898</b>	<b>11,941,984</b>

As at 31 December 2021 and 2020, the balance of Contract costs relates exclusively to commissions paid related to sales of Pestana Vacation Club – Options contracts (Note 3.21 ii).

## iv) Accrued revenue

As at 31 December 2021, this caption essentially refers to the amounts that will be received upon the completion of the deeds of the housing units already delivered to owners, as well as to invoicing to be issued related to amounts recognized on the provision of construction services, based on the measurement of the performance obligation, in the amount of 8,908,858 Euros and 285,426 Euros, respectively (31 December 2020: 10,554,610 Euros and 371,621 Euros, respectively).

## v) Taxes receivable

As at 31 December 2021 and 2020 this caption is mainly related to VAT receivable.

Several VAT refunds have been received in 2021 in the total amount of 4,269,049 Euros. A correction was made in one of the several refund requests, in the amount of 984,155 Euros, recognized in Other expenses (Note 32).

## vi) Advances from customers

Refers, mainly, to the amounts received along the construction works, amounting in total to 9,584,984 Euros (31 December 2020: 13,550,188 Euros) and maintenance fees charged in advance under timeshare contracts amounting to 5,169,126 Euros (31 December 2020: 4,767,348 Euros). The residual amount is related to reservations made by tour operators and individual customers.

## 15. Inventories

As at 31 December 2021 and 2020 Inventories are detailed as follows:

	2021	2020
Goods	870,773	847,647
Raw and subsidiary materials	2,572,517	2,270,150
Finished goods	837,078	771,379
Work in progress	85,051,756	66,440,722
	<b>89,332,124</b>	<b>70,329,898</b>
Impairment of inventories	(532,282)	(422,439)
	<b>88,799,842</b>	<b>69,907,459</b>

Finished goods and Work in progress are as follows:

	2020	2019
Silves Golf Resort (Algarve)	27,566,241	27,893,809
Madeira Acqua Residences	17,836,099	–
North of Gramacho land (Algarve)	7,982,819	7,933,597
Abrunheira project (Portalegre)	6,349,235	6,349,235
Pestana Comporta Village Residences	5,660,869	3,577,776
Fábrica, Apartaments & Lofts (Madeira)	4,802,950	4,040,034
Pine Village (Comporta)	4,527,453	–
Pestana Valley Nature Village (Algarve) (Note 6)	4,450,856	2,285,653
Quinta das Maravilhas project (Madeira)	2,654,250	–
Tróia Eco-Resort	2,466,427	8,789,866
Beverages and packaging	958,870	859,182
Coliseu project (Azores)	–	4,885,233
Other	632,765	597,716
	<b>85,888,834</b>	<b>67,212,101</b>

The Silves Golf Resort is a touristic project which includes two 4-star tourist resorts and 1 aparthotel with a total of 269 accommodation units. The first tourist resort includes 175 accommodation units, with a total expected investment of 17 million Euros, and which is already under construction. In 2021, 4 more villas were built and 1 villa and two apartments were delivered to customers.

In addition to the component referring to the construction of a future new hotel, located next to Pestana Bay (Note 6), the Madeira Palácio project also includes two real estate components. The Madeira Palácio Residences, ready to be sold, in a luxury oceanfront condominium, acquired for 28,751,200 Euros and the old hotel that will be transformed into 181 T1 to T4 apartments for sale, the Madeira Acqua Residences. Madeira Palácio Residences was quickly sold to a real estate developer for a total amount of 40,000,000 Euros (Note 28), with a margin of 10,683,372 Euros, with the contract providing that this amount will be received according to the actual pace of sales to third parties, with a maximum limit of the year 2024. However, considering the pace of sales up to 31 December 2021, the entire amount will be collected in 2022 and has as real guarantee the apartments not sold to third parties. With the construction of 181 apartments, Madeira Acqua Residences has a total estimated investment of 53 million Euros, including the acquisition cost, and is expected to be concluded in 2024.

The land North of Gramacho relates to a real estate project still in development (Note 6).

On a land with an area of about 450 ha, the Abrunheira Project comprises 13 touristic undertakings, divided in 10 tourist villages, 2 tourist apartments with houses and 1 aparthotel, with an additional 32 plots of equipment, infrastructure and leisure spaces, 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, corresponding to an area of 63 ha and is composed of 1 tourist village with 13 lodging units, two tourist apartments and 1 aparthotel. In 2020, the application to the PDR 2020 (Rural Development Programme) was approved to start an intensive olive grove project with an extension of 100 ha, which implies the construction of dams which will enhance the attractiveness of the real estate component.

Pestana Comporta Village is located 200 meters from Vila da Comporta and 2 km from the beach where 75 units from T1 to T2 with swimming pool are being constructed. Due to the high demand for this type of development, all the purchase promise contracts have already been executed, with total deposits amounting to 5,498,410 Euros. During 2021, the Group started the construction of the model unit and prepared the infrastructure project, which is expected to be approved at the end of the first quarter of

2022. As soon as the permit is issued, the works will start immediately, with a forecast of 18 months until completion. At the same time, the Group also submitted the construction project for approval which is also expected to be licensed by the end of the first half of the 2022. The estimated total investment is 17.8 million Euros, including the acquisition of the land.

The Fábrica, Apartaments & Lofts project, located in the heart of Funchal, refers to the urban rehabilitation of Madeira's old brewery into a close-gated luxury development. This project started in 2020, will represent an investment of 11 million Euros and is expected to be concluded in 2022.

At the beginning of 2021, an urban plot in Brejos da Carregueira de Baixo, parish of Comporta, was acquired by public auction for 7.3 million Euros, with the purpose of selling 59 plots with an already approved architectural project; called The Pine Village. During 2021, all the plots are reserved and promise purchase agreements have already been signed for 22 plots, with their physical possession transfer having been verified allowing the customer to start the licensing and the respective works (Note 28). In 2022, all the remaining promissory contracts will be signed as well as all public deeds.

In 2020, construction began on the real estate project located south of Gramacho called Pestana Valley Nature Village. This project is located on a plot with 30.14 hectares where 77 independent units that will be constructed for sale and tourist exploitation, with an estimated total cost of 16 million Euros. During 2021, 2 blocks were built consisting of 4 houses for which 3 reservations were obtained at the end of 2021. Also at the end of 2021, the construction of another 16 blocks consisting of 32 houses began.

The Quinta das Maravilhas project concerns a building located on Rua das Maravilhas, in Funchal, which has a privileged location for the development of a residential complex of apartments and luxury houses. The estimated investment for this project is 12,000,000 Euros and is expected to be completed in 2024.

The Pestana Tróia Eco Resort refers to the construction of houses, apartments and the respective infrastructures of the touristic village. The variation that occurred in 2021 essentially refers to the conclusion of Lot 1 with the delivery of the last units. Additionally, 4 more units of Lot 3 were delivered, with only 7 of these units to be delivered.

The Coliseu project refers to a real estate project with 56 apartments in the centre of Ponta Delgada, in the Azores, next to the Coliseu Micaelense, which was fully sold in 2021. The Pestana brand, its location, the famous architect, the recognized builder and the commercial partnerships with the best real estate companies in the city, allowed this project to be a commercial success. The total sales value of this project amounts to 13,942,500 Euros.

In 2021, the Cost of goods sold and materials consumed amounted to 77,319,092 Euros (31 December 2020: 40,410,204 Euros).

The movements occurred in Impairment of Inventories is as follows:

	2021	2020
<b>As at 1 January</b>	422,439	379,748
Increases	121,224	133,264
Utilisations	(11,381)	(90,573)
<b>As at 31 December</b>	<b>532,282</b>	<b>422,439</b>

As at 31 December 2021 and 2020 there are no additional signs of impairment.

## 16. Corporate income tax

The balances of Corporate income tax for the years ended 31 December 2021 and 2020 are as follows:

	31-12-2021		31-12-2020	
	Assets	Liabilities	Assets	Liabilities
Income tax	2,490,383	151,155	2,589,299	310,709
	<b>2,490,383</b>	<b>151,155</b>	<b>2,589,299</b>	<b>310,709</b>

The balance of Corporate income tax is detailed as follows:

	2021	2020
Additional advance payments	630,056	1,255,278
Special advance payments	2,850	–
Withholding taxes	277,540	287,083
Corporate income tax estimate (Note 35)	(2,850,162)	(1,796,358)
Corporate income tax through accounts receivable or payable	1,788,561	–
Impact of transition to IFRS 16 (Notes 12 and 35)	2,490,383	2,532,587
	<b>2,339,228</b>	<b>2,278,590</b>

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 profit of the companies included in the consolidation and under that taxation regime, according to the applicable rules. For companies not covered by the special taxation regime, current income tax is calculated based on their respective taxable profit or loss, according to the tax rules in the registered office of each company. In 2020, the tax receivable of the subsidiaries not included in R.E.T.G.S. was 56,712 Euros.

In 2021, the balance recorded in liabilities, in the amount of 151,155 Euros, corresponds to the amounts payable for corporate income tax for the period, surcharges and autonomous taxation net of deductible tax losses of 2020, the use of RFAI and SIFIDE tax benefits, additional advance payments made in 2021 and withholding taxes. In 2021, the tax payable of subsidiaries not covered by the R.E.T.G.S. is 31,211 Euros.

In 2020, the balance recorded in liabilities, in the amount of 310,709 Euros, corresponded to the amounts payable for surcharges and autonomous taxes net of additional advance payments made in 2020 and withholding taxes. It also included the amount payable resulting from a correction identified within the scope of a tax inspection in a subsidiary, in the amount of 476,207 Euros.

In 2020, Grupo Pestana was exempted from making the first two advance payments following the measures created by the State for economic and financial support of companies arising from the COVID-19 pandemic, since the drop in revenue was greater than 40%. Additionally, 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.

## 17. Cash and cash equivalents

As at 31 December 2021 and 2020 Cash and cash equivalents are detailed as follows:

	31-12-2021	31-12-2020
Cash	1,250,157	701,686
Bank deposits	72,888,499	57,079,837
	<b>74,138,656</b>	<b>57,781,523</b>

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 2021 and 2020 is as follows:

	31-12-2021	31-12-2020
Cash	1,250,157	701,686
Bank overdrafts	(203,644)	(332,301)
Bank deposits	72,888,499	57,079,837
	<b>73,935,012</b>	<b>57,449,222</b>

## 18. Capital

As at 31 December 2021 and 2020, Capital is detailed as follows:

	2021	2020
Share capital (i)	83,530,000	83,530,000
Other equity instruments:		
Share premium (ii)	33,690,973	33,690,973
Accessory contributions (iii)	7,779,027	8,200,000
	<b>125,000,000</b>	<b>125,420,973</b>

### (i) Share capital

As at 31 December 2021 and 2020, 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 2021 and 20120, 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
	<b>83,530,000</b>	<b>83,530,000</b>

As at 31 December 2021 and 2020, basic and diluted earnings per share are positive in 0.36 Euros and negative in 0.22 Euros, respectively.

(ii) Share premium

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

(iii) Accessory contributions

As at 31 December 2021 and 2020 accessory contributions relate to:

Shareholders	31-12-2021	31-12-2020
Dionísio Fernandes Pestana	5,700,000	5,700,000
Pestana International Holdings S.A.	2,079,027	2,500,000
	<b>7,779,027</b>	<b>8,200,000</b>

In August 2021, a reimbursement of accessory contributions was made to Pestana International Holdings S.A. in the amount of 420,973 Euros.

These Accessory contributions are not remunerated and do not have an established reimbursement date. Accessory contributions may only be reimbursed until the point 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 2021 and 2020 the movements occurred in Other reserves were as follows:

	Legal reserve (i)	Free reserves	Fair value reserve C.F.H. (ii)	Total
<b>As at 1 January 2020</b>	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)
<b>As at 31 December 2020</b>	<b>31,087,042</b>	<b>–</b>	<b>(66,652)</b>	<b>31,020,390</b>
Profit for the period application	306,445	–	–	306,445
Change in fair value reserve – hedging derivatives (net of tax)	–	–	44,833	44,833
<b>As at 31 December 2021</b>	<b>31,393,487</b>	<b>–</b>	<b>(21,819)</b>	<b>31,371,668</b>



## (i) Legal reserve

In accordance with the applicable commercial law in Portugal, at least 5% of the annual net profit must be used to increase the legal reserve until it is equal to 20% of the issued share capital. This reserve is not available for distribution except in the event of 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 is not available for distribution and includes the effective portion of changes in fair value of cash flow 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 2021 and 2020 Retained earnings movements were as follows:

	<b>Total</b>
<b>As at 1 January 2020</b>	<b>65,866,574</b>
Profit for the period application	73,362,325
Distributions (Note 36)	(12,000,000)
Transfers (Note 19)	29,451
Other	(93,984)
<b>As at 31 December 2020</b>	<b>127,164,366</b>
Profit for the period application	(19,469,066)
Distributions (Note 36)	(15,000,000)
<b>As at 31 December 2021</b>	<b>92,695,300</b>

## 21. Non-controlling interests

Non-controlling interests' movements were as follows:

	<b>2021</b>	<b>2020</b>
<b>As at 1 January</b>	7,996,626	15,115,384
Profit for the period	395,617	1,029,786
Reimbursement to non-controlling interests	–	(3,400,549)
Perimeter exits (Note 39)	–	(2,554,633)
Dividends (Note 36)	–	(2,311,067)
Other	–	117,705
<b>As at 31 December</b>	<b>8,392,242</b>	<b>7,996,626</b>

Reimbursement to non-controlling interests in 2020 was made by SDM - Sociedade de Desenvolvimento da Madeira, S.A. through a share capital reduction 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).

Perimeter exits in 2020 result from the disposal of the subsidiary SDM - Sociedade de Desenvolvimento da Madeira, S.A. and the consequent participation that the last 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.

Non-controlling interests relate to the following investments:

	31-12-2021		31-12-2020	
	%		%	
	<u>Owned</u>	<u>Amount</u>	<u>Owned</u>	<u>Amount</u>
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	48.00%	5,463,227	48.00%	5,209,622
Porto Carlton – Soc. de Construção e Exploração Hoteleira, S.A.	40.00%	2,929,015	40.00%	2,787,004
		<b>8,392,242</b>		<b>7,996,626</b>

## 22. Provisions

The movements in Provisions were as follows:

	<b>Litigations and claims in progress (i)</b>	<b>Customer guarantees (ii)</b>	<b>Other provisions (iii)</b>	<b>Total</b>
<b>As at 1 January 2021</b>	2,805,842	304,582	1,488,484	4,598,908
Reversals	(10,789)	(39,728)	(108,299)	(158,816)
Utilizations	–	–	(55,179)	(55,179)
Changes on period	(10,789)	(39,728)	(163,478)	(213,995)
<b>As at 31 December 2021</b>	<b>2,795,053</b>	<b>264,854</b>	<b>1,325,006</b>	<b>4,384,913</b>
Current balance	40,000	159,592	951,956	1,151,548
Non-current balance	2,755,053	105,262	373,050	3,233,365
	<b>2,795,053</b>	<b>264,854</b>	<b>1,325,006</b>	<b>4,384,913</b>

	<b>Litigations and claims in progress (i)</b>	<b>Customer guarantees (ii)</b>	<b>Other provisions (iii)</b>	<b>Total</b>
<b>As at 1 January 2020</b>	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)
<b>As at 31 December 2020</b>	<b>2,805,842</b>	<b>304,582</b>	<b>1,488,484</b>	<b>4,598,908</b>
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
	<b>2,805,842</b>	<b>304,582</b>	<b>1,488,484</b>	<b>4,598,908</b>

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, 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 a hierarchical court appeal and the subsidiary ECM had constituted bank guarantees, and no outflow being expected to occur based on the opinion of reputable external advisors. However, in 2015, the court has taken its decision which was unfavourable to ECM. Despite the extraordinary judicial administrative appeal that was immediately submitted, considering the development that occurred in the process, Grupo Pestana recognized a provision in the total amount of 2,755,053 Euros.

The lawsuit is currently under judicial review and there are no further developments that imply changes to the balance of the provision. According to the external lawyer in charge of the process, the process is expected to be concluded within one year.

(ii) Customer guarantees

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

(iii) Other provisions

Following a promissory sale contract celebrated in 2011 in which the client committed to buying a lodging unit in the Pestana Tróia Eco-Resort, and after several attempts the deed was not realized, therefore Grupo Pestana's subsidiary Carvoeiro Golfe, S.A. decided to exert its right to resolve the contract, having booked the entirety of the advance received as revenue in 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 were substantiated reasons 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 2021, there is no evolution regarding this process, the bank guarantee remains active and this provision continues to be prudently presented in current liabilities.

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

## 23. Borrowings

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

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	38,104,084	172,663,142	210,767,226	6,354,271	182,188,661	188,542,932
Bond loans	13,479,675	89,000,000	102,479,675	27,500,000	75,000,000	102,500,000
Commercial paper	444,444	31,777,778	32,222,222	2,944,444	22,222,223	25,166,667
Bank overdrafts	203,644	–	203,644	332,301	–	332,301
	52,231,847	293,440,920	345,672,767	37,131,016	279,410,884	316,541,900
Interest payable - accrual	1,424,439	–	1,424,439	1,252,503	–	1,252,503
Interest paid - deferral	(614,850)	(1,273,177)	(1,888,027)	(516,544)	(1,518,486)	(2,035,030)
	<b>53,041,436</b>	<b>292,167,743</b>	<b>345,209,179</b>	<b>37,866,975</b>	<b>277,892,398</b>	<b>315,759,373</b>

The future payments of the outstanding bank loans, commercial paper and bond loans, by currency as at 31 December 2021 and 2020, are as follows:

	2022	2023	2024	2025	2026	Following years	Total
<b>Bank loans</b>							
Euro	38,104,084	26,599,907	20,080,591	15,969,108	14,035,834	95,977,702	210,767,226
	<b>38,104,084</b>	<b>26,599,907</b>	<b>20,080,591</b>	<b>15,969,108</b>	<b>14,035,834</b>	<b>95,977,702</b>	<b>210,767,226</b>
<b>Bond loans</b>							
Euro	13,479,675	–	–	60,000,000	–	29,000,000	102,479,675
	<b>13,479,675</b>	<b>–</b>	<b>–</b>	<b>60,000,000</b>	<b>–</b>	<b>29,000,000</b>	<b>102,479,675</b>
<b>Commercial paper</b>							
Euro	444,444	20,444,444	444,444	444,444	10,444,446	–	32,222,222
	<b>444,444</b>	<b>20,444,444</b>	<b>444,444</b>	<b>444,444</b>	<b>10,444,446</b>	<b>–</b>	<b>32,222,222</b>
	<b>52,028,203</b>	<b>47,044,351</b>	<b>20,525,035</b>	<b>76,413,552</b>	<b>24,480,280</b>	<b>124,977,702</b>	<b>345,469,123</b>

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

Borrowings are subject to Euribor variable interest rates at 1, 3, 6 and 12 months plus spread.

#### Bank loans

Bank loans have as collateral the mortgage over some assets which are booked as tangible fixed assets.

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 guarantees and capital moratoriums on bank loans. Grupo Pestana obtained subsidized credit lines with State guarantee in the amount of 6,351,314 Euros in 2021 and 2,000,000 Euros in 2020.

The capital moratoriums on bank loans were in effect between April 2020 and September 2021 and amounted to 9,903,557 Euros in 2021 and 19,233,583 Euros in 2020. Regarding interest, the Group decided to proceed with its payment.

In 2021, Grupo Pestana invested in a new project of great importance for the acquisition of the Madeira Palácio hotel for 48,051,200 Euros (Notes 6 and 15). This acquisition was financed through two bank loans, one bank loan in the amount of 20,000,000 Euros, received for the acquisition of Madeira Palácio Residences (Note 15), and another of 19,300,000 Euros referring to a real estate lease for the acquisition of Madeira Acqua Residences (Note 15) and for the land where a new hotel will be built next to Pestana Bay (Note 6). The loan of 20,000,000 Euros will be paid in accordance with the actual pace of sales of Madeira Palácio Residences, which is estimated to be fully amortized in 2022. The real estate leasing will be amortized in quarterly payments of capital and interest, with a capital grace period of 36 months and term in 2027, but with an initial payment of 6,800,000 Euros in 2021. As it is not a right of use asset under IFRS 16, the real estate leasing is presented as a bank loan.

In June 2021, the Group benefited from a conversion of 40% of a loan previously contracted into a non-repayable government grant under the terms of the financing of European Regional Development Fund (ERDF), in the amount of 527,267 Euros (Notes 26 and 31).

In February 2020, the Group received the funds for the loan contracted at the end of 2019, in the amount of 45,000,000 Euros for a 15-year period, with a fixed interest rate and payable in 60 quarterly instalments. The first instalment was paid in March.

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

In 2020, regarding loans contracted by companies in sectors considered to be the most affected by the Portuguese State, such as hospitality, it also allowed a 12-month extension in the maturity of the respective loans.

#### Bond loans

On 5 November 2021, Grupo Pestana entered into a paying service contract with BBVA (Banco Bilbao Viscaia Argentaria) for the issuance by private subscription of 290 bonds with a nominal value of 100,000 Euros, in the total amount of 29,000,000 Euros, called Grupo Pestana 2021/2027. This issue was initially foreseen to be 20,000,000 Euros, however since the demand was much higher than the targeted amount, it consequently led to an increase to 29,000,000 Euros. Most of the bonds were subscribed by entities that already held bonds of Grupo Pestana, namely that participated in the issuance of the 60,000,000 Euros in "green bonds" in 2019.

Grupo Pestana has fully repaid the bond loan due on 22 December 2021 and the partial payment of the bond loan due on 15 July 2022, in the amounts of 27,500,000 Euros and 1,520,325 Euros, respectively. On 28 February 2020, the bond loan of 65,000,000 Euros was also repaid on its due date.

In September 2019, the Group entered into a paying agent service contract with BBVA for the issuance by private subscription of 600 green bonds 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 with environmental benefits associated. The funds obtained from this issue were used to refinance sustainable investments in Pestana Tróia Eco Resort and Pestana Blue Alvor.

#### Commercial paper

As at 31 December 2021, the Group has contracted 7 commercial paper programs with underwriting value of 20,000,000 Euros, 10,000,000 Euros, 8,000,000 Euros, 3,500,000 Euros, 3,000,000 Euros, 2,222,222 Euros and 2,000,000 Euros, respectively, of which 32,222,222 Euros are used, and classified 31,777,778 Euros in non-current and 444,444 Euros in current. These programs are remunerated at the Euribor rate for the respective issue term plus spread.

#### Covenants

Borrowings engaged by 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, namely related to the capital structure, profitability and indebtedness. Due to the impact of this pandemic crisis on the results of Grupo Pestana and although there are no difficulties in fulfilling its financial responsibilities, considering its financial structure, the Group agreed to suspend the covenants provided in the loan agreements for and 2020.

#### Unused contracted credit lines

Grupo Pestana holds, as at 31 December 2021, a set of unused contracted credit lines in financial institutions, with a total amount of 73,700,000 Euros related to authorized credit lines and overdrafts.

## 24. Lease liabilities

As at 31 December 2021 and 2020 Lease liabilities refer to:

	31-12-2021	31-12-2020
Current	13,020,831	11,370,256
Non-current:		
1 to 5 years	43,954,569	43,035,454
More than 5 years	89,903,064	100,659,407
	<b>146,878,464</b>	<b>155,065,117</b>

As at 31 December 2021 and 2020 Lease liabilities mainly refer to the following Right of use assets (Note 6):

- Alto Golf - Pestana Golf & Resort
- Beloura Golf - Pestana Golf & Resort
- Casino da Madeira
- Madeira Magic
- Pestana Carlton Madeira
- Pestana Cascais
- Pestana Churchill Bay
- Pestana Cidadela de 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 to obtain reductions in fixed rents or to defer payments to minimize the impact of the temporary reduction in the activity of the units. The impact of this renegotiation Lease liabilities and Other income was 1,400,714 Euros in 2021 and 4,887,823 Euros in 2020 (Note 31).

## 25. Derivatives

As at 31 December 2021 and 2020 Grupo Pestana had interest rate swaps (hedging derivatives) as follows:

	31-12-2021		31-12-2020	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – non-current	–	25,822	–	85,600
	<b>–</b>	<b>25,822</b>	<b>–</b>	<b>85,600</b>

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 31-12-2021	Fair value at 31-12-2020	Variation
Proportion hedge	7,000,000	26/09/2022	Half-yearly	Euribor 6M/4.82%	(25,822)	(85,600)	59,778
					<b>(25,822)</b>	<b>(85,600)</b>	<b>59,778</b>

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 changes in the fair value of the derivative financial instruments occurred in 2021 and 2020 were as follows:

	2021	2020
<b>As at 1 January</b>	85,600	174,335
Hedging derivatives - fair value changes (Note 19)	(44,833)	(66,551)
Trading derivatives - fair value changes (Note 34)	(14,945)	(22,184)
<b>As at 31 December</b>	<b>25,822</b>	<b>85,600</b>

The changes in the fair value reserve related to cash flow hedges in 2021 and 2020 were as follows:

	2021	2020
<b>As at 1 January</b>	(66,652)	(133,203)
Hedging derivatives - fair value changes (Note 19)	44,833	66,551
<b>As at 31 December</b>	<b>(21,819)</b>	<b>(66,652)</b>

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

The fair value of the interest rate swaps corresponds to the mark-to-market value determined based on the agreed terms and the estimated interest rate yields as at the statement of financial position date, which corresponds to level 2 in 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 2021 and 2020 the detail of Deferred revenue is as follows:

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
Pestana Vacations Club - D.R.H.P. (i)	14,614,716	78,325,461	92,940,177	12,552,350	86,699,243	99,251,593
Pestana Vacations Club - Options (ii)	1,180,064	31,006,418	32,186,482	971,753	32,195,747	33,167,500
Government investment grants (iii)	407,049	6,454,733	6,861,782	383,877	5,871,891	6,255,768
Temporary transfer of the Pestana Trademark (iv)	1,925,000	–	1,925,000	2,333,333	–	2,333,333
Others	2,123,256	2,564,919	4,688,175	1,566,700	2,830,666	4,397,366
	<b>20,250,085</b>	<b>118,351,531</b>	<b>138,601,616</b>	<b>17,808,013</b>	<b>127,597,547</b>	<b>145,405,560</b>

(i) Pestana Vacation Club — Timeshare rights (Direitos reais de habitação periódica “D.R.H.P.”)

This balance refers to the sale of Pestana Vacations Club rights, which are deferred over the period of the award of temporary right of the use of hotels and apartments at Grupo Pestana (Note 3.21 ii)), which will end between 2021 and 2039.

The temporary reduction in the activity of the Vacation Club units due to the COVID-19 pandemic have impacted the possibility of use of the right contracted and the negotiation of new contracts between March 2020 and July 2021. Thus, for accommodation units for which use was made impossible by the pandemic and whose maintenance fees were paid during this period, Grupo Pestana decided to allow its use until the end of the contract. In 2021 and 2020, the impact of this measure amounted to 1,605,205 Euros and 5,363,064 Euros, respectively.

The movements that occurred in 2021 and 2020 were as follows:

	2021	2020
As at 1 January	99,251,593	104.484.942
Increases/Reductions	3,213,981	3.304.767
Consumption	(9,525,397)	(8.538.116)
Movements	(6,311,416)	(5.233.349)
As at 31 December	92,940,177	99.251.593

Increases/Reductions refer to new contracts, upgrades and cancellations.

(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 3.21 ii)). The customer acquires points that give him the right to use the accommodation without having to choose the specific hotel at that time.

The movements that occurred in 2021 and 2020 were as follows:

	<b>2021</b>	<b>2020</b>
As at 1 January	33,167,500	33,866,827
Increases/Reductions	1,569,726	861,522
Consumption	<u>(2,550,744)</u>	<u>(1,560,849)</u>
Movements	<u>(981,019)</u>	<u>(699,327)</u>
As at 31 December	<u>32,186,482</u>	<u>33,167,500</u>

Increases/Reductions refer to new contracts, upgrades and cancellations.

(iii) Government investment grants

This balance relates to grants obtained, the revenue of which is recognized throughout the useful life of the subsidised assets which is comprised between 6 and 40 years.

In June 2021, the Group benefited from a conversion of 40% of a loan for Pestana Casino Studios previously contracted into a non-repayable subsidy under the terms of the European Regional Development Fund (ERDF), in the amount of 527,267 Euros. This amount will be recognized over the useful life of the asset, until 2057 (Note 26).

(iv) Temporary transfer of Pestana Trademark

Due to the term of the current contract for the onerous and temporary transfer of the Pestana Trademark, in 2021 Grupo Pestana chose to reassess the value of the Trademark before defining the conditions for the new temporary transfer. Therefore, it hired an independent expert recognized in the market to carry out the respective valuation, using the royalty relief valuation approach. To determine the price for the onerous and temporary transfer of the Trademark, it also used an independent expert recognized in the market, having determined a price of 23,100,000 Euros for a period of three years, starting on 1 January 2022 and ending on 31 December 2024.

The onerous and temporary transfer of the Pestana Trademark was renewed with Pestana Management – Serviços de Gestão S.A., a Group company that has been exploring the Trademark, it being considered that it is the most appropriate entity to continue its exploitation. On the date of the signature of the contract, 22 December 2021, Grupo Pestana received the amount of 1,925,000 Euros, equivalent to the billing of the first quarter of 2022, with the subsequent billing to be issued monthly.

On 31 December 2020, this same caption also corresponded to the temporary transfer fee for the exploitation of the Pestana Trademark, billed to the company Pestana Management – Serviços de Gestão S.A., which had been renewed in December 2017 for the period 2018 through 2020, and which had its term extended to include 2021, by agreement between the parties, due to the COVID-19 pandemic.

## 27. Trade and other payables

As at 31 December 2021 and 2020 the detail of Trade and other payables is as follows:

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
<b>Trade payables</b>						
Suppliers (i)	26,688,255	–	26,688,255	12,541,933	–	12,541,933
<b>Other payables</b>						
Other payables	1,460,662	–	1,460,662	1,380,336	–	1,380,336
Other payables - Group (Note 40) (ii)	1,805,267	–	1,805,267	2,769,347	–	2,769,347
Suppliers of property, plant and equipment	1,393,599	–	1,393,599	989,051	–	989,051
<b>Taxes payable (iii)</b>	2,204,872	–	2,204,872	2,115,430	–	2,115,430
<b>Accrued expenses</b>						
Wages and corresponding taxes	7,776,417	–	7,776,417	7,242,247	–	7,242,247
Property taxes	1,993,989	–	1,993,989	2,128,503	–	2,128,503
Others (iv)	8,609,275	–	8,609,275	6,485,228	–	6,485,228
	<b>51,932,336</b>	<b>–</b>	<b>51,932,336</b>	<b>35,652,075</b>	<b>–</b>	<b>35,652,075</b>

Trade and other payables presented have no significant difference between their carrying amount and fair value.

### (i) Suppliers

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
Suppliers - Group (Note 40)	7,727,784	–	7,727,784	2,581,919	–	2,581,919
Suppliers - other	18,960,471	–	18,960,471	9,960,014	–	9,960,014
	<b>26,688,255</b>	<b>–</b>	<b>26,688,255</b>	<b>12,541,933</b>	<b>–</b>	<b>12,541,933</b>

### (i) Other payables - Group

Other payables - Group essentially include the amount payable for tax losses ascertained in 2021 and 2020 by the companies included in the Special Taxation Regime for Group Companies (Note 12), but which are not part of the consolidation perimeter, in the amount of 1,796,440 Euros and 2,731,132 Euros, respectively.

## (ii) Taxes payable

	31-12-2021			31-12-2020		
	Current	Non-current	Total	Current	Non-current	Total
Personnel income tax withheld	470,543	–	470,543	514,041	–	514,041
Value added tax	733,267	–	733,267	650,107	–	650,107
Social security contributions	883,883	–	883,883	834,527	–	834,527
Others	117,179	–	117,179	116,755	–	116,755
	<b>2,204,872</b>	<b>–</b>	<b>2,204,872</b>	<b>2,115,430</b>	<b>–</b>	<b>2,115,430</b>

## (iii) Other accrued expenses

This caption includes accruals for operational expenses of individual reduced value, such as professional fees, cleaning, energy and commissions, among others.

**28. Revenue**

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

	2021	2020
Hospitality business (i)	104,953,071	48,004,792
Real estate (ii)	97,281,769	53,403,138
Pestana Vacation Club (iii)	22,540,704	18,761,552
Beverages' industry (iv)	22,790,456	19,206,090
Golf	6,541,940	6,018,320
Entertainment	5,304,261	5,057,356
Other (v)	2,775,184	12,654,194
	<b>262,187,385</b>	<b>163,105,442</b>

Revenue in 2020 related to subsidiaries that were excluded from the consolidation perimeter amounted to 7,910,797 Euros (Note 39).

## (i) Hospitality business

In 2021, the economic recovery began thanks to the acceleration of the vaccination process and the reopening of borders, although the first four months were still affected by restrictive and containment measures of the pandemic, namely the declaration of the state of emergency. Thus, the Group began the process of reopening gradually, based fundamentally on domestic tourism, which allowed it to have most of its units in operation by the end of June.

As of July, restrictions on the movement of people were effectively reduced, which combined with the Group's ability to reopen units in few days, allowed for the opening of around 80% of its units as soon as demand installed, with occupancy rates above 50% in July and reaching 80% in August, maintaining the strategy followed in the previous year of safeguarding the average price. At the beginning of September,

Portugal already had 75% of the population fully vaccinated and became the first country in the world to reach the target of 85% a month later. Thus, there was a gradual increase in people's confidence in city tourism, leading to the reopening of practically all the Group's units during the last quarter, including the inauguration of most units completed during the pandemic period.

At the end of November, the first cases of the new Omicron variant were detected in Portugal, which led to the entry into force of new preventive measures that limited activity during the month of December. However, this limitation was mitigated by the fact that there were several units that usually no longer operated during the winter, so the state of calamity decreed on 1 December 2021 did not significantly change the usual activity and that estimated for that time of year.

In 2020, the hospitality business had been significantly affected by the restrictions imposed in the context of the pandemic, with all of the Group's units being prevented from receiving customers during the months of April and May. As of June, some units gradually reopened, but always limited by strong air travel restrictions and mandatory quarantines on the return to some countries, namely the United Kingdom, which led the Group to be almost entirely dependent on the reaction of the domestic tourism.

In Madeira there was a growth of 145% in revenue compared to the previous year (2021: 37.8 million Euros). This region had an excellent recovery in 2021, both in Porto Santo, which even in pandemic times reached its best year ever, and on the island of Madeira itself, essentially between August and November, due already to the contribution of the international market, approaching in those months that verified in the same period of 2019. In 2020, this region had been penalised by the drop in flights and by the negative association with the pandemic evolution that was registered in mainland Portugal. As a whole, and despite the impact suffered in the first months of the year, this region has already managed to reach 55% of the activity registered in 2019, having had the inauguration of a new unit in Câmara de Lobos in August, Pestana Fisherman Village.

The hotel units in the Algarve achieved revenue in the order of 32.4 million Euros, which represents an increase of 144% over the previous year. This increase results from the strong demand from the domestic market, but also from the English market whenever Portugal was included on the list of safe countries to travel to. These units were also able to capture important new markets for the diversification of feeder markets. It is also noteworthy the excellent level of activity in this region in August, with revenue already approaching those of the same month in 2019.

The units that make up the Pousadas de Portugal network were among the first to reopen in 2021, still during the second quarter, as they have a greater propensity for demand from the domestic market. The Pousadas network saw its demand reinforced in the summer season due to the fact that it is mostly located outside large urban centres with a lower propensity for virus transmission. In 2020, for these same reasons, they were the most capacitated units to receive the existing demand in the market but were still penalised by the collapse of the international market that already represented the majority of their revenue before the pandemic. Thus, considering the opening of the new Pousada in Vila Real de Santo António in the month of July, there was an increase in revenue of 72% compared to the previous year.

The activity in Lisbon and Oporto, where Pestana Collection's units are located, was the last to recover, as tourist confidence to travel to cities with greater population density only occurred after the achievement of high vaccination rates in the country. Thus, as of August 2021, there was a significant increase in sales in these cities, which allowed for the opening of two new units, Pousada do Porto – Flores in the beginning of October and Pestana Lisboa Vintage in the beginning of November. Despite the restrictions imposed, which impacted a significant part of the year, including air traffic limitations, revenue increased by around 100%.

The 2021 and 2020 detail of sales and services rendered in Hospitality business by country of origin are as follows:

Country	Hospitality business	
	2021	2020
Portugal	53.3%	53.7%
United Kingdom	14.7%	11.8%
Germany	6.0%	9.4%
France	4.1%	4.4%
Spain	4.0%	4.3%
United States	2.4%	1.4%
Netherlands	1.9%	1.8%
Switzerland	1.5%	1.2%
Ireland	1.5%	0.5%
Belgium	1.4%	1.0%
Italy	0.9%	1.0%
Brazil	0.8%	1.4%
Poland	0.8%	0.8%
Sweden	0.7%	1.1%
Denmark	0.6%	0.9%
Luxembourg	0.5%	0.6%
Others	4.9%	4.7%
	<b>100%</b>	<b>100%</b>

(ii) Real estate

The diversification strategy followed by Grupo Pestana, not only in geographic terms, but also in terms of business areas such as, for example, in the tourist and residential real estate sector, made it possible to absorb a significant part of the impact of the pandemic on other businesses, particularly in the hospitality business.

As has been the case in recent years, real estate sales and management business continued to grow and to present good results in 2021, driven by the successful bet on three new real estate projects with fast returns.

Madeira Palácio Residences located in one of the most modern residential areas of Funchal, on the first line of sea, was sold for 40,000,000 Euros, with a margin of 10,683,372 Euros (Note 15).

The 56 apartments of Coliseu Residences, located in São Miguel in the Azores, were all sold in 2021, for 13,942,500 Euros, with a margin of 4,812,410 Euros. This project with an excellent location was another quality investment made by the Group in this business area, with excellent results.

The Group's main real estate project in recent years, Pestana Tróia Eco-Resort, is nearing its completion with the last 12,75 accommodation units (u.a.) of Lot 1 being delivered in 2021, for the amount of 7,730,850 Euros (2020: 54 u.a. for 31,211,498 Euros). Lot 3 is also almost entirely sold, with 4 villas having been delivered for the amount of 5,350,000 Euros (2020: 8 villas for 7,267,350 Euros), with 7 lots still to be delivered.

At the beginning of 2021, an urban plot in Brejos da Carregueira was acquired at a public auction, located, in one of the most attractive and sought-after areas of the Portuguese coast, for clients to build luxury villas based on previously defined model houses, which will give rise to the new "Pine Village"

development. In this project, the Group will only sell the lots, without construction, unless clients contact it for this purpose. In 2021, 22 of 59 lots were already sold for 8,371,800 Euros, with a margin of 4,244,297 Euros.

The Silves Golf Resort Project is a touristic project which includes two 4-star touristic resorts and an aparthotel. The first tourist resort is currently under construction, including 175 accommodation units with a total expected investment of 16 million Euros. In 2021, the construction of Phase 1 of the first tourist village continued with the construction of 4 more villas and the delivery of one villa and two apartments. As at 31 December 2021 and 2020, sales of villas and apartments amounted to 1,080,000 Euros and 4,423,580 Euros, respectively.

Real estate includes revenue recognized according to the measurement of performance obligation satisfaction based on the percentage of completion method, which corresponds to the proportion of incurred costs to the total estimated contract costs. The main project in 2021 concerns the requalification of the building on Avenida Casal Ribeiro, OASIS 28, with 60 apartments and 1 store, which generated revenue of 5,421,255 Euros (2020: 1,217,563 Euros). This project will be completed in 2022. In 2021 and 2020, the amount recognized in revenue with respect to these contracts was 5,883,240 Euros and 1,382,052 Euros, respectively, with costs of 5,583,263 Euros and 1,273,576 Euros, respectively. As at 31 December 2021 and 2020, accumulated recognized revenue from construction contracts in progress amounted to 7,154,384 Euros and 1,382,052 Euros, respectively, and the accumulated costs amounted to 6,835,897 Euros and 1,288,498 Euros, respectively. For all construction contracts in progress, it was possible to reliably estimate their outcome.

Real estate revenue also includes the residence activity, namely the tourist exploration contracts for Pestana Tróia Eco Resort, which in 2021 represented accommodation revenue in the amount of 4,245,027 Euros and real estate management of 2,435,087 Euros. The Pestana Gramacho and Pinta development continued to show good results with revenue of 4,597,203 Euros in 2021. The remaining amount essentially refers to gardening and maintenance services.

In 2021, sales with this activity started to include the recharge, with a margin, of infrastructure costs, such as electricity, water, gas and telephone related to the Real estate management activity of the Group, in the amount of 1,954,153 Euros. In 2020, this revenue was recorded in Other income (Note 31).

### (iii) Pestana Vacation Club

The Vacation Club business concerns the sale of timeshare and Options, having recorded an increase of 17% in 2021 over the previous year.

As in the hospitality business, the reduction of activity and the restrictions on the air transportation has impacted the possibility to use the right contracted and the negotiation of new contracts, but with less impact than the previous year. Thus, similar to what happened in 2020, for accommodation units for which there was no use and which maintenance fees were paid, Grupo Pestana decided to allow the use of the accommodation unit during the remaining period of the contract.

The resumption of Vacation Club activity was also progressive and gradual, considering existing limitations and restrictions. The reactivation of the main tourist markets for the Vacation Club activity, the United Kingdom and Germany, allowed, as far as possible, the use of the contracted weeks and the signing of new contracts, thus already having a positive impact on the revenue from the Vacation Club business.

The 2021 and 2020 detail of revenue in Vacation Club business by country of origin related to the number of customers are as follows:

Country	Pestana Vacation Club	
	2021	2020
United Kingdom	59.3%	54.7%
Germany	10.7%	12.5%
Portugal	7.9%	9.2%
Finland	7.9%	7.1%
Sweden	2.9%	3.2%
Norway	2.3%	2.4%
France	1.7%	1.9%
Denmark	1.5%	1.4%
Other	5.8%	7.6%
	<b>100%</b>	<b>100%</b>

(iv) Beverages' industry

Commercial activity in this market continued to be strongly affected by the pandemic crisis in the first four months of the year, given all the constraints that existed in that period. The curfew imposed in the first quarter of 2021, as well as the substantial reduction in tourist arrivals, largely affected the performance of this activity in that part of the year.

With the progressive lifting of restrictions that constrained consumption in bars and restaurants, there was a gradual recovery in sales. In the summer, there was even a recovery to pre-pandemic consumption levels and at this stage sales showed a performance similar to 2019, with October, recording the best performance in recent years. In the foreign markets, there was a return of exports to China were as well as the shipment of products to new European markets.

(v) Other

In 2021 and 2020, Others includes 2,333,333 Euros and 4,000,000 Euros, respectively, corresponding to the onerous and temporary transfer of the Pestana Trademark to Pestana Management – Serviços de Gestão S.A. (Note 26).

In 2020 it also included revenue from SDM – Sociedade de Desenvolvimento da Madeira, S.A., disposed of at the end of that year (Note 39).



## 29. External supplies and services

The detail of External supplies and services is as follow:

	2021	2020
Subcontracts	12,273,006	11,902,744
Professional fees	15,098,768	8,640,116
Hygiene/cleaning/comfort	10,927,086	6,748,875
Energy	6,993,991	5,813,180
Commissions	5,699,807	2,955,364
Advertising	4,995,900	4,947,286
Maintenance	4,329,959	4,110,798
Property management exploration counterpart	3,555,774	2,959,030
Rents	2,340,867	1,095,867
Insurance	896,021	1,068,110
Others	3,199,521	3,039,024
	<b>70,310,700</b>	<b>53,280,394</b>

External services and supplies related to the subsidiaries excluded from the consolidation perimeter in 2020 amounted to 1,837,626 Euros (Note 39).

Grupo Pestana has a mostly variable cost structure which provides a robust resilience to downturns, which was decisive factor in obtaining positive operating results in 2020 despite the impact caused by the COVID-19 pandemic. Thus, after the decrease in terms of variable expenses in 2020, namely in cleaning, laundry, energy, licenses, temporary work, commissions and rents, in 2021 the same expenses increased as a result of the progressive increase of the Group's activity and the beginning of the economic recovery. In 2021 and 2020, mainly during the period in which the units were temporarily closed and within the scope of cost reduction and control measures, there was also the renegotiation of professional fee contracts and subcontracting.

Pursuant to paragraph b), no. 1 of article no. 66 A of the Portuguese Commercial Companies Code, the audit fees for the 2021 statutory audit of all the subsidiaries audited by the Statutory Auditors of Grupo Pestana were 102,600 Euros. The fees, for 2021, of other Statutory Auditors of the companies included in the consolidation perimeter were 18,250 Euros.

### 30. Personnel expenses

The detail of Personnel expenses is as follows:

	<u>2021</u>	<u>2020</u>
<b>Board of directors</b>		
Wages and salaries	1,350,560	1,018,119
Social security contributions	187,285	199,235
	<u><b>1,537,845</b></u>	<u><b>1,217,354</b></u>
<b>Staff</b>		
Wages and salaries	27,049,315	24,951,072
Social security contributions	6,443,169	5,254,013
Others	1,704,336	1,294,298
	<u><b>35,196,820</b></u>	<u><b>31,499,383</b></u>
	<u><b>36,734,665</b></u>	<u><b>32,716,737</b></u>

Personnel expenses related to the subsidiaries excluded from the consolidation perimeter in 2020 amounted to 1,344,283 Euros (Note 39).

The average number of employees of Grupo Pestana companies that comprise this consolidation perimeter in 2021 was 2,141 (31 December 2020: 2,293).

In the scope of the State-created measures in response to the COVID-19 pandemic, in 2021 the Group adhered to various employment maintenance programmes, namely the extraordinary support afforded to the progressive resumption of the activity of companies with reduced working hours and the new incentive to the normalisation of business activity. In 2020 it adhered to the simplified lay-offs, support mechanism for progressive recovery and extraordinary incentive to the normalisation of business activity, as well as the partial exemption from social security contributions borne by the employer. These measures allowed for a reduction in personnel expenses in 2021 and 2020, of about 7,248,338 Euros and 7,695,000 Euros, respectively. Defined term employment contracts were not renewed in 2020 and there were no temporary contracts to cater for the summer season, situation which did not occur in 2021.

In 2021 Personnel expenses includes 1,223,000 Euros of profit-sharing expenses.

### 31. Other income

The detail of Other income is presented as follows:

	2021	2020
Supplementary income	2,051,266	3,499,127
Rent concessions	1,400,714	4,887,823
Foreign currency exchange gains	795,739	961,605
Gains on disposal of assets	483,986	724,407
Investment government grants	421,252	543,498
Tax refund	317,905	–
Other	1,288,410	1,831,641
	<b>6,759,272</b>	<b>12,448,101</b>

Other income in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 67,009 Euros (Note 39).

In 2021 and 2020, Rent concessions relate to total or partial reductions in the value of fixed rents during a certain period.

In 2021, Gains on disposal of assets essentially refer to the disposal of apartments of Pestana Gramacho Residences with gains in the amount of 254,976 Euros (2020: 564,694 Euros) (Note 6). Furthermore, two houses in São Gonçalo, Funchal were also disposed of for 279,000 Euros and 330,000 Euros, with a gain of 27,767 Euros (Note 8) and a loss of 55,362 Euros (Notes 8 and 32), respectively.

In 2021, the caption Tax Refund refers to the decision of the court regarding a SISA (property transfer tax) process that had been ongoing since 2013. On 7 May 2021, the deliberation confirmed the Group's right, having received, on 30 September 2021, the amount of 530,721 Euros. The net book value of the capitalised expense was 371,505 Euros on the date of the resolution of the case, resulting in a gain of 159,216 Euros. It was also deliberated that the Group be reimbursed for the costs incurred with the bank guarantee triggered on the date of the institution of the process, in the amount of 158,689 Euros, having been received on 26 January 2022.

Supplementary income refers to the exchange of services and recharges of expenses to Group companies. In 2020, it included the recharge, with a margin, of infrastructure costs, such as electricity, water, gas and telephone related to the Property Management activity of the properties managed by the Group (Tróia, Vale da Pinta and Gramacho), in the amount of 1,685,984 Euros. In 2021, these transactions are recognized in Revenue (Note 28).

In 2021, the Others includes a financial incentive of a non-refundable nature within the framework of the Operational Programme "Madeira 14-20" – Operating aid and expenses related to public service contracts and obligations of the outermost regions, in the amount of 350,000 Euros referring to the years 2018 and 2019, approved in 2021. In 2020, as part of the same programme, it included the amount of 200,000 Euros, with the contract having been signed in May 2020.

**32. Other expenses**

The detail of Other expenses is as follows:

	<b>2021</b>	<b>2020</b>
Taxes	3,454,027	4,474,445
Credit card commissions	555,944	228,121
Inventory gifts and samples	138,642	140,922
Losses on inventories	73,047	118,775
Disposal of investment properties (Note 8)	55,362	–
Foreign currency exchange losses	33,922	688,380
Others	961,797	1,708,505
	<b>5,272,741</b>	<b>7,359,148</b>

Other expenses in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 1,653,293 Euros (Note 39).

In 2021, Taxes includes the correction made to the November 2021 VAT refund in the amount of 984,155 Euros (Note 14). The remaining amount refers essentially to expenses incurred with property taxes, solid waste and sewage conservation rates.

The caption Others, in 2021 and 2020, includes the amounts of 202,250 Euros and 397,750 Euros related to the contractual penalty associated with the termination of the hotel management and brand licensing services agreement for Porto Goldsmith hotel, owned by the company Silvermoments.

In 2020, the caption Others includes a donation made to the Health Services of the Autonomous Region of Madeira in the amount of 428,883 Euros for the acquisition of 20 ventilators that were destined to support the hospital units of the Region in the treatment of patients infected with COVID-19.

### 33. Gains on the disposal of investments, equity method and financial assets at fair value through profit or loss

The detail of the caption Gains on the disposal of investments, equity method and financial assets at fair value through profit or loss, is as follows:

	2021	2020
Disposal of joint venture Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A. (Note 9)	6,713,711	–
Losses from equity method – Joint ventures (Note 9):		
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	(84,051)	(256,887)
Solpor - Sociedade de Turismo do Porto Santo, Lda.	(657)	(3,041)
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	–	(164,154)
Gains/(Losses) from equity method - Associates (Note 10):		
Enatur - Empresa Nacional de Turismo, S.A.	6,170	(182,383)
Albar - Sociedade Imobiliária do Barlavento, S.A.	(1,076)	(4,365)
Gains/(Losses) on Financial assets at fair value through profit or loss (Note 11)	1,437,821	(331,123)
Disposal of 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)
	<b>8,071,918</b>	<b>4,683,495</b>

### 34. Financial expenses and income

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

	2021	2020
<b>Financial expenses</b>		
Interest expenses	7,584,389	7,295,185
Lease liabilities' interest	6,922,162	7,233,753
Commissions and guarantee fees	1,277,178	1,246,190
Interest rate swaps	50,966	83,316
Others	283,778	69,499
	<b>16,118,473</b>	<b>15,927,943</b>
<b>Financial income</b>		
Interest income	164,686	55,815
Foreign currency exchange gains	82,003	–
Derivatives fair value (Note 25)	14,945	22,184
Dividends	21,923	36,560
Guarantee fees	207,190	196,940
	<b>490,747</b>	<b>311,499</b>

The financial income net of financial expenses in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 2,322 Euros (Note 39).

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

In 2021 and 2020, dividends were obtained from the Iberis Bluetech Fund, FCR EuVeca ("Fundo Bluetech").

### 35. Income tax

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

	2021	2020
<b>Current income tax:</b>		
Current period income tax	(2,850,162)	(1,796,358)
Adjustments in respect of prior year estimates	193,166	459,116
Impact of transition to IFRS 16 (Note 12)	(42,204)	2,532,587
	<b>(2,699,200)</b>	<b>1,195,345</b>
<b>Deferred income tax:</b>		
Origin and reversal of temporary differences	1,230,701	7,543,360
Impact of transition to IFRS 16 (Note 12)	490,926	(3,389,463)
	<b>1,721,627</b>	<b>4,153,897</b>
	<b>(977,573)</b>	<b>5,349,242</b>

Excluding the Impact of transition to IFRS 16, the tax rate to apply to Grupo Pestana's profit/(loss) 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:

	2021	2020
Profit/(Loss) before tax	30,949,946	(23,482,078)
Tax rate	21%	21%
	<b>6,499,489</b>	<b>(4,931,235)</b>
Difference in tax rate applied to deferred taxes	(125,845)	(156,942)
Income not subject to tax	(3,008,794)	(2,221,296)
Expenses not deductible for tax purposes	1,480,023	2,539,243
	(1,654,616)	161,005
RFAI and SIFIDE	(4,433,790)	(2,111,532)
Municipal surcharge	231,335	77,282
State surcharge	850,698	660,135
Autonomous taxation	126,345	234,117
Perimeter exits	–	163,226
(Excess) / Shortfall in income tax estimates	(193,166)	(459,116)
	<b>1,426,295</b>	<b>(6,206,118)</b>

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/(loss) of the companies included in the consolidation and in said regime, according to this regime's rules.

RETGS includes all companies in which the Group holds directly or indirectly at least 75% of the share capital and that are resident in Portugal and taxed under the Portuguese Corporate Income Tax Code ("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 Group Companies, to Pestana International Holdings, S.A, with Grupo Pestana, S.G.P.S., S.A. assuming the role defined in number 3 of the referred article, regarding the fulfilment of all obligations imposed on the dominant company.

For companies not covered by the special taxation regime, current income tax is calculated based on their respective taxable profit/(loss), according to the tax rules applying in the location of their registered office.

In 2020, due to the impact of the COVID-19 pandemic on the activity, tax losses were determined, with deferred tax assets having been constituted in the total amount of 6,637,431 Euros. In 2021, the amount of 3,223,915 Euros was already used and the amount of 122,329 Euros was reversed due to the shortfall of the 2020 tax amount (Note12).

Income not subject to tax mainly refers to capital gains obtained on the disposal of a joint venture and the reversal of impairment losses in 2021, as well as the disposal of a subsidiary in 2020 (Note 39). In 2020 it also included impairment losses.

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:

	2021	2020
Tax rate	14.7% - 21%	20% - 21%
Municipal surcharge	0.0% - 1.5%	0.0% - 1.5%
State surcharge:		
> 1,500,000 and < 7,500,000	3.00%	3.00%
> 7,500,000 and < 35,000,000	5.00%	5.00%
> 35,000,000	9.00%	9.00%

### 36. Dividends

Dividends paid to shareholders in 2021 amounted to 15,000,000 Euros, corresponding to 0.18 Euros per share (2020: 12,000,000 Euros, resulting in 0.14 Euros per share).

Dividends paid by the subsidiaries of Grupo Pestana to non-controlling interests in 2020 amounted to 2,311,067 Euros.

### 37. Contingencies

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

	2021	2020
<b>Mortgages</b>		
Mortgages over hotel units	151,999,083	147,874,483
Mortgages over land	1,750,000	1,750,000
	<b>153,749,083</b>	<b>149,624,483</b>
<b>Guarantees</b>		
Sureties and Liability coverage	10,815,643	11,386,094
Bank guarantees	41,502,347	44,040,005
	<b>52,317,990</b>	<b>55,426,099</b>

#### 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, under the revoked regime, the company Grupo Pestana S.G.P.S., S.A. had been taxed, between 2004 and 2013, on financial expenses associated with equity shares that (i) never benefitted from the exemption of taxation on capital gains or losses obtained under the regime; and (ii) that due to the revoking of the regime – cannot come to benefit from that exemption in the future.

In the current context, even though they may benefit from the participation exemption, provided for in article 51-C of the Tax Code, Grupo Pestana understands that to impose on S.G.P.S.'s the taxation of past financial charges a requirement for access to the participation exemption, not being such taxation required to other companies that can also benefit from it, would be harmful to the constitutional principles of legality, equality, justice and proportionality.

In this context, the Group presented, in March 2017, a gracious complaint requesting the recovery of the tax levied on the financial expenses related to shares that did not benefit from the capital gains tax regime. As this administrative claim was dismissed by the Tax and Fiscal Affairs Authority of the Autonomous Region of Madeira, the Group presented, in November 2017, a judicial challenge in the Administrative and Fiscal Court of Funchal, which is still pending decision.

In 2020, the Group had a contingent asset in the scope of a judicial process underway in respect of SISA that was deliberated in favour of the Group in 2021 (Note 31).

#### Contingent liabilities

As at 31 December 2021, Grupo Pestana has ongoing judicial claims, assessed as contingent liabilities, of approximately 150,000 Euros.



### 38. Consolidation perimeter

The Subsidiaries included in the consolidation perimeter, by the full consolidation method, as at 31 December 2021 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real estate	31-12-2021	4,981,360	6,361,551	1,380,191	–	(28,681)	100.00%	100.00%
Carlton Palácio - Soc. de Construção e Exploração Hoteleiras, S.A.	Portugal	Hospitality	31-12-2021	48,956,240	139,421,990	90,465,750	9,164,764	2,135,524	100.00%	100.00%
Carvoeiro Golfe - Soc. de Mediação Imob., Unip.	Portugal	Real estate	31-12-2021	492,014	887,577	395,563	978,265	484,514	100.00%	100.00%
Carvoeiro Golfe, S.A.	Portugal	Golf/ Real estate	31-12-2021	72,405,994	114,736,606	42,330,612	49,098,533	8,612,216	100.00%	100.00%
Cota Quarenta - Gestão e Administração de Centros Comerciais, S.A.	Portugal	Real estate	31-12-2021	37,156,072	54,888,968	17,732,896	41,132,567	8,461,614	100.00%	100.00%
ECM - Empresa Cervejas da Madeira, Soc. Unip. Lda.	Portugal	Beverages	31-12-2021	7,164,309	29,893,508	22,729,200	23,208,771	(143,617)	100.00%	100.00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2021	15,853,468	18,334,030	2,480,562	1,491,958	35,837	100.00%	100.00%
Grupo Pestana Pousadas - Inv. Turísticos, S.A.	Portugal	Hospitality	31-12-2021	46,431,547	60,351,741	13,920,194	20,445,604	386,716	100.00%	100.00%
Herdade da Abrunheira - Proj. de Desenvolvimento Turístico e Imob., S.A.	Portugal	Real Estate	31-12-2021	6,698,076	6,720,807	22,731	–	(46,685)	100.00%	100.00%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hospitality	31-12-2021	7,206,062	11,832,753	4,626,691	15,710,806	3,289,982	100.00%	100.00%
ITI - Soc. de Inv. Turísticos na Ilha da Madeira, S.A.	Portugal	Hospitality	31-12-2021	56,529,211	72,129,675	15,600,464	21,307,472	1,431,037	100.00%	100.00%
M. & J. Pestana - Soc. de Turismo da Madeira, S.A.	Portugal	Hospitality/ Timeshare	31-12-2021	148,466,821	376,718,907	228,252,086	36,971,062	536,487	100.00%	100.00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Tourist entertainment	31-12-2021	1,154,671	3,570,471	2,415,800	196,044	(399,505)	100.00%	100.00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2021	1,504,169	1,514,821	10,652	48,000	12,748	100.00%	100.00%
Pestana Cidadela - Inv. Turísticos, S.A.	Portugal	Hospitality	31-12-2021	11,439,886	15,727,233	4,287,347	2,768,410	102,325	100.00%	100.00%
Ponta da Cruz - Soc. Imob. e de Gestão de Hotéis, S.A.	Portugal	Hospitality/ Timeshare	31-12-2021	11,319,186	24,635,269	13,316,083	4,812,991	528,333	52.00%	52.00%
Porto Carlton - Soc. de Construção e Exploração Hoteleira, S.A.	Portugal	Hospitality	31-12-2021	7,322,537	13,810,836	6,488,299	1,922,343	355,027	60.00%	60.00%
Salvor - Soc. de Inv. Hoteleiro, S.A.	Portugal	Hospitality/ Timeshare	31-12-2021	95,777,463	228,801,116	133,023,653	36,392,894	2,530,421	100.00%	100.00%
Soc. de Inv. Hoteleiros D. João II, S.A.	Portugal	Hospitality/ Timeshare	31-12-2021	1,359,032	3,621,228	2,262,196	398,728	27,076	100.00%	100.00%

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

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/(Loss)	% Owned	% Control
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real estate	31-12-2020	4,900,591	6,360,453	1,459,862	–	(27,474)	100.00%	100.00%
Carlton Palácio - Soc. de Construção 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 Imob., 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 Administração de Centros Comerciais, 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. Unip. 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 - Inv. 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 - Proj. de Desenvolvimento Turístico e Imob., 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 Inv. 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 - Soc. 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	Tourist 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 - Inv. Turísticos, 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. Imob. 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 Construção 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 - Soc. de Inv. 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%
Soc. de Inv. 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 included in the consolidation, under the equity method, as at 31 December 2021 and 2020, are as follows:

	2021		2020		
	Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	Solpor – Soc. Turismo do Porto Santo, Lda.	Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	Solpor – Soc. Turismo do Porto Santo, Lda.
<b>Headquarters</b>	Portugal	Portugal	Portugal	Portugal	Portugal
<b>Activity</b>	Hospitality	Real estate	Hospitality	Hospitality	Real Estate
<b>% Owned</b>	50.00%	50.00%	50.00%	50.00%	50.00%
<b>% Control</b>	50.00%	50.00%	50.00%	50.00%	50.00%
Total non-current assets	4,252,626	–	12,814,501	4,442,234	–
Total current assets					
Of which cash and cash equivalents	696,440	5,326	64,206	12,024	8,426
Others	199,919	929,291	593,070	138,801	929,291
<b>Total assets</b>	<b>5,148,985</b>	<b>934,617</b>	<b>13,471,777</b>	<b>4,593,059</b>	<b>937,717</b>
Total non-current liabilities					
Of which financial liabilities	1,256,321	–	6,306,811	1,367,319	–
Others	1,805,280	–	–	1,877,343	–
Total current liabilities					
Of which financial liabilities	225,806	–	495,588	139,293	–
Others	547,195	221	163,193	226,620	2,009
<b>Total liabilities</b>	<b>3,834,602</b>	<b>221</b>	<b>6,965,592</b>	<b>3,610,575</b>	<b>2,009</b>
<b>Total equity</b>	<b>1,314,383</b>	<b>934,395</b>	<b>6,506,185</b>	<b>982,484</b>	<b>935,708</b>
Revenue	1,012,444	–	471,444	338,851	–
Depreciation and amortization charges	(190,082)	–	(415,804)	(195,546)	–
Others	(877,320)	(1,312)	(768,775)	(428,734)	(2,183)
<b>Operating results</b>	<b>(54,958)</b>	<b>(1,312)</b>	<b>(713,135)</b>	<b>(285,429)</b>	<b>(2,183)</b>
Financial expenses	(142,118)	–	(137,247)	(122,756)	–
Financial income	–	–	–	–	–
Income tax	28,975	–	176,423	(105,588)	–
<b>Loss for the period</b>	<b>(168,101)</b>	<b>(1,312)</b>	<b>(673,959)</b>	<b>(513,773)</b>	<b>(2,183)</b>
<b>Dividends received</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

The Associates included in the consolidation, under the equity method, as at 31 December 2021 and 2020, are as follows:

	2021			2020		
	Albar - Sociedade Imobiliária do Barlavento,	Enatur - Empresa Nacional de Turismo, S.A.	Lean Company Ventures II, S.A.	Albar - Sociedade Imobiliária do Barlavento,	Enatur - Empresa Nacional de Turismo, S.A.	Lean Company Ventures II, S.A.
<b>Headquarters</b>	Portugal	Portugal	Portugal	Portugal	Portugal	Portugal
<b>Activity</b>	Real estate	Hospitality	Tech	Real estate	Hospitality	Tech
<b>% Owned</b>	49.81%	49.00%	10.00%	49.81%	49.00%	10.00%
<b>% Control</b>	49.81%	49.00%	20.00%	49.81%	49.00%	20.00%
Total non-current assets	–	74,941,356	1,720,236	–	78,283,901	946,833
Total current assets	1,191,680	1,084,213	79,036	1,195,397	2,033,421	9,838
<b>Total assets</b>	<b>1,191,680</b>	<b>76,025,569</b>	<b>1,799,272</b>	<b>1,195,397</b>	<b>80,317,322</b>	<b>956,671</b>
Total non-current liabilities	–	16,086,209	595,879	–	17,307,112	563,550
Total current liabilities	2,739	4,439,390	253,803	4,295	5,509,504	3,346
<b>Total liabilities</b>	<b>2,739</b>	<b>20,525,599</b>	<b>849,682</b>	<b>4,295</b>	<b>22,816,616</b>	<b>566,896</b>
<b>Total equity</b>	<b>1,188,941</b>	<b>55,499,970</b>	<b>949,590</b>	<b>1,191,102</b>	<b>57,500,706</b>	<b>389,775</b>
Revenue	–	1,652,169	–	–	1,348,008	–
Profit / (Loss) for the period	(2,161)	12,591	559,815	(8,764)	(372,211)	9,770
Dividends received	–	–	–	–	–	–

### 39. Changes in the perimeter

On 21 December 2021, Grupo Pestana sold its joint venture participation in Pestana CR7 – Lisboa, S.A. for the amount of 6,713,711 Euros, as well as of the respective Accessory capital contributions, traded at their nominal value in the amount of 1,625,000 Euros, thus corresponding to a total of 8,338,711 Euros and capital gain of 6,713,711 Euros (Note 33). The participation was sold to the other Shareholder of that entity, CR7 Lifestyle Unipessoal, Lda.

On 31 December 2020, the Group sold the shares representing 47.73% of the capital of SDM - Sociedade de Desenvolvimento da Madeira, S.A.'s share capital, for 6,813,058 Euros which generated a gain in the amount of 5,643,367 Euros (Note 33). The sales price was determined by an external entity accredited for this purpose and will be received in two tranches of equal amount until 30 June 2022 and 30 June 2023 (Note 14). As a result of this transaction, the Group also ceased to own any participation in SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, Sociedade Unipessoal, S.A.

Grupo Pestana decided 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 Group's consolidated results was negative by 17,919 Euros (Note 33).

The financial position of former subsidiaries that exited the consolidation perimeter with reference to the exit date 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
<b>Sales price</b>	<b>6,813,058</b>	<b>-</b>	<b>-</b>	<b>6,813,058</b>
<b>Assets</b>				
Tangible fixed assets	1,485,044	-	-	1,485,044
Financial assets at fair value through profit or 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
<b>Total assets at fair value</b>	<b>10,514,257</b>	<b>823,072</b>	<b>30,985</b>	<b>11,368,314</b>
<b>Liabilities</b>				
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
<b>Total liabilities at fair value</b>	<b>7,293,343</b>	<b>319,663</b>	<b>13,066</b>	<b>7,626,072</b>
<b>Grupo Pestana interest</b>	<b>802,043</b>	<b>367,647</b>	<b>17,919</b>	<b>1,187,609</b>
<b>Non-controlling interests</b>	<b>2,418,871</b>	<b>135,762</b>	<b>-</b>	<b>2,554,633</b>
<b>Net assets</b>	<b>3,220,914</b>	<b>503,409</b>	<b>17,919</b>	<b>3,742,242</b>
<b>% sold</b>	<b>47.73%</b>	<b>47.73%</b>	<b>100.00%</b>	
<b>Gains / (losses) on disposal (Note 33)</b>	<b>6,011,015</b>	<b>(367,648)</b>	<b>(17,919)</b>	<b>5,625,448</b>

The Income statement of the entities that exited the consolidation perimeter with 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 supplies and services	(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 losses of tangible assets	-	-	(2,767,000)	(2,767,000)
Impairment of 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)
<b>Operating profit</b>	<b>3,225,077</b>	<b>(91,241)</b>	<b>(2,838,210)</b>	<b>295,626</b>
Financial expenses	(83)	-	(330)	(413)
Financial income	2,671	64	-	2,735
<b>Profit before tax</b>	<b>3,227,665</b>	<b>(91,177)</b>	<b>(2,838,540)</b>	<b>297,948</b>
Income tax	(163,226)	-	-	(163,226)
<b>Profit for the period</b>	<b>3,064,439</b>	<b>(91,177)</b>	<b>(2,838,540)</b>	<b>134,722</b>
<b>Profit for the period attributable to:</b>				
Shareholder	1,462,656	(43,658)	(2,838,540)	(1,419,542)
Non-controlling interests	1,601,783	(47,519)	-	1,554,264
	<b>3,064,439</b>	<b>(91,177)</b>	<b>(2,838,540)</b>	<b>134,722</b>
EBITDA	3,279,097	(91,241)	(70,260)	

#### 40. Related parties

As at 31 December 2021 and 2020, Grupo Pestana is owned and controlled by Pestana International Holdings S.A., which holds 99% of the share capital. The ultimate owner of that Company is Mr. Dionísio Pestana, who also holds the remainder 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 2021 and 2020, the remuneration received by the Board of Directors is described in Note 30.

**Transactions and balances with related parties**

During 2021 Grupo Pestana carried out the following transactions with the following entities:

	Dividends paid	Services obtained	Interest incurred	Sale of inventories	Serviced rendered	Interest earned	Acquisition of financial investments	Disposal of financial investments
<b>Shareholders</b>	<b>15,000,000</b>	<b>11,373</b>	<b>20,000</b>	–	<b>14,165</b>	–	–	–
Pestana International Holdings S.A.	14,850,000	11,373	20,000	–	14,165	–	–	–
Dionísio Fernandes Pestana	150,000	–	–	–	–	–	–	–
<b>Joint ventures</b>	–	<b>204,512</b>	–	<b>15,788</b>	<b>204,062</b>	<b>103,320</b>	–	–
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	–	74,468	–	15,788	201,350	103,320	–	–
CR7 Lifestyle Lisboa, S.A.	–	130,044	–	–	2,712	–	–	–
<b>Associates</b>	–	<b>166,386</b>	–	–	<b>21,616</b>	<b>8,013</b>	–	–
Enatur - Empresa Nacional de Turismo, S.A.	–	166,386	–	–	21,616	8,013	–	–
<b>Other Group companies</b>	–	<b>17,632,018</b>	<b>4,160</b>	<b>491</b>	<b>5,635,849</b>	<b>116,200</b>	–	–
Hotéis do Atlântico – Soc. Imob. e de Gestão de Hotéis, S.A.	–	551	4,160	–	381	3,701	–	–
Pestana Management - Serviços de Gestão, S.A.	–	14,493,425	–	491	3,916,285	–	–	–
Pestana Segurança - Serviços de Segurança e Vigilância, Unip., Lda.	–	1,271,084	–	–	14,709	–	–	–
Intervisa Viagens e Turismo, Unipessoal Lda.	–	1,848,811	–	–	12,750	–	–	–
URP - Urban Renew - Projetos imobiliários SICAFI, S.A.	–	–	–	–	1,623,975	–	–	–
ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	–	5,599	–	–	–	–	–	–
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	–	–	–	–	167	–	–	–
Pestana Marrocos, S.à.r.l.	–	–	–	–	4,258	–	–	–
Brasturinvest Investimentos Turísticos, S.A.	–	–	–	–	45,496	–	–	–
Pestana Miami, LLC	–	1,155	–	–	3,063	74,166	–	–
Pestana Manhattan 39, LLC	–	–	–	–	1,374	–	–	–
Pestana USA, Inc.	–	–	–	–	57	–	–	–
Pestana Management UK, Limited	–	1,206	–	–	22	–	–	–
Pestana Berlin S.à.r.l.	–	9,083	–	–	2,631	–	–	–
Desarrollos Hoteleros Barcelona S.A.	–	255	–	–	1,158	–	–	–
Global Mandalay, S.L.	–	615	–	–	615	–	–	–
Amesteldijk Hotel Ontwckeling B.V.	–	129	–	–	349	38,333	–	–
Pestana CR7 Madrid S.L.	–	105	–	–	8,559	–	–	–

Notes to the consolidated financial statements

	Dividends paid	Services obtained	Interest incurred	Sale of inventories	Serviced rendered	Interest earned	Acquisition of financial investments	Disposal of financial investments
<b>Other related parties</b>	-	-	-	-	-	-	608,276	8,338,711
Quanlux Unipessoal Lda.	-	-	-	-	-	-	608,276	-
CR7 Lifestyle Unipessoal, S.A.	-	-	-	-	-	-	-	8,338,711
<b>Key management personnel</b>	-	-	-	-	-	-	-	-
	<b>15,000,000</b>	<b>18,014,289</b>	<b>24,160</b>	<b>16,279</b>	<b>5,875,692</b>	<b>227,533</b>	<b>608,276</b>	<b>8,338,711</b>



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

	Dividends paid	Services obtained	Interest incurred	Services rendered	Interest earned
<b>Shareholders</b>	<b>12,000,000</b>	<b>23,699</b>	<b>20,031</b>	<b>–</b>	<b>–</b>
Pestana International Holdings S.A.	11,880,000	23,699	20,031	–	–
Dionísio Fernandes Pestana	120,000	–	–	–	–
<b>Joint ventures</b>	<b>–</b>	<b>130,988</b>	<b>–</b>	<b>138,719</b>	<b>105,248</b>
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	–	65,742	–	138,602	105,248
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	–	65,246	–	117	–
<b>Associates</b>	<b>–</b>	<b>31,473</b>	<b>–</b>	<b>33,076</b>	<b>14,947</b>
Enatur - Empresa Nacional de Turismo, S.A.	–	31,473	–	28,576	14,947
Albar - Sociedade Imobiliária do Barlavento, S.A.	–	–	–	4,500	–
<b>Other Group companies</b>	<b>–</b>	<b>13,250,825</b>	<b>–</b>	<b>7,207,234</b>	<b>187,172</b>
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	–	–	–
Desarrollos Hoteleros Barcelona 2004 S.A.	–	1,475	–	113	–
Global Mandalay, S.L.U.	–	3,112	–	1,763	–
Amesteldijk Hotel Ontwikkeling B.V.	–	1,054	–	202	115,000
<b>Key management personnel</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	<b>12,000,000</b>	<b>13,436,985</b>	<b>20,031</b>	<b>7,379,029</b>	<b>307,367</b>

At the end of 2021 and 2020, loans to/from related parties are detailed as follows:

	31-12-2021		31-12-2020	
	Borrowings	Loans granted	Borrowings	Loans granted
<b>Associates</b>	-	<b>406,593</b>	-	<b>847,593</b>
Enatur - Empresa Nacional de Turismo, S.A.	-	406,593	-	847,593
<b>Key management personnel</b>	-	-	-	-
	-	<b>406,593</b>	-	<b>847,593</b>

The balances arising from transactions with related parties as at 31 December 2021 are as follows:

	Trade receivables current	Trade receivables non-current	Impairment of trade receivables	Net trade receivables	Trade payables current	Trade payables non-current	Total trade payables
<b>Shareholder</b>	<b>241</b>	<b>–</b>	<b>–</b>	<b>241</b>	<b>14,870</b>	<b>–</b>	<b>14,870</b>
Pestana International Holdings S.A.	241	–	–	241	14,870	–	14,870
<b>Joint ventures</b>	<b>93,702</b>	<b>1,823,158</b>	<b>–</b>	<b>1,916,860</b>	<b>3,991</b>	<b>–</b>	<b>3,991</b>
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	93,702	1,823,158	–	1,916,860	3,991	–	3,991
<b>Associates</b>	<b>23</b>	<b>–</b>	<b>–</b>	<b>23</b>	<b>5,941</b>	<b>–</b>	<b>5,941</b>
Enatur - Empresa Nacional de Turismo, S.A.	–	–	–	–	5,941	–	5,941
Albar - Sociedade Imobiliária do Barlavento, S.A.	23	–	–	23	–	–	–
<b>Other Group companies</b>	<b>820,088</b>	<b>–</b>	<b>–</b>	<b>820,088</b>	<b>9,508,249</b>	<b>–</b>	<b>9,508,249</b>
Hotéis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	3,849	–	–	3,849	407,733	–	407,733
Djebel, S.A.	–	–	–	–	201,505	–	201,505
Pestana Management - Serviços de Gestão, S.A.	556,717	–	–	556,717	7,623,358	–	7,623,358
Pestana Segurança - Serviços de Segurança e Vigilância, Unip., Lda.	3,236	–	–	3,236	389,865	–	389,865
Intervisa Viagens e Turismo, Unipessoal Lda.	41,524	–	–	41,524	121,029	–	121,029
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	260	–	–	260	10,003	–	10,003
URP - Urban Renew - Projetos imobiliários SICAFI, S.A.	65,146	–	–	65,146	–	–	–
Salvintur - Sociedade de Investimentos Turísticos, S.A.	74	–	–	74	129,798	–	129,798
ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A.	–	–	–	–	136,233	–	136,233
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	2,800	–	–	2,800	–	–	–
Empreendimentos Turísticos, Lda.	1,047	–	–	1,047	–	–	–
Pestana Marrocos, S.à.r.l.	5,564	–	–	5,564	551	–	551
Brasturinvest Investimentos Turísticos, S.A.	21,042	–	–	21,042	–	–	–
Pestana Miami, LLC	74,166	–	–	74,166	–	–	–
Pestana CR7 Manhattan 39 LLC	1,459	–	–	1,459	–	–	–
Pestana USA, Inc.	60	–	–	60	–	–	–
Pestana Inversiones Unipessoal, Lda.	–	–	–	–	483,120	–	483,120
Pestana Berlin S.à.r.l.	2,631	–	–	2,631	4,669	–	4,669

Notes to the consolidated financial statements

	Trade receivables current	Trade receivables non-current	Impairment of trade receivables	Net trade receivables	Trade payables current	Trade payables non-current	Total trade payables
Desarrollos Hoteleros Barcelona S.A.	1,158	–	–	1,158	280	–	280
Global Mandalay, S.L.	652	–	–	652	–	–	–
Amesteldijk Hotel Ontwkkeling B.V.	38,703	–	–	38,703	–	–	–
Pestana CR7 Madrid S.L.	–	–	–	–	105	–	105
<b>Other related parties</b>	<b>2,345</b>	<b>–</b>	<b>–</b>	<b>2,345</b>	<b>6,189</b>	<b>–</b>	<b>6,189</b>
CR7 Lifestyle Lisboa, S.A.	2,345	–	–	2,345	6,189	–	6,189
<b>Key management personnel</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
	<b>916,399</b>	<b>1,823,158</b>	<b>–</b>	<b>2,739,557</b>	<b>9,539,240</b>	<b>–</b>	<b>9,539,240</b>

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

	Trade receivables current	Trade receivables non-current	Net trade receivables	Trade payables current
<b>Shareholders</b>	<b>87</b>	<b>-</b>	<b>87</b>	<b>4,486</b>
Pestana International Holdings S.A.	87	-	87	4,486
<b>Joint ventures</b>	<b>49,414</b>	<b>1,887,947</b>	<b>1,937,361</b>	<b>5,678</b>
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
<b>Associates</b>	<b>81,198</b>	<b>-</b>	<b>81,198</b>	<b>-</b>
Enatur - Empresa Nacional de Turismo, S.A.	81,095	-	81,095	-
Albar - Sociedade Imobiliária do Barlavento, S.A.	103	-	103	-
<b>Other Group companies</b>	<b>1,814,246</b>	<b>-</b>	<b>1,814,246</b>	<b>5,341,102</b>
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 Turísticas 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 Berlin S.A.R.L.	1,679	-	1,679	-
Desarrollos Hoteleros Barcelona 2004 S.A.	120	-	120	-
Amesteldijk Hotel Ontwkkeling B.V.	115,000	-	115,000	-
<b>Key management personnel</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>1,944,945</b>	<b>1,887,947</b>	<b>3,832,891</b>	<b>5,351,266</b>

#### 41. Note to the Consolidated cash flow statement

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

		Cash flows		Cash free transactions				
	2020	Receipts	Payments	Increases	Rent concessions	Transfers	Accruals / Deferrals	2021
Bond loans	102,340,734	29,000,000	(29,020,325)	–	–	–	(163,233)	102,157,176
Lease liabilities	155,065,118	–	(17,344,407)	3,636,305	(1,400,714)	–	6,922,162	146,878,464
Bank loans	187,757,051	26,415,566	(22,964,006)	19,300,000	–	(527,267)	650,734	210,632,078
Commercial paper	25,329,286	15,000,000	(7,944,444)	–	–	–	(168,561)	32,216,281
Cash flows from financing activities	470,492,189	70,415,566	(77,273,182)	22,936,305	(1,400,714)	(527,267)	7,241,102	491,883,999

## 42. Other information

EBITDA refers to Profit for the period excluding financial results, income taxes, gambling tax, depreciation, amortization and impairment of tangible/intangible assets and investment government grants, including dividends and other low value items.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>Profit for the period</b>		<b>29,972,373</b>	<b>(18,132,836)</b>
Financial results	34	15,627,726	15,616,444
Dividends	34	21,923	36,560
Income tax	35	977,573	(5,349,242)
Gambling tax paid by Casino		854,189	1,068,776
Charges of depreciation and amortization	6;7;8	42,132,992	42,694,629
Investment government grants	31	(421,252)	(703,498)
Reversals and impairment losses of tangible assets	6;7;8	(1,624,654)	10,763,106
Others		90,921	586,515
<b>EBITDA</b>		<b>87,631,791</b>	<b>46,580,454</b>

## 43. Subsequent events

On 31 January 2022, Grupo Pestana contracted a loan of 50 million Euros, to be repaid in 60 quarterly instalments, starting the first period of payment of interest and principal in May 2022. The loan has a 15-year maturity date with fixed interest rate and the funds received are intended to meet current liabilities, as well as support the investment projects that the Group has in progress.

Recent geopolitical events in Ukraine culminating in the military invasion by Russia on 24 February 2022 and the current war situation are affecting global markets, in particular supply and logistics chains, energy prices and the perspective for inflation and interest rates. Although the impacts of this situation have not been presently relevant, Grupo Pestana is monitoring the evolution of the conflict and the consequences arising from it.

Funchal, 29 March 2022

The Certified Accountant

The Board of Directors

Luís Miguel Miranda Fernandes

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.)

### **2021 Period**

Dear Shareholders of

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

In accordance with the law and statutes we present the Report on the supervisory activity developed by the Supervisory Board as well as our Opinion on the consolidated management report, consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes on the consolidated financial statements presented by **Grupo Pestana S.G.P.S, S.A.**'s Board of Directors (Company) regarding the 2021 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 PricewaterhouseCoopers & Associados - SROC, Lda. (PwC) as the Company's Auditor.

The Supervisory Board became aware of the terms of the Auditor's Report for the period of 2021, issued with no reserves.

We also proceeded to analyse the Consolidated management report prepared by the Board of Directors which, in our understanding, is in accordance with the annual report, complements the information presented in the consolidated financial statements,

reports the most significant facts regarding the Company's activity, therefore fulfilling all the applicable legal and statutory requirements.

In line with the previously presented, we are of the opinion that **Grupo Pestana S.G.P.S, S.A.**'s General Assembly approve the consolidated management report as well as the remaining accounting documents for the 2021 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, PwC, for the cooperation and support provided while carrying out their work.

Lisbon, 31 March 2022

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)



## ***Statutory Audit Report***

***(Free translation from the original in Portuguese)***

### ***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 December 31, 2021 (which shows total assets of Euros 1,001,552,790 and total shareholders' equity of Euros 287,035,966 including a net profit of Euros 29,576,756), the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Grupo Pestana, S.G.P.S. as at December 31, 2021, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

#### ***Basis for opinion***

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

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

#### ***Responsibilities of management and supervisory board for the consolidated financial statements***

Management is responsible for:

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

---

**PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.**

Sede: Palácio Sottomayor, Rua Sousa Martins, 1 - 3º, 1069-316 Lisboa, Portugal

Receção: Palácio Sottomayor, Avenida Fontes Pereira de Melo, nº16, 1050-121 Lisboa, Portugal

Tel: +351 213 599 000, Fax: +351 213 599 999, [www.pwc.pt](http://www.pwc.pt)

Matriculada na CRC sob o NIPC 506 628 752, Capital Social Euros 314.000

Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda. pertence à rede de entidades que são membros da PricewaterhouseCoopers International Limited, cada uma das quais é uma entidade legal autónoma e independente.

- c) the creation and maintenance of an appropriate system of internal control to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- d) the adoption of appropriate accounting policies and criteria; and
- e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

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

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

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

- a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion; and
- g) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

### ***Report on other legal and regulatory requirements***

#### ***Consolidated Directors' report***

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

March 31, 2022

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

Hugo Miguel Patrício Dias, ROC no. 1432 (número de registo na OROC)  
Registered with the Portuguese Securities Market Commission under no. 20161042