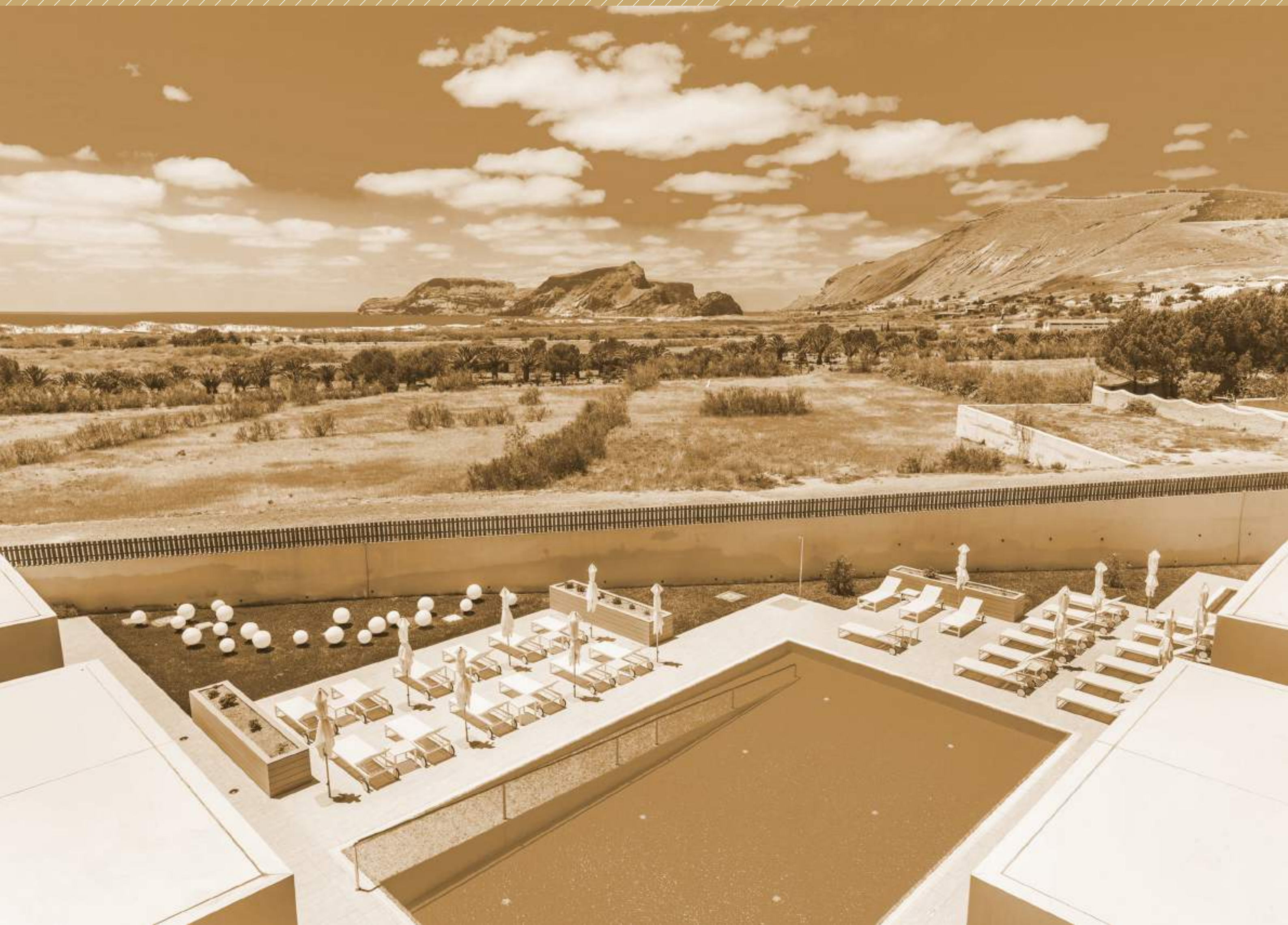
ANNUAL REPORT

Pestana International Holdings S.A.

31 December 2016



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Consolidated management report for 2016

Dear Shareholders,

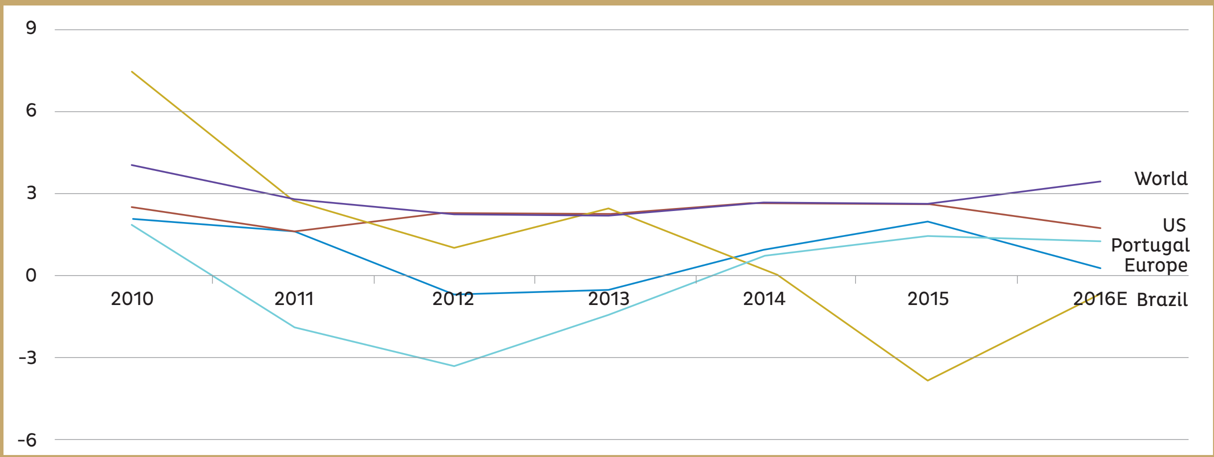
Under Luxembourg Corporate Law, we have the honor to submit for your consideration and approval the Consolidated management report and the Consolidated financial statements for the year ended as at 31 December 2016.

1. Overview of the world economy

1.1. GDP growth

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

Table 1 - GDP Growth Rate (%)



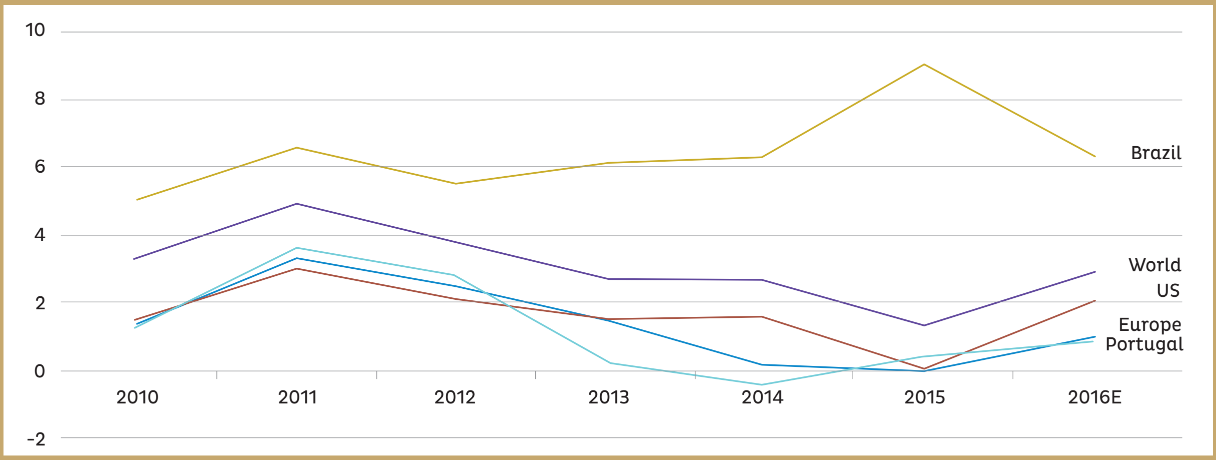
Source: World Bank

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

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

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

Table 2 – Inflation, annual %)

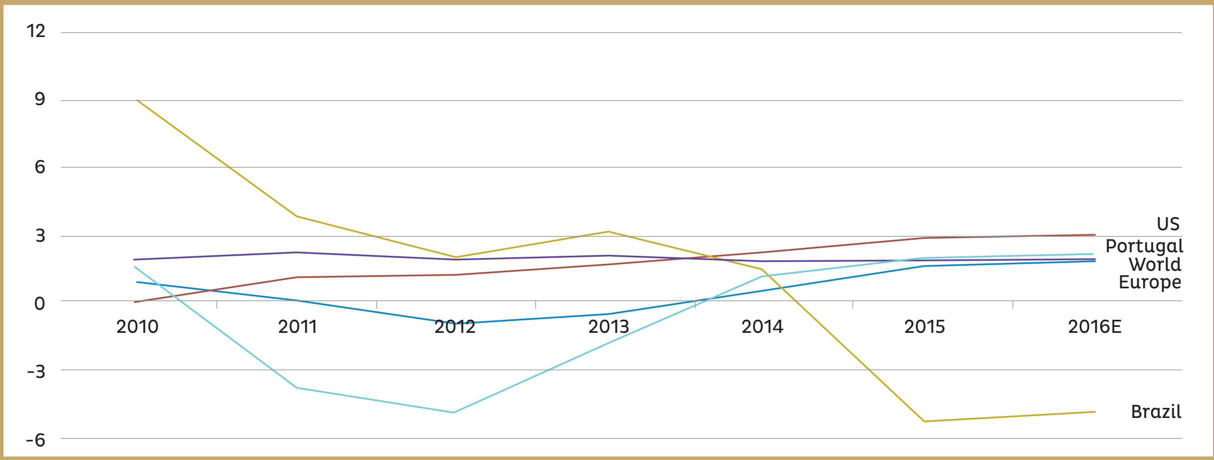


Source: World Bank, Trandingeconomics.com, EUROSTAT

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

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

Table 3 - Final consumption expenditure (annual % growth)



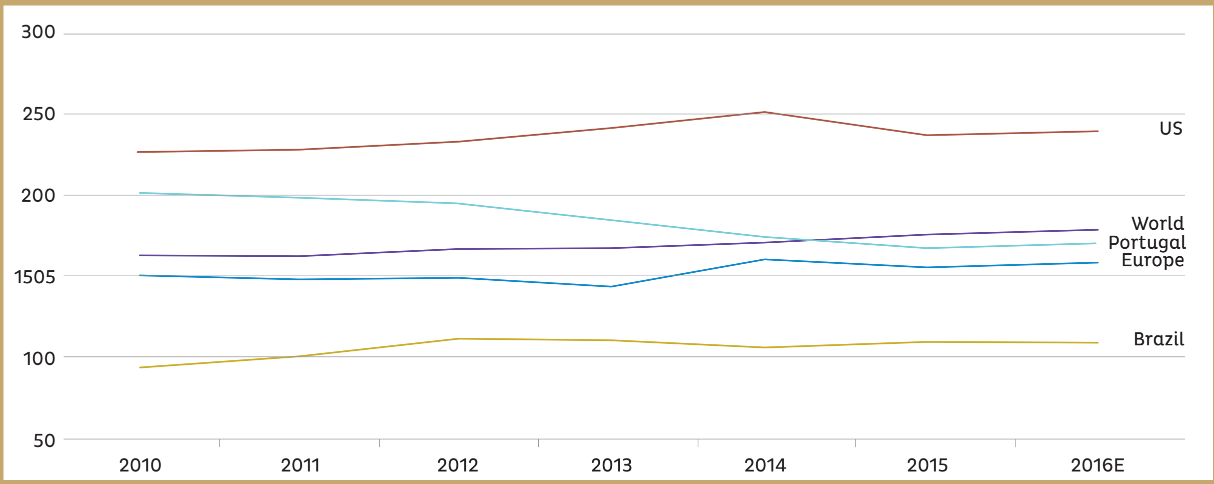
Source: World Bank. For 2016 same trend were applied based on indicative figures of Banco de Portugal, FMI

1.2. Liquidity and cost of funds

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

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

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



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

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

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

Table 5 - Reference rates; Bond yields; Interest rates

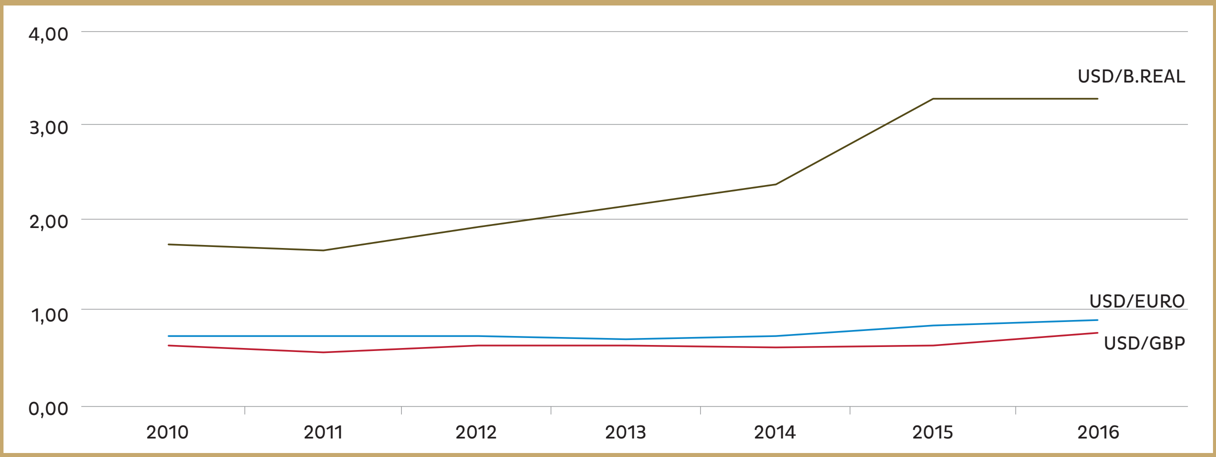
Source: World Bank; Euribor-rates.eu; BdP

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

1.3 Exchanges rates

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

Table 6 - Official exchange rate



Source: World Bank

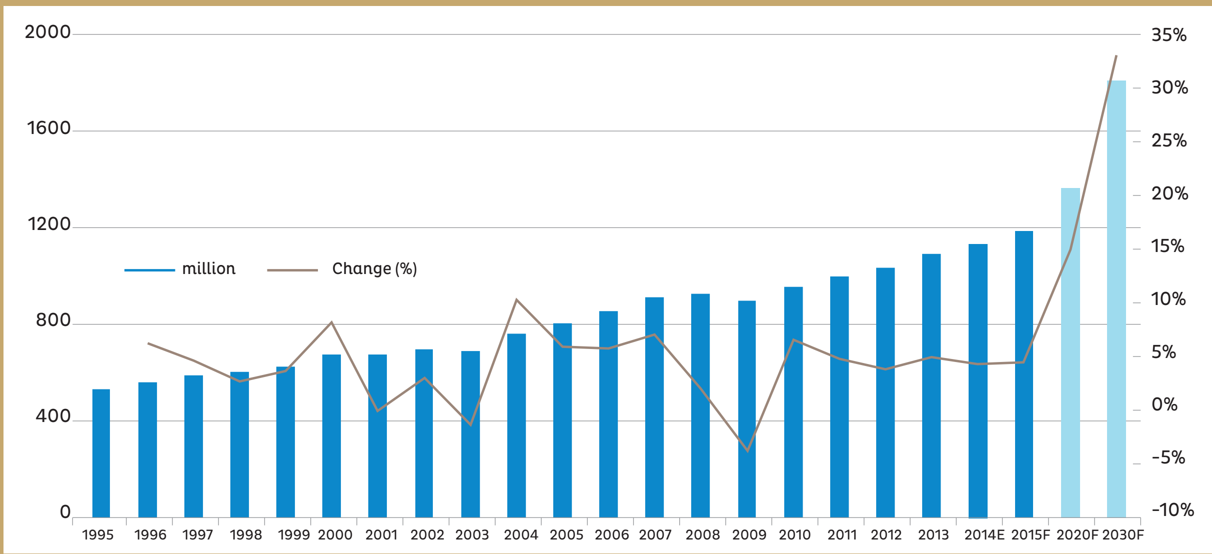

PESTANA CR7 HOTEL

2. Tourism

2.1. World trend

The tourism activity in global terms has been recording successive growths over the last 7 years, a preponderant factor for the growth of some countries in southern Europe. The arrival of international tourists reached 1,200 million in 2016, an increase of circa 5% compared with the previous year, according to the latest Global Tourism Barometer of the UNWTO ("World Tourism Organization") that reveals an admirable forecast for 2030, surpassing 1,800 million tourists.

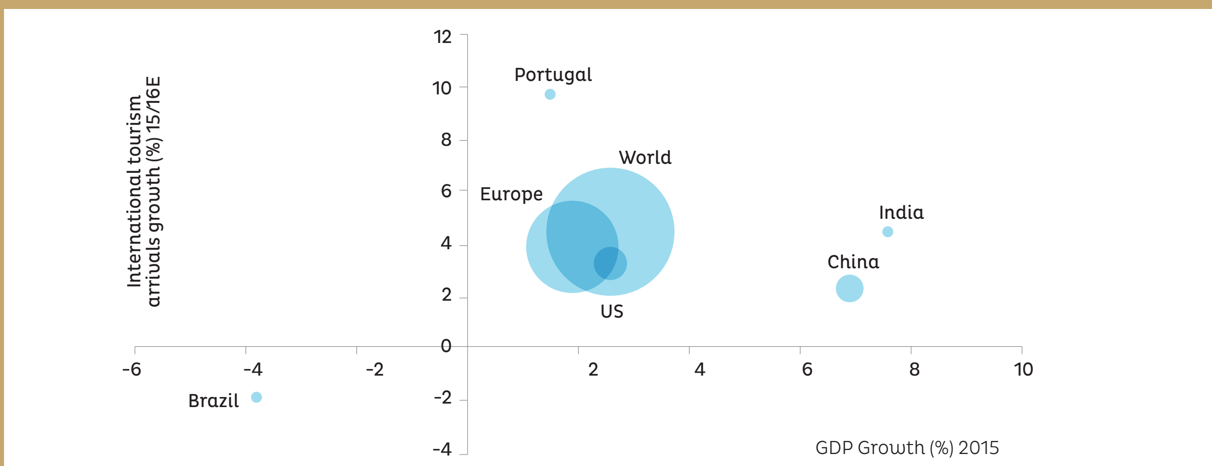
Table 7 – International Tourist arrivals



Source: World Tourism Organization (UNWTO)

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

Table 8 – Number of International Tourist arrivals



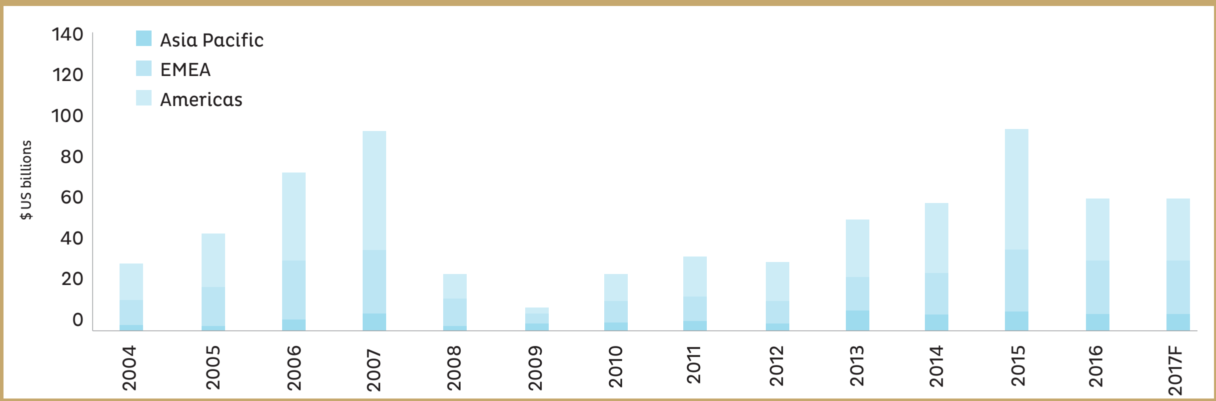
Source: World Bank; (UNWTO)

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

For 2017, JLL expects another good year in terms of transactions, although expectations regarding purchases by investors are more moderate.

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

Table 9 - Global hotel transaction volume 2004 – 2016F



Source: Jones Lang LaSalle in "Hotel Investment Outlook 2017 – Endurance against the odds"

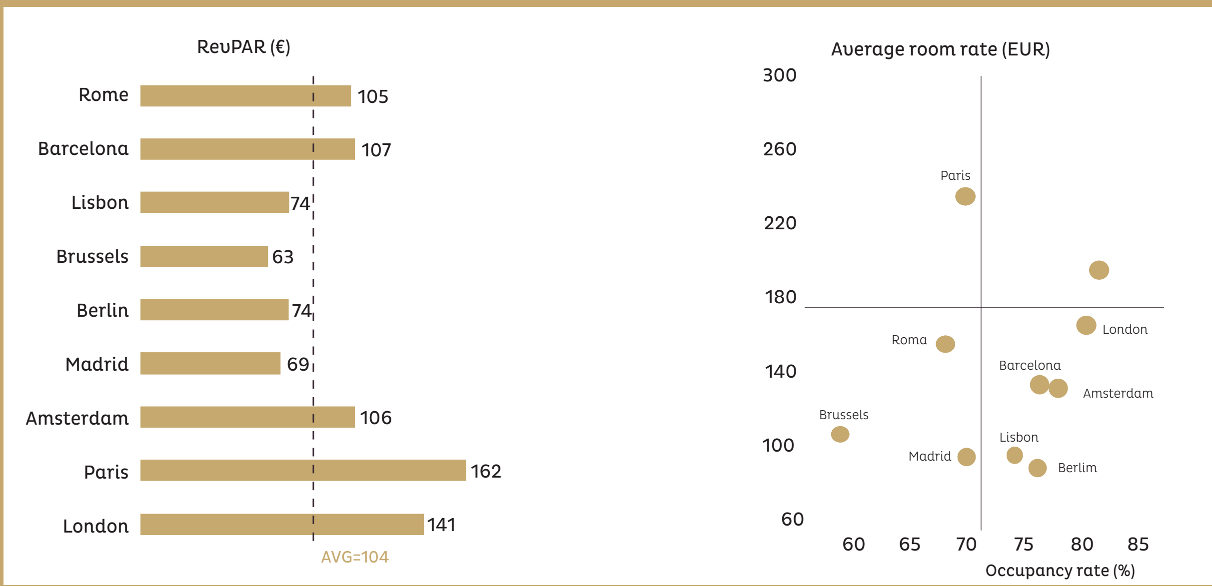
2.2. Europe

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

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

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

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



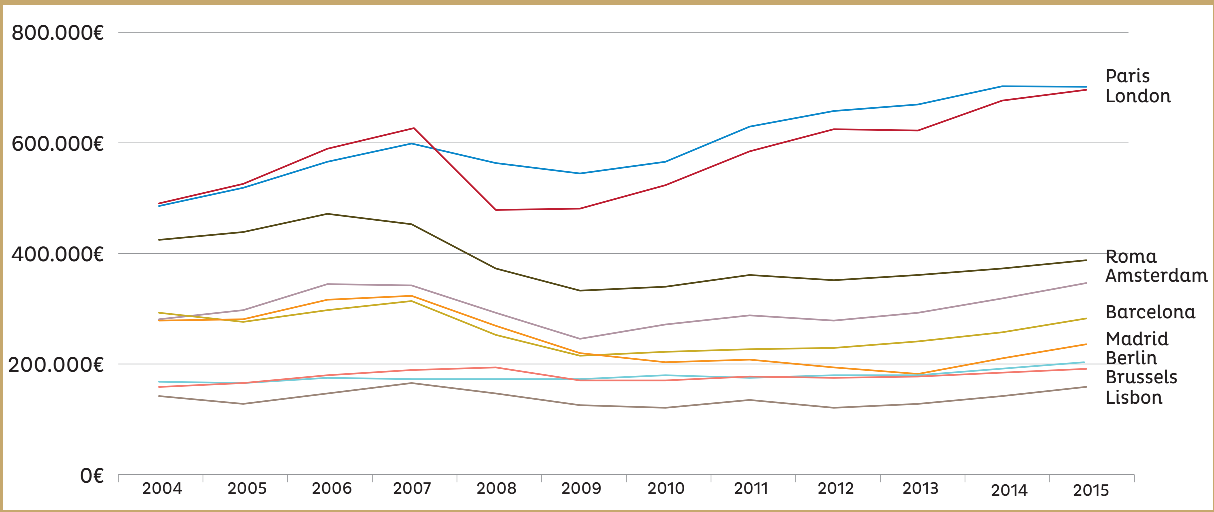
Source: STR Global

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

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

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

Table 11 – Investment amount per room



Source: HVS – "European Hotel Valuation"

2.3. Portugal

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

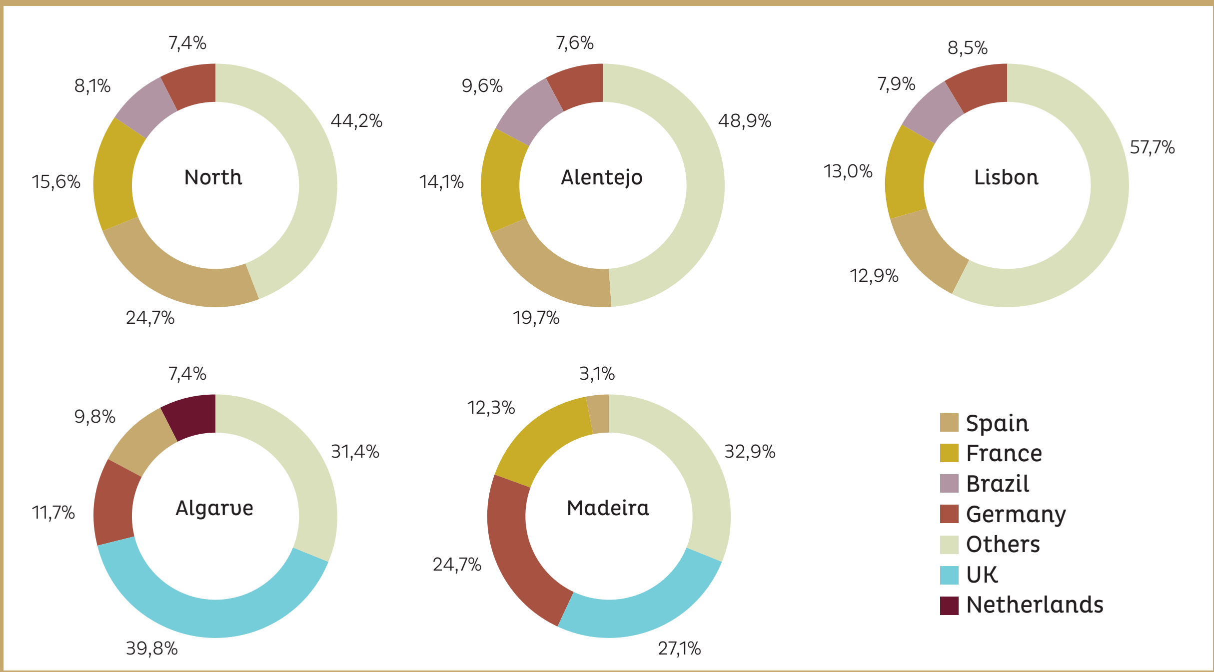
Table 12 - Portuguese tourism highlights

	2016E	2015	△16/15	2014
Domestic visitors ('000)	7,600	7,218	5%	6,776
International visitors ('000)	11,418	10,141	13%	9,316
Overnights by international visitors ('000)	38,300	34,425	11%	32,349
Revenue (milhões €)	12,800	11,451	12%	10,393
RevPAR (€)	42,00	37,80	11%	33,00
Feeder Markets (by number of visitors) ('000)	**2016**	**2015**	**Weight**	**2014**
UK	2,248	1,723	20%	1,580
Spain	1,650	1,542	14%	1,442
Germany	1,200	1,104	11%	984
France	1,350	1,140	12%	1,000
Brazil	570	556	5%	579
Others	4,400	4,076	39%	3,730
Total	**11,418**	**10,141**	**100%**	**9,316**

Source: Turismo de Portugal; INE, BdP

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

Table 13 – Portuguese feeder markets by region



Source: Turismo de Portugal

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

Table 14 – Evolution of number of rooms

Source: INE

2.4. Africa

Africa's international tourist arrivals in 2016 should have registered the same numbers of the previous year. While the international tourism arrivals to North Africa were weak, Sub-Saharan Africa saw numbers rise since 2015. This continent kept struggling with social distress in several countries, not only in the north but also in Mozambique where Pestana Hotel Group is operating. Data for Africa should be read with caution as it is based on very limited information.

Table 15- Africa international tourism arrivals

Amounts in thousands of Euros

Amounts in thousands of Euros	2012	2013	2014	2015E	2016E
Morocco	*9,375*	*10,046*	*10,283*	*10,117*	*10,350*
Subsaharan Africa	*34,484*	*36,217*	*34,900*	*35,400*	*36,000*
Angola	528	650	595	510	500
Cape Verde	482	503	494	520	550
Mozambique	2,113	1,886	1,661	1,552	1,400
São Tome Principe	n.a.	n.a.	n.a.	n.a.	n.a.
South Africa	9,188	9,537	9,549	8,904	8,800

Source: UNWTO; 2015/2016 estimated.

2.5. Latin America

International tourism arrivals to Central and South America grew in the last years. In Latin America the tourism outlook continued to be highly unbalanced with a cross-country heterogeneity. Brazil continued to show an increase in touristic activity, mainly supported by internal demand and by the 2016 Olympic Games. On the other end Brazil continues to support international tourism in Europe and in the US, mainly in Miami, Orlando and NY.

Table 16 - Latin America international tourism arrivals

Amounts in thousands of Euros

South America	2012	2013	2014	2015E	2016E
Argentina	5,585	5,246	5,931	5,736	5,700
Brazil	5,677	5,813	6,430	6,306	6,300
Cuba	n.a.	2,829	2,970	3,491	3,600
Venezuela	710	986	857	n.a.	n.a.

Source: UNWTO. Figures for 2015 and 2016 are estimated.

3. Activity of Pestana Hotel Group

3.1. Overall activity

The Group continues to offer a range of services in hospitality including Golf, Casino, Vacation Clubs and Real estate activities, operating nowadays in 14 countries spread out through 4 major regions, each one represented by a Pestana Hotel Group subholding, namely:

- Grupo Pestana, S.G.P.S., S.A. – Europe including the Group's sole hotel in North America;
- Djebel, S.A. – Brazil
- Pestana Inversiones, S.L. – South American Spanish speaking countries
- Salvintur, S.G.P.S., S.A. – Africa

The Group kept other interests in activities considered non-core like Cervejas da Madeira (Madeira Island Brewer Company), Atlantic Holidays (travel agency in UK) and SDM (manager of the public concession of the Free Trade Zone of Madeira).

3.1.1. Patrimonial highlights

Despite the exchange rates variations, the total assets were approximately €1,2 bn and fixed assets were €0,90 bn. The sale of four properties (two in Portugal and two in Brazil) was compensated by the investment done last year in Europe. It is noteworthy that several are properties at historical cost for which market prices are significantly higher.

The Group's net debt decreased once again from 414,8 million Euros in 2015 to 391,4 million Euros in 2016 and the leverage ratio (Net Debt / EBITDA) from 4,67x to 4,13x. Average LTV (Loan-to-Value) reached 40%, which is considered conservative for a company with this business model. Adjusted Equity (AE) increased to 495,5. Much more than the Adjusted Net Assets (ANA) (900,5), increasing to 55% the ratio (AE/ANA), being the remaining covered by the aforementioned debt and other responsibilities.

The Group has a debt service aligned with its annual cash flow, being the refinancing risk controlled. The funding is now well diversified with an average maturity of 5 years. Unsecured debt represents 30% of total, which refers mainly to corporate debt. All Brazilian bank debt was paid, keeping Latin America countries free of debt. A relevant part of the African debt was restructured and the remaining portion is expected to be paid in 2017.

Pestana Hotel Group continues to keep a sound liquidity position with cash and cash equivalents of around €87,4 million Euros. Credit overdrafts and unused commercial paper facilities were available in the end of 2016 in more than 100 million Euros in 20 financial institutions.

Pestana Hotel Group has around 70% of its assets in Portugal, while the local demand continues to represent approximately 23% of the overall hotel revenue (10% of the Group revenue including all business activities), which means that the Company is one of the leading groups supporting Portuguese trade balance.

Table 17 – Financial highlights – Balance sheet

Amounts in thousands of Euros

Net Assets	2016	% TOTAL	Grupo Pestana SGPS	Djebel	Pestana Inversiones	Salvintur	Other	2015	2014
Investment - Fixed Assets	869.9	96%	688.1	105.7	38.2	37.9	0.0	859.8	942.9
Deferred tax liabilities	-72.5	-8%	-30.9	-26.6	-10.2	-4.8	0.0	-69.4	-85.4
Total adjusted fixed assets	797.4	89%	657.2	79.1	28.0	33.1	0.0	790.4	857.6
Investment - Financial assets	24.6	3%	24.6	0.0	0.0	0.0	0.0	20.7	20.9
Other non-current assets	52.7	6%	18.2	25.8	0.0	1.2	7.5	51.2	24.4
Current Assets - Current liabilities	25.8	3%	19.9	2.1	-3.0	6.7	0.1	14.3	28.3
Total Adjusted Assets	**900.5**	**100%**	**720.0**	**106.9**	**25.0**	**41.0**	**7.6**	**876.5**	**931.2**
Funding origins									
Equity	329.9	37%	282.1	63.2	27.4	30.6	-73.4	296.6	302.1
Collected deferred revenues (a)	211.1	23%	178.3	32.6	0.0	0.0	0.2	207.0	202.9
Deferred sales cost (a)	-45.5	-5%	-45.5	0.0	0.0	0.0	0.0	-51.5	-43.4
Total non remunerated funding	495.5	55%	414.8	95.8	27.4	30.7	-73.2	452.1	461.5
Long term financial debt	395.4	44%	329.1	0.0	0.0	6.9	59.4	396.1	399.5
Other non-current liabilities	13.6	2%	3.4	10.2	0.0	0.0	0.0	9.7	8.3
Total non-current funding	904.6	100%	747.4	106.0	27.5	37.6	-13.8	857.9	869.2
Short term financial debt	83.4	9%	55.3	1.7	0.0	4.3	22.1	100.9	120.9
Cash + Financial assets available for sale	-87.4	-10%	-82.7	-0.7	-2.4	-0.9	-0.7	-82.2	-58.9
Net current debt	-4.0	0%	-27.4	1.0	-2.4	3.4	21.4	18.7	62.0
Total funding origins	**900.5**	**100%**	**720.0**	**106.9**	**25.0**	**41.0**	**7.6**	**876.5**	**931.2**
Net debt	391.4		301.7	1.0	-2.4	10.3	80.8	414.8	461.4
EBITDA	94.8		93.2	-1.0	-0.3	3.7	-0.8	88.8	82.6
Working capital	25.8		19.9	2.1	-3.0	6.7	0.1	14.3	28.3
Net capex	16.4		17.0	-9.6	5.0	2.3	1.7	14.2	23.8
Net Debt / EBITDA ratio	4.13		3.24	-0.93	N/A	2.76	-102.66	4.67	5.59
Net Debt / Equity ratio	0.79		0.73	0.01	N/A	0.34	-1.10	0.92	1.00
Net Debt / Total Assets ratio (%)	43%		42%	1%	N/A	25%	1065%	47%	50%
Liquidity ratio (%)	18%		21%	6%	N/A	8%	1%	16%	11%

(a) Collected sales of Holiday Club ("timeshare").

3.1.2 Profit and Loss highlights

The Group revenue continued to increase slightly to about 360 million Euros, for an EBITDAR of 110,3 million Euros and an EBITDA of 94,8 million Euros, increasing once again the margins, being one of the best among its peers. The EBITDA / interest paid ratio increased to 4,1x, which continues to show a sound debt weight based on an average interest rate that decreased to 4,9% due to the repayment of more expensive credit facilities including the ones in Brazil.

Table 18 – Financial highlights – Profit and loss

Amounts in thousands of Euros

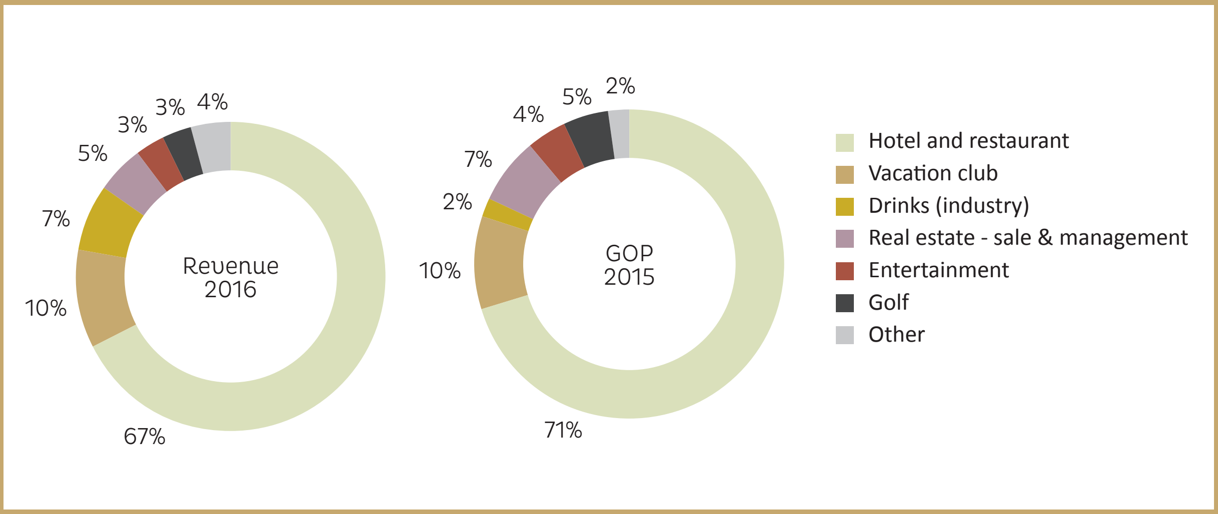
Net Assets	TOTAL2016	Grupo Pestana SGPS	Djebel	Pestana Inversiones	Salvintur	Other	Total 2015	Total 2014
Rooms (Total keys)	10,065	7,195	1,267	921	685	0	10,000	9,875
of which Rooms under management contract (keys)	679	171	0	508	0	0	685	662
Hotel units (Total)	80	62	6	4	8	0	83	77
of which Units under management contract	3	2	0	1	0	0	3	3
(Amounts in millions of Euros)								
Revenue	360.1	302.0	32.0	10.4	12.8	2.9	347.5	342.7
GOP of Touristic activity (a)	123.5	115.3	4.0	2.8	2.5	-1.0	110.3	98.0
EBITDAR	110.3	107.2	-0.9	0.8	4.0	-0.8	100.2	93.0
Rents paid to owners and concessions	-15.4	-14.1	-0.1	-1.0	-0.2	0.0	-11.4	-10.4
EBITDA (b)	94.8	93.2	-1.0	-0.3	3.7	-0.8	88.8	82.6
Depreciation and amortization	-35.9	-30.3	-2.4	-1.0	-2.0	-0.1	-44.4	-37.9
EBIT	59.0	62.8	-3.5	-1.3	1.8	-0.9	44.4	44.7
Paid interest net (inclued fees)	-23.1	-15.6	-3.4	-0.0	-1.2	-2.9	-30.3	-31.7
Paid Income taxes (c)	-2.8	-5.6	1.2	-1.2	0.0	2.8	9.2	-2.3
Net income including non controlling interests share	28.7	40.0	-14.5	-4.3	-0.8	8.3	16.5	5.3
GOP margin (%)	34%	38%	12%	27%	19%	-35%	32%	29%
EBITDAR margin (%)	31%	36%	-3%	7%	31%	-27%	29%	27%
EBITDA margin (%)	26%	31%	-3%	-3%	29%	-27%	26%	24%
EBIT margin (%)	16%	21%	-11%	-12%	14%	-30%	13%	13%
ROE (%)	5.8%	9.6%	-15.1%	-15.8%	-2.6%	-11.3%	3.6%	1.2%
EPS	21.75	N/A	N/A	N/A	N/A	N/A	14.73	4.03
EBITDA/Net interests (..x)	4.1	6.0	-0.3	N/A	3.1	-0.3	2.9	2.6
Average Cost of Gross Debt (%)	4.9%	4.0%	52.4%	N/A	9.6%	4.6%	6.1%	6.5%

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

The strategy of selling specific assets, mainly in Portugal, in order to support company growth and new openings in Europe proved to be advantageous once again. The Adjusted Asset over Revenues and EBITDAR increased as well as the return over Adjusted Equity. On the other side the weight of rents paid over EBITDAR kept low, about 14% against the 11% of 2015.

The revenue and GOP structure continue to show similar weights for the different business units, although hotel and restaurant revenue and GOP increased in Europe while the remaining group operational units did not present similar results when converted to Euros. Vacation club slightly decreased when compared to the previous year due to the reduction of the inventory: (i) sale of Pestana Alvor Park and (ii) the renovation of Pestana Alvor Praia which has reduced the total inventory of Vacation Club for 2016.

Table 19 – Revenue and GOP 2016 by business area



A. Hospitality

Hospitality, with more than 3 million guests, continued to grow 22,5% in GOP (Gross operating profit) on average in 2016, including the foreign exchange effect, mainly due to the European operations increase that more than compensated for Brazil's, Africa's and Hispanic America's decrease.

On average all hotels in Europe grew in ARR (Average Room Rate) in local currency, with the exception of the UK. In all American Hotels a decrease of occupancy was registered, but in some of them was more than compensated by an increase in price.

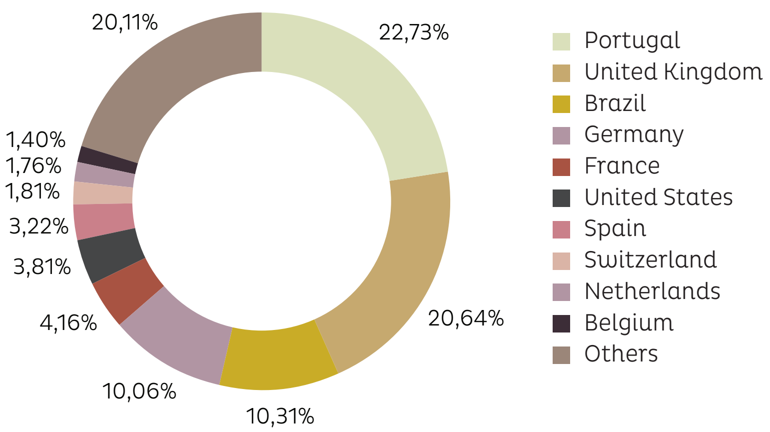
Table 20 – ARR and Occupancy by main country

Amounts in thousands of Euros

	ARR in local currency				ARR in Euros			ARR in Euros		
Hotel Country	Currency	2016	2015	Var	2016	2015	Var	2016	2015	Var
Portugal	EUR	91	80	14%	91	80	14%	69%	67%	3%
Germany	EUR	98	98	-1%	98	98	-1%	87%	85%	2%
Spain	EUR	90	85	6%	90	85	6%	88%	86%	3%
UK	GBP	117	124	-5%	143	170	-16%	83%	83%	0%
USA	USD	167	159	5%	151	143	5%	66%	70%	-5%
Argentina	ARS	1,403	903	55%	85	84	2%	63%	66%	-6%
Venezuela	VEF	37,952	12,884	195%	76	102	-25%	33%	54%	-39%
Brazil	BRL	405	321	26%	105	87	21%	52%	58%	-9%
Cape verde	EUR	81	89	-9%	81	89	-9%	56%	61%	-8%
Sao Tomé	EUR	81	77	5%	81	77	5%	53%	47%	11%
Mozambique	MZN	4,590	4,206	9%	105	96	9%	39%	40%	-3%
South Africa	ZAR	826	796	4%	51	56	-9%	55%	59%	-6%
Average					90	84	8%	64%	65%	-3%

In Portugal the internal demand continues to recover with a positive impact in the four star up-scale hotels and Pousadas segment. The main feeder markets remained the same: UK, Brazil, Germany and France that grew significantly like last year. Brazilians still represent not only the most important market in its own country but also a relevant feeder market for the hotels located in Portugal and in other countries like the US.

Table 21 – Hotel Group feeder markets (by country)



The presence of Pestana Hotel Group in countries with high inflation and currency constraints had a negative impact in the consolidated profit for the period, especially in South American units, where currencies have suffered relevant devaluation in 2016.

In 2016, the Group's growth was supported not only by existing hotels but also by new openings namely:

- Five Star Pestana Alvor Praia refurbishment in Algarve, Portugal with 202 keys, opening in May 2016;
- Four star Pestana CR7 Madeira, Madeira Island, Portugal, opening in June 2016 with 48 keys;
- Four star Pestana CR7 Lisboa, Portugal, opening in August 2016 with 89 keys;
- Four star Pestana Bahia Praia hotel in São Miguel island Azores (Portugal), opening in May 2016 with 102 keys after refurbishment;
- Four star Pestana Algarve Race, Algarve (Portugal) with 75 keys, opening in the second half 2016.

Last year Pestana Hotel Group kept construction/request for permits in:

- Four star Pestana CR7 NY West 39th street (US) for a 176 key hotel in Manhattan, to open in 2019 due to Contractor delays already solved being the construction in progress;
- Five star Pestana Amsteldijk, Amsterdam, started construction for a 154 key hotel in that city. To open late in 2017 or in the beginning of 2018. Construction is in progress;
- Four star all-inclusive in Alvor. Algarve Portugal, in a plot of land owned by the Group. Permits for a 480 key hotel are expected to be issued in 2017.

The following projects had their construction projects postponed to 2017:

- Five-star Plaza Mayor Madrid (Spain) project is being prepared after the Group won the municipality tender for this 80 key hotel. Construction should start in 2017 and it is expected to open in 2018;
- Four star CR7 in 29 Gran Via in Madrid, Spain for a 167 key hotel lease agreement;
- Five star Marrakesh, Medina Square Hotel, with 200 rooms to open in the second half of 2017;
- Four star NY New Jersey city hotel with 109 keys to be opened in 2019.

The Group sold two properties in Portugal to support company growth, namely:

- Four Star Viking Hotel in Algarve (Portugal) with 187 keys and lease it back with an open market Portuguese investment fund, called CA – Património Crescente, managed by Square Asset Management;
- Four Star Alvor Park in Algarve (Portugal) with 64 keys to a third party investor;

In order to face the downturn in Africa and Latin America last year:

- Bazaruto and Inhaca resort hotels, each with 40 keys, in Mozambique remained closed. Bazaruto continues to develop a real estate project due to the still existing demand for high net worth villas;
- Five star Barra, Rio de Janeiro Hotel (Brazil), with 300 keys was closed due to the owner financial problems;
- Natal (Brazil) resort hotel with 188 keys and S. Luis (Brazil) resort hotel with 124 keys were sold.

The following hotels were bought/leased:

- Madeira Regency, Madeira Island Portugal, in a partnership with CA – Património Crescente an open-end income Portuguese Fund, managed by Square Asset Management. The Group will operate as tenant of this asset to open in May 2017 under the name of Pestana Royal with 322 keys;
- The Montevideo (Uruguay) Jokey Club asset (where the Group was tenant) was bought to develop an apart-hotel project. The project lay-out is still under discussion;
- Five star Oporto Pousada do Freixo expansion plot. Almost 200 keys are expected to be built near the river Douro in a prime location.

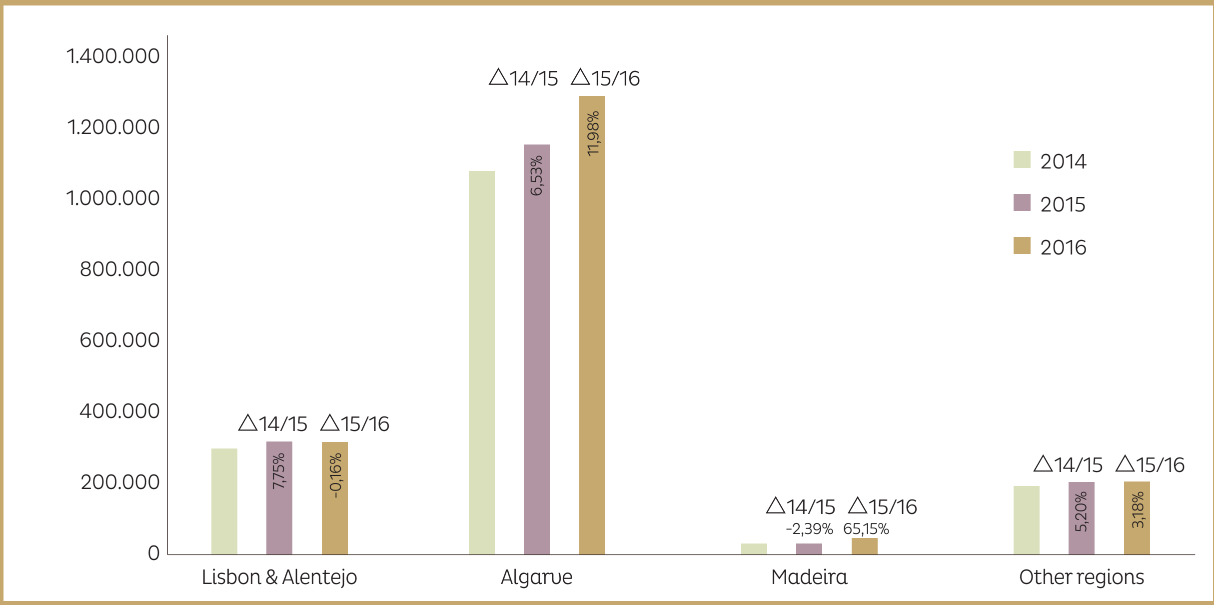
Regarding operations:

- Throughout the year, Pestana Hotel Group continued to invest in the maintenance of its assets to optimize asset profitability;
- A revenue management process continues to be implemented, which will create conditions for the Group's sustainability.

B. Golf

This activity represented 3,1% of Pestana Group and grew 10,5% in 2016 in revenues and 19% in GOP supported by six golf courses, namely Alto Golf, Pinta, Gramacho, Silves and Vila Sol in Algarve and Beloura in Lisbon. This performance was once again considered very good since the number of golf rounds in Portugal grew 9% in 2016, supported by the Algarve growth (11,98%), consequence of a consistent demand recovery since 2013.

Table 22 – Evolution of golf rounds in Portugal

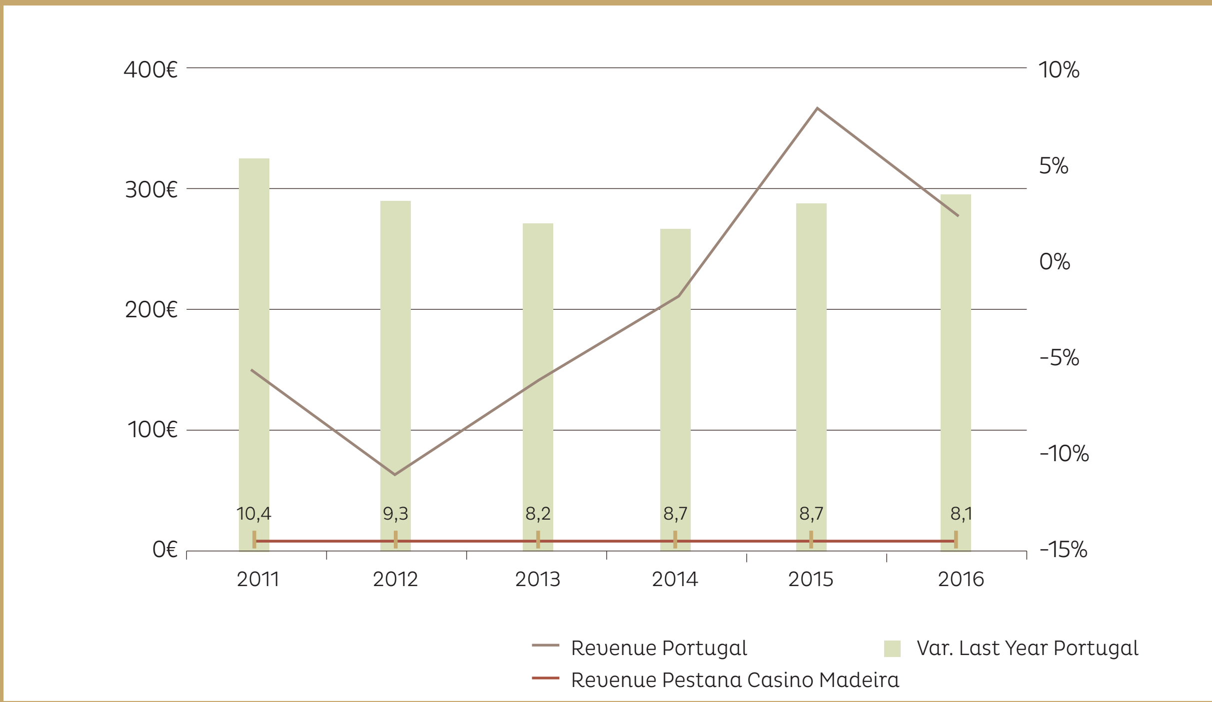


Source: CNIG

C. Casino

Casino activity that represents 2,2% of the Group activities, as a complement to the hotel main business, slightly decreased in 2016, supported by two Casinos, one in Madeira and the other in S. Tomé & Principe. The Madeira casino, continues to represent the majority of the revenue of this segment. The Pestana Casino da Madeira decreased its revenue in 4,8%, despite the global revenues in Portuguese Casinos having registered an increase of 2,5% all over 2016 due to its high dependency on regional clients, the economic crisis in Portugal, the drastic downfall in important economic sectors such as construction and the decrease in the flow of immigrants which stayed for long periods in Madeira and which are nowadays less present due to constraints originated in their respective countries of residence.

Table 23 – Evolution of Gambling in Portugal



Source: Associação portuguesa de casinos / CTP

D. Timeshare and Pestana Vacation Club

Timeshare, which represents 7,5% of Pestana Group decreased in 2016 (-3,1%), as explained before, due to the reduction of the inventory: (i) sale of the Pestana Alvor Park and (ii) the renovation of Pestana Alvor Praia which has reduced the total inventory of Vacation Club for 2016). This business is supported almost by 30 thousand families that have kept following the Group for the last almost 30 years. Pestana continues to develop PVC (Pestana Vacation Club) that allows guests to travel all along the Group hotels around the world. This does not give the buyer a legal right to the property, but is also a cashflow stream like Timeshare being all part of the Group loyalty program.

The revenue from Timeshare is only recognized in the EBITDA when the guest uses its right in one of Pestana Hotels (PVC). As such the cashflow stream is normally higher upon selling. The amount paid by the costumer for Timeshare or Vacation Club that is not recognized in the income statement is recognized as Deferred revenue in the statement of financial position. In management accounts, these amounts are considered as Equity related once it is not refundable. The customer also pays an annual maintenance fee that supports the property within hospitality services.

E. Real Estate

Real Estate, represents 5% of Pestana Hotel Group activity, and is developed mainly in Portugal through our projects in Troia (near Lisbon) and in Carvoeiro (in Algarve). This activity continued to grow substantially in 2016 (+25,6%) after a growth of 27% in 2015.

Pestana's real estate concept is usually based on selling villas and apartments for touristic use, either near a Pestana golf course or a Pestana hotel unit that provides a wide range of high standard services to the owners, including maintenance, housekeeping, food & beverage and condominium management, and that represents a significant cash flow stream. Pestana's strategy for this business is to build houses only at the same rhythm as they are being sold (we do not build for stock), which proved to be the right choice during market downturns avoiding high opportunity costs.

F. Other Business

Pestana Hotel Group's other business represented 4% of the total revenues in 2016. SDM – Sociedade de Desenvolvimento da Madeira, despite the political difficulties for its operations, continues to run very well in this environment, and ECM – Empresa de Cervejas da Madeira increased revenues and GOP due to the good results verified in the tourism sector in Madeira as well as the decrease in VAT for restaurant business which led to an increase in available income and, consequently, to an increase in consumption.


PESTANA CR7 HOTEL
PESTANA CR7 HOTEL

4. The near future (2017)

4.1. Macro major trends

The world economy growth will continue to be low but positive in 2017, despite macroeconomic uncertainty due to the political changes. Oil prices will continue to rise, as it happened last year, but will be difficult to reach a higher value than US 75 per barrel (/b) for Brent, despite OPEC's announced restrictions over supply.

US GDP will grow more than 3,5% due to consumer and business confidence. An increase in the FED fund rate of 50 bp (delayed from last year) is expected if investment and inflation increase as expected. The euro area will keep on growing but slowly supported by Germany and France and by some of the peripheral economies like Ireland or Portugal. ECB credit easing will continue in 2017, even though deleveraging is not so strong in Europe both in public and private sectors.

Inflation will keep low, although investment, unemployment and consumer confidence are showing positive trends. Brexit and the elections in France will dominate attentions, but the Euro commitment is still there. As such it is expected that the Euro against the US dollar will depreciate although it could recover against the Pound if Brexit doesn´t succeed as expected.

Latin American countries will continue to be highly vulnerable to external and domestic shocks. The oil price recovery will have a positive impact in Brazil and Venezuela. These countries will continue to struggle against social and economic constrains, even though Brazil is showing lower inflation and interest rates. Investment will probably recover slightly and will contribute to an increase in employment and private consumption. GDP will be positive in this country. Argentina will also show a small recovery after the implementation of some of the economic reforms and Cuba will continue to benefit a lot from the improvement in the political relations with the United States.

Africa will continue to show a very different pattern across its countries. In what it concerns the Group Cape Verde will keep its sustainable growth, as well as S. Tomé. Mozambique will continue to struggle with social distress.

As a conclusion, we remain positive for 2017 despite increase uncertainty. We still consider that market agents' confidence growth will happen and will continue to have a positive effect in private consumption in the US and in the countries where we have business in Europe. It is expected that these regions will continue to benefit once again from social stability and keep attracting tourists from emerging markets. Leisure and hospitality is expected to keep its sustainable growth.

4.2. Group activity

Pestana Hotel Group will keep its strategy based on cities in the US and in Europe for urban hotels with corporate and leisure demand. This will continue to diversify feeder markets and our EBITDA structure in order to have in the medium term the majority of our cash flow spread in the world investment grade countries.

We also would like to benefit from opportunities that could arise in the resort segment, in specific locations, although it will not be our major focus. Our aim is also to reduce some seasonality that is still present on the Group's cash flow. Pestana Hotel Group intends to continue being asset right, with a stronger component of management.

Pestana Hotel Group keeps an impressive pipeline with close to 3,000 rooms (meaning almost 32% of its existing supply) over the next 36 months. We expect to open more than 10 hotels reaching more than 100 hotels under management, being more than 5 in Portugal in the main cities and resort destinations (Oporto, Madeira and Algarve), 3 in the USA (NY), 2 in Madrid, 1 in Amsterdam, 1 in Morocco (Marrakesh) and 1 in Montevideo (Uruguay).

These openings will happen mainly in the four-star segment, being 2 of them the product of a new partnership with Mr. Cristiano Ronaldo, the Portuguese football player, for a 'lifestyle segment' the Millennials. Most of these hotels are property owned, based on ground leases.

We expect to continue to boost cash flow to support new openings, keeping a low gearing and a defensive rent weight in the Income Statement. The strategy will also contribute to support development with new partnerships to expand brand awareness.

5. Objectives and policies of Pestana Hotel Group regarding financial risk

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

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

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

6. Relevant issues that occurred after the year end

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

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

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

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

7. 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 Pestana Hotel Group.

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

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

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

Luxembourg, 22 March 2017

The Board of Directors

Dionísio Fernandes Pestana
Director

José Alexandre Lebre Theotónio
Director

Hermanus Roelof Willem Troskie
Director

Chiara Louise Deceglie
Director

Rodrigo de Freitas Branco
Director

Consolidated financial statements

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Consolidated financial statements

Consolidated statement of financial position

(Amounts express in Euros)	Notes	31 December 2016	2015
Assets			
Non-current			
Tangible fixed assets	6	895,687,700	890,050,251
Intangible assets	7	11,993,238	13,286,089
Investment properties	8	7,709,982	8,011,151
Investment in joint ventures	9	5,067,351	-
Investment in associates	10	11,735,124	11,345,137
Other financial investments	11	7,787,707	9,321,517
Deferred tax assets	12	31,602,618	26,518,813
Available-for-sale financial assets	13	95,044	158,031
Trade and other receivables	15	21,136,397	24,668,678
		992,815,161	**983,359,667**
Current			
Inventories	16	67,270,607	62,096,912
Trade and other receivables	15	60,649,267	53,639,235
Income tax receivable	17	1,843,090	2,429,995
Cash and cash equivalents	19	87,347,563	82,055,873
Non-current assets held for sale	20	-	11,090,069
		217,110,527	**211,312,084**
Total assets		**1,209,925,688**	**1,194,671,751**
Equity			
Capital	21	207,336,573	207,336,573
Other reserves	22	(99,763)	(14,392,430)
Retained earnings	23	63,997,565	56,962,853
Profit for the period attributable to shareholders		24,458,921	15,097,676
Non-controlling interests	24	34,230,547	31,634,653
Total equity		**329,923,842**	**296,639,325**
Liabilities			
Non-current			
Provisions	25	10,653,392	4,043,353
Borrowings	26	375,293,238	375,725,757
Derivatives	27	2,928,884	5,613,205
Deferred tax liabilities	12	72,462,675	69,368,154
Deferred revenue	28	179,602,362	178,253,222
Trade and other payables	29	20,151,976	20,395,900
		661,092,527	**653,399,591**
Current			
Provisions	25	4,996,667	4,184,389
Borrowings	26	81,661,987	99,783,842
Deferred revenue	28	31,525,366	28,739,750
Trade and other payables	29	100,230,883	103,429,179
Income tax liabilities	17	494,416	5,197,555
Non-current liabilities held for sale	20	-	3,298,120
		218,909,319	**244,632,835**
Total liabilities		**880,001,846**	**898,032,426**
Total equity and liabilities		**1,209,925,688**	**1,194,671,751**

The following notes form an integral part of the Consolidated statement of financial position as at 31 December 2016.

Consolidated income statement

(Amounts express in Euros)	Notes	Period 2016	2015
Revenue	30;31	360,108,408	347,454,072
Cost of goods sold	16	(44,746,616)	(49,272,130)
External services and supplies	32	(122,339,814)	(110,147,630)
Personnel expenses	33	(88,387,816)	(88,518,615)
Charges of depreciation and amortization	6;7;8	(37,436,069)	(40,224,467)
Reversals and impairment losses of tangible assets	6;7;20	1,584,843	(4,186,107)
Impairment of receivables	15	(1,288,824)	(807,059)
Impairment of inventories	16	(99,031)	(1,747,285)
Provisions	25	(3,940,726)	(5,338,812)
Other income	34	16,990,155	23,018,960
Other expenses	35	(21,041,806)	(27,284,788)
Gains and losses on investments in joint ventures, associates, other financial investments and available-for-sale financial assets	36	(2,044,413)	(236,026)
Operating profit		**57,358,291**	**42,710,113**
Financial expenses	37	(32,058,653)	(40,051,310)
Financial income	37	4,594,314	3,051,825
Profit before tax		**29,893,951**	**5,710,628**
Income tax	38	(1,195,869)	10,746,277
Profit for the period		**28,698,082**	**16,456,905**
Profit for the period attributable to:			
Shareholders of the Group		24,458,921	15,097,676
Non-controlling interests		**4,239,161**	**1,359,229**
		28,698,082	**16,456,905**
Earnings per share		21,75	12,48
EBITDA		94,889,052	88,773,296
EBITDAR		110,257,586	100,210,678

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

Consolidated statement of the comprehensive income

(Amounts express in Euros)		Period	
	Notes	2016	2015
Profit for the period		**28,698,082**	**16,456,905**
Items that are recycled through profit and loss:			
Foreign currency translation differences	22;23;24	8,539,046	(13,318,768)
Change in fair value of Available-for-sale financial assets	13	-	(29,276)
Change in fair value of hedging derivatives	27	2,658,003	2,125,719
Tax impact in items booked directly in equity	27	(555,046)	(418,930)
Other comprehensive income for the period – net of income tax		10,642,003	(11,641,255)
Total comprehensive income for the period		**39,340,085**	**4,815,650**
Comprehensive income attributable to:			
Shareholders of the Group		35,100,924	3,456,421
Non-controlling interests		4,239,161	1,359,229
		39,340,085	**4,815,650**

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

Consolidated statement of changes in equity

(Amounts express in Euros)	Attributable to shareholders					Non-controlling interests	Total
	Share capital	Other Equity instruments	Other reserves	Retained earnings	Profit for the period		
At 1 January 2016	**166,625,238**	**40,711,335**	**(14,392,430)**	**(56,962,853)**	**15,097,676**	**31,634,653**	**296,639,325**
Changes in the period							
Changes in the consolidation perimeter			-	-	-	-	-
Profit for the period application			2,407,046	12,690,630	(15,097,676)	-	-
Acquisitions of Non-controlling interest			-	(1,993,252)	-	-	(1,993,252)
Transfers			(926,329)	(388,489)	-	1,314,818	-
Other changes recognized in equity			(46,034)	632,094	-	(372,178)	213,882
			1,434,683	**10,940,983**	**(15,097,676)**	**942,640**	**(1,779,370)**
Foreign currency translation differences			10,777,699	(1,906,270)	-	(332,383)	8,539,046
Change in fair value reserve - hedging derivatives (net of tax)			2,080,285	-	-	22,672	2,102,957
Profit for the period			-	-	24,458,921	4,239,161	28,698,082
Comprehensive income			12,857,984	(1,906,270)	24,458,921	3,929,450	39,340,085
	-	**-**	**14,292,667**	**9,034,713**	**9,361,245**	**4,872,090**	**37,560,715**
Transactions with shareholders in the period							
Capital increase		-	-	-	-	-	-
Capital decrease		-	-	-	-	-	-
Other changes recognized in equity		-	-	-	-	-	-
Reimbursement of equity instruments		-	-	-	-	-	-
Distributions		-	-	(2,000,000)	-	(2,276,197)	(4,276,197)
	-	**-**	**-**	**(2,000,000)**	**-**	**(2,276,197)**	**(4,276,197)**
At 31 December 2016	**166,625,238**	**40,711,335**	**(99,763)**	**63,997,565**	**24,458,921**	**34,230,546**	**329,923,842**

Consolidated statement of changes in equity

(Amounts express in Euros)	Attributable to shareholders						
	Share capital	Other Equity instruments	Other reserves	Retained earnings	Profit for the period	Non-controlling interests	Total
At 1 January 2015	**166,625,238**	**43,917,853**	**1,903,636**	**58,707,116**	**2,433,694**	**28,471,265**	**302,058,803**
Changes in the period							
Changes in the consolidation perimeter			135,820	(85,646)	–	380	50,554
Profit for the period application			618,245	1,815,449	(2,433,694)	–	–
Acquisitions of Non-controlling interest			–	(7,433,235)	–	7,181,364	(251,871)
Transfers			(4,442,404)	4,442,404	–	–	–
Other changes recognized in equity			(133,325)	(277,714)	–	(295,563)	(706,602)
			(3,821,664)	**(1,538,742)**	**(2,433,694)**	**6,886,181**	**(907,919)**
Foreign currency translation differences			(14,024,065)	–	–	705,297	(13,318,768)
Change in fair value reserve - hedging derivatives (net of tax)			1,706,789	–	–	–	1,706,789
Change in fair value reserve - assets available for sale			(29,276)	–	–	–	(29,276)
Impact change income tax rate			–	–	–	–	–
Profit for the period			–	–	15,097,676	1,359,229	16,456,905
Comprehensive income			**(12,346,552)**	**–**	**15,097,676**	**2,064,526**	**4,815,650**
	–	**–**	**(16,168,216)**	**(1,538,742)**	**12,663,982**	**8,950,707**	**3,907,731**
Transactions with equity holders in the period							
Capital increase	–	–	–	–	–	–	–
Capital decrease	–	–	–	–	–	–	–
Other changes recognized in equity		–	–	–	–	–	–
Reimbursement of equity instruments		(3,206,518)	–	–	–	(2,400,000)	(5,606,518)
Distributions		–	(127,850)	(205,521)	–	(3,387,319)	(3,720,690)
	–	**(3,206,518)**	**(127,850)**	**(205,521)**	**–**	**(5,787,319)**	**(9,327,208)**
At 31 December 2015	**166,625,238**	**40,711,335**	**(14,392,430)**	**56,962,853**	**15,097,676**	**31,634,653**	**296,639,325**

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

Consolidated statement of cash flows

(Amounts express in Euros)		Period ended 31 December	
	Notes	2016	2015
Cash flow from operating activities			
Receipts from customers		355,805,444	341,310,334
Payments to suppliers		(172,424,319)	(157,135,978)
Payments to personnel		(88,135,389)	(90,579,778)
Cash generated from operations		**95,245,736**	**93,594,579**
Income tax received/ (paid)		(10,670,390)	(3,252,794)
Other receipts/ (payments)		(7,616,522)	(8,461,893)
Net cash from operating activities		**76,958,824**	**81,879,892**
Cash flow from investing activities			
Receipts related to:			
Tangible assets		55,349,681	51,947,134
Financial investments		1,860	44,001
Interest income and similar		561,331	1,071,201
Payments related to:			
Tangible and intangible assets		(58,544,226)	(37,104,258)
Financial investments		(7,980,676)	(6,661,281)
Net cash from investing activities		**(10,612,030)**	**9,296,797**
Cash flow from financing activities			
Receipts related to:			
Borrowings obtained		147,357,309	158,456,859
Other financial operations		-	3,990
Payments related to:			
Borrowings obtained		(146,048,300)	(190,597,579)
Interest expenses and similar		(24,017,935)	(29,833,799)
Dividends		(4,276,197)	(3,393,396)
Share capital and other equity instruments decrease		-	(451,871)
Other financing operations		-	(225,353)
Net cash from financing activities		**(26,985,123)**	**(66,041,149)**
Changes in cash and cash equivalents		39,361,671	25,135,540
Effects of exchange differences		(15,306,397)	(2,780,885)
Cash and cash equivalents at beginning of the year	18	53,190,907	30,836,252
Cash and cash equivalents at end of the year	18	**77,246,181**	**53,190,907**

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

Notes to the consolidated financial statements

1. General information

Pestana International Holdings S.A. (in this document as "Pestana Hotel Group"), previously denominated as Pestana Luxembourg, S.A. until 13 December 2013, was incorporated in Luxembourg on 4 July 1980 and since 2005 is classified as a "Société de Participations Financières".

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

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

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

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

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

Through the promotion of two brands (PH&R - Pestana Hotels & Resorts and "Pousadas de Portugal") and the newly launched brand "Pestana CR7", it currently operates 106 units of touristic lodging totaling approximately 10.798 rooms, which makes it the largest network with Portuguese origin, being in the top 25 of European hotel networks ranking and in the top 75 worldwide.

In the leisure area, Pestana Hotel Group currently holds, besides its 54 hotels (14 in Madeira, 9 in Algarve, 5 in Lisbon/Cascais/Sintra, 1 in Oporto, 1 in Azores, 7 in Brazil, 1 in Argentina, 1 in Venezuela, 3 in Mozambique, 1 in South Africa, 1 in Cape Verde, 3 in São Tomé and Príncipe, 1 in Morroco, 1 in London, 1 in Berlin, 1 in Barcelona, 1 in Miami, 1 in Cuba and 1 in Montevideo) and the management of the 36 "Pousadas de Portugal", including one in Cascais, one in Lisbon and one in Oporto, 9 units of Vacation Club, 5 golf courses, 7 real estate / touristic ventures, 2 casino gambling concessions, Madeira and São Tomé and Príncipe, 1 travel agency, 1 tour operator and 1 company in the drinks industry.

The Group implemented in 2013 a corporate reorganization in order to concentrate the main shareholder group stakes in Pestana International Holdings.

These consolidated financial statements were approved by the Board of Directors on the meeting dated 22 March 2017. The Board of Directors believes that the Consolidated financial statements give a true and fair view of the performance of Pestana Hotel Group, as well as its consolidated financial position and its consolidated cash flows, that includes the following business units:

Notes to the consolidated financial statements

Units	Location	Units	Location
Pestana Carlton Madeira [(a)]	Madeira	Pestana Delfim [(a)]	Algarve
Pestana Madeira Beach Club	Madeira	Pestana Viking [(a)]	Algarve
Pestana Casino Park Hotel	Madeira	Pestana Viking Vacation Club	Algarve
Pestana Grand	Madeira	Pestana Alvor Atlantico	Algarve
Pestana Grand Vacation Club	Madeira	Pestana Alvor South Beach	Algarve
Grand Private Collection	Madeira	Pestana Porches Praia	Algarve
Pestana Porto Santo	Madeira	Pestana Porches Praia Vacation Club	Algarve
Pestana Colombos [(a)]	Madeira	Pestana Gramacho Golf Resort	Algarve
Pestana Ilha Dourada [(b)]	Madeira	Pestana Vale da Pinta Golf Resort	Algarve
Pestana Promenade	Madeira	Pestana Silves Golfe Resort	Algarve
Pestana Promenade Vacation Club	Madeira	Pestana Alto Golfe Resort	Algarve
Pestana Miramar	Madeira	Pestana Vilasol Golfe Resort [(a)]	Algarve
Pestana Miramar Vacation Club	Madeira	Pestana Vilasol Hotel Resort [(a)]	Algarve
Pestana Village	Madeira	Pestana Race [(a)]	Algarve
Pestana Village Vacation Club	Madeira	Pestana Bahia Praia	Azores
Pestana Palms	Madeira	Pestana Buenos Aires	Argentina
Pestana Palms Vacation Club	Madeira	Pestana Convento Carmo [(e)]	Brazil
Palms Private Collection	Madeira	Pestana Bahia	Brazil
Pestana Bay	Madeira	Pestana Bahia Lodge	Brazil
Pestana Atlantic Gardens	Madeira	Pestana Angra	Brazil
Madeira Magic	Madeira	Pestana Curitiba	Brazil
Casino da Madeira	Madeira	Pestana Rio Atlantica	Brazil
Centro Intern. Neg. Madeira [(e)]	Madeira	Pestana São Paulo	Brazil
Cervejas da Madeira	Madeira	Pestana Bahia Holiday club	Brazil
Pestana CR7 Madeira [(c)]	Madeira	Pestana Trópico	Cape Verde
Pestana Palace	Lisbon	Pestana Cayo Coco [(a)]	Cuba
Pousada de Lisboa	Lisbon	Pestana Berlim	Germany
Pestana Vintage Porto	Oporto	Pestana Casablanca [(a)]	Morocco
Pestana Cascais [(a)]	Cascais	Pestana Rovuma [(e)]	Mozambique
Pestana Sintra Golf	Sintra	Pestana Bazaruto [(e)]	Mozambique
Pestana Beloura Golf Resort	Sintra	Pestana Inhaca Lodge	Mozambique
Pousadas de Portugal (Rede) [(a)] [(e)]	Portugal	Pestana São Tomé	Sao Tomé and Príncipe
Pousada de Cascais	Cascais	Miramar by Pestana	Sao Tomé and Príncipe
Pestana CR7 Lisboa [(d)]	Lisboa	Pestana Equador	Sao Tomé and Príncipe
Pestana Tróia Eco resort	Tróia	Casino Sao Tomé	Sao Tomé and Príncipe
Pestana Alvor Praia	Algarve	Pestana Kruger Lodge	South Africa
Pestana Alvor Beach Club	Algarve	Pestana Arena Barcelona	Spain
Alvor Private Collection	Algarve	Pestana Miami	U.S.A.
Pestana Dom João II (a)	Algarve	Pestana London	United Kingdom
Pestana Dom João II Beach Club	Algarve	Pestana Caracas	Venezuela

(a) Management/Leased contract
(b) Rented since June 2016
(c) Opened in June 2016
(d) Opened in August 2016
(e) Concession

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

The consolidated financial statements are prepared by Pestana Hotel Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and effective as at 1 January 2016. IFRS include standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor Board. IFRS were adopted by the Company 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 consolidated financial statements have been prepared under historical cost convention, except for the derivative financial instruments and available-for-sale financial assets, measured at fair value.

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

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

New standards and interpretations

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

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

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

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

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

— Amendment to IFRS 10, 12 and IAS 28, 'Investment entities: applying consolidation exception'. This amendment clarifies that the exemption from the obligation to prepare consolidated financial statements by investment entities applies to an intermediate parent which is a subsidiary of an investment entity. The policy choice to apply the equity method, under IAS 28, is extended to an entity which is not an investment entity, but has an interest in an associate, or joint venture, which is an investment entity. These amendments had no impact on the Group's financial statements.

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

— Annual Improvements 2010 - 2012. The 2010-2012 annual improvements affects IAS 16 and 38, IAS 24, IFRS 2, IFRS 3, IFRS 8 and IFRS 13, and did not impact the Group's financial statements.

— Annual Improvements 2012 - 2014. The 2012-2014 annual improvements affects IAS 19, IAS 34, IFRS 5 and IFRS 7, and did not impact the Group's financial statements.

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

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

— **IFRS 15 (new)**, 'Revenue from contracts with customers'. This new standard, applies only to contracts with customers to provide goods or services, and requires an entity to recognize revenue when the contractual obligation to deliver the goods or services is satisfied and by the amount that reflects the consideration the entity is expected to be entitled to, following a five step approach. The Group will apply IFRS 15 in the year in which it becomes effective and no significant impacts are expected to occur in the financial statements.

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

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

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

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

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

— **Annual Improvement 2014 - 2016**, (generally effective for annual periods beginning on or after 1 January 2017). The 2014-2016 annual improvements impacts IAS 28 and IFRS 12, and will have no impact on the Group's financial statements.

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

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 the Group has control. Pestana Hotel Group controls an entity when it is exposed to, or has rights over, the variable returns generated as a result of their involvement with the entity, and has the ability to affect those returns through the power it exerts on the relevant activities of the entity.

Subsidiaries are consolidated from the date the control is transferred to Pestana Hotel Group and are excluded from consolidation from the date that control ceases.

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

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

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

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

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

Entities that qualify as Subsidiaries are listed in Note 42.

3.1.2. Joint ventures

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

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

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

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

3.1.3. Associates

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

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

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

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

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

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

3.1.4. Other financial investments

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

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

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

3.2. Foreing 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 the Pestana Hotel Group.

ii) Transactions and balances

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

iii) Foreign Operating Units

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

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

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

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

The results and financial position of the foreign operating units of Pestana Hotel Group which have a functional currency other than Euro and which are in the currency of a hyperinflationary economy are translated into the presentation currency at the closing exchange rate of the reporting period.

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

iv) Exchange rates used

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

Currency	31-12-2016	31-12-2015
AOA - Angolan Kwanza	174,8900	147,4100
ARS - Argentine Peso	16,7064	14,1124
BRL - Brazilian Real	3,4305	4,3117
CAD - Canadian Dollar	1,4188	1,5116
CHF - Swiss Franc	1,0739	1,0835
CVE - Cape Verde Escudo	110,2650	110,2650
DKK - Danish Krone	7,4344	7,4626
GBP - British Pound	0,8562	0,7340
MAD - Maroccan Dirham	10,6746	10,7895
MZN - Mozambique New Metical	75,3100	51,1600
NOK - Norwegian Kroner	9,0863	9,6030
SEK - Swedish Krona	9,5525	9,1895
STD - Dobra S. Tome and Principe	24500,0000	24500,0000
USD - United States Dollar	1,0541	1,0887
UYU - Uruguayan Peso	30,6000	32,7000
VEF - Venezuelan Bolivar Fuerte	709,6058	216,3231
ZAR - South African Rand	14,4570	16,9530

In the 2016 consolidated financial statements, Pestana Hotel Group used the exchange rate of the Venezuelan bolivar set as denominated DICOM, which at 31 December 2016 was set at 673,7617 Venezuelan bolivar fuerte per US Dollar, for the purpose of translating the transactions, cash flows and balances related to the investment in Venezuela. In the 2015 consolidated financial statements, Pestana Hotel Group used the exchange rate of the Venezuelan bolivar set at the denominated SIMADI (set at 198,699 Venezuelan bolivar fuerte per US Dollar). Regarding the Venezuelan Tangible fixed assets as at 31 December 2016 and 2015, Pestana Hotel Group applies the historical cost of these assets, which continues to reflect their best estimated recoverable value.

The exchange rate used to translate transactions in foreign currencies, which corresponds to the average exchange rate during the entire year, were as follows:

Currency	31-12-2016	31-12-2015
ARS - Argentine Peso	16,4653	10,7735
BRL - Brazilian Real	3,8544	3,7036
CVE - Cape Verde Escudo	110,2650	110,2650
GBP - British Pound	0,8198	0,7258
MAD - Maroccan Dirham	10,8488	10,8176
MZN - Mozambique New Metical	69,8169	43,7366
STD - Dobra S. Tome and Principe	24500,0000	24500,0000
USD - United States Dollar	1,1067	1,1094
UYU - Uruguayan Peso	33,3293	30,2952
VEF - Venezuelan Bolivar Fuerte	500,8819	126,7559
ZAR - South African Rand	16,2508	14,1785

3.3. Tangible fixed assets

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

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

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

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

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

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

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

Initial direct costs incurred in negotiating timeshare contracts, added to buildings leased, are recognized as an expense over the lease term on the same basis as the lease income, as required in IAS 17, and this period varies between 3 to 30 years.

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

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

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

3.4. Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

	Years
Concessions	Between 20 and 70 years
Website	6 years

3.5. Investment properties

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

3.6. Impairment of non-financial assets

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

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, being the recoverable amount, the higher between the fair value of an asset less costs to sell and its value in use. For the determination of impairment, assets are allocated to the lowest level for which separate identifiable cash flows exist (cash generating units).

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

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

3.7. 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.

Income tax is calculated in accordance with the law and criteria established at year-end in the country of the correspondent subsidiary.

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

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

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

3.8. Financial assets

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

Financial assets can be classified as:

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

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

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

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

As at 31 December 2016 and 2015, the Group only has financial assets classified as “Available-for-sale financial assets” and “Loans and receivables”.

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

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

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

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

3.9. Fair value of assets and liabilities

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

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

Pestana Hotel Group applies valuation techniques for non-listed financial instruments, such as derivatives and available-for-sale financial assets. The valuation models that are most often used are discounted cash flows 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 Pestana Hotel Group uses internal estimates and assumptions. This is the third level of the hierarchy of fair value.

3.10. Trade and other receivables

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

3.11. Inventories

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

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

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

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

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

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

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

3.12. Cash and cash equivalents

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

Bank overdrafts are shown in the consolidated statement of financial position as current liabilities, under the captions Borrowing and are considered in the preparation of the consolidated cash flows statements as Cash and cash equivalents.

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

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

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

3.14. Capital

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

3.15. Provisions

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

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

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

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

3.16. Financial liabilities

Financial liabilities are classified into two categories:

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

(ii) Other financial liabilities.

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

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

3.17. Borrowings

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

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

3.18. 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. When dealing with trading derivatives, gains and losses in fair value are recognized in the income statement for the period under finance income or finance expenses. When designated as hedging derivatives, the recognition of gains and losses in fair value depends on the nature of the hedged item, which may correspond to a fair value hedge or a cash flow hedge.

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

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

3.19. Leases

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

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

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

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

3.20. Government grants and incentives

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

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

The support of the Government in the form of repayable borrowings at a reduced interest rate are discounted on the date of initial recognition based on the market interest rate at grant date, being the discount amount the grant. The grant shall be amortized over the period of the borrowing or the useful life of the asset which acquisition the grant aims to subsidize.

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

3.21. Income and Expenses

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

3.22. Revenue

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

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

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

i) Hotel business

In the hotel business, the revenue corresponds mainly to 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 hotel services the revenue is recorded on the day of the service.

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

ii) Pestana vacations club

Pestana Hotel Group recognizes revenue from the sale of timeshare contracts, also known as Pestana vacations club, depending on the transfer of risks and rewards associated to each contract.

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

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

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

Maintenance costs on timeshare periods sold are charged to buyers of the timeshare, regardless of the use of assets during the period established, being revenue recognized annually.

In cases of sale of Options contracts or in the Brazilian "Pestana Holiday Club", in which the customer acquires the right to use the accommodation without having to determine at that time which specific hotel to use, this right is represented in points. The revenue associated with these points is recognized by usage or at its expiration date.

iii) Touristic real estate business

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

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

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

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

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

iv) Touristic entertainment

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

v) Management contracts

Management services represent fees received for managing hotels owned by third parties and managed by Pestana Hotel Group, usually agreed under long-term contracts. Revenue normally corresponds ordinarily to a percentage of the hotel revenue plus a payment of incentives that tend to be calculated by applying a percentage (fixed or variable) to the revenues and / or to the gross operating profits of the hotel (G.O.P.).

3.23. Construction contracts

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

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

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

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

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

3.24. Subsequent events

Events after the reporting period that provide additional information about conditions that existed at the end of the reporting period (adjusting events or events after the reporting period that give rise to adjustments) are reflected in the consolidated financial statements. Events after the reporting period that provide information on conditions occurring after the end of the reporting period (non-adjusting events or events after the statement of financial position date that lead to no adjustments) are disclosed in the consolidated financial statements, if considered to be material.

4. Financial risk management policies

4.1. Financial risk factors

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

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

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

i. Exchange rate risk

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

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

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

Sensitivity analysis of the financial results to changes in exchange rate:

Regarding the monetary assets/liabilities that result in an exchange rate risk exposure, a fluctuation of 10% in the Euro exchange rate in relation to the following currencies, as at 31 December 2016 and 2015, would lead to an increase/(decrease) in the Pestana Hotel Group results as follows:

	2016		2015	
	Consolidated income statement		Consolidated income statement	
	+10%	-10%	+10%	-10%
USD	3,214,258	(3,928,538)	3,859,325	(4,716,953)
GBP	1,995,472	(2,438,910)	2,421,353	(2,959,431)
	5,209,730	**(6,367,447)**	**6,280,678**	**(7,676,384)**

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

ii. Credit risk

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

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

iii. Liquidity risk

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

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

Regular analysis are carried out over estimated cash flows both in the short term and in the medium and long term, so as to adjust the type and amount of appropriate financing.

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

31 December 2016	Less than 1 year	Between 1 and 5 years	More than 5 years
Borrowings:	92,570,822	290,272,607	131,392,313
- bank loans	53,713,176	133,778,513	107,171,880
- bond loans	5,112,018	105,140,567	15,000,000
- commercial paper	10,000,000	18,500,000	-
- bank overdrafts	10,101,381	-	-
- undiscounted interests payable until maturity	13,644,247	32,853,526	9,220,433
Trade and other payables - non group	100,201,172	7,596,393	12,555,583
Derivatives financial instruments	945,453	1,010,954	15,035

31 December 2015	Less than 1 year	Between 1 and 5 years	More than 5 years
Borrowings:	115,650,409	306,037,379	142,432,645
- bank loans	58,775,005	169,191,911	80,441,407
- bond loans	8,523,928	82,188,390	42,500,000
- commercial paper	-	5,000,000	-
- bank overdrafts	28,864,966	-	-
- undiscounted interests payable until maturity	19,486,510	49,657,078	19,491,238
Trade and other payables - non group	102,627,878	6,651,252	13,744,648
Derivatives financial instruments	481,384	4,818,138	313,683

iv. Interest rate risk

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

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

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

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

Considering Pestana Hotel Group's consolidated net debt as at 31 December 2016, an increase of 0,25% in the interest rate would result in the increase in the net financial results for the year of approximately 920.000 Euros (31 December 2015: approximately 980.000 Euros).

4.2. Capital risk management

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

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

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

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

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

	31-12-2016	31-12-2015
Total Borrowings	456,955,224	475,509,599
Less: Cash and cash equivalents	87,347,563	82,055,873
Net debt	369,607,660	393,453,727
Equity	329,923,842	296,639,325
Total capital	**699,531,503**	**690,093,052**
Gearing	**53%**	**57%**

If we considered the deferred revenue from timeshare sales (Note 28) as a component of equity and not as liability, since they do not represent future cash payments, the gearing would be as follows:

	31-12-2016	31-12-2015
Total Borrowings	456,955,224	475,509,599
Less: Cash and cash equivalents	87,347,563	82,055,873
Net debt	369,607,660	393,453,726
Equity adjusted	520,373,393	487,752,773
Total capital	**889,981,053**	**881,206,499**
Gearing	**42%**	**45%**

4.3. Accounting for derivative financial instruments

As at 31 December 2016 and 2015, and whenever appropriate, Pestana Hotel Group has hedged its economic exposure to cash flows from existing borrowing through the negotiation of interest rate swaps.

If no hedge designation is made to a derivative financial instrument these are classified as trading.

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

5. Main accounting estimates and judgments

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

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

5.1. Entities included in the consolidation perimeter

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

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

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

5.2. Tangible assets

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

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

5.3. Impairment

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

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

5.4. Provisions

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

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

5.5. Leases

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

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

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

5.6. Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the Group's income tax charge. For certain transactions the ultimate tax rate to be applied is uncertain, requiring judgement for the accounting or disclosure of the uncertain positions.

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

6. Tangible fixed assets

During the year ended as at 2016 the movements occurred in Tangible fixed assets are as follows:

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Other tangible assets	Assets under construction	Total
1 January 2016								
Acquisition cost	188,740,311	994,589,139	257,697,620	6,646,423	29,697,466	12,181,751	87,024,256	1,576,576,966
Accumulated depreciation	–	(439,542,579)	(176,303,496)	(5,949,348)	(27,516,103)	(9,497,262)	–	(658,808,788)
Accumulated impairment	(9,354,480)	(17,657,178)	(26,362)	–	(14,258)	–	(665,649)	(27,717,927)
Net book value	**179,385,831**	**537,389,382**	**81,367,762**	**697,075**	**2,167,105**	**2,684,489**	**86,358,607**	**890,050,251**
Changes in 2016								
Additions	120,000	15,592,519	7,822,433	90,574	496,762	321,370	35,665,191	60,108,849
Disposals, transfers and write offs - acquisition cost	(10,313,797)	(36,108,419)	(3,332,087)	(237,481)	(853,150)	(802,792)	(13,053,374)	(64,701,100)
Disposals, transfers and write offs – accumulated depreciation	–	20,717,837	2,082,294	312,754	510,565	622,941	–	24,246,391
Depreciation	-	(24,706,122)	(9,392,425)	(246,425)	(920,823)	(557,798)	–	(35,823,593)
Impairment - increases	(38,698)	(360,931)	(54,182)	–	(42,376)	(22)	–	(496,209)
Impairment - reversals	–	2,109,184	–	–	–	–	–	2,109,184
Foreign currency translation - acquisition cost	4,495,795	16,289,834	(398,991)	(16,864)	1,342,671	(276,472)	574,843	22,010,816
Foreign currency translation - accumulated depreciation	–	(2,121,199)	596,280	(16,795)	(1,040,297)	208,734	–	(2,373,277)
Foreign currency translation - accumulated impairment	1,352,583	(788,512)	(6,772)	–	(912)	–	–	556,387
Net book value	**175,001,714**	**528,013,572**	**78,684,312**	**582,838**	**1,659,545**	**2,200,450**	**109,545,268**	**895,687,700**
31 December 2016								
Acquisition cost	183,042,309	990,363,073	261,788,975	6,482,652	30,683,749	11,423,857	110,210,917	1,593,995,532
Accumulated depreciation	-	(445,652,063)	(183,017,347)	(5,899,814)	(28,966,658)	(9,223,385)	-	(672,759,267)
Accumulated impairment	(8,040,595)	(16,697,438)	(87,316)	-	(57,546)	(22)	(665,649)	(25,548,566)
Net book value	**175,001,714**	**528,013,572**	**78,684,312**	**582,838**	**1,659,545**	**2,200,450**	**109,545,268**	**895,687,700**

During the year ended as at 2015 the movements occurred in Tangible fixed assets were as follows:

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Other tangible assets	Assets under construction	Total
1 January 2015								
Acquisition cost	229,829,427	1,104,331,619	256,610,062	6,742,231	32,616,901	12,726,903	64,890,240	1,707,747,383
Accumulated depreciation	–	(475,313,371)	(176,487,183)	(5,928,838)	(29,400,246)	(9,636,050)	–	(696,765,687)
Accumulated impairment	(25,000,288)	(19,929,247)	(53,995)	(636)	(126,256)	–	(665,649)	(45,776,072)
Net book value	**204,829,139**	**609,089,001**	**80,068,884**	**812,757**	**3,090,399**	**3,090,853**	**64,224,591**	**965,205,623**
Changes in 2015								
Changes in the perimeter - acquisition cost (Note 43)	–	–	–	–	–	–	7,173,889	7,173,889
Additions	6,281,795	20,531,154	8,105,044	200,569	365,156	678,125	33,732,398	69,894,241
Disposals, transfers and write offs - acquisition cost	(18,475,000)	(86,078,196)	(2,116,603)	(143,513)	(186,082)	(120,139)	–	(107,119,533)
Disposals, transfers and write offs - depreciation	–	43,039,091	809,879	95,612	180,063	120,048	–	44,244,693
Depreciation	–	(26,987,594)	(9,654,265)	(244,260)	(1,126,410)	(629,006)	–	(38,641,535)
Transfers and write-offs	358,059	16,046,794	1,703,441	4,457	124,909	29,352	(18,704,060)	(437,048)
Transfers to Intangible assets (Note 7)	–	–	–	–	–	–	(49,801)	(49,801)
Transfers to Non-current assets held for sale - acquisition cost (Note 20)	(7,594,321)	(14,902,054)	(2,015,362)	(9,475)	(836,372)	(21,367)	(916)	(25,379,867)
Transfers to Non-current assets held for sale - depreciation (Note 20)	–	4,427,917	1,670,220	9,475	742,931	21,050	–	6,871,593
Impairment - reversals	–	466,630	–	–	–	–	–	466,630
Impairment - Transfers to Investment properties (Note 8)	–	36,348	–	–	–	–	–	36,348
Foreign currency translation - acquisition cost	(21,659,649)	(45,340,178)	(4,588,962)	(147,846)	(2,387,046)	(1,111,123)	(17,494)	(75,252,298)
Foreign currency translation - accumulated depreciation	–	15,291,378	7,357,853	118,663	2,087,559	626,696	–	25,482,149
Foreign currency translation - accumulated impairment	15,645,808	1,769,091	27,633	636	111,998	–	–	17,555,166
Net book value	**179,385,831**	**537,389,382**	**81,367,762**	**697,075**	**2,167,105**	**2,684,489**	**86,358,607**	**890,050,251**
31 December 2015								
Acquisition cost	188,740,311	994,589,139	257,697,620	6,646,423	29,697,466	12,181,751	87,024,256	1,576,576,966
Accumulated depreciation	–	(439,542,579)	(176,303,496)	(5,949,348)	(27,516,103)	(9,497,262)	–	(658,808,788)
Accumulated impairment	(9,354,480)	(17,657,178)	(26,362)	–	(14,258)	–	(665,649)	(27,717,927)
Net book value	**179,385,831**	**537,389,382**	**81,367,762**	**697,075**	**2,167,105**	**2,684,489**	**86,358,607**	**890,050,251**

Changes in the consolidation perimeter

In 2015 changes in the consolidation perimeter are related to the acquisition of Amesteldijk Hotel Ontwkkeling, B.V., which will include the future Pestana Amsterdam Hotel (Note 43).

Additions excluding Assets under construction

Additions in 2016 refer mainly to renovation works in hotel Pestana Alvor Praia and hotel Pestana Bahia Praia for the amounts of 6.200.000 Euros and 2.500.000 Euros, respectively, and the acquisition of hotel Pestana Atlantic Gardens, in September 2016, for the amount of 5.000.000 Euros, which was previously leased up to that date.

Additions for 2015 refer mainly to the acquisition of the hotel Pestana Atlantic Bay Ocean for the amount of 15.800.000 Euros, which had been under a lease contract until that date.

Additionally, in August 2015, hotel Pestana Alvor South Beach Resort opened, a 4 star hotel located in the Alvor beach, which extends for several kilometers, fully integrated with the local natural resources and the facilities of a modern hotel. It is a hotel with 80 rooms with a cost of 8.180.000 Euros, having the 2015 additions amounted to approximately 5.400.000 Euros, and the 2014 additions transferred from assets under construction of approximately 2.780.000 Euros.

Also in 2015, the Group opened the hotel Pousada de Lisboa with 90 rooms, corresponding to 171 beds, as well as a restaurant / bar area for 60-80 persons, meeting & event rooms, gym, solarium and inner pool. The additions in 2015 amounted to 3.600.000 Euros, having been transferred from assets under construction an amount of approximately 5.250.000 Euros, corresponding to 2014 additions, relating to adaptation works in the building and the installation of all the equipment required by the business.

At the beginning of August 2015, the 53 new rooms of hotel Pestana Carlton Porto became available, as a result of the expansion works performed during approximately 2 years. Also in 2015, it started the renovation of the 48 rooms included in the original building of hotel Pestana Porto Carlton as well as the construction works for 6 new rooms to be built in the area of the former restaurant. The additions in 2015 amounted to approximately 3.300.000 Euros having been transferred from assets under construction an amount of approximately 4.300.000 Euros, corresponding to 2014 additions.

The remaining additions as at 31 December 2016 and 2015 relate to refurbishment and renovations in hotels, timeshare contracts acquisition costs (Note 3.3) and works on remodeling houses.

Disposals

In 2016, the decrease in the captions Land and Buildings and other constructions refers to the sale of the hotel Pestana Viking to a real estate investment fund for the amount of 17.900.000 Euros, obtaining a capital gain of 2.755.340 Euros (Note 34). Pestana Hotel Group leased the Hotel keeping its management and paying a monthly rent for the effect (Note 32). Additionally, the Group sold a building in Lisbon and all its existing equipment for the amount of 14.500.000 Euros, obtaining a capital gain of 2.049.848 Euros (Note 34). Finally, the Group sold Pestana Natal for the amount of 38.000.000 Brazilian Reais, corresponding to 11.077.103 Euros, which did not generate any gains or losses.

In 2015, the reduction verified in the captions Land and Buildings and other constructions refers to the sale of Pestana Carlton Madeira and Hotel D. João II to investment funds for the amount of 31.500.000 Euros and 34.990.000 Euros, respectively, generating a capital loss of 4.355.638 Euros (Note 35) and a capital gain of 9.217.348 Euros (Note 34), respectively.

Transfers to Assets held for sale

In December 2015 Pestana Alvor Park Hotel and Pestana São Luis Hotel were transferred to Assets held for sale because of management's decision and expectation to sell these assets within the following months resulting in transfers in the amounts of 10.102.112 Euros and 7.220.599 Euros, respectively (Note 20).

Impairment

In 2016, Pestana Hotel Group reversed all impairment losses booked against hotel Pestana Sintra Golf, in the amount of 2.109.184 Euros, as a result of the significant improvement in the operational results generated by the exploration of this asset, a situation which has been verified consistently in the last years. Therefore, and considering the estimated future cash flows and the applicable discount rate, the recoverable amount of this asset is now higher than its net book value which allowed for the reversal of the impairment. Additionally, an impairment loss was recognized regarding the Beloura Golf course and respective Club-House, in the amount of 399.262 Euros, as a result of its recoverable amount, resulting from its estimated future cash flows and applicable discount rate, being lower than its net book value, having recognized an accumulated impairment of 2.060.573 Euros.

In 2015, Pestana Hotel Group reversed all impairment losses recognized regarding the golf course "Alto Golfe" and the respective Club house, as a result of the significant improvement in the operational result generated by these assets. Considering the estimated cash flows and the determined discount rate, the value in use of these assets was considered to be higher than its net book value, having the impairment losses still recorded for these assets, in the amount of 466.630 Euros, been reversed.

Foreign currency translation

This caption in 2016 is mainly explained by the significant variance of the Brazilian Real against the Euro, increasing the Brazilian fixed assets in the total net amount of 26.439.140 Euros (2015: reduction of Brazilian fixed assets in the total net amount of 29.711.707 Euros) and by the variance of the Mozambican Metical against the Euro, decreasing Mozambican fixed assets in the total net amount of 6.926.241 Euros (Note 3.2. iii).

The exchange rate in the remaining countries where Pestana Hotel Group is present did not have a significant variance.

Assets under construction

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

	2016	2015
Pestana Amsterdam Project	27,328,993	9,285,570
Pestana Manhattan Project	25,913,934	23,776,700
Quinta da Amoreira Project (Algarve)	15,981,106	15,981,106
Tróia Project	12,781,988	12,635,539
Pestana Montevideu Project (Uruguay)	5,636,286	220,786
Hotel Silves Project (Algarve)	4,894,000	4,894,000
North of Gramacho land (Algarve)	2,158,698	2,125,003
Madeira Beach Club	2,106,027	1,306,739
D. Fernando land (Algarve)	1,926,288	1,926,288
Lisbon downtown building	1,850,925	–
Project in Silves area (Algarve)	1,215,396	1,215,396
Golf course project (Algarve)	1,199,852	1,199,852
Alvor Beach Club	789,811	–
Pestana Madrid Project	763,015	687,649
Silves golf course project (Algarve)	500,001	500,001
Royal Bay Project	500,000	–
Praia Alvor - urban intervention plan (Algarve)	382,277	354,676
Vale da Pinta adjacent lands (Algarve)	354,900	354,900
Lisbon downtown project	–	6,107,952
Funchal port project	–	613,106
Pousada Flor da Rosa (improvements)	–	266,978
Pousada de Arraiolos (improvements)	–	255,949
Pestana Caracas - Hotel improvements (Venezuela)	–	64,847
Others	3,261,772	2,585,570
	109,545,268	**86,358,607**

Pestana Amsterdam project refers to "Pestana Raadhuishotel", a 5 star hotel with 157 rooms. It will be located in the Amsterdam-Zuid district in the west bank of Amstel River and at 15 minutes public transport distance from the main attractions of the city of Amsterdam. It is located in a residential neighborhood very sought after with access to restaurants, cafes and shops. This 5 star hotel will be composed by 3 buildings, one ancient and historical building and two modern buildings, in accordance with a project developed by Dutch architects, which started construction during the current year. This project will also comprise one parking lot with 60 places. The investment in this new hotel will be around 35 million Euros with its opening date foreseen for the end of 2017 or in the beginning of 2018. In 2016, an amount of 4.541.077 Euros relating with the deferral of the amount paid by the subsidiary Amesteldijk Hotel Ontwkkeling, B.V in the negotiation of the ground lease, was transferred from "Trade and other receivables" (Note 15).

Pestana Manhattan project refers to a 4 star hotel in the north american city of New York, with a total of 176 rooms. It is located on the 39th Street, in the West Site, between the 8th and 9th Avenues. It is nearby the referred areas of Time Square, the NY Convention Center, and the Hudson Yards, the major Real estate development project in New York. This new hotel will correspond to an investment of 50 million US dollars and the opening date is expected for 2019. This line item includes the amount of 20.301.779 Euros that correspond to the net present value of the minimum lease payments of the ground lease signed in 2015 for a 99 year period, since it was considered that under IAS 17 – leases, all the risks and rewards inherent to property ownership of the assets were transferred to Pestana Hotel Group (Note 29).

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

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

The Pestana Montevideu project (Uruguay) relates to the development of a new Hotel unit, for which there is no estimated opening date. In 2016 Pestana Hotel Group bought the historic building where the new Hotel will be implemented for the amount of 5.300.000 USD, corresponding to 5.027.986 Euros.

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

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

The amounts related to Madeira Beach Club and Alvor Beach Club refer to timeshare contract's acquisition costs (Note 3.3) that will be utilized in these two units from 2017 onwards, the date on which these will be available for use.

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

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

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

Pestana Madrid project refers to the construction of a new 5 star hotel in the center of Madrid. The opening of this hotel is foreseen for 2018. This hotel will have 80 rooms, spa and gym. Pestana Hotel Group will increase its presence in Spain, being in Barcelona since October 2013.

Assets which are reversible to the State

Pestana Hotel Group recognizes in its financial statements assets related with gambling activities and with the concession of the network of Pousadas de Portugal, which are reversible to the State at the end of the respective concessions without the right to any consideration. The net value of these assets as at 31 December 2016 is 8.249.071 Euros (31 December 2015: 9.084.585 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is lower.

Tangible fixed assets acquired through financial leasing

In the period ended 31 December 2016 and 2015, the net book value of Tangible fixed assets acquired through financial leasing was as follows:

	2016	2015
Acquisition cost	34,934,294	35,035,531
Accumulated depreciation	(2,528,761)	(4,579,773)
	32,405,533	**30,455,758**

7. Intangible assetss

	Software	Concessions	Website	Total
1 January 2016				
Acquisition cost	1,957,796	27,203,252	858,150	30,019,198
Accumulated amortization	(1,216,906)	(14,413,223)	(468,557)	(16,098,686)
Accumulated impairment	–	(634,423)	–	(634,423)
Net book value	**740,890**	**12,155,606**	**389,593**	**13,286,089**
Additions	89,037	–	390,140	479,177
Disposals and write-offs - acquisition cost	(154,401)	–	–	(154,401)
Disposals and write-offs - amortization	154,401	(206,070)	–	(51,669)
Amortization	(267,958)	(1,117,166)	(125,014)	(1,510,138)
Impairment - charge	–	–	(28,132)	(28,132)
Impairment - reversal	–	–	–	–
Foreign currency translation - acquisition cost	(94,441)	1,142	(7,299)	(100,598)
Foreign currency translation - amortization	71,248	(1,120)	1,586	71,714
Foreign currency translation - impairment	-	-	1,196	1,196
Net book value	**538,776**	**10,832,392**	**622,070**	**11,993,238**
31 December 2016				
Acquisition cost	1,797,991	27,204,394	1,240,991	30,243,376
Accumulated amortization	(1,259,215)	(15,737,579)	(591,985)	(17,588,779)
Accumulated impairment	–	(634,423)	(26,936)	(661,359)
Net book value	**538,776**	**10,832,392**	**622,070**	**11,993,238**

During the year ended as at 31 December 2015 the movements occurred in Intangible assets were as follows:

	Software	Concessions	Website	Total
1 January 2015				
Acquisition cost	1,929,616	28,985,846	442,302	31,357,764
Accumulated amortization	(1,029,435)	(14,776,126)	(371,417)	(16,176,979)
Accumulated impairment	–	(634,423)	–	(634,423)
Net book value	**900,181**	**13,575,297**	**70,886**	**14,546,361**
Additions	110,535	–	416,518	527,054
Disposals and write-offs - acquisition cost	(21,220)	(1,781,089)	–	(1,802,309)
Disposals and write-offs - amortization	11,051	1,472,739	–	1,483,790
Transfers from fixed assets	49,801	–	–	49,801
Amortization	(268,269)	(1,111,291)	(97,291)	(1,476,851)
Impairment - charge	–	–	–	–
Impairment - reversal	–	–	–	–
Foreign currency translation - acquisition cost	(110,936)	(1,505)	(670)	(113,111)
Foreign currency translation - amortization	69,747	1,455	151	71,353
Net book value	**740,890**	**12,155,606**	**389,593**	**13,286,089**
31 December 2015				
Acquisition cost	1,957,796	27,203,252	858,150	30,019,198
Accumulated amortization	(1,216,906)	(14,413,223)	(468,557)	(16,098,686)
Accumulated impairment	–	(634,423)	–	(634,423)
Net book value	**740,890**	**12,155,606**	**389,593**	**13,286,089**

The caption Concessions includes:

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

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

- The concession right of “Palácio do Freixo”, for a period of 50 years, obtained through a contract with the City Hall of Oporto, where “Pousada” of Oporto operates since October 2010.

- The concession right of “Cidadela de Cascais”, for a period of 70 years, through a contract signed in 26 November 2009 with Fortaleza de Cascais, E.M., where “Pousada” of Cascais operates since March 2012.

— In addition to these concessions, the Pestana Hotel Group also holds other concessions that have impairment losses in the amount of 634.423 Euros.

The exchange rate in the countries where Pestana Hotel Group is present and has Intangible assets did not have a significant variance.

8. Investment properties

During the period ended as at 2016 and 2015, the movements occurred in Investment properties are as follows:

	2016	2015
1 January		
Acquisition cost	11,408,967	9,865,435
Accumulated depreciation	(2,720,076)	(2,622,291)
Accumulated impairment	(677,740)	(641,392)
Net book value	**8,011,151**	**6,601,752**
Additions	69,593	330,000
Transfer to Tangible fixed assets - impairment (Note 6)	–	(36,348)
Tranfers and write-offs - acquisition cost	(657,289)	13,669
Tranfers and write-offs – accumulated depreciation	143,860	8,296
Tranfers and write-offs - impairment	245,006	–
Changes in perimeter	–	1,199,863
Depreciation	(102,339)	(106,081)
	(301,169)	**1,409,399**
31 December		
Acquisition cost	10,821,271	11,408,967
Accumulated depreciation	(2,678,555)	(2,720,076)
Accumulated impairment	(432,734)	(677,740)
Net book value	**7,709,982**	**8,011,151**

As at 31 December 2016 and 2015 Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2016	2015
Commercial properties leased to third parties, Algarve	3,067,221	3,273,582
S. Gonçalo houses, Madeira	1,182,731	1,209,499
Funchal land, Madeira	1,269,455	1,199,863
Angra dos Reis land, Brazil	962,902	962,902
Others	1,227,673	1,365,305
	7,709,982	**8,011,151**

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

9. Investments in joint ventures

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

	2016
1 January	-
Losses from equity accounting (Note 36)	(182,437)
Acquisitions	5,249,788
31 December	**5,067,351**

On December 2015, a Framework Joint Venture Agreement had been signed between Pestana Hotel Group and Cristiano Ronaldo with the aim of promoting, developing and exploring several hotel units. In April 2016 Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A. was incorporated and in the following month Pestana CR7 – Lisboa Hotel Investimentos Turísticos, S.A. was incorporated as well, both held in 50% by Pestana Hotel Group and 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 June 2016, the Group acquired a share, corresponding to 50% of Solpor – Sociedade de Turismo do Porto Santo, Lda.’s equity in the amount of 3.163.341 Euros, resulting in the recognition of an impairment loss in the amount of 487.635 Euros on the Goodwill determined in the acquisition of this investment (Note 36).

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

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

The summary of financial statements from these joint ventures is presented in Note 42.

10. Investments in associates

The movements occurred in Investments in associates during 2016 and 2015 are as follows:

	2016	2015
1 January	11,345,137	11,035,669
Gains /(losses) from equity accounting (Note 36)	389,987	1,078,392
Acquisitions	-	(768,924)
31 December	**11,735,124**	**11,345,137**

The 2016 and 2015 Gains from equity accounting mainly refer to Enatur – Empresa Nacional de Turismo, S.A. (Note 36).

In 2015 and due to the current economic and financial situation in Angola, Pestana Hotel Group decided to book an impairment loss for the financial investment held in Soheotur - Sociedade de Empreendimentos Hoteleiros, S.A..

As at 31 December 2016 the Investments in associates refers to the following entities:

		Acquisition cost			Loans granted				
Entity	% Owned	Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total (Note 44)	Total investment	Goodwill included
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	25,00%	274,601	–	274,601	–	–	–	274,601	–
Enatur - Empresa Nacional de Turismo, S.A.	49,00%	9,695,656	–	9,695,656	1,190,593	–	1,190,593	10,886,249	3,837,382
Albar - Sociedade Imobiliária do Barlavento, S.A.	49,81%	574,274	–	574,274	–	–	–	574,274	–
Soheotur, S.A.	25,00%	596,403	596,403	–	172,521	172,521	–	–	–
Fantasy Land, Ltd.	33,33%	150,068	150,068	–	–	–	–	–	–
		11,291,002	**746,471**	**10,544,531**	**1,363,114**	**172,521**	**1,190,593**	**11,735,124**	**3,837,382**

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

		Acquisition cost			Loans granted				
Entity	% Owned	Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total (Note 44)	Total investment	Goodwill included
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	25,00%	322,444	–	322,444	–	–	–	322,444	–
Enatur - Empresa Nacional de Turismo, S.A.	49,00%	9,251,036	–	9,251,036	1,190,593	–	1,190,593	10,441,629	3,837,382
Albar - Sociedade Imobiliária do Barlavento, S.A.	49,81%	581,064	–	581,064	–	–	–	581,064	–
Soheotur, S.A.	25,00%	596,403	596,403	–	172,521	172,521	–	–	–
Fantasy Land, Ltd.	33,33%	150,068	150,068	–	–	–	–	–	–
		10,901,015	**746,471**	**10,154,544**	**1,363,114**	**172,521**	**1,190,593**	**11,345,137**	**3,837,382**

The summary of financial statements from these associates is presented in Note 42.

11. Other financial investments

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

	2016	2015
1 January	9,321,517	9,893,993
Acquisitions	2,500	–
Disposals	(1,876)	(121,286)
Impairment losses	(1,781,814)	(369,159)
Loans granted / (Repaid)	247,500	(82,031)
Foreign currency translation	(120)	–
31 December	**7,787,707**	**9,321,517**

The impairment losses booked in 2016 and 2015 are related to Imóveis Brisa – F.I.I.F. due to the market value decrease occurred.

In 2016 and 2015 disposals relate to minor participations in government institutions that have been made in the past due to contractual obligations linked to government grants.

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

		Acquisition cost			Loans granted			
Entity	% Owned	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Total investment
Imóveis Brisa - F.I.I.F.	n.a.	9,338,481	2,096,359	7,242,122	–	–	–	7,242,122
Other financial investments	n.a.	616,126	328,516	287,610	257,975	–	257,975	545,585
		9,954,607	**2,424,875**	**7,529,732**	**257,975**	**–**	**257,975**	**7,787,707**

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

		Acquisition cost			Loans granted			
Entity	% Owned	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Total investment
Imóveis Brisa - F.I.I.F.	n.a.	9,338,481	314,544	9,023,937	–	–	–	9,023,937
Other financial investments	n.a.	937,628	650,523	287,105	10,475	–	10,475	297,580
		10,276,109	**965,067**	**9,311,042**	**10,475**	**–**	**10,475**	**9,321,517**

12. Deferred tax assets and liabilities

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

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

	2016	2015
Impact on income statement		
Deferred tax assets	1,958,529	11,186,294
Deferred tax liabilities	3,402,822	7,817,732
	5,361,351	**19,004,026**
Impact on equity		
Deferred tax assets	(555,046)	(418,930)
Deferred tax liabilities	-	-
	(555,046)	(418,930)
Net impact of deferred taxes	**4,806,305**	**18,585,096**

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

	Impairment losses on trade receivables	Impairment losses on inventories	Changes in fair value	Hedging reserves	Impairment losses on tangible fixed assets	Provisions - litigations in progress	Carry forward tax losses	Loyalty program (PPG)	Others	Total
1 January 2016	206,744	459,319	81,266	993,739	4,075,202	831,391	15,008,262	569,234	4,293,656	26,518,813
Constitution/reversal through equity	–		–	(555,046)	–	–	-	-	-	(555,046)
Reversal through income statement	(36,503)	(575)	–	–	(402,825)	(2,520)	-	-	(2,507,818)	(2,950,241)
Constitution through income statement	118,949	14,040	392,506	2,794	423,040	2,154,277	1,475,302	44,414	283,448	4,908,770
Transfers	1,276	141,536	–	–	(405,821)	(725,677)	-	-	988,686	-
Foreign currency translation	11,082	–	–	–	634,597	1,204,557	2,321,478	-	(491,392)	3,680,322
Changes on period	**94,804**	**155,001**	**392,506**	**(552,252)**	**248,991**	**2,630,637**	**3,796,780**	**44,414**	**(1,727,076)**	**5,083,805**
31 December 2016	**301,548**	**614,320**	**473,772**	**441,487**	**4,324,193**	**3,462,028**	**18,805,042**	**613,649**	**2,566,580**	**31,602,618**

Provisions for litigation in progress increased due entirely to labor and civil legal cases in Brazil in 2016.

Deferred tax assets on Carry forward tax losses are mainly related to Brazil and Luxembourg, countries in which tax losses do not expire.

Foreign currency translation in 2016 mainly refer to the significant variance of the Brazilian Real against the Euro, increasing the Brazilian Deferred tax assets in the total net amount of 3.329.669 Euros (Note 3.2. iv). Due to this valuation of the Brazilian Real and the fact that the tax regime adopted by the Group's subsidiary in Brazil, in which exchange rate differences are only taxed when the transaction is effectively realized, caption Deferred tax assets – Others includes a reversal of 2.054.281 Euros.

	Impairment losses on trade receivables	Impairment losses on inventories	Changes in fair value	Hedging reserves	Impairment losses on tangible fixed assets	Provisions - litigations in progress	Carry forward tax losses	Loyalty program (PPG)	Others	Total
1 January 2015	210,668	–	758,084	1,279,277	9,181,879	–	1,493,071	579,003	2,278,650	15,780,632
Constitution/reversal through equity	–	–	–	(418,930)	–	–	–	–	–	(418,930)
Reversal through income statement	(92,192)		(744,444)	(1,247)	(4,259,257)	–	(309,768)	(9,769)	(12,155)	(5,428,832)
Constitution through income statement	93,837	459,319	67,626	134,639	508,352	831,391	11,879,319	–	2,640,645	16,615,128
Transfers to deferred tax liabilities	–		–	–	–	–	3,346,650	–	–	3,346,650
Foreign currency translation	(5,569)	–	–	–	(1,355,772)	–	(1,401,010)	–	(613,484)	(3,375,835)
Changes on period	(3,924)	459,319	(676,818)	(285,538)	(5,106,677)	831,391	13,515,191	(9,769)	2,015,006	10,738,181
31 December 2015	**206,744**	**459,319**	**81,266**	**993,739**	**4,075,202**	**831,391**	**15,008,262**	**569,234**	**4,293,656**	**26,518,813**

Deferred assets on tax losses recognized in 2015 relate to the tax losses accumulated by Brasturinvest (operating company in Brazil) for which management expectations on recovery have changed in 2015, considering the changes which started to be implemented both on an operational and financing level in Brazil (deferred tax asset amounting to 9,9 million Euros).

Foreign currency translation in 2015 mainly refer to the significant variance of the Brazilian Real against the Euro, decreasing the Brazilian Deferred tax assets in the total net amount of 3.141.935 Euros (Note 3.2. iv).

As at 31 December 2016 and 2015, carry forward tax losses for which no Deferred tax asset was recognized are not significant.

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

	Deemed cost (IFRS 1)	Others	Total
1 January 2016	67,389,273	1,978,881	69,368,154
Constitution / reversal through equity	-	-	-
Reversal through income statement	(4,178,554)	(239,284)	(4,417,838)
Constitution through income statement	-	1,015,016	1,015,016
Transfers	2,136,509	-	2,136,509
Foreign currency translation	4,216,767	144,067	4,360,834
Changes on period	**2,174,722**	**919,799**	**3,094,521**
31 December 2016	**69,563,995**	**2,898,680**	**72,462,675**

Deferred tax liabilities on Deemed cost reversed in 2016 relate, among others, to the sale of Hotel Pestana Natal and Hotel Pestana Viking in the amounts of 3 million Euros and 0,9 million Euros respectively.

Foreign currency translation mainly refer to the significant variance of the Brazilian Real and the Mozambican Metical against the Euro, increasing the Brazilian Deferred tax liabilities in the total net amount of 5.653.708 Euros and decreasing Mozambican Deferred tax liabilities in the total net amount of 1.149.076 Euros (2015: reducing the Brazilian and Mozambican Deferred tax liabilities in the total net amount of 7.499.452 Euros and 958.858 Euros, respectively) (Note 3.2. iii). Due to this valuation of the Brazilian Real and the fact that the tax regime adopted by the Group's subsidiary in Brazil, in which exchange rate differences are only taxed when the transaction is effectively realized, caption Deferred tax liabilities – Others includes a constitution of 982.041 Euros.

	Deemed cost (IFRS 1)	Others	Total
1 January 2015	83,725,059	1,628,235	85,353,294
Constitution / reversal through equity	-	-	-
Reversal through income statement	(7,944,463)	(2,276)	(7,946,739)
Constitution through income statement	-	129,005	129,005
Transfers from deferred tax assets	3,346,650	-	3,346,650
Foreign currency translation	(11,737,973)	223,917	(11,514,056)
Changes on period	**(16,335,786)**	**350,646**	**(15,985,140)**
31 December 2015	**67,389,273**	**1,978,881**	**69,368,154**

Deferred tax liabilities on Deemed cost reversed in 2015 relate, among others, to the sale of Pestana D. João II Hotel in the amount of 3,9 million Euros. Additionally, due to the impairment registered in Pestana São Luis Hotel (Note 20) the corresponding deferred tax liability related to the Deemed cost was derecognized in the amount of 1,9 million Euros.

13. Available-for-sale financial assets

As at 31 December 2016 and 2015, Pestana Hotel Group has equity instruments in some listed entities in the amount of 95.044 Euros and 158.031 Euros, respectively. As at 31 December 2016 and 2015, the total acquisition costs of these capital financial instruments amounts to 225.000 Euros.

The available-for-sale financial assets are recorded at fair value, with valuation changes since the date of acquisition recognized against Fair value reserve – Available-for-sale financial assets (Note 22), net of impairment. In the case of a significant or continued decline in the fair value (+20%) or below their cost, this is considered as an impairment indicator, and fair value changes are recorded in profit or loss (Note 3.9.).

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

	2016	2015
1 January	158,031	235,245
Impairment losses (Note 36)	(62,986)	(47,938)
Fair value change (Note 22)	–	(29,276)
Changes on period	**(62,986)**	**(77,214)**
31 December	**95,044**	**158,031**

The fair value of the participation units was determined as at 31 December 2016 and 2015 based on market prices, which corresponds to the first level of fair value hierarchy, according to the accounting policy described on Note 3.9..

14. Financial assets and liabilities

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

31 December 2016	Cash and receivables	Available-for-sale financial assets	Liabilities at fair value	Other financial liabilities	Non-financial assets/ liabilities	Total
Financial assets						
Cash and cash equivalents	87,347,563	-	-	-	-	87,347,563
Trade and other receivables	47,974,401	-	-	-	33,811,263	81,785,664
Available-for-sale financial assets	-	95,044	-	-	-	95,044
	135,321,964	**95,044**	**-**	**-**	**33,811,263**	**169,228,271**
Financial liabilities						
Borrowings	-	-	-	456,955,224	-	456,955,224
Derivatives	-	-	2,928,884	-	-	2,928,884
Trade and other payables	-	-	-	66,264,127	54,118,732	120,382,859
	-	**-**	**2,928,884**	**523,219,351**	**54,118,732**	**580,266,968**

31 December 2015	Cash and receivables	Available-for-sale financial assets	Liabilities at fair value	Other financial liabilities	Non-financial assets/ liabilities	Total
Financial assets						
Cash and cash equivalents	82,055,873	-	-	-	-	82,055,873
Trade and other receivables	38,775,518	-	-	-	39,532,395	78,307,913
Available-for-sale financial assets	-	158,031	-	-	-	158,031
	120,831,391	**158,031**	**-**	**-**	**39,532,395**	**160,521,817**
Financial liabilities						
Borrowings	-	-	-	475,509,599	-	475,509,599
Derivatives	-	-	5,613,205	-	-	5,613,205
Trade and other payables	-	-	-	74,028,793	49,796,286	123,825,079
	-	**-**	**5,613,205**	**549,538,392**	**49,796,286**	**604,947,883**

According to IFRS 13, Pestana Hotel Group established the way it obtains the fair value of its financial assets and liabilities. The levels used are presented in Note 3.9 and are as follows:

	31 December 2016			31 December 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Derivatives	-	-	-	-	-	-
Available-for-sale financial assets	95,044	-	-	158,031	-	-
	95,044	**-**	**-**	**158,031**	**-**	**-**
Financial liabilities						
Derivatives	-	2,928,884	-	-	5,613,205	-
	-	**2,928,884**	**-**	**-**	**5,613,205**	**-**

15. Trade and other receivables

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

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables (i)	31,701,042	-	31,701,042	31,671,836	-	31,671,836
Other receivables (ii)	14,293,265	1,114,432	15,407,697	6,156,405	-	6,156,405
Prepayments (iii)	8,066,651	20,021,965	28,088,616	7,939,785	24,668,678	32,608,463
Accrued income	865,662	-	865,661	947,277	-	947,277
Tax receivables (iv)	5,722,647	-	5,722,647	6,923,932	-	6,923,932
	60,649,267	**21,136,397**	**81,785,664**	**53,639,235**	**24,668,678**	**78,307,913**

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

i) Trade receivables

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables - group (Note 44)	5,182,632	-	5,182,632	940,375	-	940,375
Trade receivables - other	26,518,410	-	26,518,410	30,731,460	-	30,731,460
Doubtful debtors	16,705,267	-	16,705,267	15,110,423	-	15,110,423
	48,406,309	-	48,406,309	46,782,258	-	46,782,258
Impairment of trade receivables	(16,705,267)	-	(16,705,267)	(15,110,423)	-	(15,110,423)
	31,701,042	**-**	**31,701,042**	**31,671,836**	**-**	**31,671,836**

Impairment of Trade receivables – movements of the year:

	2016	2015
1 January	15,110,423	15,350,882
Increases	1,708,297	2,255,266
Reversals	(422,887)	(1,272,250)
Utilizations / Foreign currency translation	(65,946)	(869,058)
Transfers to Other receivables	375,380	**(364,417)**
31 December	**16,705,267**	**15,110,423**

ii) Other receivables

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Other receivables - group (Note 44)	342,543	-	342,543	642,987	–	642,987
Other receivables	14,191,730	1,114,432	15,306,162	5,951,140	–	5,951,140
Personnel	58,340	-	58,340	233,882	–	233,882
Impairment	(299,348)	-	(299,348)	(671,604)	–	(671,604)
	14,293,265	**1,114,432**	**15,407,697**	**6,156,405**	**–**	**6,156,405**

As at 31 December 2016, Other receivables includes an amount of 6.500.000 Euros to be received from Imóveis Brisa – F.I.I.F. (Fundo Brisa) and an amount of 1.304.021 Euros to be received from the Azores Autonomous Region concerning the Portugal 2020 incentive grant program related with the renovation of the Group's hotel in the Azores.

Impairment of Other receivables - movements of the year:

	2016	2015
1 January	671,604	788,985
Increases	3,414	17,378
Reversals	–	(193,335)
Utilizations	(290)	(305,841)
Transfers from Trade receivables	(375,380)	364,417
31 December	**299,348**	**671,604**

iii) Prepayments

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Commissions	3,309,672	19,940,447	23,250,119	3,254,618	20,127,601	23,382,219
Rentals	1,765,902	-	1,765,902	1,036,831	4,541,077	5,577,908
Insurance	191,848	-	191,848	372,548	-	372,548
Maintenance services	579,034	-	579,034	666,342	-	666,342
Other services	2,220,195	81,518	2,301,713	2,609,446	-	2,609,446
	8,066,651	**20,021,965**	**28,088,616**	**7,939,785**	**24,668,678**	**32,608,463**

As at 31 December 2016, the balance of Prepayments - Commissions includes commissions paid related to sales of Pestana Vacations Club – Options contracts (Note 3.22 ii)), amounting to 23.250.119 Euros (31 December 2015: 23.364.234 Euros), that will be recognized in Income statement during 10 years.

In 2015, the caption Rentals included an amount of 4.541.077 Euros relating to the amount paid at the inception of the ground lease contract of the subsidiary Amesteldijk Hotel Ontwkkeling, B.V. having this value been transferred to tangible fixed assets in 2016 (Note 6).

iv) Tax receivables

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

16. Inventories

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

	2016	2015
Goods	5,024,158	4,411,935
Raw and subsidiary materials	3,244,182	2,982,186
Finished goods	30,239,607	25,380,687
Work in progress	30,701,886	31,275,239
	69,209,833	63,999,246
Impairment of inventories	(1,939,226)	(1,902,334)
	67,270,607	**62,096,912**

The variation in Inventories is mainly related to the delay in the licensing and subsequent registration process in the Troia project, which were only concluded by the end of 2016, not allowing for the signing of the expected number of deeds.

Finished goods and in Work in progress are as follows:

	2016	2015
Tróia Project (Tróia, Portugal)	30,239,607	25,380,686
Vila Maria Villas (São Tome and Principe)	8,619,656	8,619,656
North of Gramacho Land (Algarve, Portugal)	7,904,681	7,866,691
Abrunheira Project (Portalegre, Portugal)	6,291,949	6,291,949
Silves turistic Project (Algarve, Portugal)	3,227,985	3,034,647
Vale da Pinta Land (Algarve, Portugal)	1,783,941	2,207,224
Bazaruto Villas (Mozambique)	885,024	1,187,828
Beverages and packaging	707,856	622,927
Flats (Algarve, Portugal)	372,956	1,138,436
Others	907,838	305,882
	60,941,493	**56,655,926**

The Tróia project is mainly related to the construction of houses and the infrastructures of the touristic village. The change occurred in 2016 is related to construction developments.

Vila Maria Villas are 29 villas in a luxury condominium located near the beach in the country's capital, the city of São Tomé.

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

The Abrunheira project is related to a development project in a land with a total area of approximately 450 hectares, which will be composed by a set of 10 tourist villages with houses and flats, framed within the typical environment of Portalegre. In 2016 the Municipality of Portalegre approved some changes to the project, as well as some specialties, which will allow for the issuance of the license and marketing or reservation of the land for the first touristic village in 2017.

The Silves touristic project is associated to a touristic project which includes two 4 star touristic resorts with 232 accommodation units. This project will begin its development phase in 2017.

Vale da Pinta Land corresponds to plots of land for construction that are for sale as part of the real estate activities of the group.

Bazaruto Villas comprises luxury villas in a rustic setting located near the beach of the island of Bazaruto in Mozambique.

The caption Flats relates to 5 apartments near Gramacho and Vale da Pinta golf course in Algarve – Portugal. These apartments are ready to be sold.

In 2016 Cost of goods sold amounted to 44.746.616 Euros (31 December 2015: 49.272.130 Euros).

Impairment of Inventories – movements of the year:

	2016	2015
1 January	1,902,334	263,535
Increases	136,710	1,784,628
Reversals	(37,679)	(37,343)
Utilizations	(62,139)	(108,486)
31 December	**1,939,226**	**1,902,334**

The increases in 2015 refer mainly to an impairment of the Vila Maria's villages, in Sao Tome and Príncipe, in the amount of 1.671.989 Euros, considering the actual estimated cash flows and applicable discount rate.

17. Corporate income tax

The balances of Corporate income tax for the years ended 31 December 2016 and 2015 are as follows:

	31-12-2016		31-12-2015	
	Debtor	Creditor	Debtor	Creditor
Current income tax	1,843,090	494,416	2,429,995	5,197,555
	1,843,090	**494,416**	**2,429,995**	**5,197,555**

The balance of Current income tax is detailed as follows:

	2016	2015
Advance payments	7,586,064	5,250,505
Withholding taxes	166,062	276,211
Current income tax estimate	(6,403,451)	(8,294,276)
	1,348,674	**(2,767,560)**

18. Financial assets at fair value through profit and loss

During 2015, Pestana Hotel Group settled equity instruments held in the amount of 743.531 Euros.

The Financial assets at fair value through profit or loss are recorded at fair value. Since the date of acquisition, valuation changes are recognized in the income statement in the financial results caption (Note 37).

The variations in the Financial assets at fair value through profit and loss were as follows:

	2016	2015
1 January	–	743.531
Settlement	–	(614.209)
Fair value variation (Note 37)	–	77.921
Exchange differences	–	(207.243)
Changes on period	–	(743.531)
31 December	–	–

19. Cash and cash equivalents

The breakdown of Cash and cash equivalents is as follows:

	31-12-2016	31-12-2015
Cash	1,444,033	1,128,105
Bank deposits	85,903,530	80,927,768
	87,347,563	**82,055,873**

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 2016 and 2015 is as follows:

	31-12-2016	31-12-2015
Cash	1,444,033	1,128,105
Bank overdrafts	(10,101,381)	(28,864,967)
Bank deposits	85,903,530	80,927,768
	77,246,181	**53,190,906**

Bank deposits included balances in foreign currency mainly in the amounts of 4.596.525 USD and 2.406.100 GBP (31 December 2015: 6.507.470 USD and 13.367.913 GBP).

20. Non-current Assets and Liabilities held for sale

As at 31 December 2016 and 2015, the detail of Non-current Assets and Liabilities held for sale is as follows:

	2016	2015
Assets held for sale		
Pestana Alvor Park Hotel and business (i)	–	8,298,468
Pestana São Luis Hotel and business (ii)	–	2,791,601
	–	11,090,069
Liabilities held for sale		
Pestana Alvor Park Hotel and business (i)	–	3,298,120
	–	3,298,120
	–	**7,791,949**

(i) Pestana Alvor Park Hotel and business

The Group, after the deliberation of the Board of Directors of Salvor – Sociedade de Investimento Hoteleiro, S.A., in December 2015, decided to dispose of Pestana Alvor Park hotel transferring the all business attached to this unit for the amount of 5.000.000 Euros, having this transaction been concluded in 2016 with a capital loss of 177.477 Euros. Since, as at 31 December 2015, the negotiations for the sale of the hotel were already in place and, there was already an estimate of the sales price, an impairment loss was recognized for the difference between the carrying amount of the assets to be transferred and the estimated consideration to be received, which amounted to 1.803.643 Euros. The unit´s related assets were also reclassified to Non-current assets held for sale (Note 6) and the deferred revenue to Non-current liabilities held for sale.

(ii) Pestana São Luis Hotel and business

Also in 2015, Pestana Hotel Group decided to sell Pestana São Luis Hotel for 12.000.000 BRL (2.783.125 Euros at closing date exchange rate) having this transaction been concluded in 2016 with no gain or loss. Since as at 31 December 2015 the sale price had already been agreed on an additional impairment loss of 2.849.094 Euros was recognized for the difference between the assets' carrying amount and the estimated consideration to be received. All tangible assets of this hotel were classified as Non-current Assets held for sale (Note 6).

21. Capital

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

	2016	2015
Share capital (i)	166,625,238	166,625,238
Other equity instruments:		
Other capital contributions not remunerated nor with reimbursement date (ii)	40,711,335	40,711,335
	207,336,573	**207,336,573**

(i) Share capital

As at 31 December 2016 and 2015, Pestana International Holdings S.A.'s subscribed capital amounts to 166.625.238 Euros, represented by 1.319.177 shares in registered form without nominal value.

The authorized capital of the Company is set at 250.000.000 Euros divided into 2.000.000 shares without nominal value.

The detail of the Share capital as at 31 December 2016 and 2015 is as follows:

Shareholders	Number of shares	Share capital
Dionísio Fernandes Pestana	1,319,176	166,625,111
José Alexandre Lebre Theotónio	1	127
	1,319,177	**166,625,238**

(ii) Other equity instruments

The other capital contributions are not remunerated and do not have an established reimbursement date, having been granted to the Pestana Hotel Group by its shareholder, Mr. Dionísio Pestana. It is not expected that its refund will occur during the next year.

22. Other reserves

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

	Legal reserve (i)	Free reserves	Fair value reserve C.F.H. (ii)	Fair value reserve A.F.S. (iii)	Equity Method (iv)	Currency translation adjustments (v)	Total
1 January 2015	**16,511,624**	**6,612,955**	**2,386,527**	**(23,467)**	**(8,443,995)**	**(15,140,008)**	**1,903,637**
Changes in the perimeter (Note 43)	-	(2,784)	-	-	-	138,604	135,820
Profit for the period application	618,244	-	-	-	-	-	618,244
Transfer to and from Retained earnings (Note 23)	54,835	(4,225,728)	-	-	(271,511)	-	(4,442,404)
Foreign currency translation	-	-	-	-	-	(14,024,065)	(14,024,065)
Change in fair value reserve - hedging derivatives net of tax	-	-	1,706,789	-	-	-	1,706,789
Change in fair value reserve – available-for-sale assets net of tax	-	-	-	(29,276)	-	-	(29,276)
Dividends	-	(127,850)	-	-	-	-	(127,850)
Others	-	(133,325)	-	-	-	-	(133,325)
31 December 2015	**17,184,703**	**2,123,268**	**4,093,316**	**(52,743)**	**(8,715,506)**	**(29,025,469)**	**(14,392,430)**
Profit for the period application	2,407,046	-	-	-	-	-	2,407,046
Transfer to and from Retained earnings (Note 23)	-	-	(1,349,345)	-	452,399	(29,383)	(926,329)
Foreign currency translation	-	-	-	-	-	10,777,699	10,777,699
Change in fair value reserve - hedging derivatives net of tax	-	-	2,080,285	-	-	-	2,080,285
Others	-	(22,868)	-	23,467	-	(46,633)	(46,034)
31 December 2016	**19,591,749**	**2,100,400**	**4,824,256**	**(29,276)**	**(8,263,107)**	**(18,323,786)**	**(99,763)**

(i) Legal reserve

In accordance with the applicable commercial law in several countries where Pestana Hotel Group operates, a specific percentage of net profit, if positive, must be set aside in a legal reserve until that reserve is equal to another specific percentage of the subsidiary´s issued share capital. This reserve is usually not available for distribution until the company's liquidation but may be used to absorb losses, after all other available reserves have been extinguished, and to increase share capital.

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

This reserve includes the effective portion of changes in fair value of hedging derivatives (Note 27). This reserve also includes the deferred tax impact related to the changes in fair value that are not tax deductible, at the reporting date.

(iii) Fair Value Reserve A.F.S. (Available-for-sale financial assets)

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

(iv) Equity method

This caption includes all changes occurred in equity of the Associates and Joint ventures owned by the Group related to the items that are recycled through profit of the period, namely those presented in the Statement of comprehensive income.

(v) Currency translations adjustments

The differences arising from the conversion of the Income statement and the conversion of the Statement of financial position of the subsidiaries that have a functional currency other than the Euro, as described in Note 3.2.iii), are recognized under this caption. The accumulated currency translations adjustments are detailed as follows as at 31 December 2016 and 2015:

	2016	2015
MZN - Mozambican Metical	(7,270,712)	(3,242,223)
VEF - Venezuelan Bolivar	(6,493,442)	(4,066,033)
ARS - Argentine Peso	(5,657,365)	(4,915,368)
BRL - Brazilian Real	(3,461,566)	(19,212,447)
ZAR - South African Rand	621,134	(285,283)
USD - US Dollar	1,464,288	856,666
GBP - Sterling Pound	2,450,465	2,620,061
Others	23,412	(780,842)
	(18,323,786)	**(29,025,469)**

23. Retained earnings

As at 2016 and 2015, Retained earnings movements were as follows:

	Total
1 January 2015	**58,707,116**
Changes in the perimeter (Note 43)	(85,646)
Profit for the period application	1,815,449
Dividends	(205,521)
Acquisitions of shares owned by Non-controlling interests (i)	(251,871)
Transfers from Non-controlling interest of the shares acquired (ii)	(7,181,364)
Transfers to and from Other reserves	4,442,404
Others	(277,715)
31 December 2015	**56,962,853**
Profit for the period application	12,690,630
Dividends	(2,000,000)
Acquisitions of shares owned by Non-controlling interests (i)	(1,993,252)
Transfers to and from Other reserves	926,329
Transfers from Non-controlling interest of the shares acquired (ii)	(1,314,818)
Foreign currency translation	(1,906,270)
Others	632,094
31 December 2016	**63,997,565**

(i) Acquisitions of Non-controlling interest

During 2016, Pestana Hotel Group acquired 26,5% of the share capital of Hotel Rauchstrasse 22, S.à.r.l. and of Pestana Berlim S.à.r.l. for the amount of 2.152.194 Euros and 331.107 Euros, respectively. It also sold 7,5% of the share capital of Hotel Rauchstrasse 22, S.à.r.l. which was booked for 487.500 Euros.

During 2015, Pestana Hotel Group acquired from Mr. Dionísio Pestana 12% of the share capital of Pinheiromar, S.A. for the amount of 6.000 Euros. It also acquired the remaining 11,25% of the shares of Mundo da Imaginação, S.A., in the amount of 245.000 Euros.

(ii) Transfers from Non-controlling interest of the shares acquired

As a result from the three transactions previously described the corresponding Non-controlling interests were transferred to Retained earnings in the amount of 1.314.818 (Note 24).

During 2015, Pestana Hotel Group was the only subscriber of the capital increase occurred in the subsidiary Grupo Pestana Pousadas, S.A., thus having more 19,45% of the share capital of the same undertaking. Additionally, it has also acquired the remaining capital of the subsidiaries Afrotours S.A.R.L. and Mundo Imaginação, S.A. (20% and 12,4%, respectively). Consequently, the previous correspondent Non-controlling interests were transferred to Retained earnings in the amount of 7.181.364 Euros (Note 24).

24. Non-controlling interests

Non-controlling interest's movements were as follows:

	2016	2015
1 January	31,634,653	28,471,265
Changes in the perimeter (Note 43)	-	380
Transfers to Retained earnings of the shares acquired (Note 23)	1,314,818	7,181,364
Change in fair value reserve - hedging derivatives net of tax	22,672	-
Dividends (Note 39)	(2,276,197)	(3,387,319)
Profit for the period	4,239,416	1,359,229
Reimbursement of Supplementary capital	-	(2,400,000)
Foreign currency translation	(332,383)	705,297
Others	(372,178)	(295,563)
31 December	**34,230,547**	**31,634,653**

In 2016 and 2015, Dividends were distributed by SDM – Sociedade de Desenvolvimento da Madeira, S.A..

Non-controlling interests relate to the following investments:

	2016		2015	
	% held	Value	% held	Value
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (i)	85,00%	15,944,155	85,00%	15,610,245
Pestana S.G.P.S. Sub-group (Portugal) (ii)	n.a.	11,591,336	n,a,	10,079,056
Pestana Inversiones Sub-group (Latin America) (ii)	n.a.	5,175,490	n,a,	5,731,250
Hoteis do Atlântico Sub-group (Europe) (ii)	n.a.	688,973	n,a,	1,550,330
Albar - Sociedade Imobiliária do Barlavento, S.A.	50,69%	(10,145)	50,69%	(10,077)
Salvintur Sub-group (África) (ii)	n.a.	(528,013)	n,a,	(240,803)
Pestana Pousadas Sub-group (Portugal) (ii)	n.a.	1,368,751	n,a,	(1,085,347)
		34,230,547		**31,634,653**

(i) SDM's financial information as at 31 December 2016 and 2015 is as follows:

	SDM, S.A.	
	2016	2015
Assets		
Non current	4,431,906	3,830,522
Current	18,830,255	17,848,678
	23,262,161	21,679,200
Liabilities		
Non current	35,535	120,420
Current	3,632,042	3,151,286
	3,667,577	3,271,705
Equity	19,594,585	18,407,495
Year's Ativity		
Revenue	10,018,702	10,626,465
Expenses	(6,774,699)	(7,545,474)
Net income	3,244,003	3,080,991
Owned %	85,00%	85,00%
	2,757,403	**2,618,842**

(ii) Not disclosed because it relates to a subgroup aggregation. Corresponding financial information is disclosed in Note 42.

Mr. Dionísio Pestana, who controls and owns Pestana Hotel Group, is also the owner of 14.371.739 Euros (42% of the total) and 15.130.236 Euros (48% of the total) of Non-controlling interests as at 31 December 2016 and 2015, respectively, as follows:

	2016		2015	
	% held	Value	% held	Value
SDM - Sociedade de Desenvolvimento da Madeira, S.A.	55,00%	10,316,806	55,00%	10,100,746
Grupo Pestana, S.G.P.S., S.A.	1,00%	3,365,960	1,00%	3,479,160
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	0,08%	688,973	0,08%	1,550,330
		14,371,739		**15,130,236**

25. Provisions

The movements in Provisions are as follows:

	Litigation and claims in progress (i)	Customer guarantees (ii)	Other provisions (iii)	Total
1 January 2016	6,427,461	173,797	1,626,485	8,227,742
Increases	4,115,465	-	-	4,115,465
Utilizations	-	-	(60,866)	(60,866)
Decreases	(57,239)	(30,000)	(87,500)	(174,739)
Interest charges (Note 37)	1,496,506	-	-	1,496,506
Foreign currency translation	2,815,118	-	(769,168)	2,045,950
Changes on period	**8,369,850**	**(30,000)**	**(917,534)**	**7,422,316**
31 December 2016	**14,797,311**	**143,797**	**708,951**	**15,650,059**
Current balance	4,428,155	28,908	539,604	4,996,667
Non-current balance	10,369,156	114,889	169,347	10,653,392
	14,797,311	**143,797**	**708,951**	**15,650,059**

	Litigation and claims in progress (i)	Customer guarantees (ii)	Other provisions (iii)	Total
1 January 2015	683,236	135,486	1,647,282	2,466,004
Increases	4,353,015	38,311	994,001	5,385,327
Utilizations	(215,810)	-	(146,800)	(362,610)
Decreases	(12,250)	-	(34,265)	(46,515)
Interest charges (Note 37)	1,318,186	-	312,442	1,630,628
Transfers	891,646	-	(891,646)	-
Foreign currency translation	(590,563)	-	(254,529)	(845,091)
Changes on period	**5,744,225**	**38,311**	**(20,797)**	**5,761,738**
31 December 2015	**6,427,461**	**173,797**	**1,626,485**	**8,227,743**
Current balance	3,173,248	51,510	959,631	4,184,389
Non-current balance	3,254,212	122,287	666,853	4,043,353
	6,427,461	**173,797**	**1,626,485**	**8,227,742**

Details of provisions accounted for and main reasons for the movements occurred:

(i) Litigation and claims in progress: there are lawsuits and arbitration proceedings ongoing against some Group subsidiaries, classified as probable losses. These provisions were recorded based on the opinion of internal and external legal advisors, in order to address the probable outflow of resources with these claims.

The subsidiary, Empresa de Cervejas da Madeira, Lda (ECM) received an inspection carried out by Customs in Lisbon related to Special Tax on Consumption (IEC) for the years 2002, 2003 and the first half of 2004, an officious liquidation in the amount of 2.433.782 Euros with the addition of 321.270 Euros of compensatory interest. Until 2014, this claim was on hierarchical court appeal and the subsidiary ECM had constituted bank guarantees, and no outflow was expected to occur based on the opinion of reputable external advisors. However, in 2015, the court has taken its decision which was unfavorable to ECM. Despite the extraordinary judicial administrative appeal that was immediately submitted, considering the developments occurred in the process, Pestana Hotel Group recognized a provision in the total amount of 2.755.052 Euros. No further developments regarding the appeal occurred in 2016.

(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 guarantee that has been given on the construction of villas, apartments and townhouses.

(iii) Other provisions: result from ordinary and inherent business risks.

Foreign currency translation mainly refer to the variance of the Brazilian Real against the Euro (Note 3.2. iii).

26. Borrowings

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

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	53,713,176	240,950,394	294,663,570	58,775,005	249,925,342	308,700,346
Bank overdrafts	10,101,381	-	10,101,381	28,864,966	-	28,864,966
Commercial paper	10,000,000	18,500,000	28,500,000	-	5,000,000	5,000,000
Bond loans	5,112,018	120,140,567	125,252,585	8,523,928	124,688,390	133,212,318
	78,926,575	**379,590,961**	**458,517,536**	**96,163,899**	**379,613,732**	**475,777,630**
Interests payable - accrual	2,972,786	157,689	3,130,475	3,825,272	157,689	3,982,960
Interests paid - deferral	(237,374)	(4,455,412)	(4,692,786)	(205,329)	(4,045,663)	(4,250,991)
	81,661,987	**375,293,238**	**456,955,225**	**99,783,842**	**375,725,757**	**475,509,599**

Pestana Hotel Group holds, as at 31 December 2016, a set of unused contracted credit lines in Financial Institutions with a total amount of 100.500.000 Euros. This amount includes a commercial paper programme not used of 21.500.000 Euros, being the remaining related to authorized credit lines and overdrafts of 79.000.000 Euros.

In 2016, Pestana Hotel Group negotiated a new commercial paper programme in the total amount of 23.500.000 Euros.

In July 2015, Pestana Hotel Group entered into a paying agent service contract with BBVA (Banco Bilbao Viscaia Argentaria) for the issuing of 150 bond by private subscription, represented by transferable securities in book-entry form and bearer with a nominal value of 100.000 Euros, amounting to EUR 15.000.000 called "Grupo Pestana 2015/2022". This operation was issued and placed in the same month, the registering entity of which is the Centralized System Securities managed by Interbolsa.

In December 2015, Pestana Hotel Group entered into a paying agent service contract with BCP bank for the issuing of 2.750 bond by private subscription, represented by transferable securities in book-entry form and bearer with a nominal value of 10.000 Euros, amounting to EUR 27.500.000 called "Obrigações Grupo Pestana 2015/2021". This operation was issued and placed in the same month, the registering entity of which is the Centralized System Securities, managed by Interbolsa.

Also in December 2015, the Pestana Hotel Group repaid in one installment the amount of 20.000.000 Euros relating to the private subscription issuance of bonds occurred in 2012 with BCP (Banco Comercial Portugues S.A.), entitled "Obrigações Grupo Pestana 2012/2015"

During 2015, Pestana Hotel Group reimbursed the amount of 11.287.000 USD and 5.720.000 Euros corresponding to the bond loans of an initial amount of 30.000.000 USD and 15.000.000 Euros that would mature in 2019 and 2016, respectively.

Bank loans have as collateral the mortgage over some assets of subsidiaries, which are booked as tangible fixed assets, of Pestana Hotel Group (Note 41).

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

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

	2017	2018	2019	2020	2021	Following years	Total
Bank loans							
Euro	51,252,447	39,369,659	38,068,394	23,615,458	20,208,044	80,256,805	252,770,805
British Pound	1,480,211	1,480,211	1,480,211	1,480,211	1,480,211	17,269,132	24,670,189
American Dollar	974,516	1,029,367	1,326,438	681,867	523,291	12,664,591	17,200,070
Venezuelan Bolivar	6,002	6,002	6,002	4,501	-	-	22,506
	53,713,176	**41,885,238**	**40,881,044**	**25,782,038**	**22,211,545**	**110,190,528**	**294,663,570**
Commercial paper							
Euro	10,000,000	1,888,889	1,444,444	2,944,444	10,444,444	1,777,778	28,500,000
	10,000,000	**1,888,889**	**1,444,444**	**2,944,444**	**10,444,444**	**1,777,778**	**28,500,000**
Bond loans							
American Dollar	5,112,018	-	12,640,567	-	-	-	17,752,585
Euro	-	-	-	65,000,000	27,500,000	15,000,000	107,500,000
	5,112,018	**-**	**12,640,567**	**65,000,000**	**27,500,000**	**15,000,000**	**125,252,585**
	68,825,194	**43,774,127**	**54,966,055**	**93,726,482**	**60,155,990**	**126,968,306**	**448,416,155**

	2016	2017	2018	2019	2020	Following years	Total
Bank loans							
Euro	55,441,113	43,910,226	35,559,245	30,699,822	19,802,184	68,818,975	254,231,565
Brazilian Real	1,555,773	1,134	9,446,197	–	–	–	11,003,104
British Pound	1,004,768	1,072,888	1,141,008	1,183,583	22,232,629	–	26,634,876
American Dollar	756,635	810,381	852,865	896,224	2,013,930	11,410,222	16,740,257
Venezuelan Bolivar	16,716	16,716	16,716	16,716	16,716	6,964	90,544
	58,775,005	**45,811,345**	**47,016,031**	**32,796,345**	**44,065,459**	**80,236,162**	**308,700,346**
Commercial paper							
Euro	–	–	–	5,000,000	–	–	5,000,000
	–	**–**	**–**	**5,000,000**	**–**	**–**	**5,000,000**
Bond loans							
American Dollar	8,523,928	–	–	17,188,390	–	–	25,712,318
Euro	–	–	–	–	65,000,000	42,500,000	107,500,000
	8,523,928	**–**	**–**	**17,188,390**	**65,000,000**	**42,500,000**	**133,212,318**
	67,298,933	**45,811,345**	**47,016,031**	**54,984,735**	**109,065,459**	**122,736,162**	**446,912,665**

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

27. Derivatives

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

	31-12-2016		31-12-2015	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – non-current	–	2,928,884	–	5,613,205
Interest rate swaps – current	–	–	–	–
	–	**2,928,884**	**–**	**5,613,205**

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

Subsidiary	IAS 39 classification	Reference amount	Maturity	Payment period	Rate receivable/ payable	Fair value at 31-12-2016	Fair value at 31-12-2015	Change on period
Hotel Rauchstrasse 22, S.à.r.l. (i)	Trading	11,500,000	16-06-2025	Semiannual	Eur 6M / 2,10%	(916,214)	(897,589)	(18,625)
Grupo Pestana S.G.P.S., S.A.	Hedge	10,000,000	30-12-2019	Semiannual	Eur 6M / 3,04%	(253,933)	(406,271)	152,338
Grupo Pestana S.G.P.S., S.A.	Hedge	15,000,000	30-12-2016	Semiannual	Eur 6M / 2,71%	-	(62,807)	62,807
Grupo Pestana S.G.P.S., S.A.	Hedge	10,000,000	28-12-2019	Semiannual	Eur 6M / 3,08%	(256,155)	(527,769)	271,614
M & J Pestana, S.A.	Hedge	5,000,000	30-12-2019	Semiannual	Eur 6M / 3,04%	(126,966)	(203,136)	76,169
M & J Pestana, S.A.	Hedge	5,000,000	28-12-2019	Semiannual	Eur 6M / 3,08%	(128,078)	(263,884)	135,807
M & J Pestana, S.A.	Hedge	8,750,000	02-07-2017	Semiannual	Eur 6M / 0,88%	(3,145)	(23,318)	20,173
ITI Soc.Inves. Tur. Ilha Madeira, S.A. (ii)	Proportion hedge	7,000,000	26-09-2022	Semiannual	Eur 6M / 4,82%	(559,234)	(709,171)	149,936
ITI Soc.Inves. Tur. Ilha Madeira, S.A.	Hedge	6,000,000	10-10-2016	Semiannual	Eur 6M / 4,74%	-	(21,861)	21,861
Hoteis Atlântico, S.A. (iii)	Hedge	11,000,000	28-05-2020	Quartely	Libor GBP 3M / 3,43%	-	(1,058,929)	1,058,929
Carlton Palácio, S.A.	Hedge	5,000,000	30-12-2019	Semiannual	Eur 6M / 3,04%	(126,967)	(203,136)	76,169
Carlton Palácio, S.A.	Hedge	6,000,000	30-12-2016	Semiannual	Eur 6M / 2,71%	-	(25,123)	25,123
Carlton Palácio, S.A.	Hedge	5,000,000	28-12-2019	Semiannual	Eur 6M / 3,08%	(128,078)	(263,884)	135,807
Beloura, S.A.	Hedge	9,600,000	30-12-2019	Semiannual	Eur 6M / 4,77%	(174,531)	(306,568)	132,037
Salvor, S.A.	Hedge	5,000,000	30-12-2019	Semiannual	Eur 6M / 3,04%	(126,966)	(203,392)	76,426
Salvor, S.A.	Hedge	7,000,000	30-12-2016	Semiannual	Eur 6M / 2,71%	-	(29,310)	29,310
Salvor, S.A.	Hedge	5,000,000	28-12-2019	Semiannual	Eur 6M / 3,08%	(128,490)	(263,884)	135,394
Intervisa Viagens Turismo, S.A.	Hedge	500,000	22-06-2015	Quartely	Eur 3M / 4,16%	(127)	(2,153)	2,026
Salvintur, S.G.P.S., S.A.	Hedge	2,000,000	13-03-2017	Semiannual	Eur 6M / 2,71%	-	(8,374)	8,374
Afrotours, S.A.R.L.	Hedge	7,500,000	15-02-2018	Semiannual	Eur 6M / 4,27%	-	(119,934)	119,934
Afrotours, S.A.R.L.	Hedge	5,000,000	15-07-2016	Semiannual	Eur 6M / 5,03%	-	(12,712)	12,712
						(2,928,884)	**(5,613,205)**	**2,684,321**

(i) This derivative was signed as part of the renegotiation of the borrowings of Hotel Rauchstrasse 22, SARL. It is classified as trading, therefore its fair value variations were recognized in the Income statement (Note 37).
(ii) This derivative is only designated as a hedge instrument in a ratio of 75%. The remaining 25% are considered as trading with the respective variation in fair value recorded in the Income statement (Note 37).
(iii) This derivative was early settled during 2016, with the repayment by Hotéis Atlântico, S.A. of the hedged Borrowing that was denominated in British Pounds.

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

	2016	2015
1 January	5,613,205	7,089,256
Hedging derivatives – fair value changes	(1,377,133)	(626,602)
Trading derivatives – fair value changes (Note 37)	42,155	(849,449)
Settlement (Note 37)	(1,349,344)	-
31 December	**2,928,884**	**5,613,205**

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

	2016	2015
1 January	4,093,316	2,386,527
Hedging derivatives – fair value changes	2,635,331	2,125,719
Deferred tax (Note 12)	(555,046)	(418,930)
Settlement (Note 37)	(1,349,344)	-
31 December	**4,824,256**	**4,093,316**

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

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

Pestana Hotel Group recognizes derivative financial instruments in accordance with IAS 39. However, it is noteworthy that borrowings subject to hedging have spreads much lower than the current market conditions.

28. Deferred revenue

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

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Pestana Vacations Club (i)	19,085,305	134,599,692	153,684,997	18,747,576	139,249,763	157,997,339
Pestana Vacations Club – Options and Pestana Holiday Club (ii)	3,097,632	33,666,922	36,764,555	2,218,432	30,897,677	33,116,109
Government grants (iii)	565,219	8,259,856	8,825,075	548,676	8,105,782	8,654,458
Customer loyalty program ("PPG") (iv)	2,880,472	-	2,880,472	2,914,170	-	2,914,170
Other deferred income (v)	5,896,739	3,075,893	8,972,631	4,310,896	-	4,310,896
	31,525,366	**179,602,362**	**211,127,729**	**28,739,750**	**178,253,222**	**206,992,973**

(i) Pestana Vacations Club

This balance refers to values obtained from the sale of timeshare rights, which are deferred over the period of the award of temporary right of use of hotels and apartments at the Pestana Hotel Group (Note 3.22 ii)), which will end between 2017 and 2039.

(ii) Pestana Vacations Club – Options and Pestana Holiday Club

This item refers to the sale of the Timeshare program Options and Pestana Holiday Club. The customer acquires the right to use accommodation without having to choose the specific hotel at that time, which is represented in points. Revenue is recognized according to the usage of points in the program or, at the latest, at the expiration date (Note 3.22 ii)).

(iii) Government grants

This balance relates to grants obtained, the revenue of which is recognized throughout the useful life of the subsidized assets until 2035.

(iv) Customer Loyalty Program (PPG)

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

(v) Other deferred income

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

29. Trade and other payables

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

	31-12-2016			31-12-2015		
	Current	Non-current	Total	Current	Non-current	Total
Trade suppliers						
Suppliers (i)	23,835,140	-	23,835,140	28,282,716	-	28,282,716
Other payables						
Other payables (ii)	2,968,387	-	2,968,387	4,587,243	-	4,587,243
Suppliers of tangible fixed assets (iii)	5,149,497	20,151,976	25,301,473	7,274,109	20,395,900	27,670,009
Advances from customers (iv)	34,266,526	-	34,266,526	30,465,706	-	30,465,706
Taxes payable (v)	6,646,088	-	6,646,088	6,526,390	-	6,526,390
Accrued expenses						
Holiday and subsidy pay	13,206,118	-	13,206,118	12,804,190	-	12,804,190
Others	14,159,127	-	14,159,127	13,488,823	-	13,488,823
	100,230,883	**20,151,976**	**120,382,859**	**103,429,177**	**20,395,900**	**123,825,077**

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

(i) Suppliers

	31-12-2016			31-12-2015		
Description	Current	Non-current	Total	Current	Non-current	Total
Suppliers - group (Note 44)	29,711	-	29,711	801,299	-	801,299
Other suppliers	23,805,429	-	23,805,429	27,481,417	-	27,481,417
	23,835,140	**-**	**23,835,140**	**28,282,716**	**-**	**28,282,716**

(ii) Other payables

As at 31 December 2015, this balance includes the amount of 2.400.000 Euros for accessory contributions payable to AJJ, S.G.P.S., S.A..

(iii) Suppliers of tangible fixed assets

As at 31 December 2016 and 2015, this caption includes an amount of 16.971.078 Euros and 20.301.779 Euros, respectively, regarding the net present value of the 99 year Ground Lease contract negotiated by the subsidiary Pestana Manhattan 39 LLC in the, since it was considered that according to the interpretation of IAS 17 – Leases, all risks and benefits inherent to the ownership of the underlying assets were transferred to Pestana Hotel Group.

This caption includes leasing contracts which summary of responsibilities is as follows:

	31-12-2016	31-12-2015
Less than 1 year	1,740,588	1,108,074
Between 1 and 5 years	7,596,393	6,651,251
More than 5 years	12,555,583	13,744,649
	21,892,564	**21,503,974**

(iv) Advances from customers

Refers mainly to the amounts received along the construction works, in the total amount of 25.268.571 Euros (31 December 2015: 15.249.210 Euros) and the maintenance fees charged in advance under timeshare contracts in the total amount of 5.406.271 Euros (31 December 2015: 6.127.867 Euros). Additionally, at 31 December 2015, the Group recognized in this caption the amount received in advance for the sale of the São Luis Hotel, in Brazil, in amount of 2.513.344 Euros.

The residual amount in 31 December 2016 and 2015 mainly respects to reservations made by tour operators.

(υ) Taxes payable

	31-12-2016			31-12-2015		
Description	Current	Non-current	Total	Current	Non-current	Total
Personnel income tax withheld	950,100	-	950,100	1,069,497	-	1,069,497
Value added tax	3,414,380	-	3,414,380	3,191,397	-	3,191,397
Social security contributions	1,603,109	-	1,603,109	1,611,805	-	1,611,805
Others	678,499	-	678,499	653,691	-	653,691
	6,646,088	**-**	**6,646,088**	**6,526,390**	**-**	**6,526,390**

30. Revenue

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

	2016	2015
Hotel business	240,682,867	233,070,608
Vacation club	37,795,664	30,522,208
Beverages (industry)	25,512,610	22,953,406
Real estate	18,771,075	30,770,934
Golf	11,490,803	9,219,884
Entertainment	10,021,493	10,337,390
Others	15,833,896	10,579,642
	360,108,408	**347,454,072**

The caption Real estate includes construction contracts (Note 31).

The 2016 and 2015 detail of sales and services rendered in Hotel business and Vacation club by country of origin related to the number of customer are as follows:

	Hotel business	
Country	2016	2015
United Kingdom	20,6%	19,5%
Portugal	22,7%	20,4%
Brazil	10,3%	14,7%
Germany	10,1%	9,8%
France	4,2%	4,2%
United States	3,8%	3,4%
Spain	3,2%	2,8%
Netherlands	1,8%	1,7%
Switzerland	1,8%	1,7%
Venezuela	1,3%	1,7%
Sweden	1,4%	1,4%
Belgium	1,4%	1,4%
Italy	1,2%	1,1%
Ireland	1,3%	1,1%
Denmark	1,0%	1,0%
Norway	0,8%	0,9%
Russia	0,7%	0,8%
Others	12,4%	12,6%
	100%	**100%**

	Vacations Club	
Country	2016	2015
United Kingdom	44,6%	47,0%
Brazil	20,8%	17,7%
Portugal	8,5%	8,8%
Germany	7,5%	7,1%
Finland	6,1%	6,3%
Sweden	2,6%	2,7%
Others	10,0%	10,4%
	100%	**100%**

31. Construction contracts

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

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

Description of the agreement	Costs incurred 2016	Costs incurred 2015	Revenue recognized 2016	Revenue recognized 2015
Construction contracts	4,100,149	6,736,627	4,637,871	7,390,434
	4,100,149	**6,736,627**	**4,637,871**	**7,390,434**

32. External services and supplies

The detail of External services and supplies is as follow:

	2016	2015
Professional fees	20,437,698	20,025,224
Rents	21,401,782	17,141,488
Energy	14,692,138	16,071,905
Cleaning	15,499,337	14,927,940
Advertising	5,936,525	5,215,390
Commisions	15,895,154	8,590,358
Maintenance	8,731,649	9,043,179
Subcontracts	5,655,755	4,447,863
Travelling and transport expenses	2,872,168	3,696,094
Insurance	1,441,696	1,648,254
Others	9,775,914	9,339,935
	122,339,815	**110,147,630**

Costs incurred with Rents as at 31 December 2016 contain 12.547.095 Euros related to operational leases and 2.994.096 Euros related to concessions (2015: 7.518.496 Euros and 3.206.862 Euros, respectively). The variance from 2015 to 2016 is explained by the hotels which have been sold and subsequently leased by the Group in both years, namely, Pestana D. João II, Pestana Carlton Madeira and Pestana Viking (Note 6).

The 2016 consolidated audit fees were 342.002 Euros.

33. Personnel expenses

Personnel expenses in 2016 and 2015 were as follows:

	2016	2015
Board of Directors (including subsidiaries)		
Wages and salaries	2,864,150	3,208,926
Social security contributions	596,845	631,644
	3,460,996	**3,840,570**
Staff		
Wages and salaries	65,375,456	66,313,720
Social security contributions	13,708,750	13,651,809
Others	5,842,614	4,712,516
	84,926,821	84,678,045
	88,387,816	**88,518,615**

The average number of employees of the companies included in the consolidation perimeter of Pestana Hotel Group in 2016 was 4.691 (2015: 5.403).

Staff – others includes non-recurring expenses with mutual agreement compensations for termination of employment contracts in the total amount of 3.050.807 Euros (2015: 1.775.558 Euros).

34. Other income

The detail of Other income is presented as follows:

	2016	2015
Foreign currency exchange gains	3,564,770	5,424,668
Supplementary income	3,662,827	4,015,667
Government grants (Note 28)	613,421	857,510
Gains on disposal of tangible fixed assets	7,019,528	10,303,723
Others	2,129,610	2,417,392
	16,990,155	**23,018,960**

In 2016, Gains on disposal of tangible fixed assets are mainly related to the disposal of Pestana Viking Hotel, a building in Lisbon and apartments from Pestana Alvor Atlântico with gains in the amount of 2.775.340 Euros, 2.049.848 Euros and 1.768.067 Euros, respectively (Note 6).

In 2015, Gain on disposal of tangible assets is mainly related to the disposal of Pestana D. João II Hotel and apartments from Pestana Alvor Atlântico with gains in the total amount of 9.217.348 Euros and 828.439 Euros, respectively (Note 6).

35. Other expenses

The detail of Other expenses is as follows:

	2016	2015
Taxes	9,316,279	9,721,432
Commissions of credit cards	2,218,263	2,493,449
Losses on inventories	1,029,956	1,629,099
Losses on disposal of tangible fixed assets	184,031	4,410,411
Foreign currency exchange losses	5,629,683	6,277,959
Others	2,663,594	2,752,438
	21,041,806	**27,284,788**

As at 31 December 2016 Taxes includes 3.500.287 Euros of property taxes (2015: 3.880.624 Euros). This caption also includes in 2016 VAT to be paid as a result of the sale of Pestana Viking Hotel in the total amount of 1.283.158 Euros (2015: Pestana D. João II Hotel in the total amount of 1.139.555 Euros).

The losses on disposal of tangible fixed assets in 2015 are mainly related to the disposal of Pestana Carlton Madeira with a loss in the amount of 4.355.638 Euros (Note 6).

36. Gains and losses on investments in joint ventures, associates, other financial investments and available-for-sale financial assets

The detail of Gains and losses on investments in joint ventures, associates, other financial investments and available-for-sale financial assets is as follows:

	2016	2015
Impairment loss - Imóveis Brisa - F.I.I.F. (Note 11)	(1,781,814)	(333,622)
Impairment loss on the Goodwill of Solpor, Lda (Note 9)	(487,635)	-
Gains/(losses) from equity method (Note 9 and 10):		
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	(102,691)	-
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	(76,405)	-
SDEM - Soc. de Desenv. Empr. da Madeira, S.G.P.S., S.A.	(47,843)	(41,197)
Albar - Sociedade Imobiliária do Barlavento, S.A.	(6,791)	(1,528)
Solpor - Sociedade de Turismo do Porto Santo, Lda.	(3,341)	-
Enatur - Empresa Nacional de Turismo, S.A.	444,619	1,129,767
Available-for-sale financial assets (Note 13)	(62,986)	(47,938)
Impairment loss - Soehotur - Sociedade de Empreendimentos Hoteleiros, S.A. (Note 9)	-	(768,924)
Others	80,474	(172,584)
	(2,044,413)	**(236,026)**

37. Financial expenses and income

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

	2016	2015
Finance expenses		
Interest expenses	16,421,053	23,639,862
Interest rate swaps	1,648,776	2,544,837
Foreign currency exchange losses	8,303,821	8,822,356
Commissions and guarantee fees	2,820,528	2,516,038
Provisions - Interest charges (Note 25)	1,496,506	1,630,628
Derivatives - Settlement	1,349,344	-
Derivatives fair value	18,625	897,901
	32,058,653	**40,051,310**
Finance income		
Interest income	406,473	605,058
Interest rate swaps	11,583	150,793
Foreign currency exchange gains	3,962,945	2,154,934
Derivatives fair value	60,780	48,141
Financial assets fair value gains (Note 18)	–	77,921
Others	152,533	14,978
	4,594,314	**3,051,825**

As at 31 December 2016 and 2015 foreign currency exchange losses are mainly related to bond and bank loans negotiated in US Dollars, which have been reimbursed in 2016. The remaining foreign currency exchange losses and gains are mainly related with bank deposits in GB Pounds and US Dollars.

Commissions and guarantee fees include in 2016 and 2015 approximately 800.000 Euros and 1.200.000 Euros, respectively, bank loans prepayments' compensations (Note 26).

Derivatives fair value refers to the changes in fair value of derivative financial instruments designated as held for trading (Note 27).

38. Income tax

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

	2016	2015
Current income tax:		
Current period income tax	(6,403,451)	(8,294,276)
Adjustments in respect of prior years	(153,769)	36,523
	(6,557,220)	**(8,257,753)**
Deferred income tax (Note 12):		
Origin and reversal of temporary differences	5,361,351	19,004,026
	5,361,351	**19,004,026**
	(1,195,869)	**10,746,273**

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

	2016	2015
Profit before tax	**29,893,951**	**5,710,629**
Tax calculated at domestic tax rates applicable to profits in the respective countries	6,730,409	3,068,417
Tax effects of:		
Income not subject to tax	(3,729,253)	(5,822,477)
Expenses not deductible for tax purposes (i)	2,917,217	1,550,397
Tax losses which did not generate deferred tax assets	1,826,592	-
Utilization of tax losses	(6,515,755)	(191,547)
Deferred tax assets recognized in Brazil (Note 12)	-	(9,945,705)
Adjustments in respect of prior years	(153,769)	36,523
Others	120,428	558,115
	1,195,869	**(10,746,276)**

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

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

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

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

The statutory corporate income tax rates applicable in the countries in which Pestana Hotel Group operates are as follows:

	2016	2015
Argentina	35%	35%
Brazil	34%	34%
Cape Verde	25%	25%
Germany	29,72%	29,72%
Luxembourg	27,08%	28,72%
Morocco	31%	31%
Mozambique	32%	32%
Netherlands	25%	25%
Portugal	21% - 22,5%	21% - 22,5%
São Tome and Principe	25%	25%
South Africa	28%	28%
Spain	25%	28%
United Kingdom	20%	20%
United States	40%	40%
Uruguay	25%	25%
Venezuela	34%	34%

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

39. Dividends per share

Dividends paid to Shareholders during 2016 amount to 2.000.000 Euros which corresponds to 1,52 Euros per share (2015: 333.371 Euros, corresponding to 0,25 Euros per share).

Dividends paid to Non-controlling interests during 2016 amount to 2.276.197 Euros (2015: 3.387.319 Euros).

40. Commitments

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

Since 1987 a supplementary pension plan is in place for the employees of ECM, Lda, that were at service on that date and until 31 December 2007 that qualifies as a defined benefit plan. To cover this liability a pension fund was incorporated being managed autonomously by the insurance company SGF. As at 31 December 2016, the fund amounts to 1.374.375 Euros.

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

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

31 December 2016	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Future rents of operating leases	15,701,663	82,575,064	139,860,595	**238,137,322**

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

41. Contingencies

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

	2016	2015
Mortgages over lands and buildings	211,361,548	232,883,024
Bank guarantees	49,651,696	42,706,891

Contingent Assets

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

Contingent liabilities

As at 31 December 2016, the Pestana Hotel Group has ongoing claims, assessed as contingent liabilities of, approximately, 3.260.078 Euros (local currency: 957.207 Euros and 7.900.000 Brazilian Real).

42. Consolidation perimeter

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

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit/ (Loss)	% interest	% Control
Afrotours, S.A.R.L.	São Tomé	Hotel business	31-12-2016	16,698,274	18,082,607	1,384,333	4,287,548	743,434	99,89%	100,00%
Amesteldijk Hotel Ontwkkeling B.V.	Netherlands	Hotel business	31-12-2016	10,221,775	41,533,527	31,311,753	-	(16,043)	98,92%	100,00%
Amoreira - Aldeamento Turístico, Lda.	Portugal	Real Estate	31-12-2016	4,843,720	6,356,622	1,512,902	-	(32,332)	99,02%	100,00%
Argentur Inversiones Turisticas SA	Argentina	Hotel business	31-12-2016	2,239,908	2,823,996	584,087	3,723,697	293,857	100,00%	100,00%
Atlantic Holidays Ltd	United Kingdom	Tour Operator	31-12-2016	(267,774)	462,385	730,159	2,218,490	(898,046)	100,00%	100,00%
Bazaruto Limited	Mozambique	Hotel business	31-12-2016	4,022,798	6,908,806	2,886,007	114,152	(1,032,721)	91,79%	100,00%
Beloura Hotel e Golfe - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2016	7,065,657	15,226,355	8,160,698	3,586,847	2,058,698	99,00%	100,00%
Brasturinvest Investimentos Turísticos, S.A.	Brazil	Hotel business	31-12-2016	31,820,521	111,524,802	79,704,280	28,494,877	(623,460)	100,00%	100,00%
Carlton Palácio - Sociedade de Construção e Exploração Hoteleiras, S.A.	Portugal	Hotel business	31-12-2016	42,921,333	64,223,805	21,302,472	19,843,153	10,370,075	99,00%	100,00%
Carolgud, S.A.	Uruguay	Hotel business	31-12-2016	740,873	752,356	11,483	-	(84,568)	100,00%	100,00%
Carvoeiro Golfe Sociedade Mediação Imobiliaria, Lda.	Portugal	Real Estate	31-12-2016	437,285	5,961,391	5,524,106	893,332	424,025	98,02%	100,00%
Carvoeiro Golfe, S.A.	Portugal	Golf and Real Estate	31-12-2016	56,747,876	106,078,507	49,330,631	24,989,878	3,375,461	98,02%	100,00%
Convento do Carmo, S.A.	Brazil	Hotel business	31-12-2016	-	-	-	1,037,669	(316,844)	100,00%	100,00%
Cota Quarenta - Gestão e Administração de Centros Comercias, S.A.	Portugal	Real Estate	31-12-2016	5,276,331	21,733,837	16,457,506	1,122,677	143,587	99,00%	100,00%
Desarollos Hoteleros de Barcelona	Spain	Hotel business	31-12-2016	5,746,965	14,464,995	8,718,029	2,871,760	142,109	98,92%	100,00%
Djebel, S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2016	47,383,046	82,966,037	35,582,992	-	(1,773,572)	100,00%	100,00%
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	Portugal	Beverages	31-12-2016	6,464,557	28,138,528	21,673,970	26,415,035	(274,301)	99,00%	100,00%
Empreendimentos Turísticos, Lda.	Cape Verde	Hotel business	31-12-2016	326,874	3,783,799	3,456,925	2,282,947	(244,477)	99,89%	100,00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2016	11,092,514	12,044,790	952,276	567,156	282,269	98,02%	100,00%
Global Mandalay S.L.	Spain	Hotel business	31-12-2016	5,746,965	14,464,995	8,718,029	2,871,760	142,109	98,92%	100,00%
Grupo Pestana - S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2016	240,465,450	507,569,846	267,104,396	800,000	30,841,038	99,00%	99,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit/ (Loss)	% interest	% Control
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2016	32,151,436	68,328,501	36,177,065	35,380,431	2,416,370	94,72%	95,68%
Herdade da Abrunheira - Projectos de Desenv.Turístico e Imobiliário, S.A.	Portugal	Real Estate	31-12-2016	482,078	6,514,385	6,032,308	-	(329,101)	66,00%	66,67%
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hotel business	31-12-2016	47,288,634	103,024,267	55,735,633	4,232,156	88,333	98,92%	99,92%
Hotel Rauchstrasse 22, S.A.R.L.	Luxembourg	Hotel business	31-12-2016	6,817,839	19,477,718	12,659,878	1,610,966	264,952	91,78%	92,50%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hotel business	31-12-2016	3,033,308	7,717,999	4,684,690	1,441,357	(454,165)	99,00%	100,00%
Intervisa Viagens e Turismo, Lda.	Portugal	Distribution	31-12-2016	556,579	2,713,250	2,156,671	1,260,467	189,953	99,00%	100,00%
Inversiones Vistalparque C.A.	Venezuela	Hotel business	31-12-2016	17,651,309	28,129,212	10,477,903	3,727,935	(1,839,178)	71,42%	71,42%
ITI - Sociedade de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hotel business and Entertainment	31-12-2016	42,777,632	68,611,757	25,834,125	32,857,459	8,655,240	99,00%	100,00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hotel / Timeshare	31-12-2016	115,052,007	337,161,681	222,109,674	58,000,638	16,424,420	99,00%	100,00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Entertainment	31-12-2016	1,214,302	3,422,229	2,207,927	687,631	(50,526)	99,00%	100,00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2016	1,441,812	1,452,591	10,779	180	(13,426)	98,02%	100,00%
Pestana Berlim S.A.R.L.	Luxembourg	Hotel business	31-12-2016	484,717	2,447,829	1,963,112	5,837,245	303,837	98,92%	100,00%
Pestana Cidadela - Investimentos Turisticos, S.A.	Portugal	Hotel business	31-12-2016	7,336,545	17,331,344	9,994,799	5,978,856	623,378	99,00%	100,00%
Pestana Holland Holding B.V.	Netherlands	Hotel business	31-12-2016	12,624,057	15,162,287	2,538,229	-	(42,772)	98,92%	100,00%
Pestana International Holdings S.A.	Luxembourg	Administration	31-12-2016	260,520,806	383,188,120	122,667,314	-	17,638,145	0,00%	0,00%
Pestana Inversiones, S.L.	Spain	Services	31-12-2016	15,565,521	17,199,042	1,633,521	-	(1,447,752)	100,00%	100,00%
Pestana Management - Serviços de Gestão, S.A.	Portugal	Services	31-12-2016	2,742,622	12,816,426	10,073,803	24,915,865	878,342	99,00%	100,00%
Pestana Management UK, Limited	United Kingdom	Hotel business	31-12-2016	644,161	2,576,358	1,932,197	12,449,300	523,998	74,19%	75,00%
Pestana Manhattan 39 LLC	United States	Hotel business	31-12-2016	8,979,804	8,410,459	(569,345)	-	(26,556)	98,92%	100,00%
Pestana Marrocos, s.a.r.l.	Marocco	Hotel business	31-12-2016	821,742	1,843,641	1,021,899	3,189,752	311,316	100,00%	100,00%
Pestana Miami LLC	United States	Hotel business	31-12-2016	4,198,339	19,695,777	15,497,438	4,356,231	(234,783)	98,92%	100,00%
Pestana NY East Side 39	United States	Hotel business	31-12-2016	948,771	1,026,721	77,950	-	-	100,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit/ (Loss)	% interest	% Control
Pestana Segurança - Serviços de Segurança e Vigilância, Lda.	Portugal	Services	31-12-2016	237,865	588,728	350,863	1,314,160	9,803	99,00%	100,00%
Pestana USA Inc	United States	Hotel business	31-12-2016	13,483,502	12,708,988	(774,514)	-	(41,171)	98,92%	100,00%
Pinheiro Mar, S.A.	Portugal	Hotel business	31-12-2016	980,241	5,138,666	4,158,425	8,769,064	928,723	99,00%	100,00%
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hotel / Timeshare	31-12-2016	12,826,392	28,461,773	15,635,381	8,811,146	1,941,753	51,48%	52,00%
Porto Carlton - Sociedade de Construção e Exploração Hoteleira, S.A.	Portugal	Hotel business	31-12-2016	5,041,450	15,070,902	10,029,452	6,075,452	1,707,392	59,40%	60,00%
Praia do Marceneiro PH, Ltda	Brazil	Hotel business	31-12-2016	-	-	-	2,888,300	(44,895)	100,00%	100,00%
Rolldown Golfe, Lda.	Portugal	Golf	31-12-2016	1,192,892	5,640,245	4,447,353	1,371,640	83,033	98,02%	100,00%
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	Portugal	Services	31-12-2016	1,522,212	1,530,854	8,642	29,412	22,212	99,89%	100,00%
Rotas de África, Lda.	São Tomé	Hotel business	31-12-2016	1,467,519	1,630,123	162,604	1,483,034	(50,455)	99,89%	100,00%
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2016	15,851,093	38,953,288	23,102,194	60,000	(10,384,971)	99,89%	100,00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hotel / Timeshare	31-12-2016	151,635,868	193,929,827	42,293,959	30,079,133	12,360,314	98,02%	99,01%
Salvor Hotéis Moçambique, Investimentos Turísticos, S.A.R.L.	Mozambique	Hotel business	31-12-2016	4,485,124	11,735,859	7,250,735	1,862,596	(2,104,797)	91,79%	91,98%
São Tomé Investimentos, S.A.	São Tomé	Hotel business	31-12-2016	448,601	693,884	245,283	1,056,330	42,125	99,89%	100,00%
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (a)	Portugal	Services	31-12-2016	19,594,585	23,262,161	3,667,576	9,614,027	3,244,003	14,85%	70,00%
Sociedade de Investimento Hoteleiro D. João II, S.A.	Portugal	Hotel / Timeshare	31-12-2016	1,271,640	3,810,149	2,538,509	713,146	88,431	98,02%	100,00%
Southern Escapes Travel and Tourism (PTY), Ltd	South Africa	Hotel business	31-12-2016	36,694	48,130	11,436	-	11,203	99,89%	100,00%
Surinor, S.A.	Uruguay	Hotel business	31-12-2016	4,763,259	5,967,435	1,204,177	13,898	2,896,125	100,00%	100,00%
Viquingue, Sociedade Turística, S.A.	Portugal	Hotel / Timeshare	31-12-2016	13,606,105	19,205,580	5,599,475	4,807,339	2,750,501	98,02%	100,00%
Wildbreak 29 (PTL), Lda.	South Africa	Hotel business	31-12-2016	(3,753,176)	3,474,831	7,228,006	1,457,805	168,863	91,79%	100,00%

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

The Subsidiaries of Pestana Hotel Group as at 2015 were as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit/ (Loss)	% interest	% Control
Afrotours, S.A.R.L.	São Tomé	Hotel business	31-12-2015	918,151	19,113,053	18,194,902	3,893,715	(2,289,401)	99,62%	100,00%
Amesteldijk Hotel Ontwkkeling B.V.	Netherlands	Hotel business	31-12-2015	(6,324)	33,308,726	33,315,050	-	(7,323)	98,92%	100,00%
Amoreira - Aldeamento Turístico, Lda.	Portugal	Real Estate	31-12-2015	4,876,052	6,385,214	1,509,162	-	(40,020)	98,00%	100,00%
Argentur Inversiones Turisticas SA	Argentina	Hotel business	31-12-2015	2,308,776	2,964,203	655,427	3,963,139	120,591	100,00%	100,00%
Atlantic Holidays Ltd	United Kingdom	Tour Operator	31-12-2015	(776,197)	1,507,602	2,283,798	2,968,450	(809,041)	100,00%	100,00%
Bazaruto Limited	Mozambique	Hotel business	31-12-2015	5,083,235	10,695,324	5,612,089	796,591	(509,954)	91,39%	99,74%
Beloura Hotel e Golfe - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2015	4,904,630	14,017,556	9,112,926	3,083,527	(202,030)	99,00%	100,00%
Brasturinvest Investimentos Turísticos, S.A.	Brazil	Hotel business	31-12-2015	18,994,116	110,047,213	91,053,097	32,023,196	255,375	100,00%	100,00%
CapeGreen - Consultadoria Económica e Participações, S.A.	Portugal	Services	31-12-2015	3,122,186	3,320,555	198,369	6,000	337,636	99,62%	100,00%
Carlton Palácio - Sociedade de Construção e Exploração Hoteleiras, S.A.	Portugal	Hotel business	31-12-2015	34,153,325	52,871,415	18,718,090	16,207,482	1,829,211	99,00%	100,00%
Carolgud, S.A.	Uruguai	Hotel business	31-12-2015	(298,322)	706,973	1,005,295	-	(374,540)	100,00%	100,00%
Carvoeiro Golfe Sociedade Mediação Imobiliaria, Lda.	Portugal	Real Estate	31-12-2015	477,637	734,317	256,680	820,171	464,376	98,00%	100,00%
Carvoeiro Golfe, S.A.	Portugal	Golf and Real Estate	31-12-2015	55,869,269	97,336,244	41,466,975	31,390,275	2,496,854	98,00%	100,00%
Convento do Carmo, S.A.	Brazil	Hotel business	31-12-2015	(8,599,924)	223,305	8,823,229	1,676,229	(4,249,151)	71,04%	75,00%
Cota Quarenta - Gestão e Administração de Centros Comercias, S.A.	Portugal	Real Estate	31-12-2015	6,344,808	21,665,635	15,320,827	32,057,213	1,238,026	99,00%	100,00%
Desarollos Hoteleros de Barcelona	Spain	Hotel business	31-12-2015	5,504,856	14,656,651	9,151,795	2,634,822	(50,013)	98,92%	100,00%
Djebel, S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2015	42,456,618	80,020,166	37,563,548	-	(3,855,191)	100,00%	100,00%
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	Portugal	Beverages	31-12-2015	(640,822)	25,411,149	26,051,971	22,953,406	(4,589,465)	100,00%	100,00%
Empreendimentos Turísticos, Lda.	Cape Verde	Hotel business	31-12-2015	810,797	4,494,405	3,683,608	2,598,927	239,446	99,62%	100,00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2015	11,008,038	12,005,986	997,948	518,484	208,203	98,00%	100,00%
Global Mandalay S.L.	Spain	Hotel business	31-12-2015	(20,721)	735,872	756,593	-	(21,507)	98,92%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit/ (Loss)	% interest	% Control
Grupo Pestana - S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2015	234,309,232	454,557,913	220,248,681	800,000	24,305,926	99,00%	99,00%
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2015	30,717,185	71,104,829	40,387,644	32,220,463	(2,704,462)	94,72%	95,68%
Herdade da Abrunheira - Projectos de Desenv. Turístico e Imobiliário, S.A.	Portugal	Real Estate	31-12-2015	811,179	6,506,864	5,695,684	-	(284,789)	66,00%	66,67%
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hotel business	31-12-2015	46,369,042	93,728,409	47,359,367	5,327,174	782,398	98,92%	99,92%
Hotel Rauchstrasse 22, S.A.R.L.	Luxembourg	Hotel business	31-12-2015	6,552,888	19,993,154	13,440,266	1,639,999	(212,233)	72,70%	73,50%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hotel business	31-12-2015	987,473	4,496,819	3,509,346	1,176,163	(446,242)	99,00%	100,00%
Intervisa Viagens e Turismo, Lda.	Portugal	Distribution	31-12-2015	567,350	2,414,771	1,847,420	1,041,343	76,723	99,00%	100,00%
Inversiones Vistalparque C.A.	Venezuela	Hotel business	31-12-2015	117,215	2,474,897	2,357,682	6,559,028	(85,282)	71,42%	71,42%
ITI - Sociedade de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hotel business and Entertainment	31-12-2015	44,068,973	73,926,681	29,857,708	30,314,429	7,080,893	99,00%	100,00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hotel business / Timeshare	31-12-2015	129,303,904	322,425,159	193,121,256	52,642,267	10,858,553	99,00%	100,00%
Mandreal – Consultadoria, S.A.	Portugal	Services	31-12-2015	1,188,277	1,208,177	19,899	-	7,150	99,00%	100,00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Entertainment	31-12-2015	1,264,829	3,647,034	2,382,205	712,855	(97,966)	99,00%	100,00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2015	1,455,238	1,468,034	12,796	225	(31,234)	98,00%	100,00%
Pestana Berlim S.A.R.L.	Luxembourg	Hotel business	31-12-2015	(819,120)	2,211,580	3,030,699	5,762,453	69,920	72,70%	73,50%
Pestana Cidadela - Investimentos Turisticos, S.A.	Portugal	Hotel business	31-12-2015	6,713,168	17,894,074	11,180,907	5,646,537	634,552	99,00%	100,00%
Pestana Holland Holding B.V.	Netherlands	Hotel business	31-12-2015	3,030,466	15,261,550	12,231,084	-	(174,534)	98,92%	100,00%
Pestana International Holdings S.A.	Luxembourg	Administration	31-12-2015	245,882,661	326,802,778	80,920,117	27,271	13,188,961	0,00%	0,00%
Pestana Inversiones, S.L.	Spain	Services	31-12-2015	16,675,401	17,172,342	496,941	-	402,365	100,00%	100,00%
Pestana Management - Serviços de Gestão, S.A.	Portugal	Services	31-12-2015	4,143,746	14,242,573	10,098,827	24,141,973	723,445	99,00%	100,00%
Pestana Management UK, Limited	United Kingdom	Hotel business	31-12-2015	1,392,320	3,241,344	1,849,024	14,654,952	453,222	98,92%	100,00%
Pestana Manhattan 39 LLC	United States	Hotel business	31-12-2015	7,271,988	7,337,425	65,437	-	(4,507)	98,92%	100,00%
Pestana Marrocos, s.a.r.l.	Marocco	Hotel business	31-12-2015	726,881	1,770,329	1,043,448	3,041,214	238,238	100,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit/ (Loss)	% interest	% Control
Pestana Miami LLC	United States	Hotel business	31-12-2015	4,424,364	20,066,875	15,642,511	4,389,010	280,677	98,92%	100,00%
Pestana Segurança - Serviços de Segurança e Vigilância, Lda.	Portugal	Services	31-12-2015	228,062	454,967	226,905	1,132,035	(21,938)	99,00%	100,00%
Pestana USA Inc	United States	Hotel business	31-12-2015	7,514,040	7,551,632	37,592	-	(37,388)	98,92%	100,00%
Pinheiro Mar, S.A.	Portugal	Hotel business	31-12-2015	436,518	4,536,695	4,100,177	7,675,014	380,301	99,00%	100,00%
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hotel business / Timeshare	31-12-2015	10,884,639	33,719,952	22,835,312	8,101,993	1,659,692	51,31%	51,83%
Porto Carlton - Sociedade de Construção e Exploração Hoteleira, S.A.	Portugal	Hotel business	31-12-2015	3,334,058	13,200,962	9,866,905	3,150,391	451,674	59,40%	60,00%
Praia do Marceneiro PH, Ltda	Brazil	Hotel business	31-12-2015	6,456,703	10,022,677	3,565,974	4,481,507	(431,331)	100,00%	100,00%
Rio de Prata - Consultadoria e Participações, S.A.	Portugal	Services	31-12-2015	(13,057)	9,600,719	9,613,776	466,306	(42,869)	99,00%	100,00%
Rolldown Golfe, Lda.	Portugal	Golf	31-12-2015	1,109,859	5,902,854	4,792,994	1,184,702	384,223	98,00%	100,00%
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	Portugal	Services	31-12-2015	(6,790)	22,346	29,137	-	(817,714)	99,62%	100,00%
Rotas de África, Lda.	São Tomé	Hotel business	31-12-2015	17,974	1,511,695	1,493,721	1,246,352	(461,396)	99,57%	99,95%
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2015	9,110,939	18,707,364	9,596,425	3,227,745	(2,287,283)	99,88%	100,00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hotel business / Timeshare	31-12-2015	139,088,678	208,731,471	69,642,793	26,634,877	16,126,202	98,00%	98,99%
Salvor Hotéis Moçambique, Investimentos Turísticos, S.A.R.L.	Mozambique	Hotel business	31-12-2015	9,110,939	17,976,330	8,865,391	4,144,588	(2,675,503)	91,63%	91,98%
São Tomé Investimentos, S.A.	São Tomé	Hotel business	31-12-2015	60,587	336,209	275,622	1,019,652	29,528	99,62%	100,00%
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (a)	Portugal	Services	31-12-2015	19,110,117	22,261,404	3,151,285	9,340,560	2,900,420	15,00%	70,00%
Sociedade de Investimento Hoteleiro D. João II, S.A.	Portugal	Hotel business / Timeshare	31-12-2015	1,246,529	3,910,768	2,664,239	796,406	107,924	98,00%	100,00%
Southern Escapes Travel and Tourism (PTY), Ltd	South Africa	Hotel business	31-12-2015	21,142	29,670	8,528	-	1,506	99,62%	100,00%
Surinor, S.A.	Uruguai	Hotel business	31-12-2015	(3,065,848)	6,162,183	9,228,031	287,565	(1,557,223)	100,00%	100,00%
Viquingue, Sociedade Turística, S.A.	Portugal	Hotel business / Timeshare	31-12-2015	10,855,604	15,808,449	4,952,846	4,452,652	533,642	98,00%	100,00%
Wildbreak 29 (PTL), Lda.	South Africa	Hotel business	31-12-2015	1,854,205	2,999,545	1,145,340	1,644,168	228,000	98,81%	100,00%

The Associates and Joint ventures of Pestana Hotel Group as at 31 December 2016 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit/ (Loss)	% interest	% Control
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A. (a)	Portugal	Others	31-12-2016	1,101,574	1,759,779	658,204	24,171	(94,532)	3,75%	25,00%
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2016	1,597,190	5,851,626	4,254,437	892,052	(152,810)	59,40%	60,00%
Solpor - Sociedade Turismo do Porto Santo, Lda.	Portugal	Multi-segment companies	31-12-2016	982,699	988,231	5,532	48,560	36,587	99,00%	100,00%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Real Estate	31-12-2016	70,852,908	96,392,801	25,539,893	2,500,220	907,387	46,41%	49,00%
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2016	7,294,618	14,873,837	7,579,219	901,774	(205,382)	98,02%	100,00%
Albar - Sociedade Imobiliária do Barlavento, S.A.	Portugal	Real Estate	31-12-2016	1,152,954	1,183,945	30,990	-	(13,633)	49,31%	49,81%
Soheotur, S.A.	Angola	Construction	31-12-2016	1,390,570	3,477,384	2,086,813	-	(375,517)	25,00%	25,00%

(a) Associate owned by SDM – Sociedade de Desenvolvimento da Madeira, S.A. in 25%.

The Associates of Pestana Hotel Group as at 31 December 2015 were as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Revenue	Profit/ (Loss)	% interest	% Control
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	Portugal	Others	31-12-2015	1,289,774	1,523,416	(201,528)	29,672	(164,788)	3,75%	25,00%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Real Estate	31-12-2015	71,949,845	100,364,730	28,414,885	2,251,544	2,305,651	46,41%	49,00%
Albar - Sociedade Imobiliária do Barlavento, S.A.	Portugal	Real Estate	31-12-2015	1,166,588	1,186,899	20,311	–	(3,067)	49,31%	49,81%
Soheotur, S.A.	Angola	Construction	31-12-2015	1,941,189	3,914,273	1,973,083	–	57,390	25,00%	25,00%

43. Changes in the consolidation perimeter

In 2016, Pestana Hotel Group ceased to include in the consolidation perimeter the subsidiary Mandreal – Consultadoria, S.A. due to its merger into Cota Quarenta, S.A., the subsidiary Rio de Prata – Consultadoria e Participações, S.A. due to its merger into Carlton Palácio, S.A., the subsidiary Capegreen – Consultadoria Económica e Participações, S.A. due to its merger into Salvintur – Sociedade de Investimentos Turísticos, S.G.P.S., S.A. and the subsidiares Convento do Carmo, S.A. and Praia do Marceneiro PH, Lda. Due to their merger into Brasturinvest Investimentos Turísticos, S.A..

In 2016, Pestana Hotel Group incorporated Pestana NY East Side 39 LLC and included it in the consolidation perimeter. This company aims to own and develop another hotel in New York.

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

— Amesteldijk Hotel Outwikkeling, B.V.;

— Mandreal – Consultadoria, S.A..

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

	Amesteldijk Hotel Ontwkkeling B.V.	Mandreal - Consultadoria, S.A.	Total
Purchasing price	5,513,531	1,200,000	6,713,531
Assets			
Tangible fixed assets	7,173,889	1,199,863	8,373,752
Trade and other receivables	46,967	19,886	66,853
Current tax receivable	-	1,000	1,000
Cash and cash equivalents	50,146	2,103	52,250
Total Assets at fair value	**7,271,002**	**1,222,852**	**8,493,854**
Liabilities			
Deferred revenue	-	22,851	22,851
Trade and other payable current	1,757,471	-	1,757,471
Total Liabilities at fair valur	**1,757,471**	**22,851**	**1,780,323**
Net assets	**5,513,531**	**1,200,000**	**6,713,531**
% acquired	**100,00%**	**100,00%**	
Goodwill	-	-	-

As at 31 December 2015, Pestana Hotel Group prepared Purchase price allocation analysis for the acquisition of these new subsidiaries, and where applicable allocated the fair value of the consideration paid to the fair value of assets and liabilities.

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

	Amesteldijk Hotel Ontwkkeling B.V.	Mandreal - Consultadoria, S.A.	Total
External services and supplies	-	(2,948)	(2,948)
Other income	-	12,299	12,299
Other expenses	(7,323)	(622)	(7,945)
Profit/(loss) before financial results and taxes	**(7,323)**	**8,730**	**1,407**
Financial expenses	-	-	-
Financial income	-	-	-
Profit before tax	**(7,323)**	**8,730**	**1,407**
Income tax	-	(1,580)	(1,580)
Profit for the period from acquisition date	**(7,323)**	**7,150**	**(173)**
Profit for the period from acquisition date attributable to:			
Shareholders	(7,317)	7,150	(167)
Non-controlling interests	(6)	-	(6)
	(7,323)	**7,150**	**(173)**

In 2015, Pestana Hotel Group ceased to include in the consolidation perimeter the subsidiary Sociedade Investimento Imobiliário Eira da Loba, Lda, as a consequence of the liquidation of this entity and subsequent integration in Carvoeiro Golfe, S.A..

In 2015, Pestana Hotel Group incorporated the following new entities that were included in the consolidation perimeter:

— Global Madalay, S.L.;

— Pestana Manhattan 39 LLC;

— Pestana USA Inc;

— Pestana Holland Holding B.V..

44. Related parties

As at 2016 and 2015 Pestana Hotel Group is owned and controlled by Mr. Dionísio Pestana, who owns 99,99% of the Capital.

Board of Directors' remuneration

Pestana Hotel Group's Board of Directors as well as the members of the Board of Directors of the Pestana Hotel Group's subsidiaries were considered, in accordance with IAS 24, as the only key management personnel of the Group. The remuneration paid is detailed in Note 33.

Transactions and balances with related parties

During the year of 2016, Pestana Hotel Group carried out the following transactions with those entities:

	Services obtained	Services rendered	Interest earned
Associates	**2.570.064**	**132.315**	**17.859**
Enatur - Empresa Nacional de Turismo, S.A.	2.570.064	23.552	17.859
Albar - Sociedade Imobiliária do Barlavento, S.A.	–	425	–
Soehotur, S.A.	–	108.338	–
Jointly controlled entities	**20.514**	**429.669**	**–**
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	–	240.515	–
Solpor - Sociedade de Turismo do Porto Santo Lda.	–	46	–
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	20.514	189.108	–
Key management personnel	–	–	–
	2.590.578	**561.984**	**17.859**

During the year of 2015, Pestana Hotel Group carried out the following transactions with those entities:

	Services obtained	Services rendered	Interest earned
Associates	**2,419,315**	**85,351**	**23,806**
Enatur - Empresa Nacional de Turismo, S.A.	2,419,315	25,351	23,806
Soheotur, S.A.	–	60,000	–
Key management personnel	–	–	–
	2,419,315	**85,351**	**23,806**

As at the end of 2016 and 2015, loans with related parties are as follows:

	31-12-2016		31-12-2015	
	Borrowings obtained	Loans granted	Borrowings obtained	Loans granted
Associates	–	1,190,593	–	1,190,593
Enatur - Empresa Nacional de Turismo, S.A.	–	1,190,593	–	1,190,593
Key management personnel	–	–	–	–
	–	**1,190,593**	**–**	**1,190,593**

The balances arising from transactions with related parties as at December 2016 are as follows:

	Trade receivables current	Impairment of Trade receivables current	Net Trade receivables current	Trade payables current
Associates	**1,109,011**	**949,754**	**159,257**	**1,712**
Enatur - Empresa Nacional de Turismo, S.A.	133,257	-	133,257	1,712
Albar - Sociedade Imobiliária do Barlavento, S.A.	26,000	-	26,000	-
Soehotur, S.A.	949,754	949,754	-	-
Jointly controlled entities	**4,416,164**	**-**	**4,416,164**	**27,999**
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	4,041,981	-	4,041,981	13,964
Solpor - Sociedade de Turismo do Porto Santo Lda.	46	-	46	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	374,137	-	374,137	14,035
Key management personnel	-	-	-	-
	5,525,175	**949,754**	**4,575,421**	**29,711**

The balances arising from transactions with related parties as at 31 December 2015 were as follows:

	Trade receivables current	Impairment of Trade receivables current	Net Trade receivables current	Trade payables current
Associates	**1,583,362**	**628,882**	**954,480**	**799,729**
Enatur - Empresa Nacional de Turismo, S.A.	939,182	-	939,182	799,729
Albar - Sociedade Imobiliária do Barlavento, S.A.	15,298	-	15,298	-
Soehotur, S.A.	628,882	628,882	-	-
Key management personnel	-	-	-	-
	1,583,362	**628,882**	**954,480**	**799,729**

45. Subsequent events

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

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

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

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

Luxembourg, 22 March 2017

The Board of Directors

Dionísio Fernandes Pestana
Director

José Alexandre Lebre Theotónio
Director

Hermanus Roelof Willem Troskie
Director

Chiara Louise Deceglie
Director

Rodrigo de Freitas Branco
Director

Auditor’s Report

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Audit report

To the Shareholders of
Pestana International Holdings S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Pestana International Holdings S.A. and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pestana International Holdings S.A. and its subsidiaries as of 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

The Group Management Report, is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 21 April 2017

Mervyn R. Martins

Pestana International Holdings S.A.