CONSOLIDATED ANNUAL REPORT

2017

31 December

Pestana International Holdings S.A.

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Consolidated Management Report

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 31 December 2017.

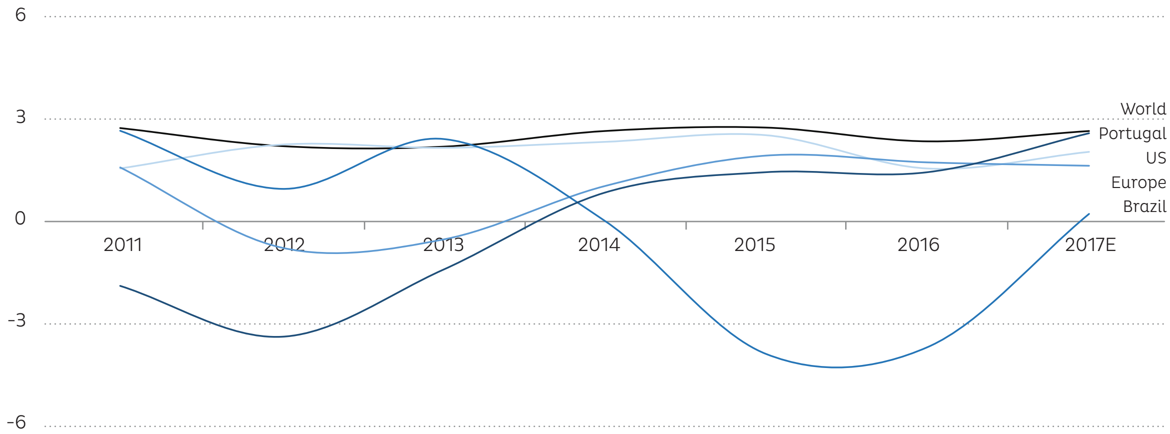
1

Overview of the world economy

1.1. GDP growth

In 2017 the world economy continued on the growth path of the previous year. GDP growth is expected to reach 2,7%, a number higher than the 2,4% registered in the year before. This small increase in growth will have been due to both emerging economies, which are still recovering, and developed countries where growth was positive but modest. Nominal inflation is expected to be slightly below 3%.

Table 1 - GDP Growth Rate (%)



Source: World Bank

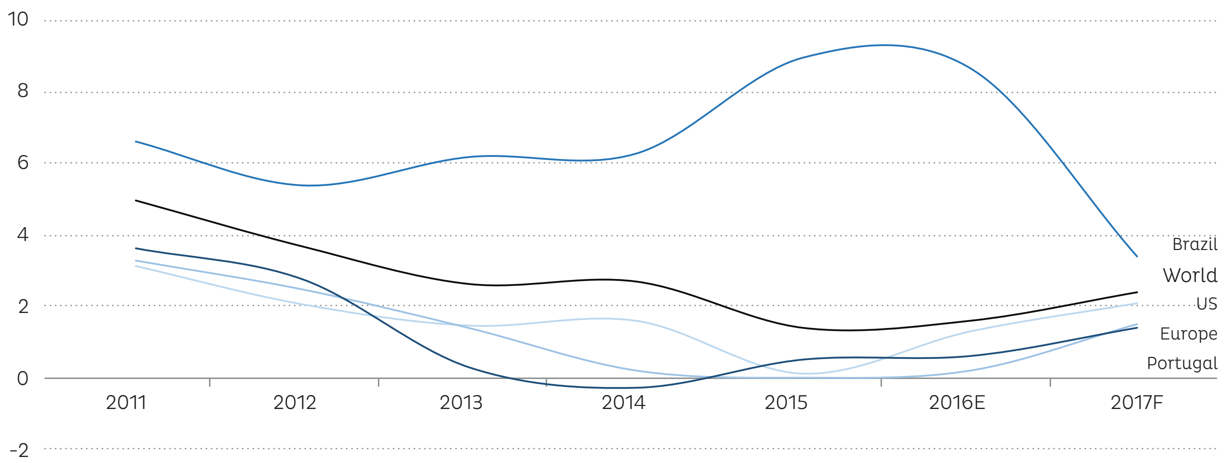
The US economy, still responsible for around ¼ of the world GDP, will have grown 2,1%, a rate higher than in 2016 (1,6%). This growth continued to be led by increases in consumption (as a consequence of a decrease in unemployment), public spending and exports. Private investment also saw an increase in dynamism. Inflation kept to levels close to 2%, as in the previous year. In 2017 the US administration tried to foster an environment of confidence in the economy and a corporate tax reduction is expected with the aim to continue to increase the level of economic growth. The way US international politics were led, despite uncertainty, did not have any relevant economic impacts in 2017.

In the Eurozone, GDP nominal growth registered an increase, though modest, of 1,7% which was slightly lower than the 1,8% registered in 2016 mainly due to a bigger surplus in trade balance and increased internal consumption (salary increase and unemployment decrease) and investment.

GDP growth was still constrained by: (i) an appreciation of the EUR against the USD, which contributed to mitigate the impact of the increase in oil prices and as such kept inflation under the target of 2% as defined by the ECB; (ii) continuing frailty of the banking sector and uncertainties regarding European integration resulting from Brexit; (iii) over-indebtedness of some Eurozone countries; and (iv) difficulty for the excess liquidity in the markets to reach the real economy. Despite this, the European Central Bank continued to inject liquidity into the market through the repurchase of sovereign debt of various member states.

The average growth rate of the BRIC economies will have increased, despite continued geopolitical uncertainties. Brazil will have presented positive GDP growth as well as India, Russia and China although, in this particular case, lower than in the previous year. Pestana Hotel Group's exposure to these countries is limited to Brazil, where inflation and unemployment rates continued to decrease even though investment remains below desired levels. Commodity prices continued to increase, although these are still insufficient to support an economic recovery.

Table 2 - Inflation, annual (%)



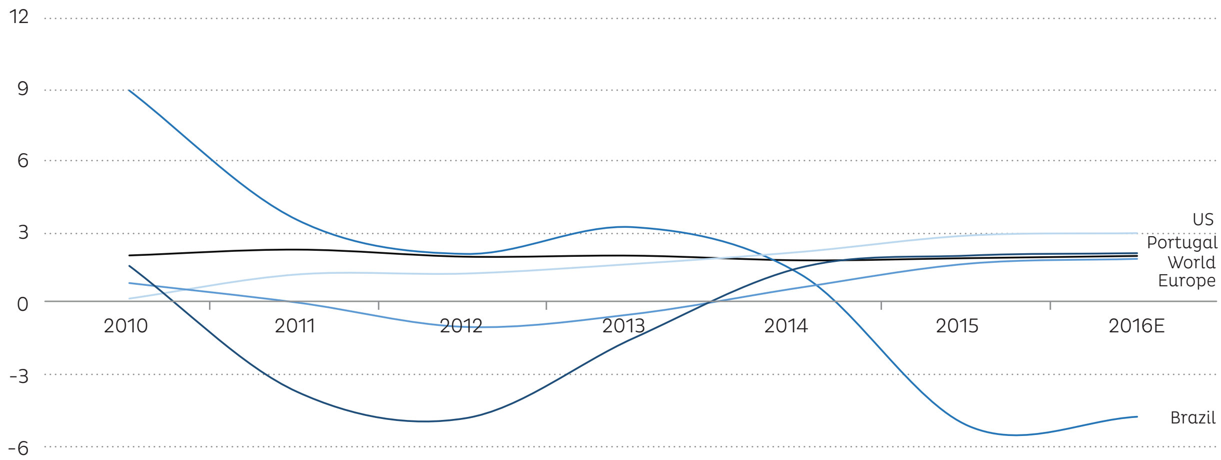
Source: World Bank, Trandingeconomics.com, EUROSTAT

Average world consumption will have continued to grow in 2017 with a similar pattern to the previous year. Developed countries should have shown signs of increased dynamism due to, as previously mentioned, a decrease in unemployment and an increase in average salary.

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 sustained the consumption levels in these regions. Europe continued to benefit from the generalised latent feeling of insecurity which remains active in northern Africa and in Syria with a relevant impact on Turkey. Despite that there have been signs of recovery in late 2017 in this country as well as in Egypt.

Tourism flows reflected this pattern benefitting countries like Greece, Italy, Spain and Portugal where household family income recovery also helped to increase confidence levels.

Table 3 - Final consumption expenditure (annual % growth)



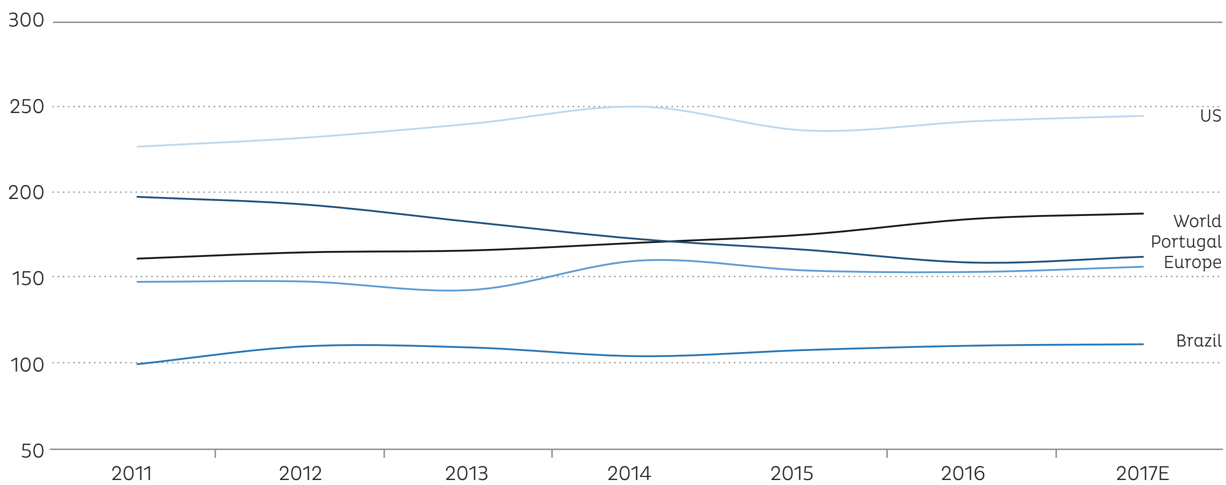
Source: World Bank. For 2016 same trend were applied based on indicative figures of Banco de Portugal, FMI

1.2. Liquidity and cost of funds

Liquidity levels in the USA remained stable, following the elimination, in 2015, of the liquidity flexibility policy. In Europe, however, the ECB continued to inject liquidity during 2017 through the acquisition of sovereign debt of the Member States.

Although presenting a positive trend, the granting of domestic credit in the USA and Europe continued to be limited by counterparties' risk, the analysis of which has been progressively more stringent on the part of banks, which are also affected by demands of higher equity levels and increased regulation from their supervisory authorities.

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

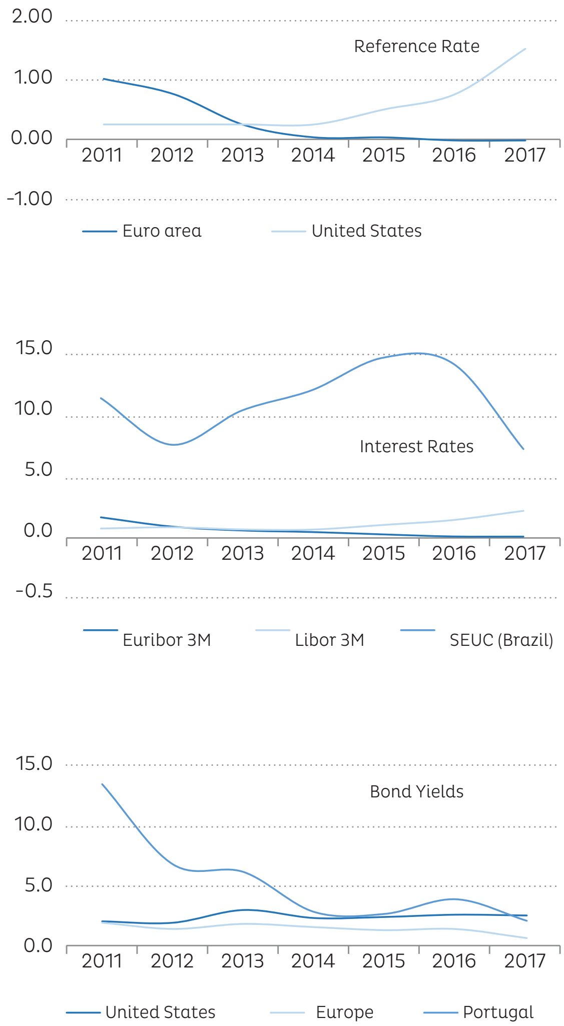


Source: World Bank. For 2016 same trend were applied based on indicative figures of Banco de Portugal, FMI

While in the US the FED increased its reference interest rate from 0,75% to 1,5%, the Euribor continued to present historically low figures. Pestana Hotel Group as such saw once again a decrease in its average cost of funding (mainly in Euros).

In Brazil, liquidity constraints and credit restrictions were somewhat relieved and the reference interest rate decreased in line with inflation, even though it remains at high levels.

Table 5 – Evolution of reference rates; Bond yields; Interest rates



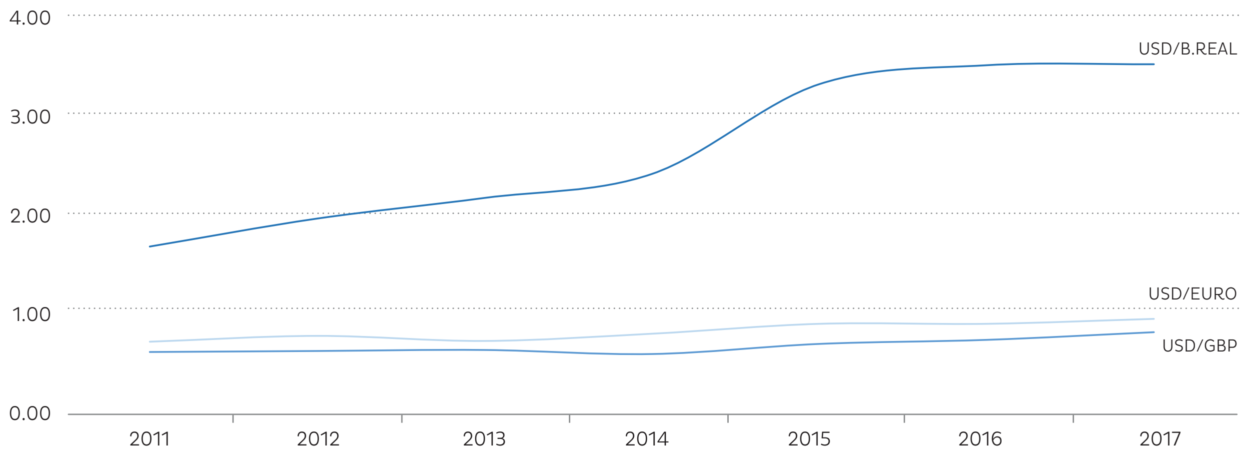
Source: World Bank; Euribor-rates.eu; BdP

In 2017, risk premiums registered positive developments in most western countries, including Portugal, where the debt's 5Y CDS decreased from 273 bps to 81 bps due to the ratings upgrade to investment grade from all major international ratings agencies.

1.3 Exchanges rates

The USD depreciated against the EUR and the GBP as a consequence of the macroeconomic scenario previously mentioned. The GBP kept a similar level against the EUR despite all the uncertainties from Brexit. The Latin-American currencies of the countries where Pestana Hotel Group is present (Argentina, Venezuela and Brazil) continued to depreciate in 2017.

Table 6 - Official exchange rate



Source: World Bank

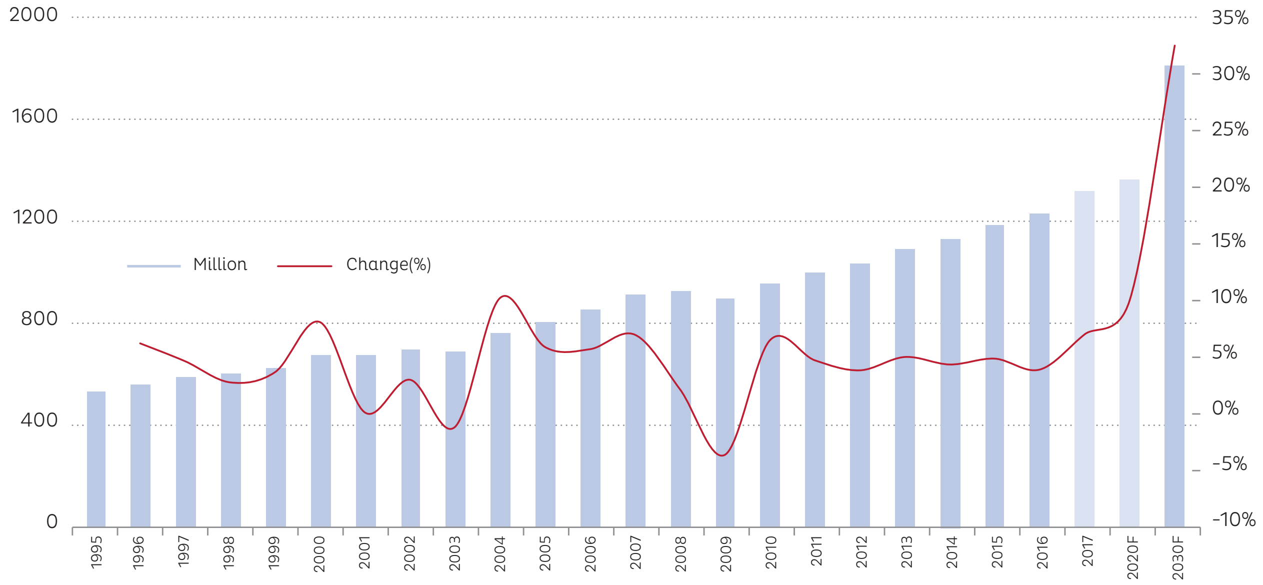
2

Tourism

2.1. World trend

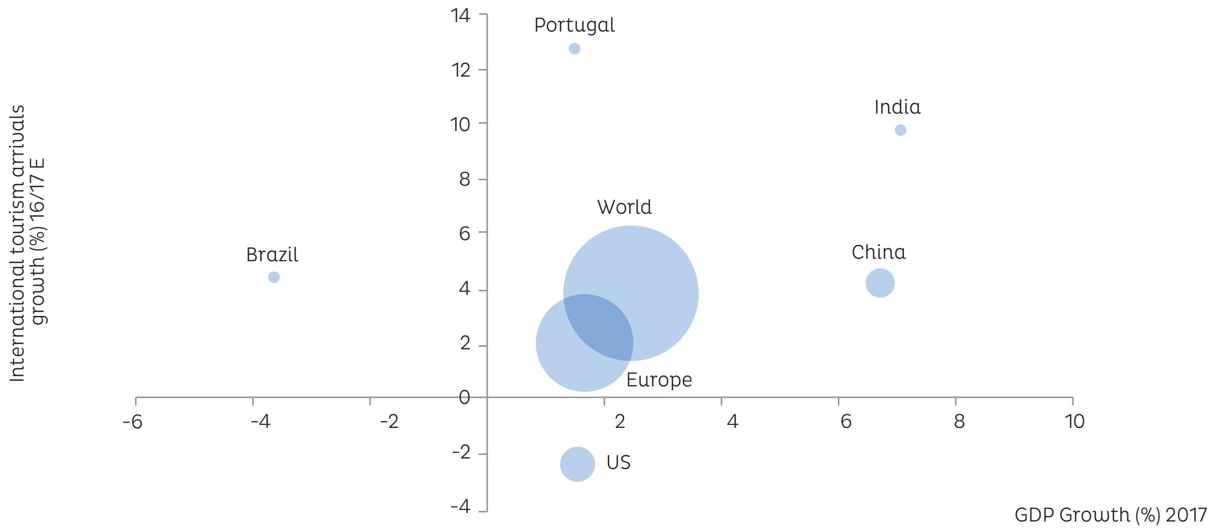
In global terms, the tourism business continued to register positive growth in 2017, a preponderant factor for the economic recovery of some countries in southern Europe. The number of international tourists reached 1.235 million in 2017, an increase of circa 3,9% compared with the previous year, according to the latest World Tourism Barometer of the UNWTO ("World Tourism Organization"). Forecasts for 2030 remain exceptional, surpassing 1.809 million tourists.

Table 7 - International Tourist arrivals



The growth of revenue from international tourists is expected to reach a value close to 2,6% in 2017. Hence, and according to the latest UNWTO data, the tourism sector should represent almost 10% of world GDP, 1/10 of employment and 1,4 billion USD in exports, an amount equivalent to 7% of international trade and 30% of service exports.

Table 8 - Number of International Tourist arrivals

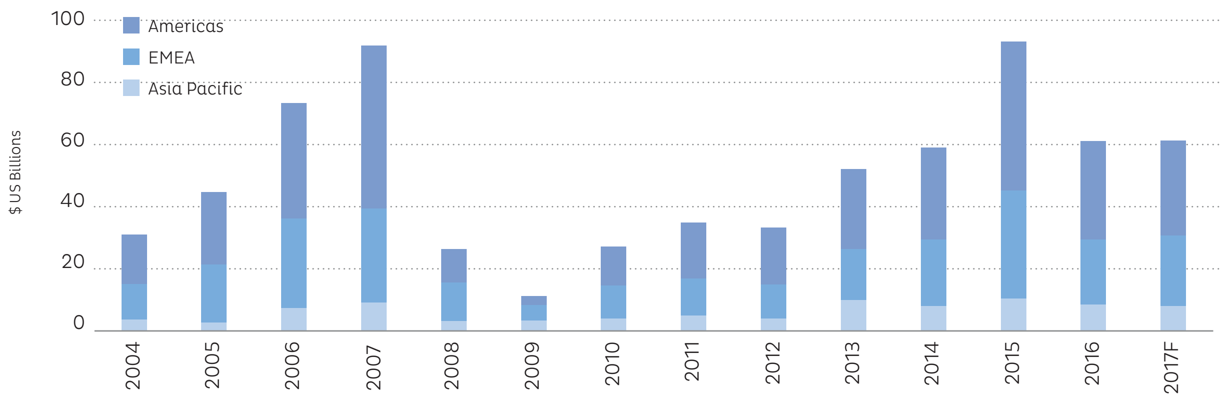


Source: World Bank

The economic growth observed in the main regions of the globe, accompanied by the sustainable growth of the tourism sector, has allowed for a notable recovery of the global investment in this sector. The investment in hotels (according to the last report - Hotel Investment Outlook 2017 – produced by the consultant Jones Lang LaSalle – Hotels & Hospitality) foresees that 2017 has been a very positive year with USD 60 billion of investment, which represents a slight increase when compared with 2016 but well below 2015, which represented the second best year in the history of hospitality transactions due to Marriott's acquisition of Starwood.

In Europe, sales will continue to be boosted by acquisitions of stand-alone assets with a greater focus on secondary markets. Yields decreased in those markets perceived as safer environments. To increase returns investors would be required to look beyond stable markets, expanding their focus to countries like Portugal and to urban assets in secondary cities in Germany, the United Kingdom and Spain.

Table 9 - Global hotel transaction volume 2004 – 2017F



Source: Jones Lanh LaSalle em "Hotel Investment Outlook 2017 - Endurance against the odds

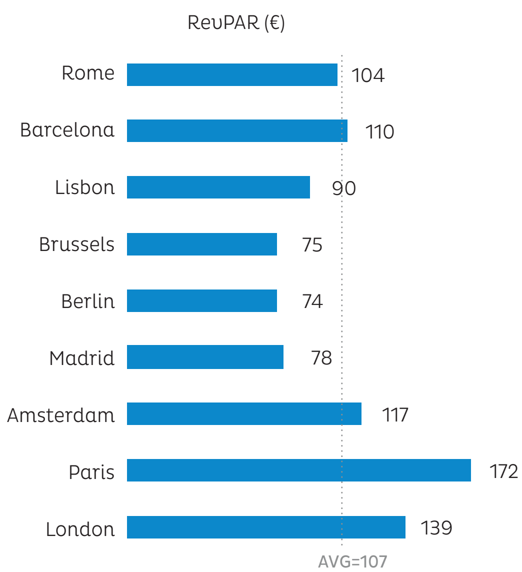
2.2. Europe

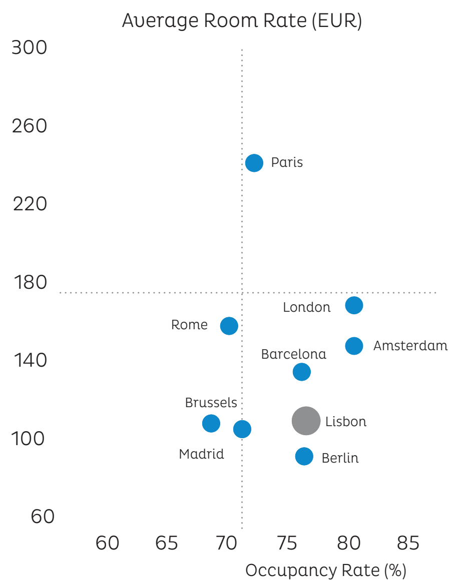
Following the world trend, tourism growth in Europe is expected to reach about 5% in 2017. The strongest markets in terms of tourism demand are expected to be Portugal, Spain and France. In the first two cases, this is expected to be due to the impact that terrorism and social unrest have had on destinations in northern Africa, and the Middle and Far East, including Turkey. We also should bear in mind Portugal's international openness which allowed for a greater perception of the country's touristic quality.

According to the European Travel Commission report for the third quarter of 2017 – Trends and Prospects, Europe continued to show strong growth in terms of international tourists (the first 8 months registered a growth of 8%). Despite the challenges in terms of security, most destinations are expected to present excellent growth rates in number of tourists. The Southern Europe/Mediterranean regions, as is the case of Portugal (+12,8%), Serbia, Slovenia (+19%) and Spain (+10%) also presented significant increases.

On the other hand, and following a decade of sustained growth, Turkey continued to fall (-32%), a consequence of the diplomatic tensions, terrorism threats and weakening of relations with its strongest market, Russia. However, signs of recovery were seen at the end of 2017.

Table 10 - Revpar, Average Room Rate and Occupancy rates 2017





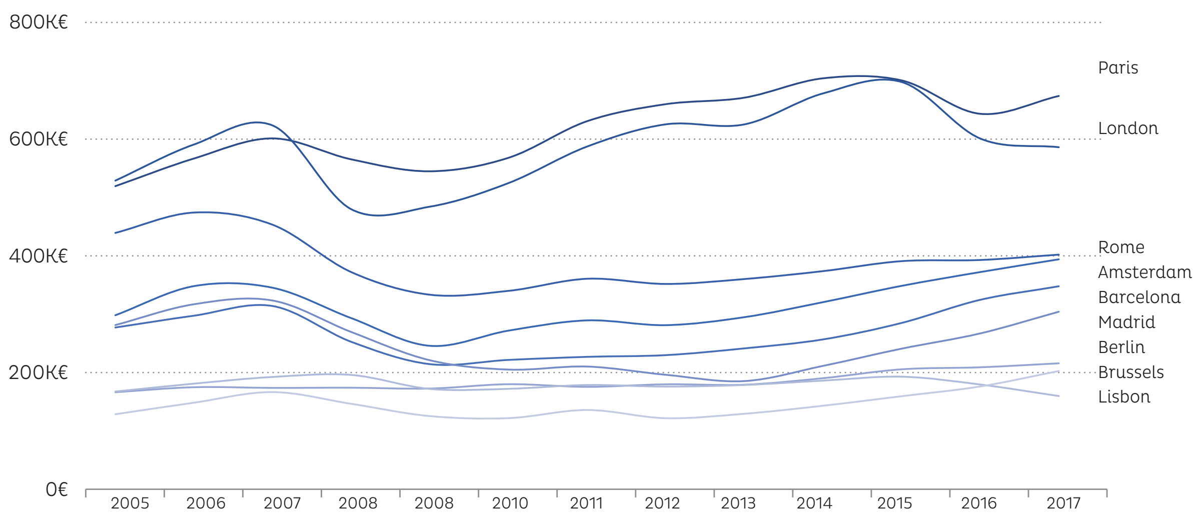
Source: STR Global

The main cities in Europe, in terms of revenue per room were once again Paris and London. The European cities where 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 22% compared with 2016.

This continuous growth in Lisbon in the last few years has been reflected in the increase in the investment value per room since 2012. This increase in 2017 was brought about by an increase in average price charged to the client (ADR) of 17,1% compared with the previous year.

In those cities, average room rate evolution has shown consistent growth, with Paris and London leading the ranking and with the remaining cities well placed. Lisbon is still in last place within this group, despite its very positive developments during 2017.

Table 11 – Investment amount per room



Source: HVS – “European Hotel Valuation”

2.3. Portugal

As mentioned previously, tourism in Portugal continues to go through a positive phase, due to the increase in overnight stays, number of visitors, revenue and 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

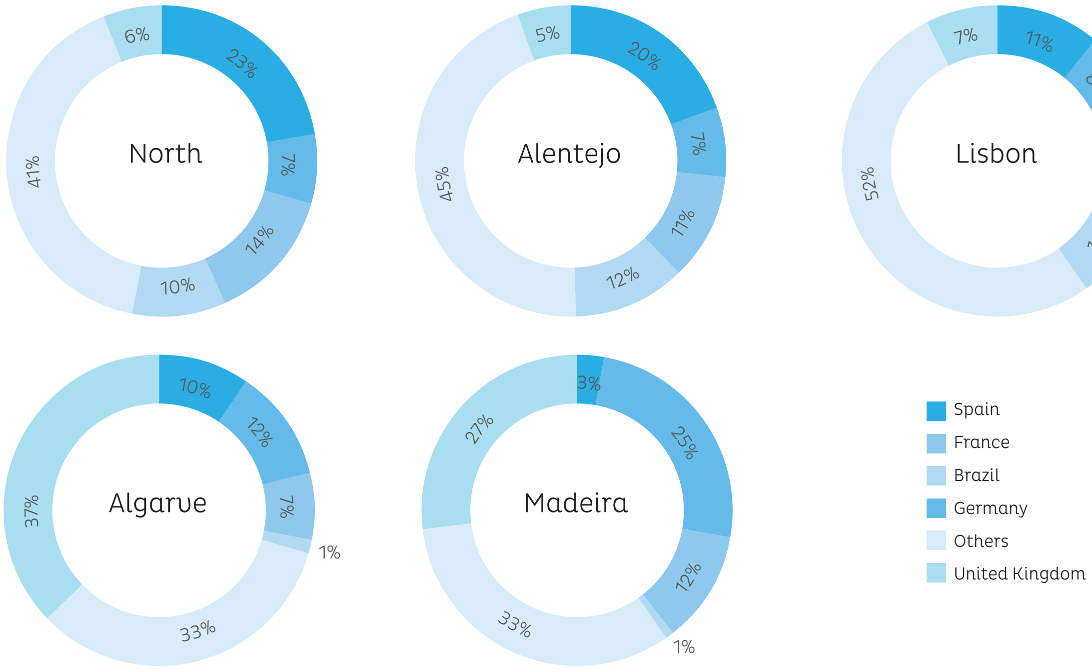
	2017F	2016	△17/16	2015
Domestic visitors ('000)	7.927	7.600	4%	7.218
International visitors ('000)	12.674	11.418	11%	10.141
Overnights by international visitors ('000)	41.747	38.300	9%	34.425
Revenue (milhões €)	15.322	12.800	20%	11.451
RevPAR (€)	48,72	42,00	16%	37,80

Feeder Markets (by number of visitors) ('000)	2017F	2016	Weight	2015
UK	2.306	2.248	18%	1.723
Spain	1.698	1.650	13%	1.542
Germany	1.304	1.200	10%	1.104
France	1.365	1.350	11%	1.140
Brazil	855	570	7%	556
Others	5.214	4.400	41%	4.076
Total	**12.742**	**11.418**	**100%**	**10.141**

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 are concentrated) in the urban segment (city breaks and MICE). All these destinations presented a strong demand driven by foreign markets. The domestic market continued the recovery initiated in 2014 and recorded an increase of over 4% in terms of visitors, when compared with the previous year. In effect, the economic recovery (GDP continues to grow supported by a trade balance surplus, investment and unemployment reduction) helped invert the negative trend of private consumption in tourism spending and in related tourist activities.

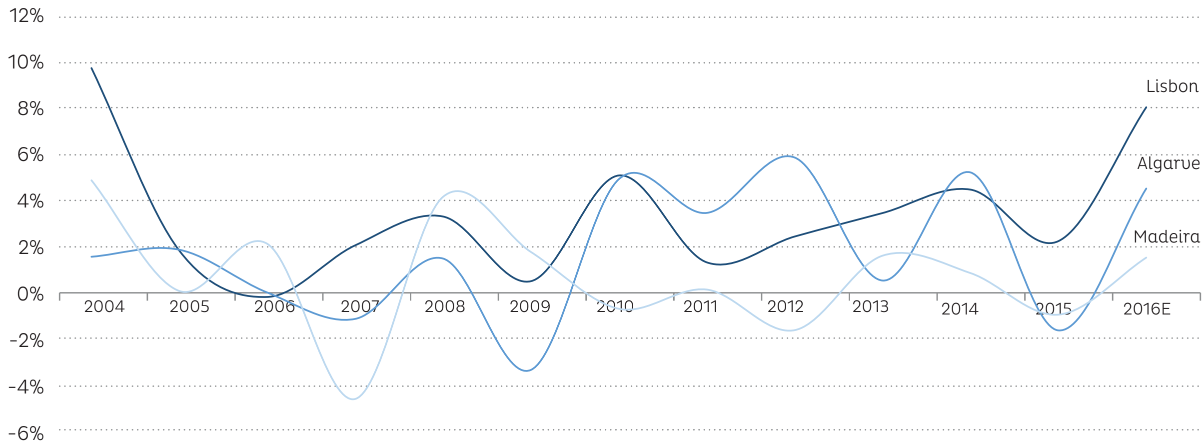
Table 13 - Portuguese feeder markets by region



Source: Turismo de Portugal

The increase in demand observed in the main national tourist markets, was accompanied by a growth in the offer in 2017, namely in the main Portuguese destinations (as per the following paragraph). Although this growth in the offer has been lower than the increase in demand it continues to support a consistent and sustainable sector in 2017.

Table 14 - Evolution of number of rooms



Source: INE

2.4. Africa

In 2017, Africa's international tourist arrivals have remained steady when compared with previous years. While the international tourism arrivals to North Africa were weak but positive, Sub-Saharan Africa has seen numbers rise since 2015. This continent keeps 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	2013	2014	2015F	2016F
Morocco	10.046	10.283	10.117	10.350
Subsaharan Africa	36.217	34.900	35.400	36.000
Angola	650	595	510	500
Cape Verde	503	494	520	550
Mozambique	1.886	1.661	1.552	1.400
São Tome Principe	n.a.	n.a.	n.a.	n.a.
South Africa	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 have grown in 2017. In Latin America the tourism outlook continued to be highly unbalanced. Brazil has shown a decrease in international touristic activity after the Olympics, with internal demand the main driver of tourism representing more than 80%. On the other end Brazilians continue to travel to Europe and to the US, mainly to Miami, Orlando and NY.

Table 16 - Latin America international tourism arrivals

Amounts in thousands of Euros	2013	2014	2015F	2016F
Argentina	5.246	5.931	5.736	5.700
Brazil	5.813	6.430	6.306	6.300
Cuba	2.829	2.970	3.491	3.600
Venezuela	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

Pestana International Holdings S.A. (in this document referred to as "Pestana Hotel Group" or "Group") continues to offer a range of services in hospitality including Golf, Casino, Vacation Clubs and Real estate activities, operating nowadays in 16 countries spread out through 5 major regions, each one represented by a PIH subsidiary, as well as a subsidiary for the Group's shared services, namely:

- Grupo Pestana, S.G.P.S., S.A. – at the end of 2017 this entity sold all of its interests in Hotéis do Atlântico, S.A. to Pestana International Holdings S.A. and is now focused on the operation in Portugal;

- Hotéis do Atlântico, S.A. – Europe and North America;

- Djebel, S.G.P.S., S.A. – Brazil as South American Portuguese speaking country;

- Pestana Inversiones, S.L. – South American Spanish speaking countries;

- Salvintur, S.A. – Africa;

- ESGAP, S.A. – Group's shared services companies.

Due to its growth, Pestana Hotel Group has had to occasionally reorganize its company structure in order to make the management of the Group's different business areas easier. As such it was decided that Grupo Pestana, S.G.P.S., S.A. would focus on the Portuguese market due to the fact that the Group is investing significantly in Europe and in the United States and that the Portuguese market is still growing. Consequently, Hotéis do Atlântico, S.A. was detached from Grupo Pestana, S.G.P.S., S.A. and is now controlled directly by Pestana International Holdings S.A..

In 2017, in order to improve the corporate governance of one of the most important areas for the Group's development, the shared services, ESGAP - Empresa de Serviços de Gestão e Administrativos Partilhados, S.A. (previously known as Pinheiromar, S.A.) acquired the Group's shared services companies, Pestana Management, S.A., Intervisa, S.A. and Pestana Segurança, S.A.. Pestana Hotel Group has been developing, in Portugal, a Shared Services center that provides back-office and commercial services to the different Group units. The objective is to have in Portugal one of the most efficient shared service centers of the touristic industry, with competence and scale to operate and monetize the investments needed today to maintain the competitiveness of a touristic group with a strong hospitality base. The Group has made significant investments in new systems and in the creation of competency centers in the digital arena, such as e-commerce, online and direct channel, revenue management, channel management or central reservation. Activities associated with innovation and information technology are already critical engines for growth and where the Group will continue to invest.

The Group also retained its other interests in activities outside of tourism activity, like Cervejas da Madeira (Madeira Island Brewer Company) and SDM (manager of the public concession of the Free Trade Zone of Madeira).

3.1.1. Balance sheet highlights

Total assets reached, in 2017, approximately 1.173 bn Euros, slightly below the value reached in the previous year (-3%) due to a decrease in fixed assets from 896 million Euros to 841 million Euros (-6%). This decrease was mainly due to the disposal of the interests held in the Venezuelan hotel, one property in Madeira Island (Pestana Atlantic Gardens) as well as due to the joint venture agreement made with Mr. Cristiano Ronaldo for one hotel in New York which previously consolidated. As such the cost of new investments and refurbishments were close to the depreciations and amortizations in the period. It is important to mention once again that Pestana Hotel Group has a business model different from other hospitality groups. We do not look for asset light strategies, or management contracts or hotels in franchising. Our hotels are owned or leased and we assume all the risk of the operations. With this the Group also carries the risk from the market value of the properties it owns and because these properties are accounted for in historical costs the Group has a big reserve of value in its assets due to overall market prices being significantly higher compared to what is shown in the balance sheet.

The Group's net debt decreased once again from 384 million Euros in 2016 to 332 million Euros in 2017 (-14%) and the leverage ratio (Net debt / EBITDA) from 4,05x to 2,91x. Average LTV (Loan-to-Book Value) reached a value lower than 40%, which is considered conservative for a company with this business model. Equity increased from 330 million Euros to 362 million Euros (10%) and Adjusted Equity (AE) increased to 518 million Euros. Adjusted Net Assets decreased slightly to 863 million Euros (-3%) increasing the ratio (AE/ANA) to 60%, with the remainder covered by the aforementioned debt and other responsibilities.

The Group has a debt service aligned with its annual cash flow, and the refinancing risk is well controlled. The funding is well diversified with an average maturity of 3 years, mainly due to a 65 million Euro bond issue that matures in 2020. This unsecured bond issue will be refinanced in due time. All Brazilian and the majority of African debt was repaid.

Pestana Hotel Group continues to keep a sound liquidity position with cash and cash equivalents of around 82 million Euros. Bank overdrafts and unused commercial paper facilities were available at the end of 2017 in an amount of approximately 90 million Euros from 15 different financial institutions.

Pestana Hotel Group has around 66% of its assets in Portugal, while local demand increased from 23% to 25% of the overall revenue (16% of the Group's revenue including all business activities), which means that the Group continues to be one of the leading groups supporting the Portuguese trade balance.

Consolidated financial statment

Table 17 – Financial highlights – Balance sheet

Amounts in millions of Euros

Net Assets	2017	% TOTAL	Grupo Pestana SGPS	Djebel	Pestana Inversiones	Hotéis do Atlântico	Salvintur	Other	2016	2015
Investment - Fixed Assets	816,3	95%	540,6	90,1	9,7	136,0	38,0	1,9	869,9	859,8
Deferred tax liabilities	-58,6	-7%	-27,1	-21,6	-0,9	-2,3	-5,1	-1,6	-72,5	-69,4
Total adjusted fixed assets	757,7	88%	513,6	68,4	8,8	133,7	32,9	0,3	797,4	790,4
Investment - Financial assets	30,1	3%	17,3	0,0	0,0	8,2	0,0	4,5	16,8	11,4
Other non-current assets	51,7	6%	15,6	19,9	0,0	1,4	0,4	14,3	52,7	51,2
Current Assets - Current liabilities	23,7	3%	20,2	3,9	-4,0	-3,0	7,4	-1,0	25,8	14,3
Total Adjusted Assets	**863,1**	**100%**	**566,7**	**92,3**	**4,9**	**140,4**	**40,7**	**18,2**	**892,7**	**867,2**
Funding origins										
Equity	361,6	42%	192,8	60,3	13,1	97,5	37,6	-39,7	329,9	296,6
Collected deferred revenues [(a)]	201,2	23%	173,3	22,7	0,0	1,5	0,1	3,6	211,1	207,0
Deferred sales cost [(a)]	-44,8	-5%	-44,8	0,0	0,0	0,0	0,0	0,0	-45,5	-51,5
Total non remunerated funding	518,0	60%	321,3	83,0	13,1	99,0	37,7	-36,1	495,5	452,1
Long term financial debt	356,4	41%	251,7	0,0	0,0	49,9	4,4	50,5	395,4	396,1
Other non-current liabilities	13,5	2%	4,6	8,0	0,0	0,7	0,1	0,2	13,6	9,7
Total non-current funding	887,9	103%	577,5	91,0	13,1	149,5	42,2	14,6	904,6	857,9
Short term financial debt	56,8	7%	46,3	1,7	0,0	2,9	1,4	4,5	83,4	100,9
Cash + Financial assets available for sale	-81,6	-9%	-57,1	-0,4	-8,2	-12,0	-2,9	-0,8	-95,2	-91,5
Net current debt	-24,8	-3%	-10,8	1,3	-8,2	-9,2	-1,5	3,6	-11,8	9,4
Total funding origins	**863,1**	**100%**	**566,7**	**92,3**	**4,9**	**140,4**	**40,7**	**18,2**	**892,7**	**867,2**
Net debt	331,7		240,9	1,3	-8,2	40,7	3,0	54,1	383,6	405,5
EBITDA	114,1		108,1	1,7	-9,6	7,0	4,0	2,9	94,8	88,8
Working capital	23,7		20,2	3,9	-4,0	-3,0	7,4	-1,0	25,8	14,3
Net capex	49,4		27,6	0,2	0,2	20,5	0,9	0,0	16,4	14,2
Net debt / EBITDA ratio	2,91		2,23	0,77	N/A	5,83	0,74	18,96	4,05	4,57
Net debt / Equity ratio	0,64		0,75	0,02	N/A	0,41	0,08	-1,50	0,77	0,90
Net debt / Total assets ratio (%)	38%		43%	1%	N/A	29%	7%	297%	43%	47%
Liquidity ratio (%)	19%		19%	5%	N/A	23%	49%	2%	19%	18%

(a) Collected sales of Pestana Vacation Club ("timeshare").

3.1.2 Profit and Loss highlights

The Group revenue reached 393,5 million Euros (an increase of about 9%), for an EBITDAR of 130,2 million Euros (18%) and an EBITDA of 114,1 million Euros (20%). This was due not only to a global market growth, but also to an increase in the number of keys (1%) and continued cost efficiency. The margins increased once again, outperforming once most of its peers. The EBITDA / Net interests ratio was 10,1x, reaching an excellent ratio based on an average interest rate that decreased to 4,5% due to the repayment of more expensive credit facilities including the facilities in Africa.

On 30 November 2017, Pestana Hotel Group's subsidiary Pestana Inversiones, S.L. disposed of the shares it held in Inversiones Vistalparque, C.A. which represented 71,42% of this company's share capital for the amount of 9.108.919 Euros, obtaining a loss of 10.030.237 Euros. If this disposal had not taken place in 2017, the Group's EBITDA would have been 124,1 million Euros and, consequently, the Net debt / EBITDA ratio would be as low as 2,67x.

Consolidated financial statment

Table 18 – Financial highlights – Profit and loss

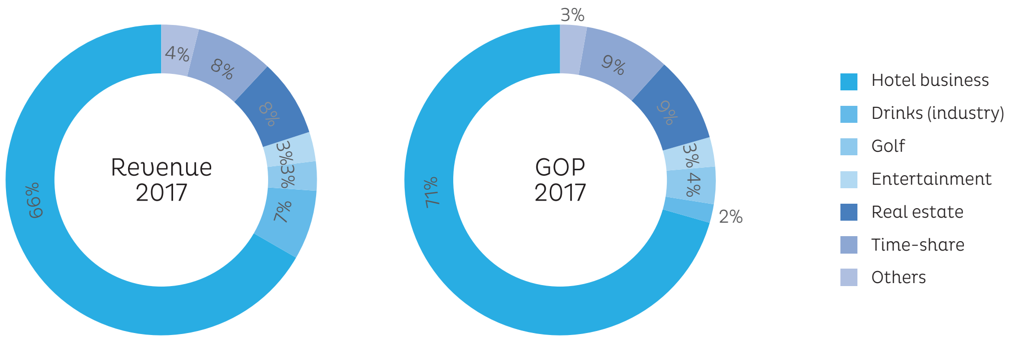
Net Assets	Total 2017	Grupo Pestana SGPS	Djebel	Pestana Inversiones	Hotéis do Atlântico	Salvintur	Other	Total 2016	Total 2015
Rooms (total keys)	10.921	7.412	1.270	922	700	617	0	10.798	10.000
of which Rooms under management contract (keys)	1.009	435	63	508	0	3	0	976	685
Hotel units (total)	105	79	7	4	5	10	0	106	83
of which Units under management contract	8	5	1	1	0	1	0	8	3
(Amounts in millions of Euros)									
Revenue	393,5	314,0	21,5	12,1	25,5	14,5	6,0	360,1	347,5
GOP of Touristic activity [(a)]	155,7	139,3	1,2	4,0	0,0	4,1	7,1	123,5	110,3
EBITDAR [(b)]	130,2	122,7	1,9	-8,5	7,0	4,2	2,9	110,3	100,2
Rents paid to owners and concessions	-16,1	-14,6	-0,2	-1,1	0,0	-0,3	0,0	-15,4	-11,4
EBITDA	114,1	108,1	1,7	-9,6	7,0	4,0	2,9	94,8	88,8
Depreciation and amortization	-32,7	-26,1	-2,4	-0,8	-1,3	-1,7	-0,4	-35,9	-44,4
EBIT	81,3	82,0	-0,7	-10,4	5,7	2,3	2,4	59,0	44,4
Interest net (inclued fees)	-11,3	-11,0	-0,2	-0,8	-1,2	-0,2	2,1	-23,1	-30,3
Income taxes [(c)]	-8,8	-12,6	1,9	-0,1	-0,9	-0,9	3,7	-2,8	9,2
Net income including non controlling interests share	60,0	58,4	-0,8	-11,3	1,9	0,5	11,4	28,7	16,5
GOP margin (%)	40%	44%	6%	33%	0%	28%	119%	34%	32%
EBITDAR margin (%)	33%	39%	9%	-70%	27%	29%	48%	31%	29%
Rents / EBITDAR (%)	12%	12%	10%	-13%	0%	6%	0%	14%	11%
EBITDA margin (%)	29%	34%	8%	-79%	27%	28%	48%	26%	26%
EBIT margin (%)	21%	26%	-3%	-86%	22%	16%	41%	16%	13%
ROE (%)	11,6%	18,2%	-1,0%	-86,1%	1,9%	1,4%	-31,5%	5,8%	3,6%
EPS	41,82	N/A	N/A	N/A	N/A	N/A	N/A	21,75	14,73
EBITDA/Net interests (..x)	10,1	9,8	8,0	-12,4	5,7	18,2	-1,3	4,1	2,9
Average cost of gross debt (%)	3,9%	3,5%	56,1%	N/A	5,9%	10,5%	3,3%	4,9%	6,1%

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

After a successful strategy of selling specific assets, mainly in Portugal, in order to support company growth and new openings, 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 remained low at about 12%.

The revenue and GOP (Gross operating profit) structure continue to show similar weightings from the different business units, although hotel and restaurant revenue and GOP increased in Europe the remaining group operational units did not present similar results when converted to Euros. Vacation club slightly decreased once again when compared to the previous year, however, this effect was compensated for by the increase in real estate.

Table 19 – Revenue and GOP 2016 by business area



A. Hospitality

Hospitality, with more than 3,1 million guests, grew once again close to 20% in GOP on average in 2017, including the foreign exchange effect, mainly due to the European operations increase that more than compensated for Brazil's decrease. Africa and other Latin America operations had a slight increase.

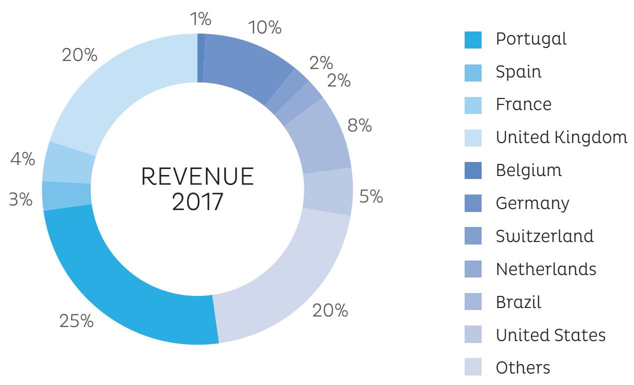
On average, all hotels in Europe grew in ARR (Average Room Rate) in local currency. In the UK, however, ARR decreased in Euros due to the depreciation of the British pound. In all American hotels an increase in occupancy was registered that on average more than compensated for the decrease in price in Euros. In Africa, in Cape Verde and Mozambique prices decreased but occupancy increased, in São Tomé & Príncipe prices increased but occupancy decreased and South Africa increased both in price and occupancy.

Table 20 – ARR and Occupancy by main country

	ARR in local currency				ARR in Euros			Occupancy		
Hotel Country	Currency	2017	2016	Var	2017	2016	Var	2017	2016	Var
USA	USD	161	167	-4%	142	151	-6%	67%	66%	1%
UK	GBP	120	117	2%	136	143	-5%	84%	83%	1%
Morocco	MAD	1.298	1.353	-4%	119	125	-5%	78%	73%	7%
Germany	EUR	103	98	6%	103	98	6%	83%	87%	-4%
Spain	EUR	101	90	12%	101	90	12%	87%	88%	-1%
Portugal	EUR	98	91	8%	98	91	8%	72%	69%	4%
Sao Tomé	EUR	93	81	16%	93	81	16%	50%	53%	-4%
Cape Verde	EUR	76	81	-6%	76	81	-6%	60%	56%	7%
Brazil	BRL	259	405	-36%	72	105	-32%	56%	52%	6%
South Africa	ZAR	1.008	826	22%	67	51	32%	65%	55%	17%
Argentina	ARS	1.250	1.403	-11%	65	85	-23%	74%	63%	18%
Mozambique	MZN	4.335	4.590	-6%	61	105	-42%	42%	39%	9%
Average					**98**	**90**	**8%**	**69%**	**64%**	**8%**

In Portugal the internal demand continues to recover with a positive impact felt in the four star up-scale hotels and Pousadas segment. The main feeder markets remained the same: UK, Germany, Brazil and Spain. Brazilians still represent not only the most important market in their own country but also a relevant feeder market for the hotels located in Portugal and in other countries like the United States of America.

Table 21 – Hotel Group feeder markets (by country)



In 2017, the Group's growth was supported not only by existing hotels but also by new openings namely:

- Hotel Pestana Royal Bay in Madeira was refurbished during the year following a lease agreement agreed at the end of 2016 with a Portuguese fund, CA Património Crescente. This hotel with 324 keys opened in May and is focused on the five-star all-inclusive segment;

- A lease agreement was signed for Quinta do Arco and refurbishment began with the aim of increasing the existing 18 keys to 57 keys. This unit is located in the northern region of Madeira island which will complement and diversify Pestana Hotel Group's offer in this destination, being the only unit managed outside of Funchal with a less urban and more Nature-oriented product which has been facing growing demand;

- Pestana Casino Studios, a building with 77 apartments, was also built on the island of Madeira to enlarge the Group's supply by the iconic Casino Park hotel, designed by the architect Oscar Niemeyer.

Last year Pestana Hotel Group continued the construction works or requested permits in:

- Pestana Amsterdam Riverside Hotel, a five-star hotel with 154 rooms in the old Amstel Community Archive and Town Hall, considered a National Monument. It is located near the Albert Cuyp market and is in the perfect place to visit one of Europe's most picturesque and exciting cities. It has a spa, including indoor pool and sauna, a gym, 10 meeting rooms and a restaurant, perfect for enjoying the city's traditional gastronomy. The hotel opened at the beginning of 2018;

- Four-star Pestana CR7 NY West 39th street (USA) for a 176 key hotel in Manhattan, to open in 2019. Construction is currently in progress;

- Four-star Pestana NY East 39th street (USA) for a 99 key hotel in Manhattan, to open in 2019. Permits are in place and construction is currently in progress;

- Four-star NY New Jersey city hotel (USA) for a 109 key hotel, to open in 2020 following a lease agreement signed in 2016. Construction was delayed but is expected to start in mid-2018;

- Five-star Plaza Mayor Madrid (Spain) for an 80 key hotel. Construction is in progress and it is expected to open in late 2018, early 2019;

- Four-star Pestana CR7 in 29 Gran Via in Madrid (Spain) for a 167 key hotel lease agreement. Permits were approved in late 2017 and construction should start in the first quarter of 2018;

- Five-star Marrakesh, Medina Square Hotel (Morocco), with 200 rooms. Negotiations with the owner are delaying this project but progress has been made in order to get permits and construction is expected to start in 2018;

- Four-star Pestana Jockey Club in Montevideo (Uruguay) with 75 keys. Permits are expected in late 2018, beginning of 2019;

- Five-star Pestana Amoreira, an all-inclusive hotel in Alvor, Algarve, between the Alto-golf golf course and Pestana Delfim, both already under exploration by the Group;

- Four-star Pestana Douro, near Pousada do Freixo, with 163 keys is still under permit approval and will allow the Group to expand its offer near the river Douro in the Oporto region;

- Pestana hotels in Rua das Flores and Aliados in the center of Oporto city, are under construction. Pestana Brasileira also in Oporto opened in March 2018 with 89 keys in an iconic building from the center of the city. These three hotels will be managed under lease agreements after completion of the construction which is to be paid by each building's owner allowing the Group to diversify its offer in the region;

- Refurbishment of a four-star hotel in the port building in Câmara de Lobos on the island of Madeira. This beautiful building hosted Winston Churchill in the past and will be transformed into a themed hotel with 55 keys in order to increase the Group's offer in the region;

- Two Pousadas of Portugal agreements were signed with the municipality of Vila Real de Santo António in Algarve and with the Misericórdia of Obidos in the Lisbon region in order to enlarge the Group's offer in these regions.

Besides the operation in Venezuela, the Group sold Pestana Atlantic Gardens hotel and, subsequently, a lease agreement was signed to retain the management of the hotel.

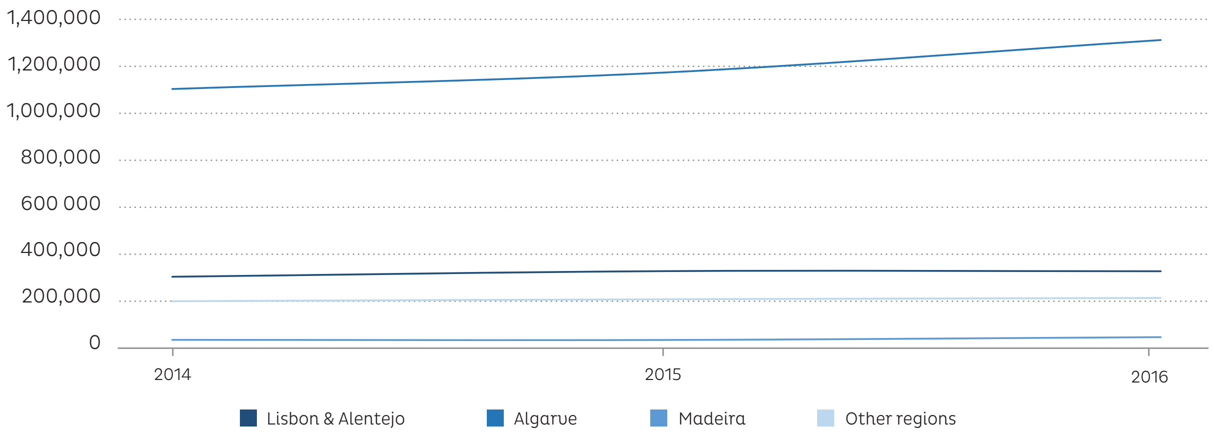
In order to face the downturn in Mozambique last year, Bazaruto and Inhaca resort hotels, each with 40 keys remained closed. Bazaruto continues to develop a real estate project due to the still existing demand for high net worth villas;

Regarding operations throughout the year, Pestana Hotel Group continued to invest in the maintenance of its assets to optimize asset profitability; in particular Pestana Viking and Pestana Palace refurbishments were concluded and refurbishments were started in Pestana Delfim and Pestana Cascais.

B. Golf

This activity now represents 4% of Pestana Hotel Group and grew, in 2017, once again around 17% in revenue and 20% in GOP supported by the same 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 and was mainly due to an increase in rounds and green fees in Algarve.

Table 22 – Evolution of golf rounds in Portugal

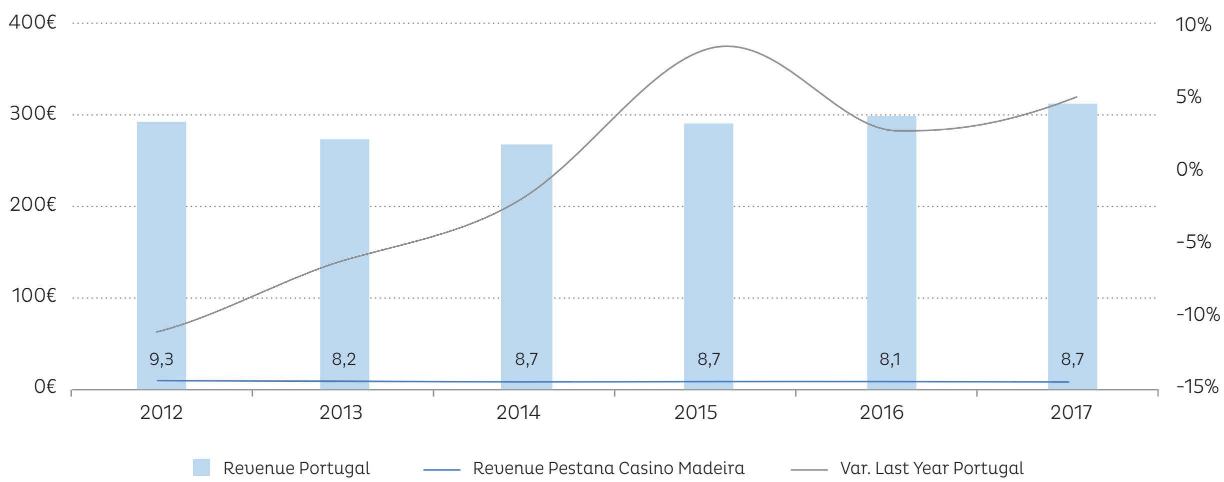


Source: CNIG

C. Casino

Casino activity that represents 3% of the Group's activities, as a complement to the main hotel business, slightly increased in 2017, supported by two Casinos, one in Madeira and the other in São Tomé & Principe. The Madeira casino, continues to represent the majority of the revenue of this segment. The *Pestana Casino da Madeira* increased its GOP by 11%, following the market trend.

Table 23 – Evolution of Gambling in Portugal



D. Pestana Vacation Club

Vacation Club which represents 8% of Pestana Hotel Group's revenue continues to be supported by close to 30.000 families that have kept following the Group for the last almost 30 years. Pestana continues to develop Pestana Vacation Club (PVC) that allows guests to travel all along the Group's hotels around the world. This does not give the buyer a legal temporary right to the property, but is also a cash flow stream like Timeshare being all part of the Group loyalty program.

The revenue from Timeshare is only recognized in EBITDA when the guest uses his or her right in one of Pestana's hotels. The amount paid by the customer, when signing a Vacation Club contract (Timeshare) is recognized as a liability (deferred income) and not as revenue. In management accounts, these amounts are considered as Equity related since they do not represent any future cash payments and are not refundable. Additionally, every year during the contract period the customer pays an annual maintenance fee that supports the property within hospitality services and capex.

E. Real Estate

Real Estate represents now 8% in revenue and 9% in GOP of Pestana Hotel Group's activity, and continues to be developed mainly in Portugal through the projects in Troia (near Lisbon) and in Carvoeiro (in Algarve). This activity continued to grow substantially in 2017, but lower than in the previous year due to a lack of stock.

Pestana's real estate business 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 only build houses at the same rhythm as they are being sold (no construction is made for stock), which proved to be the right choice during market downturns avoiding high opportunity costs.

F. Other Business

Pestana Hotel Group's other businesses continues to represent 4% of the total revenue in 2017. SDM – Sociedade de Desenvolvimento da Madeira, despite the political constraints of its operations, continues to run well in this environment, and ECM – Empresa de Cervejas da Madeira increased revenue and GOP reflecting the good results achieved in the tourism sector in Madeira.

4

The near future

4.1. Macro major trends

The world economy should continue its positive growth trend in 2018 (expected to be above 3%), despite once again macroeconomic uncertainty. Stock prices as well as some highly volatile cryptocurrencies will continue to reach maximums. Real estate will also continue to recover in some regions to levels higher than the ones before the last crisis, influenced by a more dynamic flow of people around a global world.

Main commodities' prices are expected to remain stable, namely oil that will probably stay between USD 65 to USD 75 per barrel (/b) of Brent. New industry trends related with energy, mobility, health and environment will progressively change the commodities' pattern as we know it today. 2018 will be, as such, one more step in that direction.

United States of America's GDP should grow more than 4% due to the fiscal impact of the measures taken last year by the Trump Administration improving consumer and business confidence. The FED fund rate will in all likelihood continue to increase (probably close to 75 bp to 2,25%), to control economic growth, although inflation will be around 2,5%, slightly decreasing from 2017.

The Euro area should keep on growing (estimated GDP growth is 2,3%) supported by Germany and France and by some of the peripheral economies like Ireland, Portugal and Spain. ECB credit easing will continue at least until mid-2018. Deleveraging will continue at a slow pace both in public and private sectors.

Inflation should remain low, although investment, unemployment and consumer confidence continue to show positive trends. Brexit will dominate attention, but the Euro commitment will not be put at stake. As such it is expected that the Euro will depreciate against the US dollar although it could recover against the British pound if Brexit doesn´t succeed as expected.

Latin American countries will continue to be highly vulnerable to external and domestic shocks. These countries will continue to struggle against social and economic constraints, 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 increase in Brazil. Argentina will also show a small recovery after the implementation of some of the economic reforms and Cuba will stabilize after a political freeze with the United States of America.

Africa will continue to show a very different pattern across its countries. In what concerns Pestana Hotel Group, Cape Verde will maintain its sustainable growth, as well as São Tomé & Príncipe. Mozambique will continue to struggle with social distress although we have seen signs of some relief.

As a conclusion, we remain positive for 2018. We still consider that market confidence will continue to grow and will have a positive impact on 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 from social stability and keep attracting tourists around the world, despite terrorism and other local social and political threats. Leisure and hospitality is expected to continue its sustainable growth.

4.2. Group activity

Pestana Hotel Group is expected to continue along a global positive growth trajectory despite some negative signs from the English market due to the British pound depreciation and the bankruptcy of Monarch and Air Berlin. A Turkish and Egyptian market recovery may also affect the good prospects of the Portuguese resort markets. City destinations, namely Lisbon and Oporto seem to be more resilient.

The European hotels will continue to deliver in mature markets and the opening of Amsterdam should support the company growth in the near future. In the United States of America, the Miami hotel is expected to continue to improve and the New York projects will continue construction in 2018.

Africa in global terms will continue to deliver despite the economic and social distress in Mozambique. The operations in São Tomé are expected to remain strong.

Brazil and Latin America will continue to struggle in their own markets, but we expect a recovery in Argentina. The opening of Montevideo hotel will not have a material impact on this picture, although it will contribute to consolidate the Group's presence in that region.

Pestana Hotel Group will continue its organic growth, through the opening of new hotels as mentioned with our own equity or through partnerships with third party investors based mainly on lease agreements for the Group's different brands. Pestana Hotel Group will also continue to innovate to fulfill the needs of the different touristic demand segments and to optimize its shared services, including its digital plan.

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 interest rates, 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

Subsequent events

There are no relevant subsequent events to report.

7

Recognitions

The members of the Board of Directors want to express their thanks to all public and private entities that, directly or indirectly, have supported and worked together with the 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 this enough, we recognize the professionalism and sense of duty of the Group's employees. Their effort and dedication are vital ingredients for the ongoing success of the Pestana Hotel Group.

Luxembourg, 26 March 2018

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 statement of financial position

(Amounts express in Euros)

	Notes	31 December 2017	31 December 2016
Assets			
Non-current			
Tangible fixed assets	6	840.568.185	895.687.700
Intangible assets	7	12.114.786	11.993.238
Investment properties	8	8.420.704	7.709.982
Investment in joint ventures	9	18.156.297	5.067.351
Investment in associates	10	11.930.722	11.735.124
Available-for-sale financial assets	11	868.218	7.882.751
Deferred tax assets	12	33.037.831	31.602.618
Trade and other receivables	14	18.657.531	21.136.397
		943.754.274	**992.815.161**
Current			
Inventories	15	83.545.321	67.270.607
Trade and other receivables	14	62.103.339	60.649.267
Income tax receivable	16	2.378.273	1.843.090
Cash and cash equivalents	17	80.720.300	87.347.563
		228.747.233	**217.110.527**
Total assets		**1.172.501.507**	**1.209.925.688**
Equity			
Capital	18	207.336.573	207.336.573
Other reserves	19	(3.206.020)	(99.763)
Retained earnings	20	84.039.012	63.997.565
Profit for the period attributable to shareholders		55.310.788	24.458.921
Non-controlling interests	21	18.126.446	34.230.547
Total equity		**361.606.799**	**329.923.842**
Liabilities			
Non-current			
Provisions	22	8.583.100	10.653.392
Borrowings	23	354.050.520	375.293.238
Derivatives	24	1.926.455	2.928.884
Deferred tax liabilities	12	58.625.447	72.462.675
Deferred revenue	25	168.173.878	179.602.362
Trade and other payables	26	5.367.964	20.151.976
		596.727.364	661.092.527
Current			
Provisions	22	7.217.574	4.996.667
Borrowings	23	53.528.867	81.661.987
Deferred revenue	25	32.990.386	31.525.366
Trade and other payables	26	110.917.313	100.230.883
Income tax liabilities	16	9.513.204	494.416
		214.167.344	**218.909.319**
Total liabilities		**810.894.708**	**880.001.846**
Total equity and liabilities		**1.172.501.507**	**1.209.925.688**

The following notes form an integral part of the Consolidated statement of financial position as at 31 December 2017.

Consolidated income statement

(Amounts express in Euros)	Notes	Period 2017	Period 2016
Revenue	27;28	393.467.781	360.108.408
Cost of goods sold	15	(53.476.245)	(44.746.616)
External services and supplies	29	(125.019.703)	(122.339.814)
Personnel expenses	30	(88.838.010)	(88.387.816)
Charges of depreciation and amortization	6;7;8	(37.419.313)	(37.436.069)
Reversals and impairment losses of tangible assets	6;7	4.673.946	1.584.843
Impairment of receivables	14	(833.758)	(1.288.824)
Impairment of inventories	15	(106.589)	(99.031)
Provisions	22	(716.851)	(3.940.726)
Other income	31	15.590.483	16.990.155
Other expenses	32	(19.631.275)	(21.041.806)
Gains and losses on investments in subsidiaries, joint ventures, associates and available-for-sale financial assets	33	(9.101.110)	(2.044.413)
Operating profit		**78.589.356**	**57.358.291**
Financial expenses	34	(20.278.689)	(32.058.653)
Financial income	34	8.977.991	4.594.314
Profit before tax		**67.288.658**	**29.893.951**
Income tax	35	(7.256.943)	(1.195.869)
Profit for the period		**60.031.715**	**28.698.082**
Profit for the period attributable to:			
Shareholders of the group		55.310.788	24.458.921
Non-controlling interests		4.720.927	4.239.161
		60.031.715	**28.698.082**
Earnings per share		45.51	21.75
EBITDA		114.082.425	94.889.052
EBITDAR		130.151.912	110.257.586

The following notes form an integral part of the Consolidated income statement for the year ended 31 December 2017.

Consolidated statement of the comprehensive income

(Amounts express in Euros)		Period	
	Notes	2017	2016
Profit for the period		**60.031.715**	**28.698.082**
Items that recycled through profit and loss:			
Foreign currency translation differences	19;20;21	(12.708.699)	8.539.046
Change in fair value of hedging derivatives	24	899.395	2.658.003
Tax impact in items booked directly in equity	12	(232.789)	(555.046)
Other comprehensive income for the period - net of income tax		**(12.042.093)**	**10.642.003**
Total comprehensive income for the period		**47.989.622**	**39.340.085**
Comprehensive income attributable to:			
Shareholders of the group		43.268.695	35.100.924
Non-controlling interests		4.720.927	4.239.161
		47.989.622	**39.340.085**

The following notes form an integral part of the Consolidated statement of comprehensive income for the year ended 31 December 2017.

Consolidated statement of changes in equity

(Amounts express in Euros)	Attributable to shareholders						
	Share capital	Other Equity instruments	Other reserves	Retained earnings	Profit/ loss for the period	Non-controlling interests	Total
At 1 January 2017	166.625.238	40.711.335	(99.763)	63.997.565	24.458.921	34.230.547	329.923.842
Changes in the period							
Profit for the period application			3.438.893	21.020.028	(24.458.921)	–	–
Changes in the consolidation perimeter			6.549.800	–	–	(5.366.545)	1.183.255
Acquisition of Non-controlling interest			–	(4.471.813)	–	–	(4.471.813)
Transfers			(1.435.828)	4.265.203	–	(2.829.375)	–
Other changes recognized in equity			–	(408.685)	–	–	(408.685)
			8.552.865	20.404.733	(24.458.921)	(8.195.920)	(3.697.243)
Change in fair value reserve - hedging derivatives (net of tax)			659.942	–	–	6.664	666.606
Foreign currency translation differences			(12.319.065)	(363.286)	–	(26.348)	(12.708.699)
Profit for the period			–	–	55.310.788	4.720.927	60.031.715
Comprehensive income			(11.659.123)	(363.286)	55.310.788	4.701.243	47.989.622
			(3.106.258)	20.041.447	30.851.867	(3.494.677)	44.292.379
Transactions with shareholders in the period							
Capital increase	–	–	–	–	–	2.255.738	2.255.738
Capital decrease	–	–	–	–	–	–	–
Distributions	–	–	–	–	–	(14.865.161)	(14.865.161)
Reimbursement of equity instruments	–	–	–	–	–	–	–
	–	–	–	–	–	(12.609.423)	(12.609.423)
At 31 December 2017	166.625.238	40.711.335	(3.206.020)	84.039.012	55.310.788	18.126.446	361.606.799

Consolidated financial statment

(Amounts express in Euros)

	Attributable to shareholders						
	Share capital	Other Equity instruments	Other reserves	Retained earnings	Profit/ loss for the period	Non-controlling interests	Total
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							
Profit for the period application			2.407.046	12.690.630	(15.097.676)	–	–
Acquisition 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)
Change in fair value reserve - hedging derivatives (net of tax)			2.080.285	–	–	22.672	2.102.957
Foreign currency translation differences			10.777.699	(1.906.270)	–	(332.383)	8.539.046
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	–	–	–	–	–	–	–
Distributions	–	–	–	(2.000.000)	–	(2.276.197)	(4.276.197)
Reimbursement of equity instruments	–	–	–	–	–	–	–
	–	–	–	(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	34.230.547	329.923.842

The following notes form an integral part of the Consolidated statement of changes in equity for the year ended 31 December 2017.

Consolidated cash flow statement

(Amounts express in Euros)	Note	Period ended 31 December 2017	2016
Cash flow from operating activities			
Receipts from customers		376.753.603	355.805.444
Payments to suppliers		(169.539.790)	(172.424.319)
Payments to personnel		(87.092.842)	(88.135.389)
Cash generated from operations		120.120.971	95.245.736
Income tax paid		(4.714.787)	(10.670.390)
Other receipts / (payments)		(5.018.922)	(7.616.522)
Net cash flow from operating activities		**110.387.262**	**76.958.824**
Cash flow from investing activities			
Receipts related to:			
Tangible and intangible assets		8.604.175	55.349.681
Financial investments		11.025.821	1.860
Interest income and similar		745.108	561.331
Payments related to:			
Tangible and intangible assets		(53.666.139)	(58.544.226)
Financial investments		(8.482.394)	(7.980.676)
Net cash from investing activities		**(41.773.429)**	**(10.612.030)**
Cash flow from financing activities			
Receipts related to:			
Borrowings obtained		14.277.778	147.357.309
Other financing means		2.255.738	–
Payments related to:			
Borrowings obtained		(59.839.365)	(146.048.300)
Interest expenses and similar		(17.774.657)	(24.017.935)
Dividends		(12.600.395)	(4.276.197)
Other equity distributions		(1.264.766)	–
Net cash from financing activities		**(74.945.667)**	**(26.985.123)**
Changes in cash and cash equivalents		**(6.331.834)**	**39.361.671**
Effects of exchange differences		6.935.680	(15.306.397)
Cash and cash equivalents at beginning of the year	17	77.246.181	53.190.907
Cash and cash equivalents at end of the year	17	**77.850.027**	**77.246.181**

The following notes form an integral part of the Consolidated cash flow statement for the year ended 31 December 2017.

1. General information

Pestana International Holdings S.A. (in this document as "Pestana Hotel Group" or "Group"), 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 Hospitality business. The Group is led by its shareholder, Mr. Dionísio Pestana, son of the founder of the Group.

In the late 90's the Group started its 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 Hospitality business, with an operation focused on hotels, but complemented by other activities such as timeshare, residential tourism, golf and touristic entertainment. It also includes some investments in industry and services.

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

Through the promotion of two brands (Pestana and "Pousadas de Portugal") and the newly launched sub-brand "Pestana CR7", it currently operates 105 units of touristic lodging totaling approximately 10.921 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 56 hotels (16 in Madeira, 9 in Algarve, 5 in Lisbon/Cascais/Sintra, 2 in Oporto, 1 in Azores, 6 in Brazil, 1 in Venezuela, 1 in Argentina, 3 in Mozambique, 1 in South Africa, 1 in Cape Verde, 3 in São Tomé and Príncipe, 1 in Morocco, 1 in London, 1 in Berlin, 1 in Barcelona, 1 in the Netherlands, 1 in Miami and 1 in Cuba) and the management of the 33 "Pousadas de Portugal", 9 units of Vacation Club, 7 real estate / touristic ventures, 6 golf courses, 2 casino gambling concessions (one in Madeira and one in São Tomé and Príncipe), 1 travel agency and 1 company in the drinks industry.

Units	Location	Units	Location
Pestana Bahia Praia	Azores	Pestana Palms	Madeira
Pestana Algarve Race [a]	Algarve	Pestana Palms Vacation Club	Madeira
Pestana Algarve Race Apartments [a]	Algarve	Pestana Porto Santo	Madeira
Pestana Alto Golfe Resort	Algarve	Pestana Promenade	Madeira
Pestana Alvor Atlantico	Algarve	Pestana Promenade Vacation Club	Madeira
Pestana Alvor Beach Club	Algarve	Pestana Quinta dos Arcos [a] [d]	Madeira
Pestana Alvor Park [b]	Algarve	Pestana Pestana Royal [a] [c]	Madeira
Pestana Alvor Praia	Algarve	Pestana Village	Madeira
Pestana Alvor South Beach	Algarve	Pestana Village Vacation Club	Madeira
Pestana Dom João II [a]	Algarve	Pestana Palácio do Freixo [a]	Oporto
Pestana Dom João II Beach Club	Algarve	Pestana Vintage Porto	Oporto
Pestana Delfim [a]	Algarve	Pestana Beloura Golf Resort	Sintra
Pestana Gramacho Golf Resort	Algarve	Pestana Sintra Golf	Sintra
Pestana Gramacho Golf Residence	Algarve	Pestana Tróia Eco resort	Tróia
Pestana Palm Gardens [b]	Algarve	Pousadas de Portugal (Network) [a] [g]	Portugal
Pestana Silves Golfe Resort	Algarve	Pestana Buenos Aires	Argentina
Pestana Vale da Pinta Golf Resort	Algarve	Pestana Convento do Carmo [a]	Brazil
Pestana Viking [a]	Algarve	Pestana Bahia	Brazil
Pestana Viking Vacation Club	Algarve	Pestana Angra	Brazil
Pestana Vilasol Golf Resort [a]	Algarve	Pestana Curitiba	Brazil
Pestana Vilasol Hotel Resort [a]	Algarve	Pestana Rio Atlântica	Brazil
Pestana Cascais [a]	Cascais	Pestana São Paulo	Brazil
Pestana Cidadela Cascais [a]	Cascais	Residence Bahia Lodge [a]	Brazil
Pestana CR7 Lisboa	Lisbon	Pestana Trópico	Cape Verde
Pousada de Lisboa	Lisbon	Pestana Cayo Coco [a]	Cuba
Pestana Palace	Lisbon	Pestana Berlin Tiergarten	Germany
Casino da Madeira	Madeira	Pestana Casablanca [a]	Morocco
Centro Intern. Neg. Madeira	Madeira	Pestana Rovuma [a]	Mozambique
Madeira Magic	Madeira	Pestana Bazaruto [a]	Mozambique
Pestana Atlantic Gardens [a]	Madeira	Pestana Inhaca Lodge	Mozambique
Pestana Bay	Madeira	Residence Bazaruto Lodge [a]	Mozambique
Pestana Carlton Madeira [a]	Madeira	Pestana Amsterdam Riverside [f]	Netherlands
Pestana Casino Park Hotel	Madeira	Pestana São Tomé	São Tomé
Pestana Casino Studios [e]	Madeira	Miramar by Pestana	São Tomé
Pestana Colombos [a]	Madeira	Pestana Equador	São Tomé
Pestana CR7 Madeira [a]	Madeira	Casino São Tomé	São Tomé
Pestana Grand	Madeira	Vila Maria Residence	São Tomé
Pestana Grand Vacation Club	Madeira	Pestana Kruger Lodge	South Africa
Pestana Ilha Dourada [a]	Madeira	Pestana Arena Barcelona	Spain
Pestana Madeira Beach Club	Madeira	Pestana Miami	U.S.A.
Pestana Miramar	Madeira	Pestana Chelsea Bridge	United Kingdom
Pestana Miramar Vacation Club	Madeira	Pestana Caracas [b]	Venezuela

(a) Management/Leased contract
(b) Franchised
(c) Opened in May 2017
(d) Opened in July 2017
(e) Opened in November 2017
(f) Opened in January 2018
(g) Concession

These consolidated financial statements were approved by the Board of Directors on the meeting dated 26 March 2018. 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.

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

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

The consolidated financial statements are prepared by Pestana Hotel Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and effective as at 1 January 2017. IFRS include standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor Board. IFRS were adopted by the Group for the first time in the year ended 31 December 2010.

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

The consolidated financial statements have been prepared under historical cost convention, except for the derivative financial instruments, 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 amendments to the standards that became effective on 1 January 2017 is as follows:

— **IAS 7** (amendment), 'Cashflow statement – Disclosure initiative'. As presented in Note 42 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.

— **IAS 12** (amendment),'Income taxes – Recognition of deferred tax assets for unrealized losses'. 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. This amendment had no impact on 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:

— **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 adopt IFRS 9 in the period it becomes effective and no relevant impacts are expected to occur on the Group's Consolidated financial statements.

— **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 adopt IFRS 15 in the period it becomes effective and no relevant impacts are expected to occur on the Group's Consolidated financial statements.

— **Amendments to IFRS 15** 'Revenue from contracts with customers'. These amendments refer to additional guidance for determining the performance obligations in a contract, the timing of revenue recognition from a license of intellectual property, the review of the indicators for principal versus agent classification, and to new practical expedients to simplify transition. The Group will adopt this amendment in the period it becomes effective and no relevant impacts are expected to occur on the Group's Consolidated financial statements.

— **IFRS 16** (new), 'Leases' (effective for annual periods beginning on or after 1 January 2019). This new standard replaces the IAS 17 and according to it lessees 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 IFRS 16 in the period it becomes effective.

c) Standards (new and amendments) and interpretations that have been published and are mandatory for the accounting periods beginning on or after 1 January 2018, but are not yet endorsed by the European Union:

— **Annual Improvements 2014 - 2016**. The 2014-2016 annual improvements impacts: IFRS 1, IFRS 12 and IAS 28. These improvements will have no impact on the Consolidated financial statements.

— **IAS 28** (amendment), 'Long-term interests in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2019). The amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9, being subject to impairment expected credit loss model, prior to any impairment test of the investment as a whole. This amendment will have no impact on the Group's Consolidated financial statements.

— **IAS 40** (amendment), 'Transfers of Investment property'. 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. This amendment will have no impact on the Group's Consolidated financial statements.

— **IFRS 9** (amendment), 'Prepayment features with negative compensation' (effective for annual periods beginning on or after 1 January 2019). The amendment introduces the possibility to classify certain financial assets with negative compensation features at amortized cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss. This amendment will have no impact on the Group's Consolidated financial statements.

— **Annual Improvements 2015 - 2017**, (generally effective for annual periods beginning on or after 1 January 2019). The 2015-2017 annual improvements impact: IAS 23, IAS 12, IFRS 3 and IFRS 11. The Group will adopt these improvements in the periods they become effective.

— **IFRIC 22** (new), 'Foreign currency transactions and advance consideration'. An Interpretation of 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 IFRIC 22 in the period it becomes effective and no relevant impacts are expected to occur on the Group's Consolidated financial statements.

— **IFRIC 23** (new), 'Uncertainty over income tax treatment' (effective for annual periods beginning on or after 1 January 2019). This is an interpretation of IAS 12 - 'Income tax', referring to the measurement and recognition requirements to be applied when there is uncertainty as to the acceptance of an income tax treatment by the tax authorities. In the event of uncertainty as to the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities under IAS 12, and not under IAS 37 - "Provisions, contingent liabilities and contingent assets ", based on the expected value or the most probable value. The application of IFRIC 23 may be retrospective or retrospective modified. The Group will adopt IFRIC 23 in the period it becomes effective and no relevant impacts are expected to occur on the Group's Consolidated financial statements.

3. Main accounting policies

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

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. Unrealized losses are also eliminated, except if considered as an impairment indicator of the transferred asset.

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

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

Entities that qualify as Subsidiaries are listed in Notes 39.

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 39.

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

In the consolidated financial statements, investments in associates are measured by the equity method. Under this method, the financial statements include 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 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 39.

3.1.4. Available-for-sale financial assets

Available-for-sale financial assets 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.

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 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	31-12-2017	31-12-2016
ARS - Argentine Peso	21.0000	16.7064
BRL - Brazilian Real	3.9437	3.4305
CAD - Canadian Dollar	1.5047	1.4188
CHF - Swiss Franc	1.1701	1.0739
CVE - Cape Verde Escudo	110.2650	110.2650
DKK - Danish Krone	7.4449	7.4344
GBP - Pound Sterling	0.8875	0.8562
MAD - Moroccan Dirham	11.2096	10.6746
MZN - Metical	70.8400	75.3100
NOK - Norwegian Krone	9.8348	9.0863
SEK - Swedish Kronor	9.8387	9.5525
STD - Dobra	24.500.0000	24.500.0000
USD - US Dollar	1.1994	1.0541
UYU - Uruguayan Peso	34.3488	30.6000
VEF - Bolivar	3.977.8740	709.6058
ZAR - Rand	14.8140	14.4570

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	2017	2016
ARS - Argentine Peso	19.1031	16.4653
BRL - Brazilian Real	3.6049	3.8544
CVE - Cape Verde Escudo	110.2650	110.2650
GBP - Pound Sterling	0.8763	0.8198
MAD - Moroccan Dirham	10.9444	10.8488
MZN - Metical	71.4316	69.8169
STD - Dobra	24.500.0000	24.500.0000
USD - US Dollar	1.1288	1.1067
UYU - Uruguayan Peso	32.3546	33.3293
VEF - Bolivar	2.387.7360	500.8819
ZAR - Rand	15.0366	16.2508

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 and arranging timeshare contracts, added to buildings leased, are recognized as an expense over the lease term on the same basis as the lease income, as required by 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 Pestana Hotel Group.

Expenditures on research and developments 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	4 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 ordinary activity. On the date of transition to IFRS, Investment properties were valued at their revalued cost or the value carried from the previous standards. Subsequently, the Group continues to apply the cost model, which is applied to all assets classified as investment properties.

Properties that are still under construction or development and which are intended to be used as investment properties are also recorded under this caption.

Depreciation is calculated on a straight line basis, using estimated useful lives, which are similar to the ones applied to Tangible fixed assets.

3.6. 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 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 cash flows are identifiable (cash generating units).

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

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

3.7. Financial assets

The Board of Directors determines the classification of financial assets on the date of initial recognition, according to the purpose of its 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 2017 and 2016, the Group only has financial assets classified as Available-for-sale financial assets and Loans and receivables.

Purchases and sales of investments in financial assets are recorded at 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.

3.8. Fair value of assets and liabilities

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

In case there is no active market generally accepted valuation techniques 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.

3.9. 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 by the results, when indicators of impairment to reduce or cease to exist.

3.10. Inventories

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

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

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

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

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

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

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

3.11. Income tax

The income tax for the period comprises current tax and deferred tax. The income taxes are recorded in the consolidated income statement, except when they relate to items recognized directly in equity. The amount of current tax payable is determined based on profit before tax, adjusted in accordance with the applicable tax rules.

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.

3.12. 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. 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.

3.14. 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.

3.15. 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.

3.16. 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.

3.17. 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.

3.18. 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.

3.19. 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.

3.20. 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.

3.21. Revenue

Revenue is the fair value of the amount received or receivable on the sale of products and / or services in the ordinary course of business of 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) Hospitality

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

In this case, the revenue from the sale of the timeshare contract is deferred for the period of the contract on a straight line basis, once 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) Real estate

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, 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.).

3.22. 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 duration of the 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 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 exceed 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.

3.23. Subsequent events

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

4. Financial risk management policies

4.1. Financial risk factors

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 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 finance 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 2017 and 2016, would lead to an increase/(decrease) in Pestana Hotel Group's profit before tax as follows:

	Consolidated income statement			
	31-12-2017		31-12-2016	
	+10%	-10%	+10%	-10%
USD	2.184.485	(2.669.926)	3.214.258	(3.928.538)
GBP	1.806.018	(2.207.355)	1.995.472	(2.438.910)
	3.990.503	**(4.877.281)**	**5.209.730**	**(6.367.447)**

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.

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

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

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

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

	Bank deposits		Bank loans	
	2017	2016	2017	2016
Rating:				
Aa2	2.449.347	15.280.342	23.000.000	23.000.000
Aa3	414.326	483.085	41.137.447	43.849.806
A1	206.363	308.669	–	–
A3	13.483.081	8.670.226	12.734.880	12.237.209
Baa1	1.816.734	1.111.514	32.551.283	42.731.604
Baa2	7.488.446	870.573	5.000.000	–
Baa3	1.944.190	359.884	2.666.667	8.000.000
Ba1	20.543.005	16.669.221	107.621.161	95.901.675
Ba2	82.167	384.172	–	–
B1	12.325.401	13.250.469	60.352.181	72.739.103
B3	789.930	572.587	15.214.286	15.142.857
Caa2	14.930.673	22.983.972	59.562.552	80.670.409
No classification	2.374.618	4.958.816	48.870.963	64.244.873
	78.848.281	**85.903.530**	**408.711.420**	**458.517.536**

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's companies. The specific needs for 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 2017	Less than 1 year	Between 1 and 5 years	More than 5 years
Borrowings:	61.915.065	296.764.841	92.600.113
- bank loans	42.358.265	126.964.796	85.128.086
- bond loans	–	118.612.223	–
- commercial paper	5.944.444	26.833.333	–
- bank overdrafts	2.870.273	–	–
- undiscounted interests payable until maturity	10.742.083	24.354.489	7.472.027
Trade and other payables - non group	110.519.991	3.912.656	1.455.308
Derivatives financial instruments	928.042	816.424	6.176

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

iv. Interest rate risk

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

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

Sensitivity analysis of 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 2017 and 2016.

Considering Pestana Hotel Group's consolidated net debt as at 31 December 2017, an increase of 0,25% in the interest rate would result in the increase in net finance expenses for the year of approximately 820.000 Euros (31 December 2016: approximately 920.000 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 its sustainability in the long term, being sufficient to meet the debt service and compensate the capital invested by the Shareholder.

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

The gearing ratios as at 31 December 2017 and 2016 were as follows:

	31-12-2017	31-12-2016
Total Borrowings	407.579.387	456.955.225
Less: Cash and cash equivalents	80.720.300	87.347.563
Net debt	326.859.087	369.607.662
Equity	361.606.799	329.923.842
Total capital	688.465.885	699.531.504
Gearing	**47%**	**53%**

If we considered the deferred revenue from Pestana Vacation Club sales (Note 25) as a component of equity and not as liability, since they do not represent future cash payments, the gearing is as follows:

	31-12-2017	31-12-2016
Total Borrowings	407.579.387	456.955.225
Less: Cash and cash equivalents	80.720.300	87.347.563
Net debt	326.859.087	369.607.662
Equity adjusted	540.509.484	520.373.393
Total capital	867.368.571	889.981.055
Gearing	**38%**	**42%**

4.3. Accounting for derivative financial instruments

As at 31 December 2017 and 2016, 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 it is 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 it power over the investee ("de facto" control).

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

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

5.2. Tangible assets

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

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

5.3. 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 45 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 provision for income tax. For certain transactions the ultimate tax determination is uncertain, requiring judgement for the accounting or disclosure of the uncertain positions.

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

6. Tangible fixed assets

During the year ended as at 31 December 2017 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 2017								
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**
Changes in 2017								
Perimeter entries - acquisition cost	–	–	–	–	–	–	10.689.293	10.689.293
Perimeter exits - acquisition cost	(1.429)	(39.410.960)	(25.485)	(142)	(8.681)	–	–	(39.446.697)
Perimeter exits - accumulated depreciation	–	13.355.725	7.858	106	3.153	–	–	13.366.842
Changes in consolidation method - acquisition cost	–	–	–	–	–	–	(25.913.934)	(25.913.934)
Additions	255.675	15.555.129	9.196.198	473.150	498.097	935.914	28.592.236	55.506.399
Disposals – acquisition cost	–	(5.808.044)	–	–	–	(241.038)	(431.467)	(6.480.549)
Disposals – accumulated depreciation	–	242.211	–	–	–	241.038	–	483.249
Transfers and write-offs - acquisition cost	700.804	5.053.548	(527.361)	(380.929)	(540.856)	46.793	(7.455.710)	(3.103.711)
Transfers and write-offs - accumulated depreciation	–	(460.078)	2.014.449	365.403	516.335	37.054	–	2.473.163
Transfers and write-offs - accumulated impairment	–	479.142	–	–	39.651	–	–	518.793

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Other tangible assets	Assets under construction	Total
Transfers to inventories – acquisition cost	–	–	–	–	–	–	(15.711.977)	(15.711.977)
Transfers to inventories – accumulated impairment	–	–	–	–	–	–	321.600	321.600
Foreign currency translation - acquisition cost	(5.084.529)	(16.112.378)	(964.129)	(14.952)	(1.108.881)	23.754	(891.100)	(24.152.215)
Foreign currency translation - accumulated depreciation	–	4.917.826	517.387	17.361	1.010.365	(24.552)	–	6.438.387
Foreign currency translation - accumulated impairment	47.953	924.172	4.312	–	1.702	–	–	978.140
Depreciation	–	(24.562.023)	(9.670.656)	(199.632)	(701.952)	(625.981)	–	(35.760.244)
Impairment - increases	–	–	–	–	–	–	–	–
Impairment - reversals	425.627	4.227.641	19.692	–	964	22	–	4.673.946
	(3.655.900)	**(41.598.089)**	**572.270**	**260.367**	**1.369.443**	**393.001**	**(10.801.059)**	**(55.119.515)**
31 December 2017								
Acquisition cost	178.912.830	949.640.368	269.468.198	6.559.779	29.523.428	12.189.281	99.088.257	1.545.382.141
Accumulated depreciation	–	(452.158.401)	(190.148.308)	(5.716.575)	(28.138.756)	(9.595.827)	–	(685.757.867)
Accumulated impairment	(7.567.015)	(11.066.483)	(63.312)	–	(15.229)	–	(344.049)	(19.056.089)
Net book value	**171.345.815**	**486.415.483**	**79.256.578**	**843.204**	**1.369.443**	**2.593.454**	**98.744.208**	**840.568.185**

During the year ended as at 31 December 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
Disposals, transfers and write-offs - accumulated impairment	–	–	–	–	–	–	–	–
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)	–	–	–
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
	(4.384.117)	(9.375.810)	(2.683.450)	(114.237)	(507.557)	(484.041)	23.186.662	5.637.449
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

Changes in the consolidation perimeter

In 2017 changes in the consolidation perimeter are related to the inclusion in the consolidation perimeter of subsidiary Imóveis Brisa – F.I.I.F., and the sale of Inversiones Vistalparque, C.A. which owns Pestana Caracas Hotel to Quanlux, S.a.r.l. (Note 40).

Changes in the consolidation method – due to loss of control

In 2017, due to a change in Pestana Hotel Group's financial interest in Pestana CR7 Manhattan 39 LLC. (previously known as Pestana Manhattan 39 LLC.) this subsidiary was reclassified as a joint venture and, consequently, there was a reduction in the caption Assets under construction in the amount of 25.913.934 Euros (Note 40).

Additions excluding Assets under construction

Additions in 2017 refer mainly to the construction of Pestana Casino Studios and the renovation works in Pestana Royal Bay, both located in Madeira, for the amount of 3.521.000 Euros and 3.000.000 Euros, respectively, and the acquisition of the building known as "Cocheiras do Palácio Valle Flor", near Pestana Palace in Lisbon, in July 2017, for 5.400.000 Euros, leased up to that date.

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

The remaining additions as at 31 December 2017 and 2016 relate to refurbishment and renovations in hotels, Casino da Madeira and timeshare contracts acquisition costs (Note 3.3).

Disposals

In 2017, the reduction verified in the caption Buildings refers to the sale of Pestana Atlantic Gardens to Quanlux, S.a.r.l. for the amount of 5.350.000 Euros, with a capital gain of 340.458 Euros (Note 31), subsequently leased by Pestana Hotel Group. It also includes the sale of apartments from Pestana Alvor Atlântico, in Algarve, in the amount of 1.225.642 Euros, obtaining a gain in the amount of 832.429 Euros (Note 31).

In 2016, the reduction verified in the captions Land and Buildings and other constructions refers to the sale of Pestana Viking Hotel to a real estate investment fund for the amount of 17.900.000 Euros, obtaining a capital gain of 2.755.340 Euros (Note 31). Pestana Hotel Group leased the hotel keeping its management and paying a monthly rent for the effect (Note 29). 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 31). In 2016, the Group also 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.

Transfers

In 2017, Pestana Hotel Group decided to change the purpose for Silves and Tróia projects, where initially it was expected to be explored as aparthotels and now apartments are going to be built and sold. Therefore, in 2017, the amounts of 10.496.377 Euros and 4.894.000 Euros, respectively, were transferred to Inventories (Note 15) which includes the value of the corresponding land and incurred expenses such as grants, licenses and the study and development of the corresponding infrastructures.

Foreign currency translation

This caption in 2017 is mainly explained by i) the significant depreciation of the Brazilian Real against the Euro, decreasing the Brazilian fixed assets in the total net amount of 13.368.803 Euros (2016: increasing the Brazilian fixed assets in the total net amount of 26.439.140 Euros) and ii) the depreciation of the United States dollar against the Euro, decreasing American fixed assets in the total net amount of 2.469.527 Euros.

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

Impairment

The impairment tests carried out with reference to December 31, 2017 are supported by projections of future cash flows for 5 years for each one of the assets, based on budgets approved by the Board of Directors, incorporating the impact of replacement CAPEX and annual growth expectable for the EBITDA. The discounted rate used to update discounted cash flows reflects Pestana Hotel Group's WACC (Weighted Average Cost of Capital) for each of the different geographies where Pestana Hotel Group is present. In this way, the rates used reflect the best estimate of the specific risks and each cash generating unit presenting the following range of variation: Europe: 6% - 8%; Brazil: 14% - 16%; Africa: 12% - 19%.

In 2017, Pestana Hotel Group reversed all of the impairment losses booked against Silves and Gramacho/Pinta golf courses and adjacent club-houses in the amounts of 1.666.375 Euros and 370.824 Euros, respectively, both located in Algarve, as well as part of the impairment losses booked against Beloura golf course and adjacent club-house, located in Lisbon, in the amount of 1.118.159 Euros. It also reversed part of the impairment losses booked against Madeira Magic (Madeira) in the amount of 229.288 Euros and in Pestana Arena Barcelona in the amount of 1.278.620 Euros. These reversals came as a result of the significant improvement in the operational results generated by the exploration of these assets. Therefore, and considering the estimated future cash flows and the applicable discount rate, the recoverable amount of this asset is now higher than its net book value.

Sensitivity analyzes were performed on the valuation model, with the following assumptions: (i) in a pessimistic scenario with an increase in the WACC rate of 0.5% and simultaneously reductions in cash flows of 10%, as well as: (ii) in an optimistic scenario of maintaining the WACC rate and increasing cash flows by 10%, none of which has been considered by management as probable to occur. If we had used the assumptions under the pessimistic scenario accumulated impairment losses recognized as at 31 December 2017 would have increased by 1,1 million Euros.

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 previous years. Therefore, and considering the estimated future cash flows and the applicable discount rate at that date, the recoverable amount of this asset was 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 at that date than its net book value, having recognized an accumulated impairment of 2.060.573 Euros.

Assets under construction

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

	2017	2016
Pestana Amsterdam Project	40.258.174	27.328.993
Quinta da Amoreira Project (Algarve)	18.855.722	15.981.106
Pestana Dunas Project (Madeira)	10.689.293	–
Pestana New York East Project	5.876.609	–
Pestana Montevideo Project (Uruguay)	5.098.506	5.636.286
Gramacho Residence Project (Algarve)	3.875.847	–
Pestana Madrid Project in Plaza Mayor	2.262.187	763.015
North of Gramacho land (Algarve)	2.165.720	2.158.698
D. Fernando land (Algarve)	1.926.288	1.926.288
Lisbon downtown building	1.850.925	1.850.925
Project in Silves area (Algarve)	1.215.396	1.215.396
Golf course project (Algarve)	1.199.852	1.199.852
Silves golf course project (Algarve)	500.001	500.001
Praia Alvor - urban intervention plan (Algarve)	385.677	382.277
Vale da Pinta adjacent lands (Algarve)	354.900	354.900
Pestana Manhattan Project (Note 40)	–	25.913.934
Tróia Project (Note 15)	–	12.781.988
Hotel Silves Project (Algarve) (Note 15)	–	4.894.000
Madeira Beach Club	–	2.106.027
Alvor Beach Club (Algarve)	–	789.811
Pestana Royal Bay Project (Madeira)	–	500.000
Others	2.229.110	3.261.772
	98.744.208	**109.545.268**

Pestana Amsterdam project refers to "Pestana Amsterdam Riverside Hotel", a 5 star hotel with 154 rooms in the old Amstel Community Archive and Town Hall, considered a National Monument. It is located near the Albert Cuypmarkt market and it is the perfect place to visit one of Europe's most picturesque and exciting cities. It has a spa, including an indoor pool and sauna, a gym, 10 meeting rooms and a restaurant, perfect for enjoying the city's traditional gastronomy. The hotel opened in the beginning of 2018.

Quinta da Amoreira project refers to a 5-star hotel in Quinta da Amoreira, in Alvor, Algarve, which began construction in the last quarter of 2017, in a plot of land of 12,8 Ha situated between Pestana Alto Golfe and hotels Pestana Alvor Praia and Pestana Delfim with a direct connection to the sand of Three Brothers beach in Alvor. The hotel will be, we suppose, the first in Portugal to be built from scratch for the sophisticated all-inclusive 5-star market. This new unit will have 550 rooms and suites and will be developed in an area equivalent to 13 football fields, horizontally, in buildings with only one or two floors. In its interior it will only be possible to circulate on foot or in electric vehicles and the existing large trees will be preserved, namely, the "amoreira" it is named after. The hotel will have 7 restaurants and bars, 5 pools, spa, sports fields and animation activities for all ages.

Pestana Dunas project relates to a project for a new hotel in Porto Santo with a total of 396 beds. It is still in licensing stage. It is expected that the license will be granted in 2018 and that construction will begin in the following year.

The Pestana New York East project is a 96 room hotel distributed through 27 floors and on a privileged location in New York which is expected to begin to operate by 2020.

The Pestana Montevideo 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.

The Gramacho Residence project refers to a 4-star tourist resort by the Gramacho and Vale da Pinta golf resorts which was acquired in 2017 and which is being recovered and refurbished by the Group. It is a project that consists of 54 apartments and one villa which is expected to begin to operate in 2018.

Pestana Madrid project refers to the construction of a new 5 star hotel in the center of Madrid, namely in Plaza Mayor. 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.

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

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

Lisbon downtown building consists of a devolute building in downtown Lisbon, acquired in 2016, and which the Group is still assessing all available exploration options including urban leases.

The project in Silves area, Algarve, refers to a set of plots of land where the Group intends to develop a tourism project to focus on nature, 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 ha land surrounding Pestana Alvor Praia hotel and Pestana Delfim. Given its location, near Alvor beach, and aiming towards the diversification of services offered, the Group intends to construct a 9-hole golf course in the future.

Assets which are reversible to the State

Pestana Hotel Group recognizes in its financial statements assets related with gambling activities and with the concession of the network of Pousadas de Portugal, which are reversible to the State at the end of the respective concessions without the right to any consideration. The net value of these assets as at 2017 is 8.310.285 Euros (31 December 2016: 8.249.071 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is lower.

Tangible fixed assets acquired through financial leasing

In the year ended 31 December 2017 and 2016, the net book value of Tangible fixed assets acquired through financial leasing was as follows:

	2017	2016
Acquisition cost	9.112.027	34.934.294
Accumulated depreciation	(2.916.767)	(2.528.761)
	6.195.260	**32.405.533**

The change verified in 2017 refers, essentially, to the change in consolidation perimeter related to the loss of control over Pestana CR7 Manhattan 39 LLC. (Note 40) which corresponds to a decrease in Acquisition cost in the amount of 25.913.934 Euros.

7. Intangible assets

During the year ended as at 31 December 2017 the movements occurred in Intangible assets are as follows:

	Software	Concessions	Website	Total
1 January 2017				
Acquisition cost	1.797.991	21.640.503	1.240.990	24.679.485
Accumulated amortization	(1.259.215)	(10.173.688)	(591.985)	(12.024.888)
Accumulated impairment	–	(634.423)	(26.936)	(661.359)
Net book value	538.776	10.832.392	622.070	11.993.238
Changes in 2017				
Additions	478.875	–	303.436	782.311
Transfers, disposals and write-offs - acquisition cost	113.268	–	(259.714)	(146.446)
Transfers, disposals and write-offs - accumulated amortization	(30.563)	–	16.163	(14.400)
Transfers, disposals and write-offs - accumulated impairment	–	–	26.936	26.936
Perimeter entries - acquisition cost (Note 40)	–	1.030.000	–	1.030.000
Foreign currency translation - acquisition cost	12.133	(727)	17	11.423
Foreign currency translation - accumulated amortization	(11.426)	723	(17)	(10.720)
Amortization	(256.846)	(1.185.839)	(114.869)	(1.557.554)
Impairment - charge	–	–	–	–
Impairment - reversal	–	–	–	–
	305.441	(155.843)	(28.050)	121.548
31 December 2017				
Acquisition cost	2.402.267	22.669.776	1.284.729	26.356.772
Accumulated amortization	(1.558.051)	(11.358.804)	(690.708)	(13.607.563)
Accumulated impairment	–	(634.423)	–	(634.423)
Net book value	844.217	10.676.549	594.020	12.114.786

During the year ended as at 31 December 2016 the movements occurred in Intangible assets are as follows:

	Software	Concessions	Website	Total
1 January 2016				
Acquisition cost	1.957.796	21.639.361	858.150	24.455.307
Accumulated amortization	(1.216.906)	(8.849.332)	(468.557)	(10.534.795)
Accumulated impairment	–	(634.423)	-	(634.423)
Net book value	**740.890**	**12.155.606**	**389.593**	**13.286.089**
Changes in 2016				
Additions	89.037	–	390.140	479.177
Disposals and write-offs - acquisition cost	(154.401)	–	–	(154.401)
Disposals and write-offs - accumulated amortization	154.401	(206.070)	–	(51.669)
Foreign currency translation - acquisition cost	(94.441)	1.142	(7.299)	(100.598)
Foreign currency translation - accumulated amortization	71.248	(1.120)	1.586	71.714
Foreign currency translation - accumulated impairment	–	–	1.196	1.196
Amortization	(267.958)	(1.117.166)	(125.014)	(1.510.138)
Impairment - charge	–	–	(28.132)	(28.132)
Impairment - reversal	–	–	–	–
	(202.114)	**(1.323.214)**	**232.477**	**(1.292.851)**
31 December 2016				
Acquisition cost	1.797.991	21.640.503	1.240.990	24.679.485
Accumulated amortization	(1.259.215)	(10.173.688)	(591.985)	(12.024.888)
Accumulated impairment	–	(634.423)	(26.936)	(661.359)
Net book value	**538.776**	**10.832.392**	**622.070**	**11.993.238**

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 Pestana Palácio do Freixo in Oporto operates since October 2010.
- The concession right of “Cidadela de Cascais”, for a period of 70 years, through a contract signed in 26 November 2009 with Fortaleza de Cascais, E.M., where Pestana Cidadela de Cascais operates since March 2012.

— The surface right for three warehouse lots in the Parque Empresarial da Zona Oeste, for 25 years, celebrated on 27 March 2006 with Madeira Parques Empresariais, S.A. where the Madeira brewery operates since March 2011.

8. Investment properties

During the year ended as at 2017 and 2016, the movements occurred in Investment properties are as follows:

	2017	2016
1 January		
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**
Changes in the period		
Additions	–	69.593
Transfers and write-offs - acquisition cost	(476.314)	(657.289)
Transfers and write-offs - accumulated depreciation	48.601	143.860
Transfers and write-offs - accumulated impairment	–	245.006
Changes in perimeter (Note 40)	1.239.950	–
Depreciation	(101.515)	(102.339)
Impairment - charge	–	–
Impairment - reversal	–	–
	710.722	**(301.169)**
31 December		
Acquisition cost	11.584.907	10.821.271
Accumulated depreciation	(2.731.469)	(2.678.555)
Accumulated impairment	(432.734)	(432.734)
Net book value	**8.420.704**	**7.709.982**

As at 31 December 2017 and 2016 Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2017	2016
Commercial properties leased to third parties, Algarve	3.067.221	3.067.221
Funchal land, Madeira	1.269.455	1.269.455
São Vicente properties, Azores (perimeter entry) (Note 40)	1.239.950	–
S. Gonçalo houses, Madeira	755.019	1.182.731
Angra dos Reis land, Brazil	962.902	962.902
Others	1.126.158	1.227.673
	8.420.704	**7.709.982**

As at 31 December 2017 and 2016, the fair value of each one of the assets classified as Investment properties is not less than its carrying amount.

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

	2017	2016
Rents received	221.407	172.657
Operational costs	(24.241)	(24.241)
Depreciation	(101.515)	(102.339)
	95.651	**46.077**

9. Investments in joint ventures

The movements occurred in Investments in joint ventures during 2017 and 2016 are as follows:

	2017	2016
1 January	5.067.351	–
Perimeter changes (Note 40)	8.270.663	–
Acquisitions	4.530.000	5.249.788
Gains / (losses) from equity accounting (Note 33)	288.283	(182.437)
31 December	**18.156.297**	**5.067.351**

In March 2017, Pestana CR7 Manhattan 39 LLC., previously known as Pestana Manhattan 39 LLC., a company which will build and explore a hotel located on West 39th Street in New York, had an increase in share capital in the amount of 9.500.000 USD by CRS Holding S.á.r.l., an independent and unrelated company, representing 49% of Pestana CR7 Manhattan 39 LLC.'s share capital. As a result of this transaction, Pestana CR7 Manhattan 39 LLC. entered into the Framework Joint Venture Agreement signed between Pestana Hotel Group and Cristiano Ronaldo and, therefore, was converted from a subsidiary to a joint venture and valued by the correspondent fair value (the amount of the sale).

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 owned in 50% by Pestana Hotel Group 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 2017, the Group also acquired shares corresponding to 30% of URP – Urban Renew Promoção Imobiliária, S.A.'s equity in the amount of 570.000 Euros as well as accessory contributions in the amount of 750.000 Euros and loans granted in the amount of 3.210.000 Euros.

In June 2016, the Group acquired a share, corresponding to 50% of Solpor – Soc. Turismo 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 33).

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

		Acquisition cost			Accessory contributions			Loans granted			
Entity	% Owned	Equity method	Impairment loss	Total	Investment amount (Note 41)	Impairment loss	Total	Investment amount (Note 41)	Impairment loss	Total	Total investment
Pestana CR7 Manhattan 39 LLC	51,00%	8.222.712	–	8.222.712	–	–	–	–	–	–	8.222.712
URP - Urban Renew Promoção Imobiliária, S.A.	30,00%	570.000	–	570.000	750.000	–	750.000	3.210.000	–	3.210.000	4.530.000
Solpor – Soc. Turismo Porto Santo Lda.	50,00%	2.671.341	–	2.671.341	–	–	–	–	–	–	2.671.341
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	50,00%	1.879.219	–	1.879.219	–	–	–	–	–	–	1.879.219
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	50,00%	853.025	–	853.025	–	–	–	–	–	–	853.025
		14.196.297	–	14.196.297	750.000	–	750.000	3.210.000	–	3.210.000	18.156.297

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

		Acquisition cost			
Entity	% Owned	Equity method	Impairment loss	Total	Total investment
Solpor – Soc. Turismo Porto Santo Lda.	50,00%	2.672.365	–	2.672.365	2.672.365
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	50,00%	1.596.391	–	1.596.391	1.596.391
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	50,00%	798.595	–	798.595	798.595
		5.067.351	–	5.067.351	5.067.351

The summary of financial statements from these joint ventures is presented in Note 39.

As at 31 December 2017 and 2016, Investments in joint ventures do not include any goodwill.

10. Investments in associates

The movements occurred in Investments in associates during 2017 and 2016 are as follows:

	2017	2016
1 January	11.735.124	11.345.137
Perimeter changes	(298.426)	–
Gains from equity accounting (Note 33)	494.024	389.987
31 December	**11.930.722**	**11.735.124**

The 2017 and 2016 profit of equity accounting mainly regards to Enatur – Empresa Nacional de Turismo, S.A. (Note 33).

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

		Acquisition cost			Loans granted				
Entity	% Owned	Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total (Note 41)	Total investment	Goodwill included
Enatur - Empresa Nacional Turismo, S.A.	49,00%	10.444.105	-	10.444.105	1.190.593	-	1.190.593	11.634.698	3.837.382
Albar - Sociedade Imobiliária do Barlavento, S.A.	49,81%	296.024	-	296.024	-	-	-	296.024	-
Soehotur, S.A.	25,00%	596.403	596.403	-	172.521	172.521	-	-	-
Fantasy Land, Ltd.	33,33%	150.068	150.068	-	-	-	-	-	-
		11.486.600	**746.471**	**10.740.129**	**1.363.114**	**172.521**	**1.190.593**	**11.930.722**	**3.837.382**

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

		Acquisition cost			Loans granted				
Entity	% Owned	Equity method	Impairment loss	Total	Investment amount	Impairment loss	Total (Note 41)	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 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	-
Soehotur, 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**

The summary of financial statements from these associates is presented in Note 39.

11. Available-for-sale financial assets

The movements occurred in Available-for-sale financial assets during 2017 and 2016 are as follows:

	2017	2016
1 January	7.882.751	9.479.548
Perimeter changes (Note 40)	(6.886.224)	-
Acquisitions	-	2.500
Loans granted / (Repaid)	-	247.500
Disposals	(128.429)	(1.876)
Impairment losses	-	(1.844.800)
Foreign currency translation	120	(120)
31 December	**868.218**	**7.882.751**

In 2017, Perimeter changes relates to Imóveis Brisa - F.I.I.F. that entered the consolidation perimeter (Note 40).

The impairment losses in 2016 are related to Imóveis Brisa - F.I.I.F. due to the market value decrease occurred.

In 2017 and 2016 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 2017 Available-for-sale financial assets have the following detail:

		Acquisition cost			Loans granted			
Entity	% Owned	Investment value	Impairment loss	Total	Investment value	Impairment loss	Total	Total investment
Other available-for-sale financial assets	n.a.	1.120.668	613.445	507.223	360.995	-	360.995	868.218
		1.120.668	**613.445**	**507.223**	**360.995**	**-**	**360.995**	**868.218**

As at 31 December 2016 Available-for-sale financial assets have the following detail:

		Acquisition cost			Loans granted			
Entity	% Owned	Investment value	Impairment loss	Total	Investment value	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 available-for-sale financial assets	n.a.	711.170	328.516	382.654	257.975	-	257.975	640.629
		10.049.651	**2.424.875**	**7.624.776**	**257.975**	**-**	**257.975**	**7.882.751**

12. Deferred tax assets and liabilities

As at 31 December 2017 and 2016, the balance recognized as Deferred taxes is presented in Consolidated statement of financial position at gross value.

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

	2017	2016
Impact on income statement		
Deferred tax assets	4.439.284	1.958.529
Deferred tax liabilities	1.585.999	3.402.822
	6.025.283	5.361.351
Impact on perimeter changes		
Deferred tax assets	–	–
Deferred tax liabilities	8.853.354	–
	8.853.354	–
Impact on equity		
Deferred tax assets	(232.789)	(555.046)
Deferred tax liabilities	–	–
	(232.789)	(555.046)
Net impact of deferred taxes	**14.645.848**	**4.806.305**

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

	Carry forward tax losses	Impairment losses on tangible fixed assets	Provisions - litigations in progress	Loyalty program (PPG)	Changes in fair value	Impairment losses on trade receivables	Hedging reserves	Impairment losses on inventories	Others	Total
1 January 2017	18.805.042	4.324.193	3.462.028	613.649	473.772	301.548	441.487	614.320	2.566.580	31.602.619
Reversal through equity	–	–	–	–	–	–	(232.789)	–	–	(232.789)
Reversal through income statement	(1.138.409)	(636.463)	(331.571)	–	(120.545)	(79.275)	(46.890)	(569.867)	(132.045)	(3.055.064)
Constitution through income statement	6.485.656	–	215.099	166.710	–	103.621	108.130	153	414.978	7.494.348
Utilizations	(640.562)	–	–	–	–	–	–	–	–	(648.435)
Foreign currency translation	(1.270.462)	(394.052)	(422.411)	–	–	(17.024)	–	–	(26.771)	(2.130.721)
Changes on period	**3.436.223**	**(1.030.515)**	**(538.883)**	**166.710**	**(120.545)**	**7.322**	**(171.549)**	**(569.714)**	**256.162**	**1.435.212**
31 December 2017	**22.241.265**	**3.293.678**	**2.923.145**	**780.359**	**353.227**	**308.870**	**269.938**	**44.606**	**2.822.742**	**33.037.831**

Deferred tax assets on Carry forward tax losses are mainly related to Brazil, country in which tax losses do not expire, and Luxembourg, where tax losses incurred until 31 December 2016 also do not expire.

Foreign currency translation in 2017 mainly refer to the significant depreciation of the Brazilian Real against the Euro, decreasing the Brazilian Deferred tax assets in the total net amount of 1.994.991 Euros (Note 3.2. iv).

	Carry forward tax losses	Impairment losses on tangible fixed assets	Provisions - litigations in progress	Loyalty program (PPG)	Changes in fair value	Impairment losses on trade receivables	Hedging reserves	Impairment losses on inventories	Others	Total
1 January 2016	15.008.262	4.075.202	831.391	569.234	81.266	206.744	993.739	459.319	4.293.656	26.518.813
Reversal through equity	–	–	–	–	–	–	(555.046)	–	–	(555.046)
Reversal through income statement	–	(402.825)	(2.520)	–	–	(36.503)	–	(575)	(2.507.818)	(2.950.241)
Constitution through income statement	1.475.302	423.040	2.154.277	44.414	392.506	118.949	2.794	14.040	283.448	4.908.770
Transfers	–	(405.821)	(725.677)	–	–	1.276	–	141.536	988.686	-
Foreign currency translation	2.321.478	634.597	1.204.557	–	–	11.082	–	–	(491.392)	3.680.322
Changes on period	**3.796.780**	**248.991**	**2.630.637**	**44.414**	**392.506**	**94.804**	**(552.252)**	**155.001**	**(1.727.076)**	**5.083.805**
31 December 2016	**18.805.042**	**4.324.193**	**3.462.028**	**613.649**	**473.772**	**301.548**	**441.487**	**614.320**	**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.

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

	Deemed cost (IFRS 1)	Others	Total
1 January 2017	69.563.995	2.898.680	72.462.675
Perimeter changes (Note 40)	(8.853.354)	–	(8.853.354)
Constitution through income statement	–	1.922.997	1.922.997
Reversal through income statement	(2.251.861)	(1.257.135)	(3.508.996)
Foreign currency translation	(3.331.395)	(66.480)	(3.397.875)
Changes on period	**(14.436.610)**	**599.382**	**(13.837.228)**
31 December 2017	**55.127.385**	**3.498.062**	**58.625.447**

Foreign currency translation mainly refer to the significant variance of the Brazilian Real against the Euro, decreasing the Brazilian Deferred tax liabilities in the total net amount of 3.318.177 Euros (2016: 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 1.139.076 Euros) (Note 3.2 iii).

	Deemed cost (IFRS 1)	Others	Total
1 January 2016	67.389.273	1.978.881	69.368.154
Constitution through income statement	–	1.015.016	1.015.016
Reversal through income statement	(4.178.554)	(239.284)	(4.417.838)
Foreign currency translation	4.216.767	144.067	4.360.834
Transfers	2.136.509	–	2.136.509
Changes on period	**2.174.722**	**919.799**	**3.094.521**
31 December 2016	**69.563.995**	**2.898.680**	**72.462.675**

13. 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:

	Cash and receivables	Available-for-sale financial assets	Liabilities at fair value	Other financial liabilities	Non-financial assets/ liabilities	Total
31 December 2017						
Financial assets						
Cash and cash equivalents	80.720.300	-	-	-	-	80.720.300
Trade and other receivables	48.405.681	-	-	-	32.355.190	80.760.871
Available-for-sale financial assets	-	868.218	-	-	-	868.218
	129.125.981	**868.218**	**-**	**-**	**32.355.190**	**162.349.389**
Financial liabilities						
Borrowings	-	-	-	407.579.387	-	407.579.387
Derivatives	-	-	1.926.455	-	-	1.926.455
Trade and other payables	-	-	-	59.781.190	56.504.087	116.285.277
	-	**-**	**1.926.455**	**467.360.577**	**56.504.087**	**525.791.119**
31 December 2016						
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	-	7.882.751	-	-	-	7.882.751
	135.321.964	**7.882.751**	**-**	**-**	**33.811.263**	**177.015.978**
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**	**580.266.967**

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 3.8, and are as follows:

	31 December 2017			31 December 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Derivatives	-	-	-	-	-	-
Available-for-sale financial assets	-	-	868.218	-	7.242.122	640.629
	-	**-**	**868.218**	**-**	**7.242.122**	**640.629**
Financial liabilities						
Derivatives	-	1.926.455	-	-	2.928.884	-
	-	**1.926.455**	**-**	**-**	**2.928.884**	**-**

14. Trade and other receivables

As at 2017 and 2016, Trade and other receivables are detailed as follows:

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables (i)	32.660.055	-	32.660.055	31.701.042	-	31.701.042
Other receivables (ii)	13.077.239	594.773	13.672.012	14.293.265	1.114.432	15.407.697
Prepayments (iii)	7.549.989	18.059.460	25.609.449	8.066.651	20.021.965	28.088.616
Accrued income	2.070.315	3.298	2.073.613	865.662	-	865.662
Taxes receivable (iv)	6.745.741	-	6.745.741	5.722.647	-	5.722.647
	62.103.339	**18.657.531**	**80.760.870**	**60.649.267**	**21.136.397**	**81.785.664**

Trade and other receivables as at 31 December 2017 of subsidiaries which entered the consolidation perimeter amount to 68.823 Euros (at the date of entry: 216.180 Euros) (Note 40).

Trade and other receivables of the subsidiary which exited the consolidation perimeter, at the date of exit, amounts to 688.065 Euros. As at 31 December 2016, the corresponding Trade and other receivables amounted to 388.010 Euros.

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

i) Trade receivables

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables - group (Note 41)	1.451.857	–	1.451.857	5.182.632	–	5.182.632
Trade receivables - other	31.208.198	–	31.208.198	26.518.410	–	26.518.410
Doubtful debtors	14.955.356	–	14.955.356	16.705.267	–	16.705.267
	47.615.411	–	47.615.411	48.406.309	–	48.406.309
Impairment of trade receivables	(14.955.356)	–	(14.955.356)	(16.705.267)	–	(16.705.267)
	32.660.055	**–**	**32.660.055**	**31.701.042**	**–**	**31.701.042**

In 2016, Trade receivables – group includes the amount of 3.965.000 Euros related with the sub concession agreement for the private use of dominion infrastructures implemented on Praça do Mar (Madeira) to be paid by Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A..

Impairment of Trade receivables – movements of the year:

	2017	2016
1 January	16.705.267	15.110.423
Changes in the perimeter	92.148	–
Increases	1.205.447	1.708.297
Reversals	(371.689)	(422.887)
Utilizations	(2.458.824)	(65.946)
Transfers - Other receivables	(68.993)	375.380
Foreign currency translation	(148.000)	–
31 December	**14.955.356**	**16.705.267**

ii) Other receivables

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Other debtors - group (Note 41)	198.204	-	198.204	342.543	–	342.543
Other debtors	13.260.685	594.773	13.855.458	14.250.070	1.114.432	15.364.502
Impairment	(381.650)	-	(381.650)	(299.348)	–	(299.348)
	13.077.239	**594.773**	**13.672.012**	**14.293.265**	**1.114.432**	**15.407.697**

Impairment of Other receivables - movements of the year:

	2017	2016
1 January	299.348	671.604
Changes in the perimeter	13.839	–
Increases	–	3.414
Utilizations	–	(290)
Transfers - Trade receivables	68.993	(375.380)
Foreign currency translation	(530)	291
31 December	**381.650**	**299.348**

The ageing of balances without impairment is as follows:

	2017	2016
0 to 6 months	32.445.941	32.349.114
6 to 12 months	4.567.018	10.149.907
12 to 18 months	5.013.682	1.861.634
18 to 24 months	2.022.516	1.527.014
More than 24 months	2.232.171	1.162.730
	46.281.328	**47.050.399**

The ageing of overdue balances with impairment is as follows:

	2017	2016
0 to 6 months	1.584.761	1.680.233
6 to 12 months	56.462	114.146
12 to 18 months	849.623	1.376.029
18 to 24 months	552.034	5.264.560
More than 24 months	12.294.126	8.569.647
	15.337.006	**17.004.615**

iii) Prepayments

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Commissions	2.745.620	17.655.568	20.401.188	3.309.672	19.940.447	23.250.119
Rentals	2.178.462	-	2.178.462	1.765.902	-	1.765.902
Insurance	278.279	-	278.279	191.848	-	191.848
Maintenance services	821.816	-	821.816	579.034	-	579.034
Other services	1.525.812	403.892	1.929.704	2.220.195	81.518	2.301.713
	7.549.989	**18.059.460**	**25.609.449**	**8.066.651**	**20.021.965**	**28.088.616**

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

iv) Taxes receivable

As at 2017 and 2016 this caption is mainly related to VAT receivable.

15. Inventories

As at 31 December 2017 and 2016 Inventories are detailed as follows:

	2017	2016
Work in progress	74.930.741	30.701.886
Goods	5.413.117	5.024.158
Raw and subsidiary materials	3.013.409	3.244.182
Finished goods	2.039.908	30.239.607
	85.397.175	69.209.833
Impairment of inventories	(1.851.854)	(1.939.226)
	83.545.321	**67.270.607**

Inventories as at 31 December 2017 of subsidiaries which entered the consolidation perimeter amount to 359.750 Euros (at the date of entry: 359.750 Euros) (Note 40).

Inventories of the subsidiary which exited the consolidation perimeter, at the date of exit, amount to 124.130 Euros. As at 31 December 2016, the corresponding Inventories amounted to 388.010 Euros.

Work in progress and Finished goods are as follows:

	2017	2016
Tróia Project (Tróia)	40.916.054	30.239.607
Silves turistic Project (Algarve)	8.894.264	3.227.985
Vila Maria Villas (São Tome and Principe)	8.360.561	8.619.656
North of Gramacho Land (Algarve)	7.788.994	7.904.681
Abrunheira Project (Portalegre)	6.291.949	6.291.949
Bazaruto Villas (Mozambique)	1.144.609	885.024
Vale da Pinta Land (Algarve)	968.997	1.783.941
Beverages and packaging	661.633	707.856
Porto Santo Land (Madeira)	423.360	–
S. Martinho Land (Madeira)	359.750	–
Flats (Algarve)	272.163	372.956
Others	888.315	907.838
	76.970.649	**60.941.493**

The Tróia project is mainly related to the construction of houses and the infrastructures of a touristic village. The change occurred in 2017 is related to construction developments as well as the transfer of a plot of land from tangible fixed assets in the amount of 10.496.377 Euros (Note 6) resulting from the change in the use to be given to Plot 1 where initially an aparthotel was to be constructed and explored and now apartments are to be built and sold.

The Silves touristic project is associated to a touristic project which includes two 4 star touristic resorts with 232 accommodation units. The change occurred in 2017 relates to the construction developments as well as the transfer from tangible fixed assets in the amount of 4.894.000 Euros (Note 6) resulting from the change in use to be given to the project where initially an aparthotel was to be constructed and explored and now apartments are to be built and sold.

Vila Maria Villas are 29 villas in a luxury condominium located in São Tomé & Príncipe, 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.

The Abrunheira project is related to a development project in a land with an area of approximately 450 ha, which will be composed by a set of 13 touristic undertaking, divided in 10 tourist villages, 2 touristic apartments with houses, 1 apart-hotel as well as 32 plots of equipment, infrastructures and framing and leisure spaces which includes a golf course, club house, equestrian center and other framed in the region's typical environment where there will be typical fauna and flora and some streams and lagoons.

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

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.

The 2017 Cost of goods sold amounted to 53.476.245 Euros (31 December 2016: 44.746.616 Euros).

Impairment of Inventories – movements of the year:

	2017	2016
1 January	1.939.226	1.902.334
Increases	122.827	136.710
Reversals	(16.238)	(37.679)
Utilizations	(193.817)	(62.139)
Foreign currency translation	(144)	–
31 December	**1.851.854**	**1.939.226**

16. Corporate income tax

The balances of Corporate income tax for the years ended 31 December 2017 and 2016 are as follows:

	31-12-2017		31-12-2016	
	Assets	Liabilities	Assets	Liabilities
Current income tax	2.378.273	9.513.204	1.843.090	494.416
	2.378.273	**9.513.204**	**1.843.090**	**494.416**

Corporate income tax as at 31 December 2017 of subsidiaries which entered the consolidation perimeter amount to 12.461 Euros (at the date of entry: 9.886 Euros) (Note 40).

Corporate income tax of the subsidiary which exited the consolidation perimeter, at the date of exit, amounts to 7.823 Euros. As at 31 December 2016, the corresponding Corporate income tax amounted to 42.776 Euros.

The balance of Current income tax is detailed as follows:

	2017	2016
Advance payments	2.199.465	7.586.064
Withholding taxes	178.808	166.062
Current income tax estimate	(9.513.204)	(6.403.451)
	(7.134.931)	**1.348.674**

17. Cash and cash equivalents

The breakdown of Cash and cash equivalents is as follows:

	31-12-2017	31-12-2016
Cash	1.872.019	1.444.033
Bank deposits	78.848.281	85.903.530
	80.720.300	**87.347.563**

Cash and cash equivalents as at 31 December 2017 of subsidiaries which entered the consolidation perimeter amount to 1.317.870 Euros (at the date of entry: 1.280.618 Euros) (Note 40).

Cash and cash equivalents of the subsidiary which exited the consolidation perimeter, at the date of exit, amounts to 531.930 Euros. As at 31 December 2016, the corresponding Cash and cash equivalents amounted to 569.552 Euros.

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 2017 and 2016 is as follows:

	31-12-2017	31-12-2016
Cash	1.872.019	1.444.033
Bank overdrafts	(2.870.273)	(10.101.381)
Bank deposits	78.848.281	85.903.530
	77.850.027	**77.246.181**

Balances in foreign currency are included in Bank deposits and are mainly composed by 8.749.955 USD and 4.263.610 GBP (31 December 2016: 4.596.525 USD and 2.406.100 GBP).

18. Capital

As at 31 December 2017 and 2016 Capital is as follows:

	2017	2016
Share capital (i)	166.625.238	166.625.238
Other equity instruments (ii): Other capital contributions not remunerated nor with reimbursement date	40.711.335	40.711.335
	207.336.573	**207.336.573**

(i) Share capital

As at 31 December 2017 and 2016, 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 2017 and 2016 is as follows:

Shareholders	Number of shares	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.

19. Other reserves

Other reserves had the following movements during the periods ended 31 December 2017 and 2016:

	Legal reserve (i)	Free reserves	Fair value reserve C.F.H. (ii)	Fair value reserve A.F.S. (iii)	Equity method (iv)	Cumulative translation adjustments (v)	Total
1 January 2016	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
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
Transfer to and from Retained earnings (Note 20)	–	–	(1.349.345)	–	452.399	(29.383)	(926.329)
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)**
Changes in the perimeter (Note 40)	19.107	–	–	–	–	–	19.107
Profit for the period application	3.438.893	–	–	–	–	–	3.438.893
Foreign currency translation	–	–	–	–	–	(12.319.065)	(12.319.065)
Change in fair value reserve - hedging derivatives net of tax	–	–	659.942	–	–	–	659.942
Transfers to Net income (Note 40)	–	–	–	–	–	6.530.693	6.530.693
Transfers to and from Retained earnings (Note 20)	(156.446)	(2.100.400)	(30.717)	29.276	828.123	(5.617)	(1.435.828)
31 December 2017	**22.893.303**	**–**	**5.453.481**	**–**	**(7.434.984)**	**(24.117.774)**	**(3.206.020)**

(i) Legal reserve

In accordance with the applicable commercial law in several countries where Pestana Hotel Group operates, a specific percentage of net profit 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 24). This reserve also includes the deferred tax impact related to the changes in fair value that are not tax deductible, at the reporting date.

(iii) Fair value reserve A.F.S. (Available for sale investments)

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.

(iv) Equity method

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

(v) Cumulative 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) and recognized under this caption. The accumulated currency translations adjustments are detailed as follows as at 31 December 2017 and 2016:

	2017	2016
BRL – Brazilian Real	(11.932.744)	(3.461.566)
MZN - Mozambican Metical	(7.228.057)	(7.270.712)
ARS - Argentinian Peso	(6.443.186)	(5.657.365)
USD - US Dollar	(1.045.695)	1.464.288
UYU - Uruguayan Peso	(415.435)	2.029
VEF - Venezuelan Bolivar	–	(6.493.442)
ZAR - South African Rand	612.360	621.134
GBP - Pound sterling	2.423.146	2.450.465
Others	(88.163)	21.383
	(24.117.774)	**(18.323.786)**

Due to the sale of Inversiones Vistalparque, C.A., in November 2017, all cumulative translation adjustments related with the Venezuelan Bolivar were taken into account to calculate the capital loss generated (Note 40).

20. Retained earnings

As at 31 December 2017 and 2016, Retained earnings movements were as follows:

	Total
1 January 2016	**56.962.853**
Profit for the period application	12.690.630
Acquisitions of shares owned by Non-controlling interests (i)	(1.993.252)
Transfers from Non-controlling interest of the shares acquired (Note 21) (ii)	(1.314.818)
Foreign currency translation	(1.906.270)
Transfers to and from Other reserves (Note 19)	926.329
Dividends (Note 36)	(2.000.000)
Others	632.094
31 December 2016	**63.997.565**
Profit for the period application	21.020.028
Acquisitions of shares owned by Non-controlling interests (i)	(4.471.813)
Transfers from Non-controlling interest of the shares acquired (Note 21) (ii)	2.829.379
Foreign currency translation	(363.286)
Transfers to and from Other reserves (Note 19)	1.435.824
Others	(408.685)
31 December 2017	**84.039.012**

(i) Acquisitions of shares owned by Non-controlling interest

During 2017, Pestana Hotel Group acquired 37,5% of the share capital of SDM, S.A. and the remaining 0,99% of Salvor, S.A. for the amount of 2.658.150 Euros and 1.552.958 Euros, respectively.

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.

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

As a result of the transactions which happened in 2017 the corresponding Non-controlling interests were transferred to Retained earnings in the amount of 2.829.379 Euros (Note 21).

As a result from the three transactions in 2016 previously described the corresponding Non-controlling interests were transferred to Retained earnings in the amount of 1.314.818 Euros (Note 21).

21. Non–controlling interests

As at 31 December 2017 and 2016, Non-controlling interests' movements were as follows:

	2017	2016
1 January	**34.230.547**	**31.634.653**
Changes in the perimeter (Note 40)	(311.797)	–
Change in fair value reserve - hedging derivatives net of tax	6.664	22.672
Capital increases	2.255.738	–
Dividends (Note 36)	(13.600.395)	(2.276.197)
Transfers to Retained earnings of the shares acquired (Note 20)	(2.829.375)	1.314.818
Reimbursement of Supplementary capital	(1.264.766)	–
Transfers to Net income (Note 40)	(5.054.748)	–
Foreign currency translation	(26.348)	(332.383)
Profit for the period	4.720.927	4.239.162
Others	–	(372.178)
31 December	**18.126.446**	**34.230.547**

Dividends were distributed by the subsidiary SDM – Sociedade de Desenvolvimento da Madeira, S.A. (in 2017, Dividends were distributed before Pestana Hotel Group acquired 37,5% of the share capital of this subsidiary).

Due to the sale of Inversiones Vistalparque, C.A., in November 2017, all Non-controlling interests related with this company were taken into account to calculate the capital loss generated (Note 40).

Non-controlling interests relate to the following investments:

	31-12-2017		31-12-2016	
	% held	Value	% held	Value
Pestana S.G.P.S. Sub-group (Portugal) (i)	n.a.	11.978.327	n.a.	12.949.942
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (ii)	52.27%	5.205.460	85.00%	15.944.155
Hoteis do Atlântico Sub-group (Europe) (i)	n.a.	745.618	n.a.	688.973
Pestana Inversiones Sub-group (Latin America) (i)	n.a.	120.784	n.a.	5.175.490
Salvintur Sub-group (Africa) (i)	n.a.	76.257	n.a.	(528.013)
		18.126.446		**34.230.547**

(i) Not disclosed because it relates to a subgroup aggregation. Corresponding financial information is disclosed in Note 39.

(ii) SDM's financial information as at 31 December 2017 and 2016 is as follows:

	SDM, S.A.	
	2017	2016
Assets		
Non current	4.226.918	4.431.906
Current	12.794.228	18.830.255
	17.021.146	23.262.161
Liabilities		
Non current	26.747	35.535
Current	6.892.676	3.632.042
	6.919.423	3.667.577
Equity	10.101.723	19.594.585
Year's Ativity		
Revenue	11.046.785	10.018.702
Expenses	(8.043.339)	(6.774.699)
Net income	3.003.446	3.244.003
Owned %	52.27%	85.00%
	1.569.901	**2.757.403**

22. Provisions

As at 31 December 2017 and 2016, the movements in Provisions were as follows:

	Litigations and claims in progress (i)	Customer guarantees (ii)	Other provisions (iii)	Total
1 January 2017	14.797.311	143.797	708.951	15.650.059
Increases	476.259	72.366	950.000	1.498.625
Decreases	(707.921)	-	(73.853)	(781.774)
Utilizations	(285.482)	-	(68.247)	(353.729)
Interest charges (Note 34)	1.113.291	-	-	1.113.291
Foreign currency translation (iv)	(1.450.741)	-	143.768	(1.306.973)
Perimeter changes	-	-	(18.825)	(18.825)
Changes on period	(854.594)	72.366	932.843	150.615
31 December 2017	**13.942.717**	**216.163**	**1.641.794**	**15.800.674**
Current balance	5.963.570	87.147	1.166.857	7.217.574
Non-current balance	7.979.147	129.016	474.937	8.583.100
	13.942.717	**216.163**	**1.641.794**	**15.800.674**

	Litigations 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
Decreases	(57.239)	(30.000)	(87.500)	(174.739)
Utilizations	–	–	(60.866)	(60.866)
Interest charges (Note 34)	1.496.506	–	–	1.496.506
Foreign currency translation (iv)	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	516.583	4.996.667
Non-current balance	10.369.156	114.889	192.367	10.653.392
	14.797.311	**143.797**	**708.951**	**15.650.059**

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 development occurred in the process, Pestana Hotel Group recognized a provision in the total amount of 2.755.052 Euros.

In 2017, as a result of the Administrative Supreme Court's (ASC) judgement on 08-02-2017, an exceptional Review appeal was admitted. However, by dispatch on 22-11-2017 the ASC suspended its judgement, while it waits for a decision on a trial which is ongoing in the Administrative South Central Court because it considered that this proceeding includes matters which are prejudicial for Pestana Hotel Group. This decision reduces some of the risk for an unfavorable decision on the ASC's part since in this proceeding there is an opinion from the Public Ministry which is favorable to Pestana Hotel Group's intents.

(ii) Customer guarantees

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

(iii) Other provisions

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

However, also in 2017, Carvoeiro Golfe, S.A. was notified that the process 324/14.0TELSB-AZ was being instated and was requested to post a bank guarantee in the amount of 950.000 Euros in favor of the Portuguese state. The Public Ministry was of the understanding that there was substantiated reason to consider that the money delivered by the promissory buyer at the time of the celebration of the promissory sale contract came from illicit sources.

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

As at 31 December 2017 and 2016, the remaining Other provisions result from ordinary and inherent business risks.

(iv) Foreign currency translation

Mainly refer to the variance of the Brazilian Real against the Euro (Note 3.2. iii).

23. Borrowings

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

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	42.358.265	212.092.882	254.451.147	53.713.176	240.950.394	294.663.570
Bond loans	-	118.612.223	118.612.223	5.112.018	120.140.567	125.252.585
Commercial paper	5.944.444	26.833.333	32.777.777	10.000.000	18.500.000	28.500.000
Bank overdrafts	2.870.273	–	2.870.273	10.101.381	–	10.101.381
	51.172.982	357.538.438	408.711.420	78.926.575	379.590.961	458.517.536
Interests payable - accrual	2.589.831	157.689	2.747.519	2.972.786	157.689	3.130.475
Interests paid- deferral	(233.946)	(3.645.607)	(3.879.552)	(237.374)	(4.455.412)	(4.692.786)
	53.528.867	**354.050.520**	**407.579.387**	**81.661.987**	**375.293.238**	**456.955.225**

Borrowings as at 31 December 2017 of subsidiaries which entered the consolidation perimeter amount to 699.043 Euros (at the date of entry: 641.385 Euros) (Note 40).

Borrowings of the subsidiary which exited the consolidation perimeter, at the date of exit, amounts to 3.442 Euros. As at 31 December 2016, the corresponding Borrowings amounted to 22.506 Euros.

Bank loans have as collateral the mortgage over some assets, which are booked as tangible fixed assets (Note 37).

Borrowings engaged by the group companies include, in some cases, clauses that require specific covenants to be accomplished such as: i) the maintenance of the subsidiaries share capital inside the group; and ii) the maintenance of ratios related to the capital structure and others. As at 31 December 2017, 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 2017 and 2016 are as follows:

	2018	2019	2020	2021	2022	Following years	Total
Bank loans							
Euro	40.690.073	43.481.772	24.192.150	20.880.241	30.968.334	58.476.263	218.688.833
British pound	1.309.859	1.309.859	1.309.859	1.309.859	1.309.859	13.316.901	19.866.197
American dollar	358.333	374.211	389.302	408.042	426.122	13.940.107	15.896.116
	42.358.265	45.165.842	25.891.311	22.598.142	32.704.315	85.733.271	254.451.147
Bond loans							
Euro	–	–	65.000.000	27.500.000	15.000.000	–	107.500.000
American dollar	–	11.112.223	–	–	–	–	11.112.223
	–	11.112.223	65.000.000	27.500.000	15.000.000	–	118.612.223
Commercial paper							
Euro	5.944.444	1.444.444	2.944.444	444.444	444.444	21.555.556	32.777.777
	5.944.444	1.444.444	2.944.444	444.444	444.444	21.555.556	32.777.777
	48.302.709	57.722.509	93.835.756	50.542.586	48.148.760	107.288.827	405.841.147

	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	41.885.237	40.881.043	25.782.039	22.211.544	110.190.528	294.663.570
Bond loans							
Euro	–	–	–	65.000.000	27.500.000	15.000.000	107.500.000
American dollar	5.112.018	–	12.640.567	–	–	–	17.752.585
	5.112.018	–	12.640.567	65.000.000	27.500.000	15.000.000	125.252.585
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
	68.825.194	43.774.126	54.966.055	93.726.482	60.155.990	126.968.306	448.416.155

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

In November 2014, Pestana Hotel Group entered into a paying service contract with BPI bank for the issuing of 6.500 bonds by private subscription, represented by transferable securities in book-entry form and bearer with a nominal value of 10.000 Euros, amounting to 65.000.000 Euros called “Grupo Pestana 2014/2020”. This operation was issued and placed in the same month, the registering entity of which is the Centralized System Securities, managed by Interbolsa.

In 2014, Pestana Hotel Group obtained another Bond loan in the amount of 30.000.000 USD that will be paid in 2019.

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

In December 2015, Pestana Hotel Group entered into a paying service contract with BCP bank for the issuing of 2.750 bonds by private subscription, represented by transferable securities in book-entry form and bearer with a nominal value of 10.000 Euros, amounting to 27.500.000 Euros 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.

Pestana Hotel Group submitted to the bondholders an offer in order to repurchase the bonds before the scheduled repayment date. As a result, an amount of 5.385.000 USD was repaid in February 2017. In July 2015 an amount of 11.287.000 USD was repaid. The outstanding balance will be paid until 2019.

In 2017, Pestana Hotel Group contracted a new line of commercial paper in the amount of 30.000.000 Euros (2016: 23.500.000 Euros). These lines are subject to the Euribor interest rate plus spread.

Pestana Hotel Group holds, as at 31 December 2017, a set of unused contracted credit lines in Financial Institutions with a total amount of 89.800.000 Euros related to authorized credit lines and overdrafts.

24. Derivatives

As at 31 December 2017 and 2016, Pestana Hotel Group has interest rate swaps (hedging derivatives) as follows:

	31-12-2017		31-12-2016	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – non-current	–	1.926.455	–	2.928.884
Interest rate swaps – current	–	–	–	–
	–	1.926.455	–	2.928.884

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

Subsidiary	Classification IAS 39	Initial reference value	Maturity	Payment period	Fees receivable/ payable	Fair value 31-12-2017	Fair value 31-12-2016	Variation
Hotel Rauchstrasse 22, S.à.r.l. (i)	Trading	11.500.000	16-06-2025	Semiannual	Eur 6M / 2,10%	(676.050)	(916.214)	240.164
ITI Soc.Inves. Tur. Ilha Madeira, S.A. (ii)	Proportion hedge	7.000.000	26-09-2022	Semiannual	Eur 6M / 4,82%	(383.157)	(559.234)	176.077
Pestana International Holdings S.A.	Hedge	17.921.875	28-05-2024	Quartely	GBP Libor 3M / 1,20%	(181.151)	–	(181.151)
Grupo Pestana S.G.P.S., S.A.	Hedge	10.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	(124.999)	(256.155)	131.156
Grupo Pestana S.G.P.S., S.A.	Hedge	10.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	(123.124)	(253.933)	130.809
Beloura, S.A.	Hedge	9.600.000	30-12-2019	Semiannual	Eur 6M / 4,77%	(65.788)	(174.531)	108.743
Salvor, S.A.	Hedge	5.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	(62.500)	(128.490)	65.991
Carlton Palácio, S.A.	Hedge	5.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	(62.500)	(128.078)	65.578
M & J Pestana, S.A.	Hedge	5.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	(62.500)	(128.078)	65.578
Carlton Palácio, S.A.	Hedge	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	(61.562)	(126.967)	65.405
M & J Pestana, S.A.	Hedge	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	(61.562)	(126.966)	65.404
Salvor, S.A.	Hedge	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	(61.562)	(126.966)	65.404
M & J Pestana, S.A.	Hedge	8.750.000	02-07-2017	Semiannual	Eur 6M / 0,88%	–	(3.145)	3.145
Intervisa Viagens Turismo, S.A.	Hedge	500.000	22-06-2015	Quartely	Eur 3M / 4,16%	–	(127)	127
						(1.926.455)	**(2.928.884)**	**1.002.429**

(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 34).

(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 34).

The change in the fair value of the derivatives financial instruments occurred in 2017 and 2016 were as follows:

	2017	2016
1 January	2.928.884	5.613.205
Hedging derivatives - fair value changes	(892.855)	(1.377.133)
Trading derivatives - fair value changes (Note 34)	(106.303)	42.155
Settlement (Note 34)	(3.272)	(1.349.344)
31 December	**1.926.455**	**2.928.884**

The changes in the fair value reserve related to cash flow hedges in 2017 and 2016 were as follows:

	2017	2016
1 January	4.824.256	4.093.316
Hedging derivatives - fair value changes	862.014	2.635.331
Deferred tax (Note 12)	(232.789)	(555.046)
Settlement (Note 34)	-	(1.349.344)
31 December	**5.453.481**	**4.824.256**

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 13).

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.

25. Deferred revenue

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

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Pestana Vacations Club (i)	18.448.426	122.352.193	140.800.619	19.085.305	134.599.692	153.684.997
Pestana Vacations Club – Options / Pestana Holiday Club (ii)	3.525.896	35.129.292	38.655.188	3.097.632	33.666.922	36.764.555
Government grants (iii)	669.544	7.674.535	8.344.079	565.219	8.259.856	8.825.075
Customer loyalty program (PPG) (iv)	3.547.864	-	3.547.864	2.880.472	-	2.880.472
Other deferred income (v)	6.798.656	3.017.858	9.816.514	5.896.739	3.075.893	8.972.631
	32.990.386	168.173.878	201.164.264	31.525.366	179.602.362	211.127.729

Deferred revenue as at 31 December 2017 of subsidiaries which entered the consolidation perimeter amount to 3.000 Euros (at the date of entry: 3.000 Euros) (Note 40).

(i) Pestana Vacations Club

This balance refers to values obtained from the sale of Pestana Vacations Club 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 3.21 ii)), which will end between 2018 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 points that give him 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 redemption 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 redeems the points to purchase a product / service, as agreed in the loyalty program, or when the points expire.

(v) Other deferred income

This caption refers, mainly, to the amount invoiced to Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A. relating to the sub concession agreement for the private use of the dominion infrastructure of Praça do Mar in Funchal, Madeira, for the period of 28 years.

26. Trade and other payables

As at 31 December 2017 and 2016, the detail of Trade and other payables is as follows:

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Trade payables						
Suppliers (i)	30.540.901	–	30.540.901	23.835.140	–	23.835.140
Other payables						
Other payables	3.768.913	608.895	4.377.808	2.968.387	–	2.968.387
Suppliers of property, plant and equipment (ii)	5.705.421	4.759.069	10.464.490	5.149.497	20.151.976	25.301.473
Advances from customers (iii)	36.529.852	–	36.529.852	34.266.526	–	34.266.526
Taxes payable (iv)	5.346.227	-	5.346.227	6.646.088	–	6.646.088
Accrued expenses						
Holiday and subsidy pay	14.628.009	–	14.628.009	13.206.118	–	13.206.118
Others	14.397.990	–	14.397.990	14.159.127	–	14.159.127
	110.917.313	5.367.964	116.285.277	100.230.883	20.151.976	120.382.859

Trade and other payables as at 31 December 2017 of subsidiaries which entered the consolidation perimeter amount to 126.760 Euros (at the date of entry: 7.005.926 Euros) (Note 40).

Trade and other payables of the subsidiary which exited the consolidation perimeter, at the date of exit, amounts to 893.225 Euros. As at 31 December 2016, the corresponding Trade and other payables amounted to 1.271.091 Euros.

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

(i) Suppliers

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Suppliers - group (Note 41)	397.323	–	397.323	29.711	–	29.711
Other suppliers	30.143.578	–	30.143.578	23.805.429	–	23.805.429
	30.540.901	–	30.540.901	23.835.140	–	23.835.140

(ii) Suppliers of property, plant and equipment

As at 31 December 2016, this balance includes an amount of 16.971.078 Euros regarding the net present value of the 99 year ground lease contract negotiated by the subsidiary Pestana Manhattan 39 LLC, 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. In 2017, due to a change in Pestana Hotel Group's financial interest in Pestana CR7 Manhattan 39 LLC. (Note 40) this subsidiary was reclassified as a joint venture, explaining the majority of the variance occured.

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

	31-12-2017	31-12-2016
Less than 1 year	942.034	1.740.588
Between 1 and 5 years	3.303.761	7.596.393
More than 5 years	1.455.308	12.555.583
	5.701.102	21.892.564

The change verified in 2017 is due to a change in Pestana Hotel Group's financial interest in Pestana CR7 Manhattan 39 LLC. (Note 40), consequently, this subsidiary was classified as a joint venture and as a result of that there was a reduction in leasing contracts in the amount of 16.971.078 Euros.

(iii) Advances from customers

Mainly refers to the amounts received along the construction works, amounting in total to 25.447.939 Euros (31 December 2016: 25.268.571 Euros) and maintenance fees charged in advance under timeshare contracts amounting to 6.137.312 Euros (31 December 2016: 5.406.271 Euros).

The residual amount in 31 December 2017 and 2016 are mainly related to reservations made by tour operators.

(iv) Taxes payable

	31-12-2017			31-12-2016		
	Current	Non-current	Total	Current	Non-current	Total
Personnel income tax withheld	1.106.882	–	1.106.882	950.100	–	950.100
Value added tax	2.293.510	–	2.293.510	3.414.380	–	3.414.380
Social security contributions	1.631.274	–	1.631.274	1.603.109	–	1.603.109
Others	314.561	–	314.561	678.499	–	678.499
	5.346.227	–	5.346.227	6.646.088	–	6.646.088

27. Revenue

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

	2017	2016
Hospitality business	260.934.640	241.965.231
Vacation club	32.622.889	37.795.664
Real estate	32.118.151	18.771.075
Beverages (industry)	28.039.616	25.512.610
Golf	13.402.423	11.490.803
Entertainment	10.504.609	10.021.493
Other	15.845.452	14.551.532
	393.467.781	360.108.408

Revenue in 2017 concerning subsidiaries which entered the consolidation perimeter amounted to 19.042 Euros (Note 40).

Revenue in 2017 concerning subsidiaries which exited the consolidation perimeter amounted to 4.874.243 Euros (Note 40), with Revenue in 2016 in the amount of 3.680.237 Euros.

The caption Real estate includes construction contracts (Note 28).

The 2017 and 2016 detail of sales and services rendered in Hospitality business and Vacation club by country of origin related to the number of customer are as follows:

	Hospitality business	
Country	2017	2016
Portugal	24,8%	22,7%
United Kingdom	20,2%	20,6%
Germany	10,3%	10,1%
Brazil	7,6%	10,3%
United States	4,8%	3,8%
France	4,3%	4,2%
Spain	3,3%	3,2%
Switzerland	2,0%	1,8%
Netherlands	1,8%	1,8%
Sweden	1,4%	1,4%
Belgium	1,4%	1,4%
Ireland	1,3%	1,3%
Italy	1,2%	1,2%
Denmark	1,1%	1,0%
Norway	1,0%	0,8%
Others	13,3%	14,4%
	100%	100%

	Vacation club	
Country	2017	2016
United Kingdom	46,1%	44,6%
Brazil	15,9%	20,8%
Portugal	10,7%	8,5%
Germany	8,4%	7,5%
Finland	6,1%	6,1%
Sweden	2,6%	2,6%
Others	10,3%	10,0%
	100%	100%

28. Construction contracts

As at 31 December 2017 and 2016, 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 2017	Costs incurred 2016	Revenue recognized 2017	Revenue recognized 2016
Construction contracts	6.191.914	4.100.149	6.681.535	4.637.871
	6.191.914	**4.100.149**	**6.681.535**	**4.637.871**

29. External services and supplies

The detail of External services and supplies is as follows:

	2017	2016
Hospitality business	22.754.437	21.401.782
Vacation club	21.355.670	20.437.698
Real estate	17.268.835	15.499.337
Beverages (industry)	15.058.501	14.692.138
Golf	14.151.091	15.895.154
Entertainment	8.670.567	8.731.649
Vacation club	7.341.713	5.655.755
Real estate	7.161.101	5.936.525
Beverages (industry)	2.408.695	2.872.168
Entertainment	1.453.510	1.441.696
Other	7.395.583	9.775.914
	125.019.703	**122.339.814**

External services and supplies in 2017 concerning subsidiaries which entered the consolidation perimeter amounted to 229.008 Euros (Note 40).

External services and supplies in 2017 concerning subsidiaries which exited the consolidation perimeter amounted to 756.121 Euros (Note 40), with External services and supplies in 2016 in the amount of 1.095.936 Euros.

Costs incurred with Rents as at 31 December 2017 contain 13.314.874 Euros related to operational leases and 2.976.020 Euros related to concessions (2016: 12.547.095 Euros and 2.994.096 Euros, respectively).

The 2017 consolidated audit fees were 344.092 Euros, other assurance service fees were 3.000 Euros and other service fees were 3.000 Euros.

30. Personnel expenses

The detail of Personnel expenses is as follows:

	2017	2016
Board of directors (including subsidiaries)		
Wages and salaries	2.631.720	2.243.150
Social security contributions	480.394	596.845
	3.112.114	**3.460.996**
Staff		
Wages and salaries	67.538.427	65.375.456
Social security contributions	14.159.895	13.708.750
Others	4.027.574	5.842.614
	85.725.896	**84.926.821**
	88.838.010	**88.387.816**

Personnel expenses in 2017 concerning subsidiaries which entered the consolidation perimeter amounted to 119.319 Euros (Note 40).

Personnel expenses in 2017 concerning subsidiaries which exited the consolidation perimeter amounted to 798.021 Euros (Note 40), with Personnel expenses in 2016 in the amount of 711.750 Euros.

The average number of employees of Pestana Hotel Group in 2017 was 4.353 (2016: 4.691). The average number of managers and directors of Pestana Hotel Group in 2017 was 43.

Staff – others includes non-recurring expenses with mutual agreement compensations for termination of employment contracts amounting to 1.037.930 Euros (2016: 3.050.807 Euros).

31. Other income

The detail of Other income is as follows:

	2017	2016
Foreign currency exchange gains	3.938.304	3.564.770
Supplementary income	6.251.262	3.662.827
Government grants (Note 25)	593.288	613.421
Gains on disposal of tangible fixed assets (Note 6)	2.279.927	7.019.528
Others	2.527.702	2.129.610
	15.590.483	**16.990.155**

Other income in 2017 concerning subsidiaries which entered the consolidation perimeter amounted to 254.493 Euros (Note 40).

Other income in 2017 concerning subsidiaries which exited the consolidation perimeter amounted to 22.261 Euros (Note 40), with Other income in 2016 in the amount of 96.458 Euros.

In 2017, Gains on disposal of tangible fixed assets are mainly related to the disposal of apartments from Pestana Alvor Atlântico with gains in the amount of 832.429 Euros and to the disposal of Pestana Atlantic Gardens to Quanlux, S.a.r.l. with a gain in the amount of 340.458 (Note 6).

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).

32. Other expenses

The detail of Other expenses is as follows:

	2017	2016
Taxes	8.924.591	9.316.279
Commissions of credit cards	2.456.088	2.218.263
Foreign currency exchange losses	3.951.867	5.629.683
Losses on inventories	1.048.920	1.029.956
Others	3.249.809	2.847.625
	19.631.275	**21.041.806**

Other expenses in 2017 concerning subsidiaries which entered the consolidation perimeter amounted to 10.714 Euros (Note 40).

Other expenses in 2017 concerning subsidiaries which exited the consolidation perimeter amounted to 1.358.304 Euros (Note 40), with Other expenses in 2016 in the amount of 807.074 Euros.

As at 31 December 2017 Taxes includes 4.054.099 Euros of property taxes (2016: 3.500.287 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.

The change occurred in Others relates mainly to the donation given by Pestana Hotel Group to the Nature Conservation and Forest Institute, IP-RAM, in the amount of 557.254 Euros, destined exclusively to environmental purposes, namely, to the creation of a fire cut strip on the edge of the city of Funchal.

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

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

	2017	2016
Disposal of Inversiones Vistalparque, C.A. (Note 40)	(10.030.237)	–
Gains/(losses) from equity method in joint ventures (Note 9):		
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	282.828	(102.691)
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	54.430	(76.405)
Pestana CR7 Manhattan 39 LLC.	47.951	–
Solpor, Lda.	(1.024)	(3.341)
Gains/(losses) from equity method in associates (Note 10):		
Enatur - Empresa Nacional de Turismo, S.A.	769.488	444.619
Albar - Sociedade Imobiliária do Barlavento, S.A.	(278.250)	(6.791)
SDEM - Soc. de Desenv. Empr. da Madeira, S.G.P.S., S.A.	–	(47.842)
Impairment loss - Imóveis Brisa - F.I.I.F. (Note 11)	–	(1.781.814)
Impairment loss on the Goodwill of Solpor, Lda. (Note 9)	–	(487.635)
Available-for-sale financial assets (Note 11)	–	(62.986)
Others	53.704	80.474
	(9.101.110)	**(2.044.413)**

34. Financial expenses and income

The detail of Financial expenses and income is as follows:

	2017	2016
Finance expenses		
Interest expenses	13.779.151	16.421.053
Commissions and guarantee fees	2.339.920	2.820.528
Foreign currency exchange losses	1.575.445	8.303.821
Interest rate swaps	1.289.731	1.648.776
Provisions - Interest charges (Note 22)	1.113.291	1.496.506
Derivatives fair value	177.880	18.625
Derivatives - Settlement	3.272	1.349.344
	20.278.689	**32.058.653**
Finance income		
Foreign currency exchange gains	7.166.022	3.962.945
Interest income	464.298	406.473
Derivatives fair value	284.183	60.780
Interest rate swaps	23.576	11.583
Others	1.039.912	152.532
	8.977.991	**4.594.314**

Finance expenses in 2017 concerning subsidiaries which entered the consolidation perimeter amounted to 26.399 Euros (Note 40).

Finance expenses in 2017 concerning subsidiaries which exited the consolidation perimeter amounted to 21.007 Euros (Note 40), with Finance expenses in 2016 in the amount of 23.029 Euros.

Finance income in 2017 concerning subsidiaries which entered the consolidation perimeter amounted to 35.630 Euros (Note 40).

Finance income in 2017 concerning subsidiaries which exited the consolidation perimeter amounted to 215.822 Euros (Note 40), with Finance income in 2016 in the amount of 67.000 Euros.

As at 31 December 2017 foreign currency exchange gains are mainly related to bank and bond loans negotiated in US Dollars and British Pounds which depreciated during the year (Note 3.2 iv). As at 31 December 2016, foreign exchange losses and gains are mainly related with bank and bond loans negotiated in US Dollars and British Pounds and which were partially reimbursed during the year.

Derivatives fair value refers to the ineffective portion of cash flow hedging of derivative financial instruments designated as hedging (Note 24) and trading.

35. Income tax

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

	2017	2016
Current income tax:		
Current period income tax	(14.204.135)	(6.403.451)
Adjustments in respect of prior years	921.909	(153.769)
	(13.282.226)	**(6.557.220)**
Deferred income tax (Note 12):		
Origin and reversal of temporary differences	6.025.283	5.361.351
	6.025.283	**5.361.351**
	(7.256.943)	**(1.195.869)**

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:

	2017	2016
Profit before tax	**67.288.658**	**29.893.951**
Tax calculated at domestic tax rates applicable to profits in the respective countries	14.130.618	6.730.409
Tax effects of:		
Differences of tax rates on income and deferred taxes	(9.194)	-
Income not subject to tax	(3.530.585)	(3.729.253)
Expenses not deductible for tax purposes	3.705.526	2.917.217
Tax losses which did not generate deferred tax assets	-	1.826.592
Deferred tax on tax losses	(5.997.323)	-
Utilization of tax losses	(1.170.695)	(6.515.755)
Adjustments in respect of prior years	(921.909)	(153.769)
Other taxation	1.050.504	120.428
	7.256.943	**1.195.869**

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

	2017	2016
Argentina	35%	35%
Brazil	34%	34%
Cape Verde	25%	25%
Germany	29,35%	29,72%
Luxembourg	27,08%	27,08%
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%	25%
United Kingdom	19%	20%
United States	40%	40%
Uruguay	25%	25%
Venezuela	34%	34%

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

In 2018, the corporate income tax rate applicable to the United States decreased to 21%, this rate was applied for purposes of calculating deferred taxes in this country.

36. Dividends

No Dividends were paid to Shareholders during 2017 (2016: 2.000.000 Euros, corresponding to 1,52 Euros per share).

Dividends approved relating to Non-controlling interests during 2017 amount to 13.600.395 Euros (2016: 2.276.197 Euros).

37. Commitments

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

31 December 2017	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Future rents of operating leases	16.713.927	67.540.747	278.242.647	**362.497.321**

31 December 2017	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Future rents of operating leases	16.382.159	76.247.626	250.358.554	**342.988.339**

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

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 2017 it has spent a corresponding annual amount for that objective.

Since 1987 a supplementary pension plan is in place for employees of ECM, Lda., that were at service on that date and until 31 December 2007 that qualified as a defined benefit plan. To cover this liability a pension fund was incorporated being managed autonomously by the insurance company SGF. As at 2017, the fund amounts to 1.392.180 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.

38. Contingencies

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

	2017	2016
Mortgages over lands and buildings	189.001.715	211.361.548
Bank guarantees	63.609.724	49.651.696

Contingent assets

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

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

Thus, S.G.P.S. companies may have an amount of financial expenses, the deductibility of which was not allowed for 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.

As a consequence of the developments verified in 2017, Pestana Hotel Group presented, in November 2017, a Judicial Challenge in Funchal's Tax and Administrative Court with the goal of granting fiscal relevance to the financial expenses which had not been allowed to be deducted by the tax regime in force in 2013.

Contingent liabilities

As at 31 December 2017, Pestana Hotel Group has ongoing claims, assessed as contingent liabilities of, approximately, 6.355.666 Euros (local currency: 1.290.626 Euros and 19.975.000 Brazilian Real).

39. Consolidation perimeter

The Subsidiaries of Pestana Hotel Group as at 31 December 2017 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Afrotours, S.A.	São Tomé	Hotel business	31-12-2017	16.073.744	16.525.188	451.445	5.300.678	780.106	100,00%	100,00%
Amesteldijk Hotel Ontwkkeling B.V.	Netherlands	Hotel business	31-12-2017	12.723.854	44.134.908	31.411.054	5.218	(196.921)	99,92%	100,00%
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real Estate	31-12-2017	4.799.671	6.359.432	1.559.761	-	(44.049)	99,00%	100,00%
Argentur Inversiones Turisticas S.A.	Argentina	Hotel business	31-12-2017	1.154.830	1.955.874	801.043	3.922.802	186.165	100,00%	100,00%
Atlantic Holidays Ltd (in voluntary liquidation)	United Kingdom	Tour Operator	31-12-2017	34.066	37.273	3.207	88.777	(293.123)	100,00%	100,00%
Bazaruto, Lda.	Mozambique	Hotel business	31-12-2017	4.493.552	7.701.800	3.208.248	246.580	215.119	96,97%	100,00%
Beloura Hotel e Golfe - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2017	8.293.980	15.231.204	6.937.224	4.135.184	1.144.047	99,00%	100,00%
Brasturinvest Investimentos Turísticos, S.A.	Brazil	Hotel business	31-12-2017	48.181.274	93.316.782	45.135.508	21.762.469	(1.602.128)	100,00%	100,00%
Carlton Palácio - Sociedade Construção e Exploração Hoteleiras, S.A.	Portugal	Hotel business	31-12-2017	40.363.852	69.241.959	28.878.107	23.985.146	7.085.035	99,00%	100,00%
Carolgud, S.A.	Uruguay	Hotel business	31-12-2017	653.926	664.228	10.302	-	(37.870)	100,00%	100,00%
Carvoeiro Golfe - Sociedade de Mediação Imobiliária, Unipessoal Lda.	Portugal	Real Estate	31-12-2017	1.376.176	1.871.780	495.623	7.027.436	938.891	99,00%	100,00%
Carvoeiro Golfe, S.A.	Portugal	Golf and Real Estate	31-12-2017	47.261.952	111.347.717	64.085.766	48.381.088	11.114.645	99,00%	100,00%
Cota Quarenta - Gestão e Administração de Centros Comercias, S.A.	Portugal	Real Estate	31-12-2017	5.329.295	21.973.487	16.644.193	-	189.372	99,00%	100,00%
Desarollos Hoteleros Barcelona 2004 S.A.	Spain	Hotel business	31-12-2017	10.228.946	19.022.378	8.793.432	3.182.024	1.281.682	99,92%	100,00%
Djebel, S.A.	Portugal	Sub-Holding	31-12-2017	56.625.049	91.847.987	35.222.938	-	(874.951)	100,00%	100,00%
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	Portugal	Beverages	31-12-2017	7.017.103	30.349.170	23.332.067	28.039.616	552.546	99,00%	100,00%
Empreendimentos Turísticos, Lda.	Cape Verde	Hotel business	31-12-2017	870.480	3.593.179	2.722.698	2.392.154	543.606	100,00%	100,00%
ESGAP, S.A.	Portugal	Sub-Holding	31-12-2017	6.009.357	23.185.198	17.175.841	-	(37.079)	100,00%	100,00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2017	12.634.739	14.315.073	1.680.334	640.801	1.810.381	99,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Global Mandalay, S.L.U.	Spain	Hotel business	31-12-2017	2.921.153	3.594.539	673.386	-	(95.798)	99,92%	100,00%
Grupo Pestana - S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2017	227.263.084	528.403.126	301.140.042	800.000	69.917.988	99,00%	99,00%
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hotel business	31-12-2017	36.747.649	65.951.128	29.203.479	39.606.632	5.654.844	94,75%	95,71%
Herdade da Abrunheira - Projectos de Desenvolvimento Turístico e Imobiliário, S.A.	Portugal	Real Estate	31-12-2017	214.725	6.510.769	6.296.044	-	(267.353)	66,00%	66,67%
Hoteis do Atlântico - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Sub-Holding	31-12-2017	48.618.951	109.272.148	60.653.197	4.072.705	1.330.317	99,92%	99,92%
Hotel Rauchstrasse 22, S.A.R.L.	Luxembourg	Hotel business	31-12-2017	7.424.390	18.822.504	11.398.113	1.549.887	606.551	92,43%	92,50%
Imóveis Brisa – F.I.I.F.	Portugal	Real Estate	31-12-2017	7.695.566	14.260.439	6.564.874	-	453.442	99,00%	100,00%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hotel business	31-12-2017	3.075.480	7.086.208	4.010.728	2.387.431	75.480	99,00%	100,00%
Intervisa Viagens e Turismo, Lda.	Portugal	Distribution	31-12-2017	543.565	3.229.619	2.686.054	1.671.622	167.247	100,00%	100,00%
ITI - Sociedade de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hotel business and Entertainment	31-12-2017	44.101.839	68.003.564	23.901.725	36.551.174	10.159.841	99,00%	100,00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hotel business / Timeshare	31-12-2017	118.745.631	339.291.722	220.546.091	66.325.927	20.032.194	99,00%	100,00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Entertainment	31-12-2017	1.798.450	3.807.819	2.009.370	663.855	584.147	99,00%	100,00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2017	1.412.918	1.440.508	27.591	135	(28.895)	99,00%	100,00%
Pestana Berlim S.A.R.L.	Luxembourg	Hotel business	31-12-2017	517.985	2.563.685	2.045.700	5.833.421	33.268	99,92%	100,00%
Pestana Cidadela - Investimentos Turisticos, S.A.	Portugal	Hotel business	31-12-2017	8.275.270	16.693.818	8.418.548	6.406.135	938.725	99,00%	100,00%
Pestana Holland Holding B.V.	Netherlands	Hotel business	31-12-2017	15.081.686	16.827.820	1.746.134	-	(37.371)	99,92%	100,00%
Pestana International Holdings S.A.	Luxembourg	Administration	31-12-2017	343.376.852	521.965.400	178.588.548	-	82.092.888	100,00%	100,00%
Pestana Inversiones, S.L.	Spain	Sub-Holding	31-12-2017	17.394.459	20.212.618	2.818.159	-	4.828.938	100,00%	100,00%
Pestana Management - Serviços de Gestão, S.A.	Portugal	Services	31-12-2017	3.478.134	37.495.903	34.017.769	28.624.198	1.569.936	100,00%	100,00%
Pestana Management UK, Limited	United Kingdom	Hotel business	31-12-2017	472.309	1.732.850	1.260.541	11.858.935	305.406	74,94%	75,00%
Pestana Marrocos, s.a.r.l.	Marocco	Hotel business	31-12-2017	698.150	1.947.752	1.249.602	3.367.560	212.246	100,00%	100,00%
Pestana Miami LLC	United States	Hotel business	31-12-2017	3.033.015	16.804.710	13.771.695	4.573.512	(697.795)	99,92%	100,00%
Pestana NY East Side 39	United States	Hotel business	31-12-2017	8.249.808	8.121.440	(128.367)	-	(93.268)	100,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Pestana Segurança - Serviços de Segurança e Vigilância, Unip. Lda.	Portugal	Services	31-12-2017	288.706	668.642	379.936	1.282.263	50.841	100,00%	100,00%
Pestana USA Inc	United States	Hotel business	31-12-2017	18.502.512	18.510.711	8.199	-	(18.645)	99,92%	100,00%
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hotel business / Timeshare	31-12-2017	12.407.618	26.114.048	13.706.430	9.381.265	2.188.726	51,48%	52,00%
Porto Carlton - Sociedade Construção e Exploração Hoteleira, S.A.	Portugal	Hotel business	31-12-2017	7.827.894	17.449.176	9.621.282	8.108.347	2.786.444	59,40%	60,00%
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	Portugal	Services	31-12-2017	1.928.942	1.937.546	8.604	29.971	6.730	100,00%	100,00%
Rotas de África, Lda.	São Tomé	Hotel business	31-12-2017	1.749.243	1.926.188	176.945	1.499.215	(118.920)	100,00%	100,00%
Salvintur - Sociedade de Investimentos Turísticos, S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2017	15.666.603	43.973.306	28.306.703	60.000	(184.490)	100,00%	100,00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hotel business / Timeshare	31-12-2017	167.287.761	236.724.381	69.436.620	45.023.954	23.082.576	99,00%	100,00%
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	Mozambique	Hotel business	31-12-2017	9.321.768	13.151.242	3.829.474	2.187.843	(356.359)	96,97%	96,97%
São Tomé Invest S.A.	São Tomé	Hotel business	31-12-2017	744.617	914.188	169.571	1.161.660	96.016	100,00%	100,00%
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (a)	Portugal	Services	31-12-2017	10.101.723	17.021.146	6.919.423	10.534.778	3.009.644	47,25%	70,00%
SDEM - Sociedade Desenvolvimento Empresarial da Madeira, S.A.	Portugal	Services	31-12-2017	918.435	1.695.558	777.124	19.042	(141.299)	47,25%	51,14%
Sociedade de Investimentos Hoteleiros D. João II, S.A.	Portugal	Hotel business / Timeshare	31-12-2017	1.367.785	4.107.408	2.739.624	640.384	96.145	99,00%	100,00%
Southern Escapes Travel and Tourism (PTY), Ltd	South Africa	Hotel business	31-12-2017	19.462	35.609	16.147	-	(16.106)	100,00%	100,00%
Surinor, S.A.	Uruguay	Hotel business	31-12-2017	4.596.717	5.382.585	785.868	-	(102.591)	100,00%	100,00%
Wild Break 29 (PTY), Ltd	South Africa	Hotel business	31-12-2017	(2.921.670)	2.730.542	5.652.212	2.026.640	730.088	100,00%	100,00%

a) On 7 December 2017, Pestana Hotel Group acquired 82.500 shares of SDM – Sociedade de Desenvolvimento da Madeira, S.A. from Mr. Dionísio Pestana for the amount of 2.658.150 Euros, increasing the percentage owned to 47,73% of its equity. Grupo Pestana, S.G.P.S., S.A., however, controls the entity via the shareholder agreement with the company Francisco Costa e Filhos, S.A. which gives its 3,41% voting rights to Pestana Hotel Group allowing it to control this company.

The Joint ventures of Pestana Hotel Group as at 31 December 2017 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S,A,	Portugal	Hospitality	31-12-2017	1.706.051	3.737.847	2.031.796	2.197.329	108.861	49,50%	50,00%
Solpor - Sociedade Turismo do Porto Santo, Lda,	Portugal	Multi-segment	31-12-2017	940.650	942.345	1.695	-	(2.048)	49,50%	50,00%
URP - Urban Review Promoção Imobiliária, S,A,	Portugal	Real Estate	31-12-2017	4.607.838	25.602.076	20.994.238	363.582	-	30,00%	50,00%
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S,A,	Portugal	Hospitality	31-12-2017	7.860.274	15.749.867	7.889.593	4.065.732	565.656	49,50%	50,00%
Pestana CR7 Manhattan 39 LLC	USA	Hospitality	31-12-2017	15.729.788	17.774.745	2.044.958	-	(431.484)	50,96%	50,00%

The Associates of Pestana Hotel Group as at 31 December 2017 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Enatur - Empresa Nacional de Turismo, S,A,	Portugal	Real Estate	31-12-2017	70.262.819	94.724.762	24.461.943	2.504.844	1.570.384	46,43%	49,00%
Albar - Sociedade Imobiliária do Barlavento, S,A,	Portugal	Real Estate	31-12-2017	1.147.898	1.185.050	37.152	-	(5.056)	49,31%	49,81%
Soehotur, S,A,	Angola	Construction	31-12-2017	1.121.420	3.239.066	2.117.646	-	(212.129)	25,00%	25,00%

The Subsidiaries of Pestana Hotel Group as at 31 December 2016, are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Afrotours, S.A.	São Tomé	Hotel business	31-12-2016	16.698.274	18.082.607	1.384.333	4.287.548	743.434	100,00%	100,00%
Amesteldijk Hotel Ontwkkeling B.V.	Netherlands	Hotel business	31-12-2016	10.221.775	41.533.527	31.311.753	-	(16.043)	99,92%	100,00%
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real Estate	31-12-2016	4.843.720	6.356.622	1.512.902	-	(32.332)	99,00%	100,00%
Argentur Inversiones Turisticas S.A.	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, Lda.	Mozambique	Hotel business	31-12-2016	4.022.798	6.908.806	2.886.007	114.152	(1.032.721)	96,97%	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	111.151.563	79.331.042	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 de Mediação Imobiliária, Unipessoal Lda.	Portugal	Real Estate	31-12-2016	437.285	5.961.391	5.524.106	893.332	424.025	99,00%	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	99,00%	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 Barcelona 2004 S.A.	Spain	Hotel business	31-12-2016	5.746.965	14.464.995	8.718.029	2.871.760	142.109	99,92%	100,00%
Djebel, 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)	100,00%	100,00%
Eurogolfe, S.A.	Portugal	Golf	31-12-2016	11.092.514	12.044.790	952.276	567.156	282.269	99,00%	100,00%
Global Mandalay, S.L.U.	Spain	Hotel business	31-12-2016	5.746.965	14.464.995	8.718.029	2.871.760	142.109	99,92%	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%
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	94,75%	95,71%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Herdade da Abrunheira - Projectos de Desenvolvimento 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	99,92%	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	92,43%	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	100,00%	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 business / 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)	99,00%	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	99,92%	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)	99,92%	100,00%
Pestana International Holdings S.A.	Luxembourg	Administration	31-12-2016	260.520.806	386.969.269	126.448.463	-	17.638.145	100,00%	100,00%
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	100,00%	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	74,94%	75,00%
Pestana Manhattan 39 LLC	United States	Hotel business	31-12-2016	8.979.804	8.410.459	(569.345)	-	(26.556)	50,96%	50,00%
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)	99,92%	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%
Pestana Segurança - Serviços de Segurança e Vigilância, Unipessoal Lda.	Portugal	Services	31-12-2016	237.865	588.728	350.863	1.314.160	9.803	100,00%	100,00%
Pestana USA Inc	United States	Hotel business	31-12-2016	13.483.502	12.708.988	(774.514)	-	(41.171)	99,92%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Pinheiro Mar, S.A.	Portugal	Hotel business	31-12-2016	980.241	5.138.666	4.158.425	8.769.064	928.723	100,00%	100,00%
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hotel business / 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%
Rolldown Golfe, Lda.	Portugal	Golf	31-12-2016	1.192.892	5.640.245	4.447.353	1.371.640	83.033	100,00%	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	100,00%	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)	100,00%	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)	100,00%	100,00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hotel business / Timeshare	31-12-2016	151.635.868	193.929.827	42.293.959	30.079.133	12.360.314	99,00%	100,00%
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	Mozambique	Hotel business	31-12-2016	4.485.124	11.735.859	7.250.735	1.862.596	(2.104.797)	96,97%	96,97%
São Tomé Invest S.A.	São Tomé	Hotel business	31-12-2016	448.601	693.884	245.283	1.056.330	42.125	100,00%	100,00%
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (b)	Portugal	Services	31-12-2016	19.594.585	23.262.161	3.667.576	9.614.027	3.244.003	47,25%	70,00%
Sociedade de Investimentos Hoteleiros D. João II, S.A.	Portugal	Hotel business / Timeshare	31-12-2016	1.271.640	3.810.149	2.538.509	713.146	88.431	99,00%	100,00%
Southern Escapes Travel and Tourism (PTY), Ltd	South Africa	Hotel business	31-12-2016	36.694	48.130	11.436	-	11.203	100,00%	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 business / Timeshare	31-12-2016	13.606.105	19.205.580	5.599.475	4.807.339	2.750.501	100,00%	100,00%
Wild Break 29 (PTY), Ltd	South Africa	Hotel business	31-12-2016	(3.753.176)	3.474.831	7.228.006	1.457.805	168.863	100,00%	100,00%

b) 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 Joint ventures of Pestana Hotel Group as at 31 December 2016 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
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)	49,50%	50,00%
Solpor - Sociedade Turismo do Porto Santo, Lda.	Portugal	Multi-segment	31-12-2016	982.699	988.231	5.532	48.560	36.587	49,50%	50,00%
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)	49,50%	50,00%

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

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, SGPS, S.A.	Portugal	Others	31-12-2016	1.101.574	1.759.779	658.204	24.171	(94.532)	3,75%	25,00%
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	46,43%	49,00%
Albar - Sociedade Imobiliária do Barlavento, S.A.	Portugal	Real Estate	31-12-2016	1.152.954	1.183.945	30.990	-	(13.633)	49,50%	49,81%
Soehotur, S.A.	Angola	Construction	31-12-2016	1.390.570	3.477.384	2.086.813	-	(375.517)	25,00%	25,00%

40. Changes in the perimeter

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

— Imóveis Brisa – Fundo de Investimento Imobiliário Fechado;

— SDEM – Sociedade de Desenvolvimento Empresarial da Madeira, S.A..

The Statement of Financial position of the companies included in the consolidation perimeter as at the date of entry (1 January 2017) is as follows:

	Imóveis Brisa – F.I.I.F.	SDEM. S.A.	Total
Purchasing price	7.242.122	826.181	8.068.303
Assets			
Tangible fixed assets	10.689.293	–	10.689.293
Intangible assets	1.030.000	–	1.030.000
Investment properties	1.239.950	–	1.239.950
Available-for-sale financial assets	-	842.391	842.391
Trade and other receivables	153.256	62.924	216.180
Current tax receivable	-	9.886	9.886
Inventories	359.750	–	359.750
Cash and cash equivalents	431.154	849.464	1.280.618
Total Assets at fair value	**13.903.403**	**1.764.665**	**15.668.067**
Liabilities			
Borrowings	-	641.385	641.385
Deferred revenue	3.000	–	3.000
Trade and other payable current	6.658.280	21.705	6.679.985
Total Liabilities at fair value	**6.661.280**	**663.090**	**7.324.370**
Net assets	**7.242.122**	**1.101.575**	**8.343.697**
% acquired	**100.00%**	**75.00%**	
Goodwill	–	–	–

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

	Imóveis Brisa – F.I.I.F.	SDEM. S.A.	Total
Revenue	-	19.042	19.042
External services and supplies	(168.167)	(60.841)	(229.008)
Personnel expenses	-	(119.319)	(119.319)
Charges of depreciation and amortization	(68.667)	-	(68.667)
Impairment of receivables	(13.839)	-	(13.839)
Other income	240.271	14.222	254.493
Other expenses	(7.079)	(3.634)	(10.714)
Profit/(loss) before financial results and taxes	(17.481)	(150.530)	(168.011)
Financial expenses	-	(26.399)	(26.399)
Financial income	-	35.630	35.630
Profit before tax	(17.481)	(141.299)	(158.780)
Income tax	-	-	-
Profit for the period from acquisition date	(17.481)	(141.299)	(158.780)
Profit for the period from acquisition date attributable to:			
Shareholders	(17.307)	(66.764)	(84.070)
Non-controlling interests	(175)	(74.535)	(74.710)
	(17.481)	(141.299)	(158.780)

In 2017, Pestana Hotel Group ceased to include in the consolidation perimeter the subsidiary Inversiones Vistalparque, C.A. due to the disposal by Pestana Inversiones, S.L. to Quanlux, S.a.r.l. of the shares it held which represented 71,42% of this company's share capital for the amount of 9.108.919 Euros, obtaining a loss of 10.030.237 Euros.

Pestana Hotel Group also ceased to include in the consolidation perimeter the subsidiary Viquingue – Sociedade Turística, S.A. due to its merger into Salvor – Sociedade de Investimento Hoteleiro, S.A. and the subsidiary Rolldown – Golfe, Lda. due to its merger into Carvoeiro Golfe, S.A..

In March 2017, Pestana CR7 Manhattan 39 LLC., previously known as Pestana Manhattan 39 LLC., a company which will build and explore a hotel located on West 39th Street in New York, had and increase in share capital in the amount of 9.500.000 USD by CRS Holding S.á.r.l., an independent and unrelated company, representing 49% of Pestana CR7 Manhattan 39 LLC.'s share capital. As a result of this transaction, Pestana CR7 Manhattan 39 LLC. entered into the Framework Joint Venture Agreement signed between Pestana Hotel Group and Cristiano Ronaldo and, therefore, was converted from a subsidiary to a joint venture and valued by the correspondent fair value (the amount of the sale).

The Statement of Financial position of the companies excluded from the consolidation perimeter as at the date of exit is as follows:

	Inversiones Vistalparque. C.A.
Sale price	**9.108.919**
Assets	
Tangible fixed assets	26.059.576
Trade and other receivables	688.065
Current tax receivable	11.420
Inventories	124.130
Cash and cash equivalents	531.930
Total Assets at fair value	**27.415.120**
Liabilities	
Provisions	5.687
Borrowings	3.442
Deferred tax liabilities	8.845.959
Trade and other payable current	893.225
Current tax payable	3.597
Total Liabilities at fair value	**9.751.910**
Net assets	**17.663.211**
Cumulative translation adjustments (Note 19)	6.530.693
Non-controlling interests (Note 21)	(5.054.748)
% sold	**71.42%**
Gains / (losses) on disposal (Note 33)	**(10.030.237)**

The Statement of Financial position of the companies excluded from the consolidation perimeter due to changes in the control exercised by the Group as at the date of exit is as follows:

	Pestana CR7 Manhattan 39 LLC.
Sale price	**9.356.153**
Assets	
Tangible fixed assets	25.913.934
Trade and other receivables	96.731
Cash and cash equivalents	129.424
Total Assets at fair value	**26.140.089**
Liabilities	
Trade and other payable current	17.169.440
Total Liabilities at fair value	**17.169.440**
Net assets	**8.970.650**
Cumulative translation adjustments	1.618
Non-controlling interests	352
% sold	**49.00%**
Gains / (losses) on disposal	**383.533**

The Income statement of the companies excluded from the consolidation perimeter in the period between 1 January 2017 and the date of exit is as follows:

	Inversiones Vistalparque. C.A.
Revenue	4.874.243
Cost of goods sold	(1.218.797)
External services and supplies	(756.121)
Personnel expenses	(798.021)
Charges of depreciation and amortization	(666.058)
Provisions	5.519
Other income	22.261
Other expenses	(1.358.304)
Profit/(loss) before financial results and taxes	**104.722**
Financial expenses	(21.007)
Financial income	215.822
Profit before tax	**299.537**
Income tax	223.727
Profit for the period until disposal date	**523.263**
Profit for the period until disposal date attributable to:	
Shareholders	373.715
Non-controlling interests	149.549
	523.263

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..

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.

41. Related parties

As at 31 December 2017 and 2016 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 30.

Transactions and balances with related parties

During the year of 2017, Pestana Hotel Group carried out the following transactions with those entities:

	Services obtained	Services rendered	Disposal of tangible fixed assets	Disposal of subsidiaries	Interest earned
Jointly controlled entities	**52.386**	**1.512.212**	**-**	**-**	**6.704**
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	-	597.138	-	-	-
Solpor – Soc. Turismo Porto Santo Lda.	-	46	-	-	-
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	52.386	787.069	-	-	-
Pestana CR7 Manhattan 39 LLC	-	127.960	-	-	6.704
Associates	**2.707.964**	**104.106**	**-**	**-**	**16.871**
Enatur - Empresa Nacional Turismo, S.A.	2.707.964	43.699	-	-	16.871
Albar - Sociedade Imobiliária do Barlavento, S.A.	-	407	-	-	-
Soehotur, S.A.	-	60.000	-	-	-
Other related parties	**-**	**-**	**5.350.000**	**9.108.919**	**-**
Quanlux, S.a.r.l.	-	-	5.350.000	9.108.919	-
Key management personnel	**-**	**-**	**-**	**-**	**-**
	2.760.349	**1.616.318**	**5.350.000**	**9.108.919**	**23.575**

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

	Services obtained	Services rendered	Interest earned
Jointly controlled entities	**20.514**	**429.669**	**–**
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	–	240.515	–
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	20.514	189.108	–
Solpor - Sociedade de Turismo do Porto Santo Lda.	–	46	–
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	–
Key management personnel	–	–	–
	2.590.578	**561.984**	**17.859**

As at the end of the years 2017 and 2016, loans with related parties are as follows:

	Borrowings obtained	Loans granted	Borrowings obtained	Loans granted
Jointly controlled entities	**–**	**3.210.000**	**–**	**–**
URP - Urban Renew Promoção Imobiliária, Lda.	–	3.210.000	–	–
Associates	**–**	**1.190.593**	**–**	**1.190.593**
Enatur - Empresa Nacional de Turismo, S.A.	–	1.190.593	–	1.190.593
Key management personnel	–	–	–	–
	–	**4.400.593**	**–**	**1.190.593**

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

	Trade receivables current	Impairment of trade receivables	Net trade receivables	Trade payables current
Jointly controlled entities	**531.299**	**–**	**531.299**	**159.595**
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	62.705	–	62.705	4.390
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	56.237	–	56.237	32.820
Pestana CR7 Manhattan 39 LLC	411.312	–	411.312	122.385
Solpor - Sociedade de Turismo do Porto Santo Lda.	1.045	–	1.045	–
Associates	**1.118.762**	**1.009.129**	**109.633**	**237.727**
Enatur - Empresa Nacional de Turismo, S.A.	79.591	–	79.591	237.727
Albar - Sociedade Imobiliária do Barlavento, S.A.	30.042	–	30.042	–
Soehotur, S.A.	1.009.129	1.009.129	–	–
Key management personnel	–	–	–	–
	1.650.061	**1.009.129**	**640.932**	**397.323**

The balances arising from transactions with related parties as at 31 December 2016 were as follows:

	Trade receivables current	Impairment of trade receivables	Net trade receivables	Trade payables current
Jointly controlled entities	**4.416.164**	**–**	**4.416.164**	**27.999**
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	4.041.981	–	4.041.981	13.964
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	374.137	–	374.137	14.035
Solpor - Sociedade de Turismo do Porto Santo Lda.	46	–	46	–
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	–	–
Key management personnel	–	–	–	–
	5.525.175	**949.754**	**4.575.421**	**29.711**

42. Note to the Consolidated cash flow statement

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

			Cash free transactions				
	2016	Cash flows	Perimeter changes	Fair value changes	Accrual / Deferral	Other	2017
Bank loans	292.183.429	(43.195.731)	1.629.732	–	256.164	1.353.575	252.227.170
Commercial paper	28.527.151	4.277.778	–	–	(4.269)	–	32.800.659
Bond loans	126.143.264	(6.640.362)	–	–	178.382	–	119.681.284
Cash flow from financing activities	**446.853.845**	**(45.558.316)**	**1.629.732**	**-**	**430.277**	**1.353.575**	**404.709.113**

43. Subsequent events

There are no relevant subsequent events to report.

Luxembourg, 26 March 2018

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

Audit report

To the Shareholders of
Pestana International Holdings S.A.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Pestana Inernational Holding S.A. (the Company) and its subsidiaries (the Group) as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in Shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

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

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

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Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated Annual 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 identified above 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 that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs 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.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The consolidated Management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 30 April 2018

Philippe Piérard

Pestana International Holdings S.A.