CONSOLIDATED ANNUAL REPORT

for the period ended 31 December 2018

PESTANA INTERNATIONAL HOLDINGS S.A.

PESTANA

THE TIME OF YOUR LIFE

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CONSOLIDATED MANAGEMENT REPORT FOR THE PERIOD ENDED 31 DECEMBER 2018

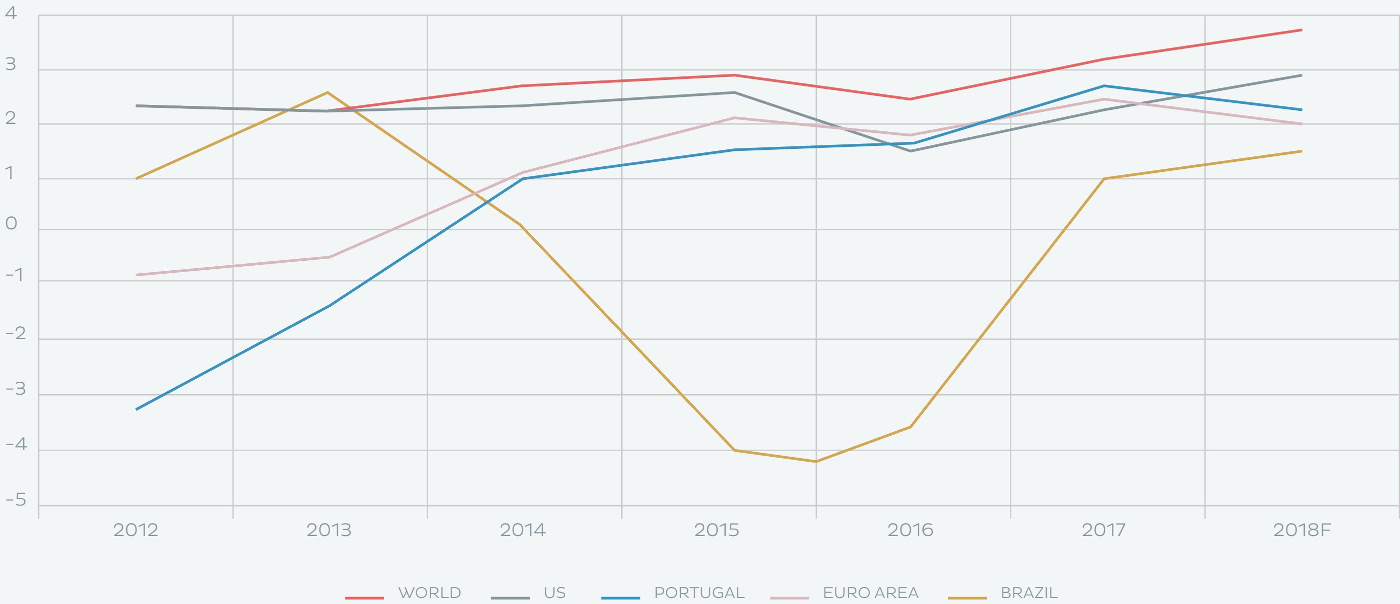
Dear Shareholders,
Under Luxembourg Corporate Law, we have the honor to submit for consideration and approval the Consolidated management report and the Consolidated financial statements for the year ended as at 31 December 2018.

1
OVERVIEW OF THE WORLD ECONOMY

1.1. GDP GROWTH

Macroeconomic indicators point to a growth in the world economy of around 3.7% consolidating the trend verified in the previous year of 3.2%. This increase is supported by emerging economies which presented considerable growth and by the USA whose growth is expected to be around 3%. The Eurozone is expected to present a positive growth rate of around 2% but lower than in the previous year. Nominal global inflation is expected to have increased to above 3% after reaching an amount lower than 2.5% in 2017.

TABLE 1
GDP GROWTH RATE (%)



SOURCE: WORLD BANK; IMF; OECD

The US economy which is responsible for about a quarter of the world's GDP is likely to have accelerated its growth with continued support from increases in consumption (reflex of a decrease in unemployment), public spending and exports. Private investment also registered a greater dynamism due to a more favourable fiscal policy. Inflation continued to present controlled values greater than in 2017 of around 2.5%. In the previous year, US administration sought to denounce/renegotiate several commercial deals with the clear aim of reducing trade deficits. The imposition of customs tariffs to US imports of products originating especially from China and the European Union thickened the climate of uncertainty contributing to cool down the main European economies in the last semester of 2018 which leads to a possibility of slowing down economic growth in 2019. Additionally, in the US the year started with uncertainty concerning payments to the public administration employees with a subsequent negative impact in 2019's GDP.

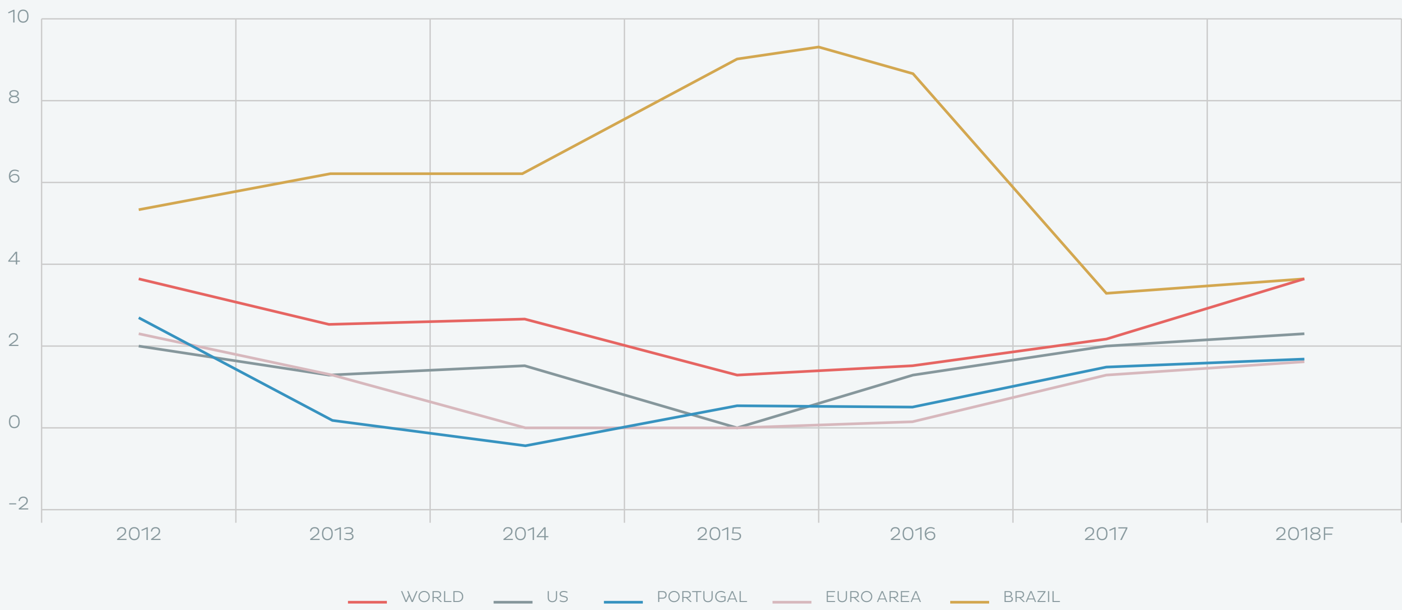
In the Eurozone GDP nominal growth is expected to reach about 2%, lower than 2017 which surpassed expectations at the time, as a reflex of a decreased trade balance superavit and lower industrial production even though internal consumption presented interesting results as a consequence of the continued increase in remunerations and unemployment reduction and raw formation of fixed capital maintained steady.

GDP growth was limited by: (i) a valuation of the EUR against the USD which softened the increase in the average price of the barrel of oil controlling inflation which remained beneath the 2% expected by the ECB; (ii) the maintenance of some frailties in the banking sector associated with the uncertainties on European integration which were heightened by Brexit; (iii) the maintenance of over indebtness in some countries in the Eurozone namely Italy; (iv) the difficulty resulting from the existing excess liquidity not reaching the real economy. With this framework, the ECB concluded its liquidity policy which included the active repurchase of public debt of several state members.

Average growth rate in BRIC economies is expected to have continued increasing despite some geopolitical uncertainties remaining present. Brazil shows a positive growth in GDP along with India, Russia and China although concerning the latter growth was lower than in the previous year.

Brazil, where Pestana Hotel Group has 4 hotels, has for the second year in a row an inflation rate below 4% with unemployment rate remaining steady. Continued investment shows values below the desired levels. The price of raw materials continued to increase even though below the required to support an economic recovery. The market's reaction to the election of Bolsonaro was positive.

TABLE 2
INFLATION, ANNUAL VARIATION (%)



SOURCE: WORLD BANK, TRANDINGECONOMICS.COM, EUROSTAT; OECD

Average world consumption continued to grow in 2018 with a somewhat distinct pattern than in the previous year. The USA showed signs of greater dynamism unlike Europe even though it continued to show positive changes as a result of a decrease in unemployment and an average increase in remuneration.

Investment growth rhythm appears to have slowed but maintained interesting levels in more stable occidental countries which are perceived to be safer and which somewhat sustained the level of consumption in these regions. The perception of insecurity in Europe decreased.

The perception of insecurity also decrease in Turkey, Egypt and Tunisia which allowed these countries to begin regaining their tourism flow. This recovery was accelerated by the implementation of tourism attraction and dynamism policies in these countries with the creation of intense marketing programs in order to attract clients to these destinations, creating incentives to touristic operators and devaluing local currencies to create increased attractiveness.

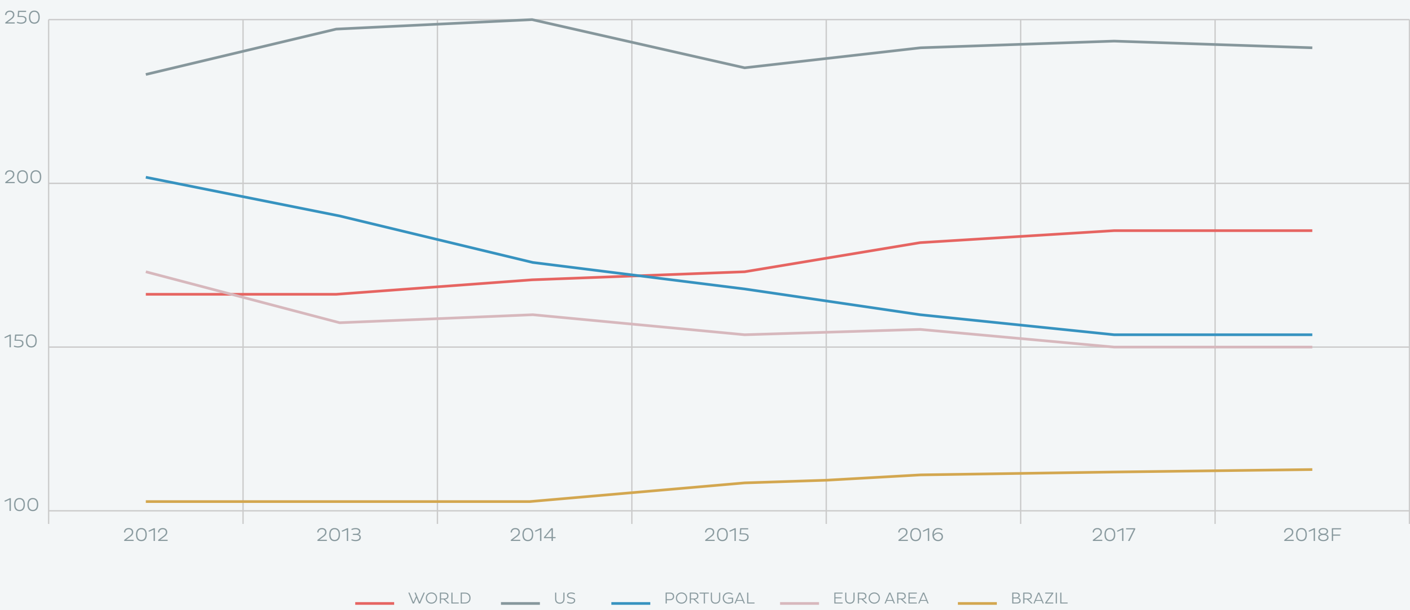
On the contrary, countries like Greece, Spain and Portugal were thus left behind on the resort segment even though annual decrease rates still remained at low levels which allows for the maintenance of high levels of occupation and price. City destinations remained however very resilient throughout the south of Europe.

1.2. LIQUIDITY AND COST OF FUNDS

Liquidity levels in the USA remained steady after the elimination in 2015 of the liquidity flexibilization policy. In Europe, ECB ceased in 2018, as referred, its liquidity program, which consisted of the purchase of sovereign debt of state members, after considering that the Eurozone is now more consolidated even though growth rates are still far from desired.

USA and Europe credit concession although it continues to present a positive trend remains limited by the risk level of the counterparties whose analysis have been progressively more strict by financial institutions including banks which have been conditioned by the increase levels of equity and regulation demanded by supervisory authorities.

TABLE 3
DOMESTIC CREDIT PROVIDED BY BANKING SECTOR (% OF GDP)



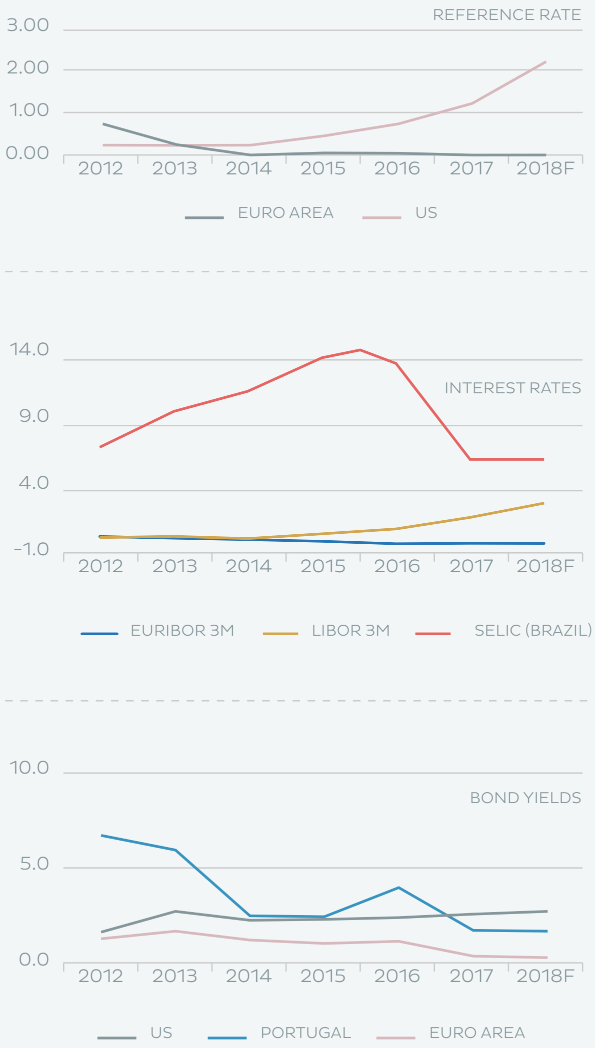
SOURCE: WORLD BANK, IMF

In the US, FED increased its reference rate from 1.5% to 2.5% through four successive 0.25% increases while the Euribor continued to present negative values.

In Brazil, the liquidity and credit restriction continued to alleviate, with the reference rate decreasing slightly unlike inflation which shows an improvement and remained at high levels.

Pestana Hotel Group saw its average cost of debt (in its majority in Euros) continue to decrease mainly due to an improved risk profile which is considered as "investment" by most banks.

TABLE 4
EVOLUTION OF REFERENCE RATES, BOND YIELDS; AND INTEREST RATES



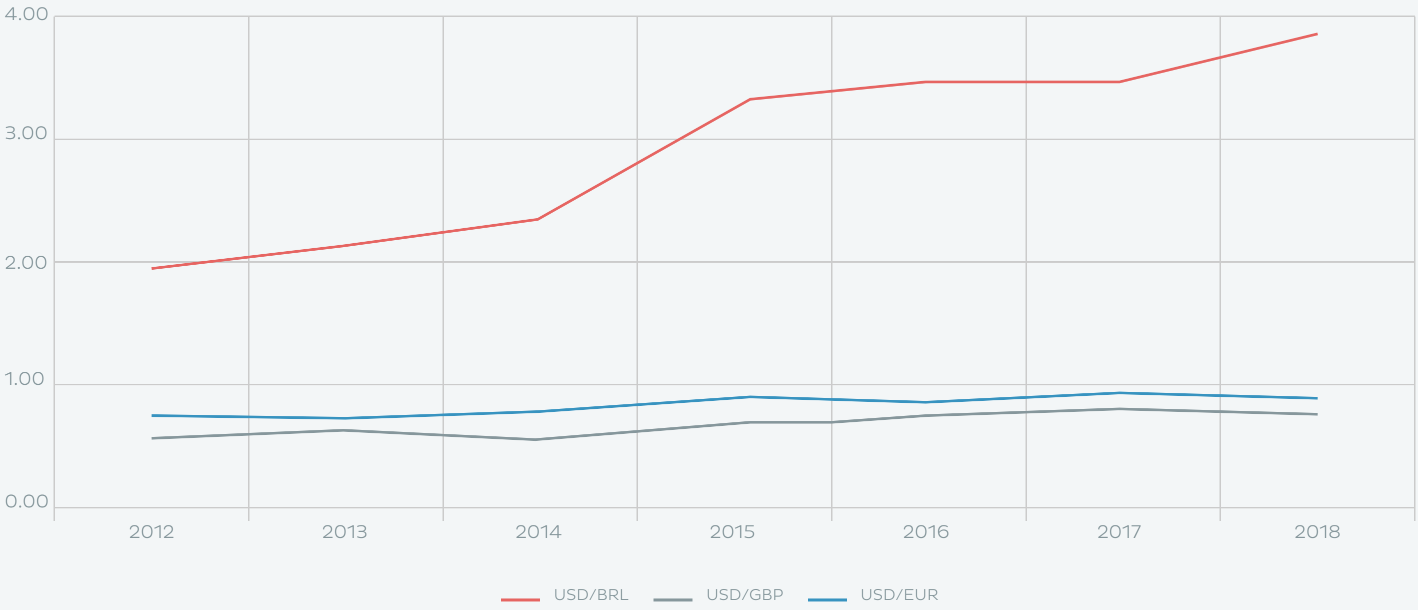
SOURCE: WORLD BANK; EURIBOR-RATES.EU; BDP

Risk premiums showed mixed evolutions in western countries in 2018, including Portugal, where the 5Y CDS of debt increased from around 80 to 90 bps as a reflection of the maintenance of an "investment" level rating by all international notation agencies.

1.3. EXCHANGES RATES

USD, in terms of average exchange rate in 2018, depreciated against the Euro and the same happened with the GBP, as a consequence of the macroeconomic scenario already described. The GBP remained steady against the Euro despite all the uncertainties concerning Brexit. Latin American currencies in countries where Pestana Hotel Group is present (Argentina and Brazil) continued to depreciate in 2018, with limited impact due to the decreased exposure in these countries.

TABLE 5
OFFICIAL EXCHANGE RATE



SOURCE: WORLD BANK

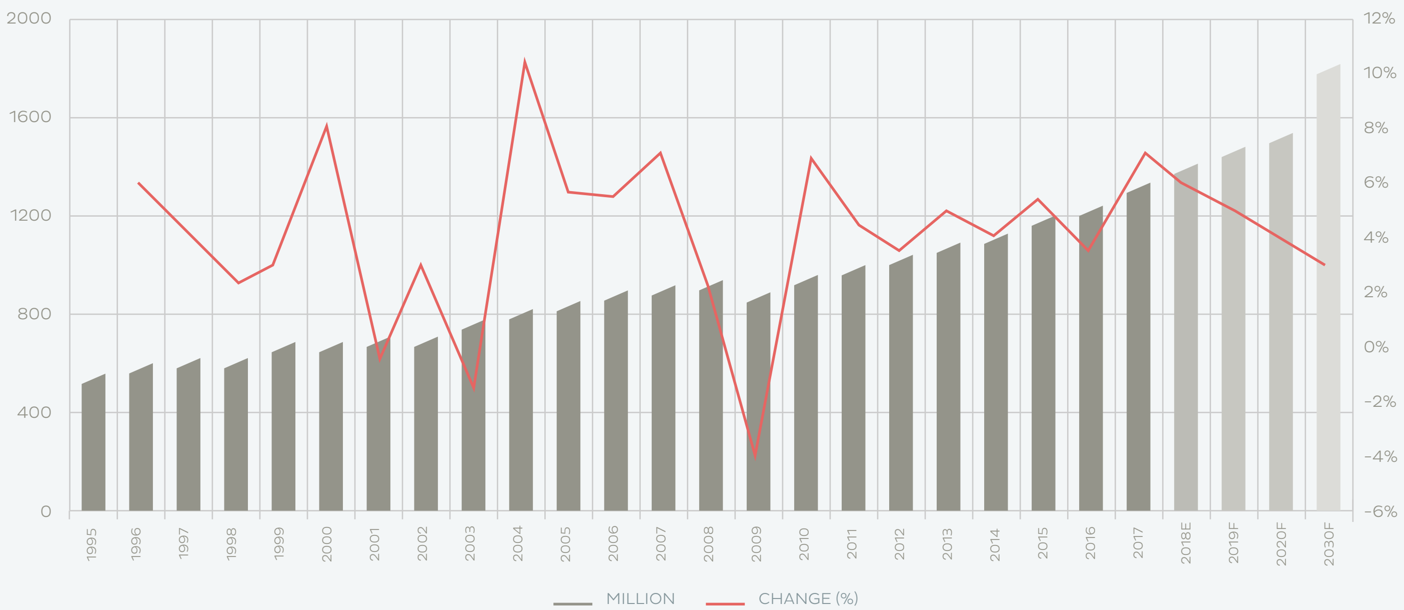
2
TOURISM

2.1. WORLD TREND

The tourism business continued to register positive growth, an important factor in the economic sustainability in some countries in the south of Europe, although it started to show signs of slowing down given the recovery, as previously seen, in the markets of northern Africa, Turkey and Egypt. The arrival of international tourists reached about 1.326 million, an increase of 6.94% from last year's values, according to the latest UNWTO's World Tourism Barometer. Predictions for 2030 remain impressive, overcoming 1.809 million tourists.

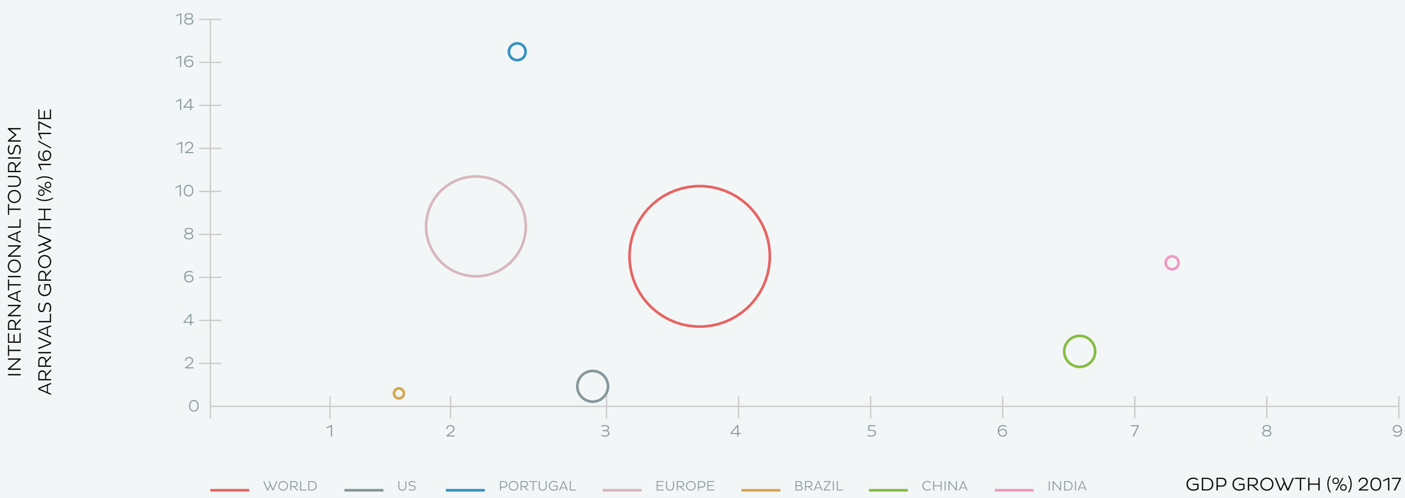
Growth in revenue from international tourists is estimated to have reached a value of around 5% in 2018. Therefore, and according to the latest UNWTO data, the tourism sector continues to represent about 10% of the world's GDP, 1/10 of employment and 1.6 billion USD in exports which represents about 7% of international trade and over 30% of service exports.

TABLE 6
EVOLUTION OF NUMBER OF INTERNATIONAL TOURIST ARRIVALS



SOURCE: WORLD TOURISM ORGANIZATION (UNWTO)

TABLE 7
NUMBER OF INTERNATIONAL TOURIST ARRIVALS

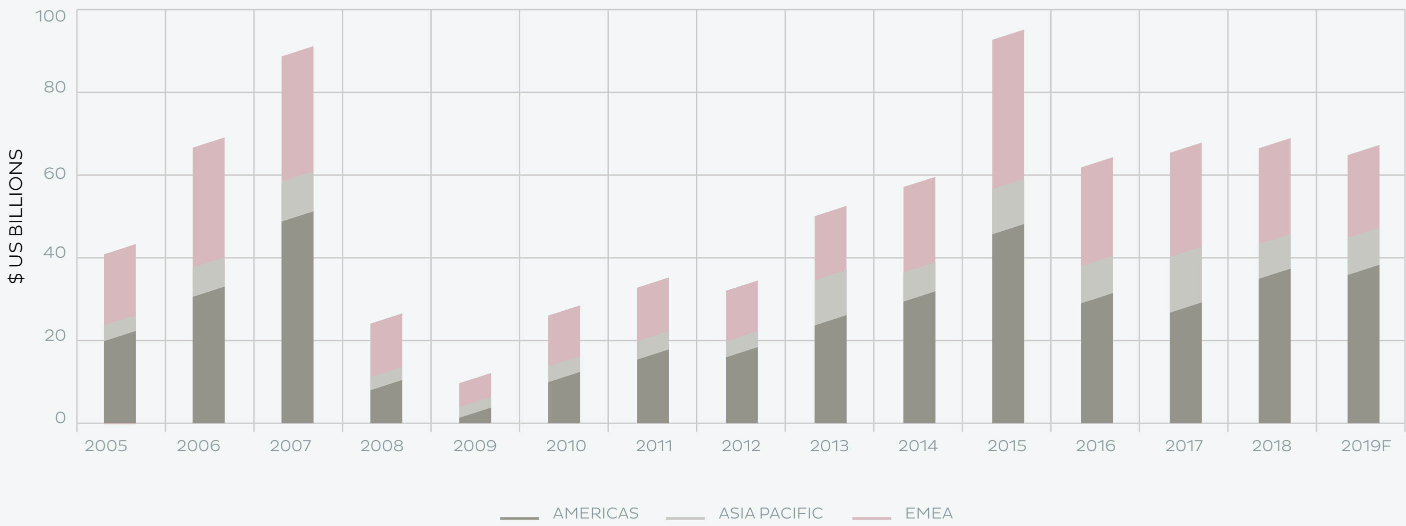


SOURCE: WORLD BANK; UNWTO

The availability of funds existing in the market as a result of central banks' liquidity policies and the relatively high yields practiced in the hospitality market have contributed to a high level of transactions in the last 3 years. Additionally, the growth registered in the main regions of the globe accompanied by the sustained increase in tourist flow have allowed for the maintenance of the global investment in this sector. According to the last report – Hotel Investment Outlook 2019 – produced by Jones Lang LaSalle – Hotels & Hospitality it is estimated that 2018 has been a very positive year (68 billion USD) which registered a slight increase in the volume of global transactions in relation to the 2 previous years.

Despite the consistency of the European touristic market in the last years, political uncertainty in important countries like the UK, France or Italy conditioned the volume of investment in the continent in 2018. On the other hand, the dynamic economy of the US market contributed to a significant increase of investments made in the USA. As a consequence of the pressure to increase interest rate in the market, hospitality market yields also had some inflationary pressure although with very slight increases. To increase returns investors continued to look within western markets to countries such as Portugal, Spain and Greece and secondary cities in Germany and the UK although interest has decreased significantly in the latter with the increased uncertainty surrounding Brexit.

TABLE 8
GLOBAL HOTEL TRANSACTION VOLUME 2005 – 2019F BY JLL



SOURCE: JONES LANH LASALLE

2.2. EUROPE

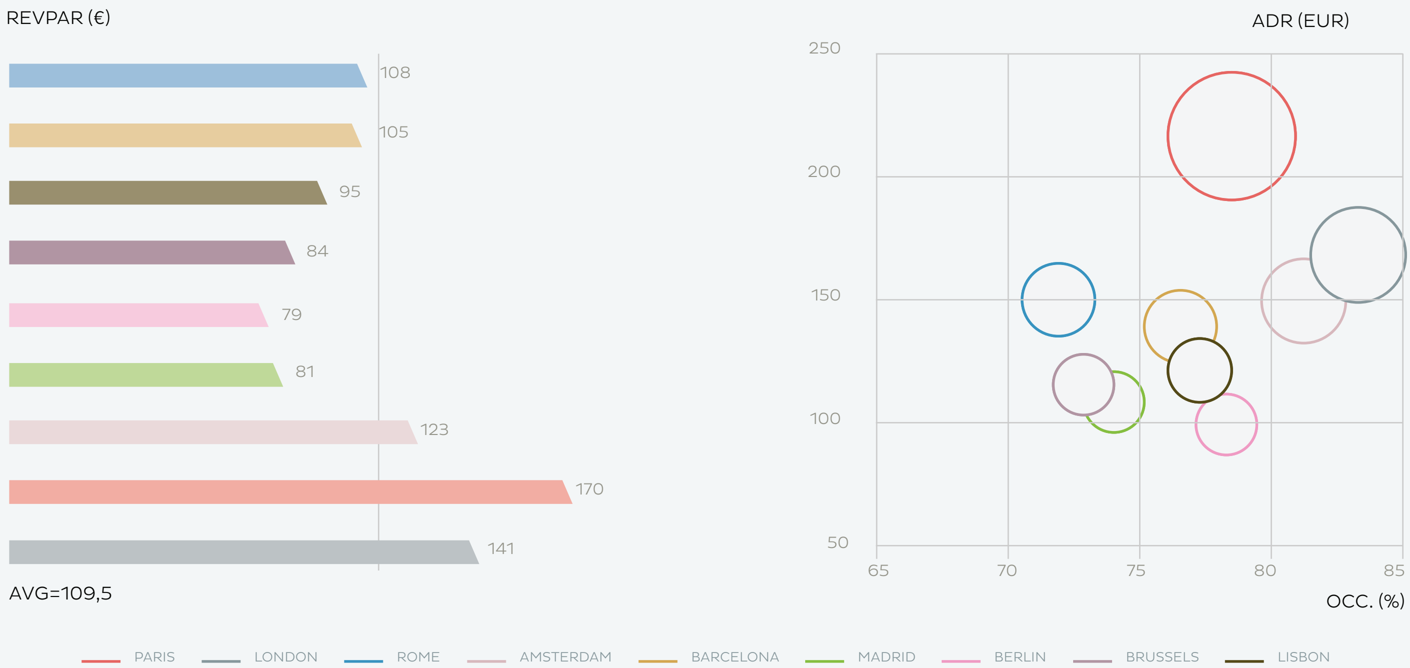
Following world trend, growth in tourism in Europe is expected to have reached about 6% in 2018. The stronger markets in terms of tourist demand were Portugal, Spain, Greece, France and Italy with some deceleration in the end of the year as previously seen. It must be pointed out that the continued international openness in the last years in Portugal contributed significantly to an increase perception of quality of the country as a tourist destination.

According to the European Travel Commission report of the last quarter of 2018 – Trends and Perspectives, Europe registered a strong performance in terms of growth in international tourists of around 6%. Turkey (+22%), Balkans (+14%) and Greece (+9%) were some of the highlighted tourist destinations in 2018.

Portugal and Spain after several consecutive years of significant growth saw the volume of tourist arrivals stabilize.

With the critical date ever closer the uncertainty created by Brexit with a possible exit without agreement conditioned significantly tourist flows from the United Kingdom.

TABLE 9
REVENUE PER AVAILABLE ROOM AND AVERAGE DAILY RATE 2018



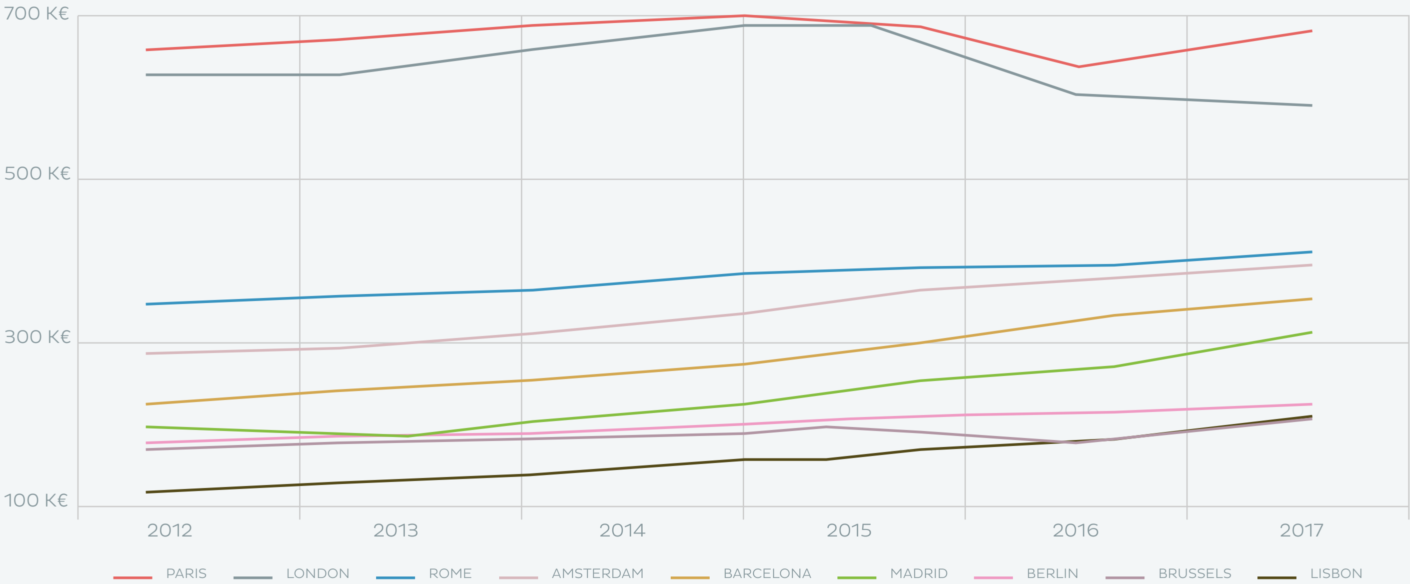
SOURCE: STR GLOBAL

The main cities in Europe, in terms of investment (value per room) were once again Paris and London. The cities in which Pestana Hotel Group has or will have a hotel are London, Amsterdam, Barcelona, Madrid, Berlin and Lisbon having the latter registered a growth rate in RevPAR of 6.8% against the previous year.

These successive performance growth rates in Lisbon in the previous years have contribute to get the Portuguese capital's average prices to the main European capitals although there still exists a considerable gap. This trend has also been verified in the increase in investment value per room since 2012. The increase in RevPAR in 2018 was mainly due to an increase in the average price charged which registered an increase of 7.7% while occupation decreased 0.8% against the previous year.

Besides Lisbon, also Oporto, a city where Pestana Hotel Group has decided to invest significantly, has presented significant consecutive growth rates. It is expected to have 6 units under Pestana Hotel Group management in the next 2 years.

TABLE 10
AVERAGE HOTEL VALUE PER ROOM – HVS



SOURCE: HVS – "EUROPEAN HOTEL VALUATION"

2.3. PORTUGAL

As previously referred, Portuguese tourism continues to live a very positive moment post crisis justified by the increase in number of visitors, revenue and RevPAR in domestic and international markets although slightly lower than in previous years and a slight decrease in number of overnights has already been seen in 2018. The country feeder markets are mainly European as shown in the table below.

TABLE 11
PORTUGUESE TOURISM HIGHLIGHTS

	2018F	2017	△18/17	2016
DOMESTIC VISITORS ('000)	8.291	7.980	4%	7.600
INTERNATIONAL VISITORS ('000)	12.737	12.712	0%	11.418
OVERNIGHTS BY INTERNATIONAL VISITORS ('000)	40.809	41.727	-2%	38.300
REVENUE (MILLIONS €)	16.668	15.153	10%	12.800
REVPAR (€)	52,66	50,30	5%	42,00

FEEDER MARKETS (BY NUMBER OF VISITORS) ('000)	2018F	2017	WEIGHT	2016
UINTED KINGDOM	1.818	1.940	14%	2.248
SPAIN	1.758	1.725	14%	1.650
FRANCE	1.324	1.351	10%	1.350
GERMANY	1.258	1.312	10%	1.200
BRAZIL	943	870	7%	570
OTHERS	5.636	5.513	44%	4.400
TOTAL	**12.737**	**12.712**	**100%**	**11.418**

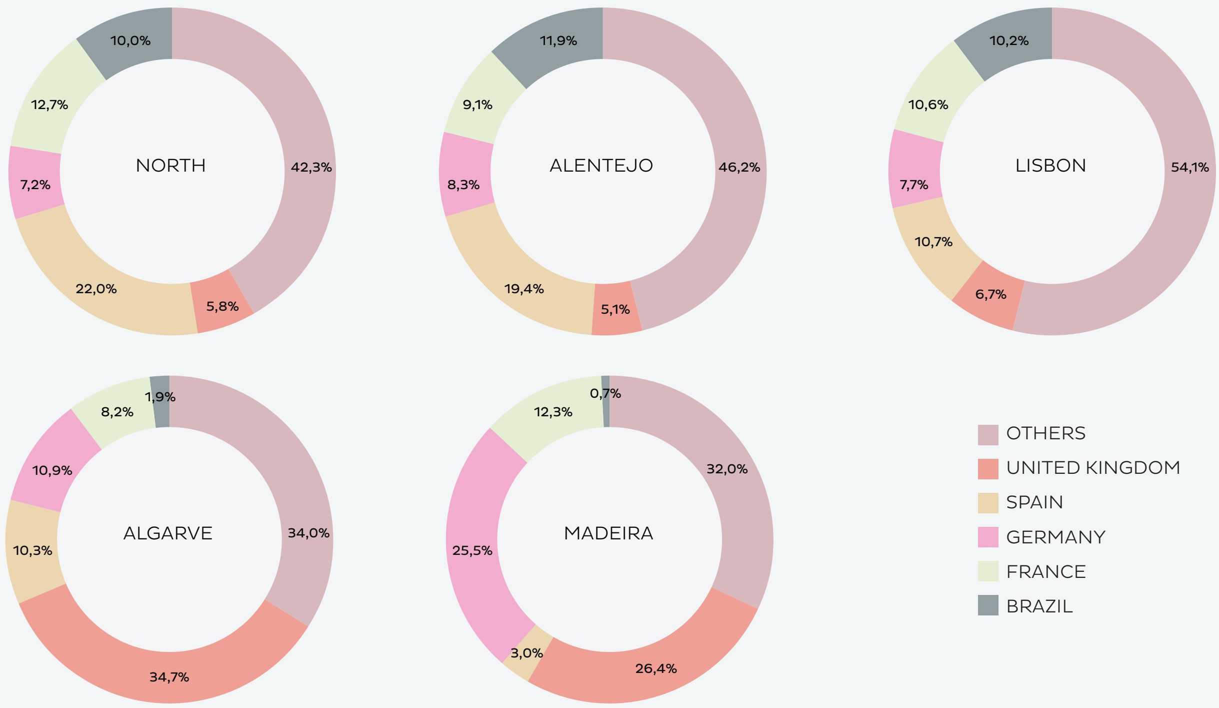
Source: Turismo de Portugal; INE, BdP

The main touristic regions are still Madeira and Algarve in the resort segment and the cities of Lisbon and Oporto (that concentrates the visitors of North region) in the urban segment (city breaks and meetings, incentives, conferences and exhibitions). The first two destinations showed decreases mainly due to constraints related with the local airport and the dependency on the British market. In both destinations, there were decreases in visitors from the UK and Germany. The latter was particularly affected by the bankruptcy of airline companies which reduced the number of available flights to Madeira.

The internal market showed an increase of around 4% in terms of visitors in 2018 when compared with the previous year. The economic recovery (Gross Domestic Product, or GDP, continues to grow and is supported by a continued trade balance superavit and now also in investment and a reduction in unemployment which the tourism business much contributed for) helped sustain private consumption in tourism spending and related tourist activities.

TABLE 12

PORTUGUESE FEEDER MARKETS BY REGION – YTD NOV 18

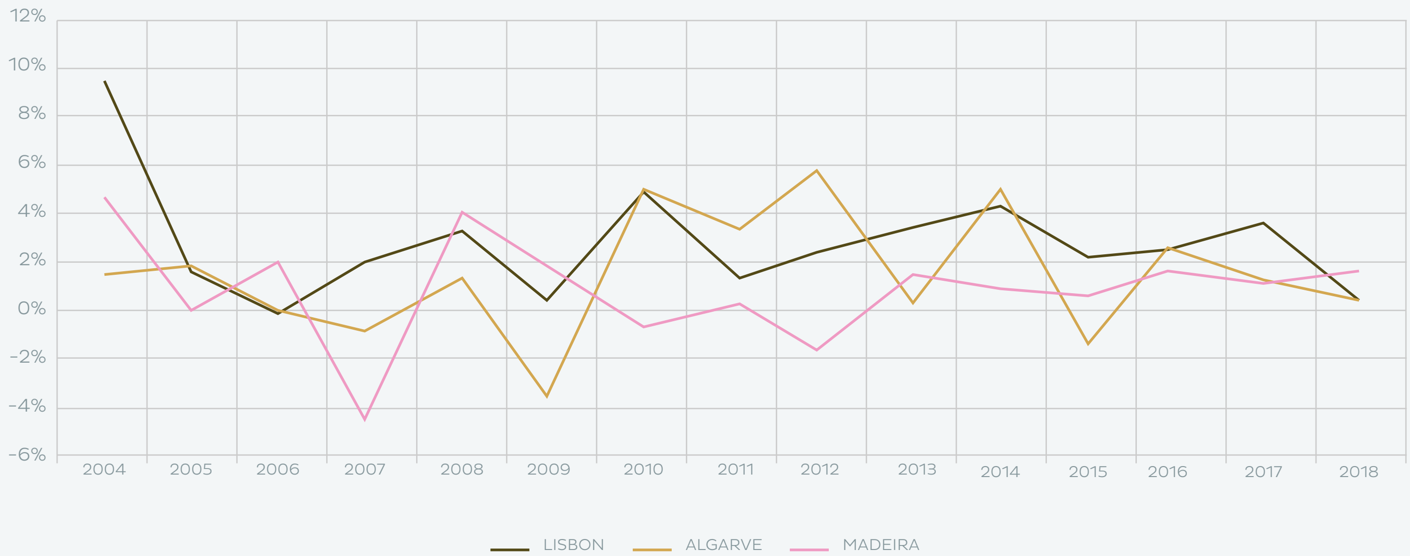


SOURCE: STR GLOBAL

The increase in demand which has been verified in the main national touristic markets continued to be met with an increase in offer in 2018, namely in the main Portuguese destinations (as can be seen in the table below). Since this growth in offer has been lower than the increase in demand tourism in Portugal continued to grow in a consistent and sustainable way in the previous year.

TABLE 13

NUMBER OF ROOMS EVOLUTION

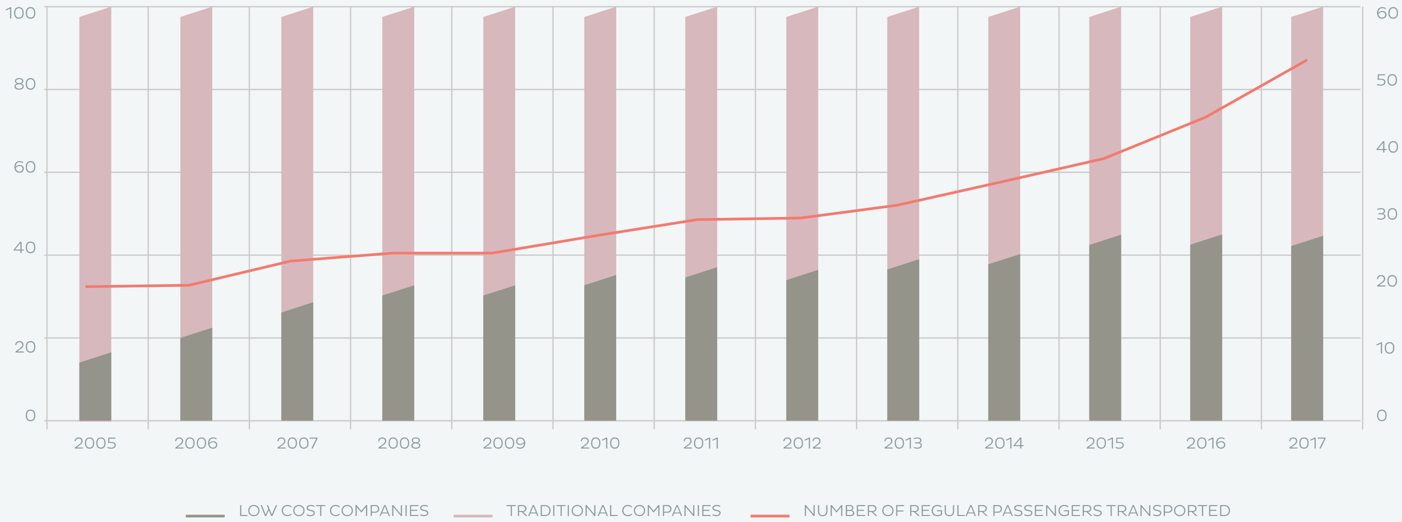


SOURCE: INE

Another contributing factor to the dynamism in tourism was the growth in lowcost airlines available in the portuguese market. The number of low cost companies operating in Portugal went from 3 in 2001 to 15 nowadays.

According to the National Civil Aviation Authority (ANAC) these operators registered a very significant growth in terms of passengers transported between 2003 and 2006 with their national market share increasing from 6% to 22%. The growth in passengers transported by these operators has remained steady which implied additional gains in market share to 37% in 2011 and to over 40% in 2017.

TABLE 14
NUMBER OF PASSENGERS TRANSPORTED



SOURCE: NATIONAL CIVIL AVIATION AUTHORITY (ANAC) (CALCULATIONS BY BANK OF PORTUGAL)

2.4. AFRICA

According to the World Tourism Organization the number of tourist arrivals will grow from about 50 million to 130 million until 2030. Several African countries have taken steps to ensure that it is easier for tourists to travel there through the introduction of low-cost airlines and to increase the world's perception that it is a safer and more streamlined continent. In the past, events like the Ebola outbreak and terrorist attacks in Egypt and Tunisia affected the continent as a whole and not only the countries facing the respective crisis, however, tourism in the continent has proven more resilient than previously thought and with the introduction of several government policies like simplifying the visa process or allowing low-cost airline to operate has even bounced back and is reaching new heights. For example and as can be seen in the table below, in the countries where Pestana Hotel Group operates international tourism arrivals have increased in every single country, especially in South Africa and Cape Verde, with the exception of Mozambique which is still struggling with some social unrest. Data for Africa should be read with caution as it is based on limited information.

TABLE 15
AFRICA INTERNATIONAL TOURISM ARRIVALS

AMOUNTS IN THOUSANDS OF EUROS

AFRICA	2013	2014	2015	2016E	2017E
MOROCCO	*10.046*	*10.283*	*10.283*	*10.332*	*11.349*
SUBSAHARAN AFRICA	*36.217*	*34.900*	*35.600*	*38.900*	*41.000*
CAPE VERDE	503	494	520	598	668
MOZAMBIQUE	1.886	1.661	1.552	1.639	1.600
SÃO TOME PRINCIPE	N.A.	N.A.	N.A.	29	30
SOUTH AFRICA	9.537	9.549	8.904	10.044	10.285

Source: UNWTO; Figures for 2016/2017 are estimated.

2.5. LATIN AMERICA

2017 was a year of renewal and growth for Latin America with an increase in international tourist arrivals of 7 percent according to the World Tourism Organization (UNWTO). Although there are still no official numbers, 2018 is expected to be a year of growth with several countries having had recent changes in governments which are, for the most part, focused on the respective economies and the role of tourism as a driving force for increasing GDP. In the Latin American countries in which Pestana Hotel Group is present the number of international tourism arrivals have increased and are expected to continue to grow mainly due to the stabilization of the Argentinian and Brazilian economies and governments' measures which are expected to increase safety and the improve external perception and access to these countries.

TABLE 16
LATIN AMERICA INTERNATIONAL TOURISM ARRIVALS

AMOUNTS IN THOUSANDS OF EUROS

SOUTH AMERICA	2013	2014	2015	2016E	2017E
ARGENTINA	5.246	5.931	5.736	6.638	6.705
BRAZIL	5.813	6.430	6.306	6.547	6.589

Source: UNWTO; Figures for 2016/2017 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 corresponding subsidiary, including a subsidiary for the Group’s shared services, namely:

- **Grupo Pestana, S.G.P.S., S.A.** – Portugal;
- **Djebel, S.A.** – Brazil as South American Portuguese speaking country;
- **Pestana Inversiones, Lda.** – South American Spanish speaking countries;
- **Salvintur, S.A.** – Africa;
- **ESGAP, S.A.** – Group’s shared services companies.

Pestana Hotel Group currently holds, besides its 55 hotels (16 in Madeira, 9 in Algarve, 5 in Lisbon/Cascais/Sintra, 2 in Oporto, 1 in Azores, 6 in Brazil, 1 in Argentina, 3 in Mozambique, 3 in São Tomé and Príncipe, 1 in South Africa, 1 in Cape Verde, 1 in Morocco, 1 in London, 1 in Berlin, 1 in Barcelona, 1 in Netherlands, 1 in Miami, 1 in Cuba) and the management of the 34 “Pousadas de Portugal”, 9 units of Vacation Club, 8 real estate / touristic ventures, 6 golf courses, 2 casino gambling concessions (one in Madeira and one in São Tomé and Príncipe), 1 travel agency, 1 company in the drinks industry and the management of the public concession of the Free Trade Zona of Madeira.

3.2. BALANCE SHEET HIGHLIGHTS

Total assets reached in 2018 approximately 1.177 bn Euros, which represents an increase of 0,4% when compared with the previous year mainly due to an increase in tangible fixed assets from 841 million Euros to 902 million Euros (+7%). This increase was due to the purchase of D. João II hotel in November 2018 for a total amount of 39 million Euros, having contracted a loan of 25 million Euros for this purpose, as well as due to the continued investment in new units which are currently under construction. It is noteworthy that Capex under construction represents about 11% of tangible fixed assets. Net capex (99,4 million Euros) doubled the previous year’s Net capex (49,4 million Euros). It is important to mention once again that Pestana Hotel Group has a business model different from other hospitality groups. The Group does not look for asset light strategies, or management contracts or hotels in franchising. The Group’s hotels are owned or leased and the Group assumes 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 at cost less accumulated depreciation (see 3.3 in Notes to the consolidated financial statements), there is a big reserve of value in its assets due to overall market prices being significantly higher when compared to what is presented in the balance sheet.

The Group's net debt increased 7% from 332 million Euros in 2017 to 355 million Euros in 2018 mainly due to the loan obtained to purchase the hotel D. João II as previously mentioned. However, the leverage ratio (Net debt/EBITDA) decreased from 2,91x to 2,36x because EBITDA increased 32% when compared with last year. Also, if Capex under construction was expunged from Net debt, since these assets are not yet generating any EBITDA, the leverage ratio would be 1,73x while the previous year's ratio would be 2,04x.

Equity increased from 362 million Euros to 433 million Euros, Adjusted Equity (AE) increased from 518 million Euros to 564 million Euros. Adjusted Assets (AA) increased to 926 million Euros and the ratio (AE/AA) increased to 61%, 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 2 years, mainly due to a 65 million Euro bond issue that matures in 2020. This unsecured bond issue will be refinanced in due time.

Pestana Hotel Group continues to keep a sound liquidity position with cash and cash equivalents of around 61 million Euros. Bank overdrafts and unused commercial paper facilities were available at the end of 2018 in an amount of approximately 92 million Euros from several different financial institutions.

Pestana Hotel Group has around 68% of its assets in Portugal, while local demand remained steady at 25% of the overall revenue (18% 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.

TABLE 17 – FINANCIAL HIGHLIGHTS – BALANCE SHEET

AMOUNTS IN MILLIONS OF EUROS

NET ASSETS	2018	% TOTAL	GRUPO PESTANA SGPS	DJEBEL	PESTANA INVERSIONES	HOTÉIS DO ATLÂNTICO	SALVINTUR	OTHER	2017	2016
INVESTMENT (FIXED ASSETS) [(a)]	875,4	95%	591,7	78,6	7,1	151,6	43,5	2,9	816,3	869,9
DEFERRED TAX LIABILITIES	-38,1	-4%	-22,8	-8,9	-0,4	-1,6	-4,4	0,0	-58,6	-72,5
TOTAL ADJUSTED FIXED ASSETS	837,3	90%	568,9	69,7	6,7	150,0	39,2	2,9	757,7	797,4
INVESTMENT (FINANCIAL ASSETS) [(b)]	32,1	3%	17,3	0,0	0,0	8,7	0,0	6,1	30,1	16,8
OTHER NON-CURRENT ASSETS [(c)]	25,9	3%	10,1	2,9	0,0	1,2	0,1	11,6	51,7	52,7
CURRENT ASSETS - CURRENT LIABILITIES [(d)]	30,4	3%	33,1	2,2	-0,5	-0,3	0,3	-4,4	23,7	25,8
TOTAL ADJUSTED ASSETS	**925,8**	**100%**	**629,4**	**74,9**	**6,2**	**159,5**	**39,6**	**16,2**	**863,1**	**892,7**
FUNDING ORIGINS										
EQUITY	432,9	47%	254,3	60,9	8,0	101,9	40,8	-33,0	361,6	329,9
COLLECTED DEFERRED REVENUES [(e)]	176,6	19%	162,6	10,2	0,0	1,5	0,1	2,3	201,2	211,1
DEFERRED SALES COST [(e)]	-45,2	-5%	-45,2	0,0	0,0	0,0	0,0	0,0	-44,8	-45,5
TOTAL NON REMUNERATED FUNDING (ADJUSTED EQUITY)	**564,3**	**61%**	**371,7**	**71,1**	**8,0**	**103,4**	**40,8**	**-30,7**	**518,0**	**495,5**
LONG TERM FINANCIAL DEBT [(f)]	343,9	37%	246,9	0,0	0,0	61,7	0,0	35,3	356,4	395,4
OTHER NON-CURRENT LIABILITIES [(g)]	6,1	1%	1,2	4,3	0,0	0,6	0,0	0,0	13,5	13,6
TOTAL NON-CURRENT FUNDING	**914,3**	**99%**	**619,8**	**75,4**	**8,0**	**165,7**	**40,9**	**4,6**	**887,9**	**904,6**
SHORT TERM FINANCIAL DEBT [(f)]	72,7	8%	50,4	0,2	0,0	3,4	2,7	16,1	56,8	83,4
CASH + FINANCIAL ASSETS AVAILABLE FOR SALE [(h)]	-61,3	-7%	-40,7	-0,7	-1,8	-9,6	-3,9	-4,4	-81,6	-95,2
NET CURRENT DEBT	**11,4**	**1%**	**9,6**	**-0,5**	**-1,8**	**-6,2**	**-1,2**	**11,6**	**-24,8**	**-11,8**
TOTAL FUNDING ORIGINS	**925,8**	**100%**	**629,4**	**74,9**	**6,2**	**159,5**	**39,6**	**16,2**	**863,1**	**892,7**
NET DEBT [(i)]	355,3		256,5	-0,5	-1,8	55,5	-1,2	46,9	331,7	383,6
EBITDA [(j)]	150,6		123,1	2,7	-0,2	9,5	4,1	11,2	114,1	94,8
WORKING CAPITAL	30,4		33,1	2,2	-0,5	-0,3	0,3	-4,4	23,7	25,8
NET CAPEX [(k)]	99,4		81,3	0,0	0,0	17,2	0,0	0,9	49,4	16,4
CAPEX UNDER CONSTRUCTION	95,3		64,57	0,00	4,82	25,19	0,68	0,00	98,7	109,5
NET DEBT / EBITDA RATIO	2,36		2,08	N/A	N/A	5,82	N/A	4,18	2,91	4,05
(NET DEBT - CAPEX UNDER CONSTRUCTION) / EBITDA RATIO	1,73		1,56	N/A	N/A	3,18	N/A	4,18	2,04	2,89
NET DEBT / EQUITY RATIO	0,63		0,69	N/A	N/A	0,54	N/A	-1,53	0,64	0,77
NET DEBT / TOTAL ASSETS RATIO (%)	38%		41%	N/A	N/A	35%	N/A	290%	38%	43%
LIQUIDITY RATIO (%) (E / (F+G+H))	14%		14%	16%	N/A	15%	145%	9%	19%	19%

(a) Includes Tangible fixed assets, Intangible assets and Investment properties and excludes Deferred sales cost; (b) Includes Investments in joint ventures and associates; (c) Includes Deferred tax assets and Trade and other receivables; (d) Excludes Cash and cash equivalents, Borrowings, Deferred revenue and Leasing Trade and other payables; (e) Collected sales of Pestana Vacation Club (“timeshare“); (f) Includes Leasing Trade and other payables; (g) Includes Provisions, Derivatives and Trade and other payables (excluding Leasings); (h) Includes Equity instruments at fair values through profit and loss; (i) Long term financial debt plus Net current debt; (j) Operating profit excluding Charges of depreciation and amortization, Reversals of impairment losses of tangible assets, Gambling tax paid by Casino and other minor accounts; (k) Additions net of Disposals.

3.3. PROFIT AND LOSS HIGHLIGHTS

The Group's revenue reached 434,2 million Euros (an increase of about 10%), for an EBITDAR of 168,4 million Euros (increase of 29%) and an EBITDA of 150,6 million Euros (increase of 32%). This was due not only to a global market growth, but also to an excellent performance of the Real estate business activity as well as to an increase in the number of keys (4%) and continued cost efficiency. The EBITDA / Net interests ratio was 9,8x, reaching this ratio based on an average interest rate that decreased to 3,8% due to the increase in EBITDA which far exceeds the increase in Net debt.

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. Excluding this 2017 transaction, EBITDA grew 21% in 2018.

Pestana Hotel Group follows an ownership model which means that it owns most of its assets making it a capital intensive Group. The Group also has a strong balance sheet mentality which is also very light on debt. It is also important to mention that the Group has a highly specialized shared services center which allows for the opening of new units with no significant incremental costs to the Group's cost structure. This fact, combined with the Group's highly effective and constant cost control policies and investment in new technologies and in the digital area of the hospitality business, makes it possible for the Group to continue to grow organically instead of through the purchase of existing companies.

Although Portugal has registered good results tourism wise, resulting in 2017 being the best year ever, the Group has opted to diversify. This diversification is taking place not only in Portugal, through the investment in new units for both the Group's usual touristic segments and also innovating and going after different segments, but abroad as well increasing the Group's presence especially in Europe and the United States.

The revenue and G.O.P. (Gross operating profit) structure continue to show similar weightings for the different business units already with an increase in the weight of Europe and the United States. However, G.O.P. margin decreased slightly when compared with last year while still presenting a significant margin. EBITDA margin, however, increased from 29% to a noteworthy 35%. It is also important to mention that the increase in Net income from 60,0 million Euros to 80,3 million Euros was significantly higher than in the Group's non remunerated funding resulting in an increase in the Group's return on equity (ROE).

TABLE 18
FINANCIAL HIGHLIGHTS – PROFIT AND LOSS

	TOTAL 2018	GRUPO PESTANA SGPS	DJEBEL	PESTANA INVERSIONES	HOTÉIS DO ATLÂNTICO	SALVINTUR	OTHER	TOTAL 2017	TOTAL 2016
ROOMS (TOTAL KEYS)	11.382	7.967	1.271	643	717	784.	0	10.921	10.798
OF WHICH ROOMS UNDER MANAGEMENT CONTRACT (KEYS)	1.274	694	63	508	0	9.	0	1.009	976
HOTEL UNITS (TOTAL)	106	81	7	2	5	11	0	105	106
OF WHICH UNITS UNDER MANAGEMENT CONTRACT	9	6	1	1	0	1	0	8	8

(AMOUNTS IN MILLIONS OF EUROS)

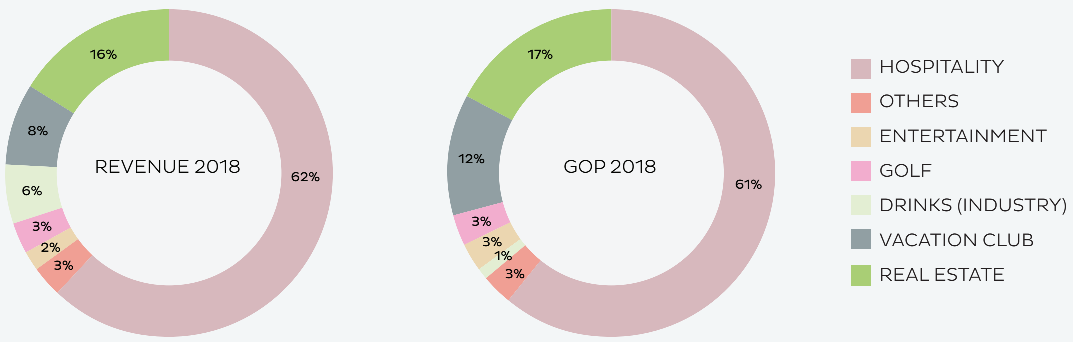
	TOTAL 2018	GRUPO PESTANA SGPS	DJEBEL	PESTANA INVERSIONES	HOTÉIS DO ATLÂNTICO	SALVINTUR	OTHER	TOTAL 2017	TOTAL 2016
REVENUE	434,2	353,7	18,6	3,5	33,6	18,7	6,1	393,5	360,1
GOP OF TOURISTIC ACTIVITY [a]	164,0	144,5	1,1	1,0	12,3	5,3	-0,4	155,7	123,5
EBITDAR [b]	168,4	139,3	2,8	-0,2	9,8	5,4	11,2	130,2	110,3
RENTS PAID TO OWNERS AND CONCESSIONS	-17,8	-16,2	-0,1	0,0	-0,2	-1,3	0,0	-16,1	-15,4
EBITDA	150,6	123,1	2,7	-0,2	9,5	4,1	11,2	114,1	94,8
DEPRECIATION AND AMORTIZATION	-36,7	-28,9	-2,0	-0,1	-3,4	-1,7	-0,7	-32,7	-35,9
EBIT	113,9	94,3	0,7	-0,2	6,2	2,4	10,5	81,3	59,0
INTEREST NET (INCLUED FEES)	-15,3	-9,9	-0,7	0,1	-1,7	-0,7	-2,4	-11,3	-23,1
INCOME TAXES [c]	-17,7	-14,9	0,0	-0,3	0,0	0,2	-2,6	-8,8	-2,8
NET INCOME INCLUDING NON CONTROLLING INTERESTS SHARE	80,3	68,8	-1,0	-0,3	1,9	1,3	9,7	60,0	28,7
GOP MARGIN (%)	38%	41%	6%	30%	37%	29%	-6%	40%	34%
EBITDAR MARGIN (%)	39%	39%	15%	-4%	29%	29%	183%	33%	31%
RENTS / EBITDAR (%)	11%	12%	4%	0%	2%	24%	0%	12%	14%
EBITDA MARGIN (%)	35%	35%	14%	-4%	28%	22%	183%	29%	26%
EBIT MARGIN (%)	26%	27%	4%	-6%	18%	13%	172%	21%	16%
ROE (%)	14,2%	18,5%	-1,5%	-4,1%	1,8%	3,1%	-31,6%	11,6%	5,8%
EPS	60,65	N/A	N/A	N/A	N/A	N/A	N/A	41,82	21,75
EBITDA / NET INTERESTS (..X)	9,8	12,4	4,1	1,1	5,6	5,8	4,6	10,1	4,1
AVERAGE COST OF GROSS DEBT (%)	3,8%	3,0%	65,4%	N/A	6,4%	3,5%	3,7%	3,9%	4,9%

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

TABLE 19
REVENUE AND GOP 2018 BY BUSINESS AREA



A. HOSPITALITY

Hospitality, with more than 3 million guests, grew close to 6,5% in GOP on average in 2018, including the foreign exchange effect, mainly due to the opening of the new Pestana Amsterdam Riverside Hotel and the first full year of operation of Pestana Royal Bay in Madeira but also due to the remainder of the European operations. Brazil remained at levels similar to the previous year. Argentina even though going through economic turmoil has presented significant increases. Excluding Cape Verde, the remaining African units presented slight increases.

TABLE 20
ARR AND OCCUPANCY BY MAIN COUNTRY

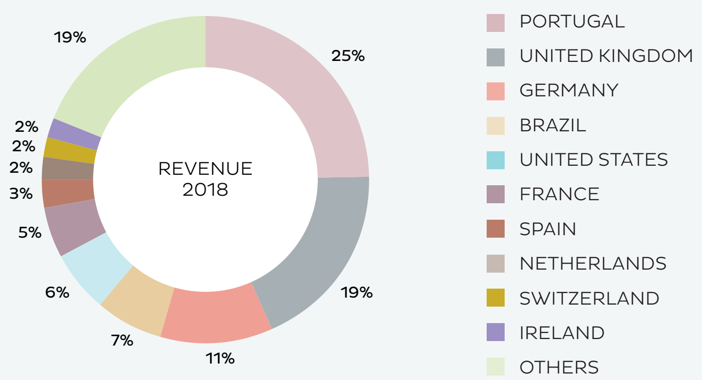
	ARR IN LOCAL CURRENCY				ARR IN EUROS			OCCUPANCY		
HOTEL COUNTRY	**CURRENCY**	**2018**	**2017**	**VAR**	**2018**	**2017**	**VAR**	**2018**	**2017**	**VAR**
PORTUGAL	EUR	102	98	4%	102	98	4%	69%	72%	-4%
BRAZIL	BRL	269	259	4%	62	72	-13%	62%	56%	11%
ARGENTINA	ARS	2.219	1.250	78%	65	65	0%	67%	74%	-9%
GERMANY	EUR	109	103	6%	109	103	6%	83%	83%	0%
NETHERLANDS	EUR	199	N.A.	N.A.	199	N.A.	N.A.	54%	N.A.	N.A.
SPAIN	EUR	102	101	1%	102	101	1%	89%	87%	3%
UK	GBP	123	120	3%	139	136	2%	87%	84%	4%
USA	USD	175	161	9%	149	142	4%	71%	67%	5%
CAPE VERDE	EUR	69	76	-9%	69	76	-9%	68%	60%	14%
MOROCCO	MAD	1.324	1.298	2%	119	119	1%	78%	78%	1%
MOZAMBIQUE	MZN	4.469	4.335	3%	63	61	3%	42%	42%	0%
SAO TOMÉ	EUR	94	93	0%	94	93	0%	44%	50%	-14%
SOUTH AFRICA	ZAR	1.008	1.008	0%	65	67	-4%	58%	65%	-10%
AVERAGE					**102**	**98**	**4%**	**67%**	**69%**	**-2%**

Hospitality revenue in Portugal registered a 6,9 million Euro increase explained mainly by the added inventory as a result of opening new units. Portugal continues to present a significant growth in results in the city-breaks segment in Lisbon and Oporto while the resort segment in Madeira and Algarve still remain strong despite a slight decrease in occupancy verified, specially by the end of 2018. However, an increase in the average price has occurred due to the increasing acknowledgement of the destination in the last years.

On average, all remaining hotels in Europe grew in ARR (Average Room Rate) in local currency with the exception of Germany which had the same occupancy rate which still remains at very high levels. In all American hotels an increase in occupancy was registered while prices, on the other hand, remained steady or increased with the exception of Argentina which decreased occupancy as a result of the high inflation verified. However, in Brazil ARR decreased in Euros due to the depreciation of the Brazilian real. In Africa, in Cape Verde prices decreased but occupancy increased, in São Tomé & Príncipe prices remained constant but occupancy decreased, in South Africa prices and occupancy decreased and in Mozambique prices increased while occupancy remained constant.

In Portugal internal demand continues to recover with a positive impact felt in the four star up-scale hotels and Pousadas segment. The Group's main feeder markets remained the same: UK, Germany, Brazil, United States and France.

TABLE 21
HOTEL GROUP FEEDER MARKETS (BY COUNTRY)



In 2018, as previously stated, the Group's growth was supported not only by existing hotels but also by new openings namely:

- 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;

- The expansion of Pestana Quinta do Arco Nature & Rose Resort in Madeira which increased the existing 18 keys to 57 keys with another 4 keys currently undergoing refurbishment. 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;

- Construction of the new Obidos' Pousada was concluded which resulted in the opening of a new 36 key unit in this location.

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

- Four-star Pestana CR7 NY West 39th street (USA) for a 176 key hotel in Manhattan, to open in 2020. Construction is currently in progress. This joint venture project's total investment is estimated to be 52 million USD;

- Four-star Pestana NY East 39th street (USA) for a 96 key hotel in Manhattan, to open in mid-2019. Permits are in place and construction is currently in progress. The Group's total investment is estimated to be 32 million USD;

- Four-star NY New Jersey city hotel (USA) for a 106 key hotel, to open in 2020 following a lease agreement signed in 2016. Construction was delayed but is expected to start in mid-2019;

- Five-star Plaza Mayor Madrid (Spain) for an 89 key hotel. Construction is in its final stages and this unit is expected to open under the Pestana Collection brand at the end of the first quarter of 2019. The Group's total investment is expected to be 9 million Euros;

- Four-star Pestana CR7 in 29 Gran Via in Madrid (Spain) for a 168 key hotel lease agreement. Construction is expected to begin in 2019. The Group's total investment is estimated to be of 2 million Euros;

- Five-star Pestana Paris (France), a 210-key Pestana CR7 hotel in Paris city center (13th district) integrated in a commercial and office enterprise. The project is still in its licensing phase and it is expected to be concluded in 2023 if local authorities approve the proposal. The Group's total investment is estimated to be 58 million Euros;

- Five-star Marrakesh, Medina Square Hotel (Morocco), with 174 rooms, a new Pestana CR7 hotel. 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 2019;

- Five-star Pestana Montevideo (Uruguay) with 100 keys, spa, indoor pool and ample meetings and event areas. It will also have two restaurants, one of which on the top floor with an excellent view over the city of Montevideo and will be especially focused on the business and event segment. The Group's total investment is expected to be of 16 million USD;

- Five-star Pestana Blue Alvor, an all-inclusive 551 key hotel in Alvor, Algarve, in a plot of land with 12,8 Ha between the Alto-golf golf course and Pestana Delfim, both already under exploration by the Group with a direct route to the beach in Alvor. The Group's total investment is expected to be 36,5 million Euros. It is expected to open in May 2019;

- Four-star Pestana Douro, near Pousada do Freixo, with 165 keys is a project resulting from the refurbishment of the old floral soap factory in Oporto with a priviledged view over the river Douro acquired by the Group. The Group's total investment is expected to be 13 million Euros. It is expected to open by the end of 2019;

- Four-star Pestana Rua das Flores (Oporto) with 87 keys, an hotel in Oporto's historic center which will result of the refurbishment of a building that was in a high state of disrepair is expected to open by the end of 2019. The Group's total investment is estimated to be 13,5 million Euros;

- Refurbishment of a four-star hotel in the port building in Câmara de Lobos on the island of Madeira is expected to be concluded in July 2019. This beautiful building hosted Winston Churchill in the past and will be transformed into a themed hotel with 59 keys in order to increase and diversify the Group's offer in the region. The Group's total investment is estimated to be 4 million Euros;

- Four-star Pestana Braancamp (Lisbon) with 90 keys resulting from an urban sub-lease agreement for 15 years. The Group's total investment is expected to be 6,6 million Euros. It is expected to open in 2019;

- Four-star Pestana Augusta (Lisbon) with 89 keys resulting from a lease agreement for 26,5 years renewable for three equal a consecutive 5 year periods. The Group's total investment is expected to be 7 million Euros. It is expected to open in 2020;

- Vila Real de Santo António's 57-key Pousada started construction following the agreement signed with the municipality of Vila Real de Santo António in Algarve in 2017. The Group's total investment is estimated to be 3 million Euros and it is expected to open in 2019.

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 Delfim, Pestana Cascais and Pestana Promenade refurbishments were concluded.

B. REAL ESTATE

Real Estate represents in 2018 16% of Pestana Hotel Group's revenue, 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 2018 doubling its weight on the Group's revenue since the previous year.

In 2018, the Troia Eco-resort project represented an increase in revenue of 30,6 million Euros with a corresponding increase of 13,7 million Euros in EBITDA as a result of the performance verified in the real estate business as a whole in 2018 which allowed for the increase in number of units sold but also in the price each one was sold for. Additionally, in 2018, Pestana Hotel Group sold a building in Lisbon in a joint venture, resulting in an increase of 5,1 million Euros in EBITDA corresponding to the Group's share.

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, always providing 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 inventory), which proved to be the right choice during market downturns avoiding high opportunity costs.

C. PESTANA VACATION CLUB

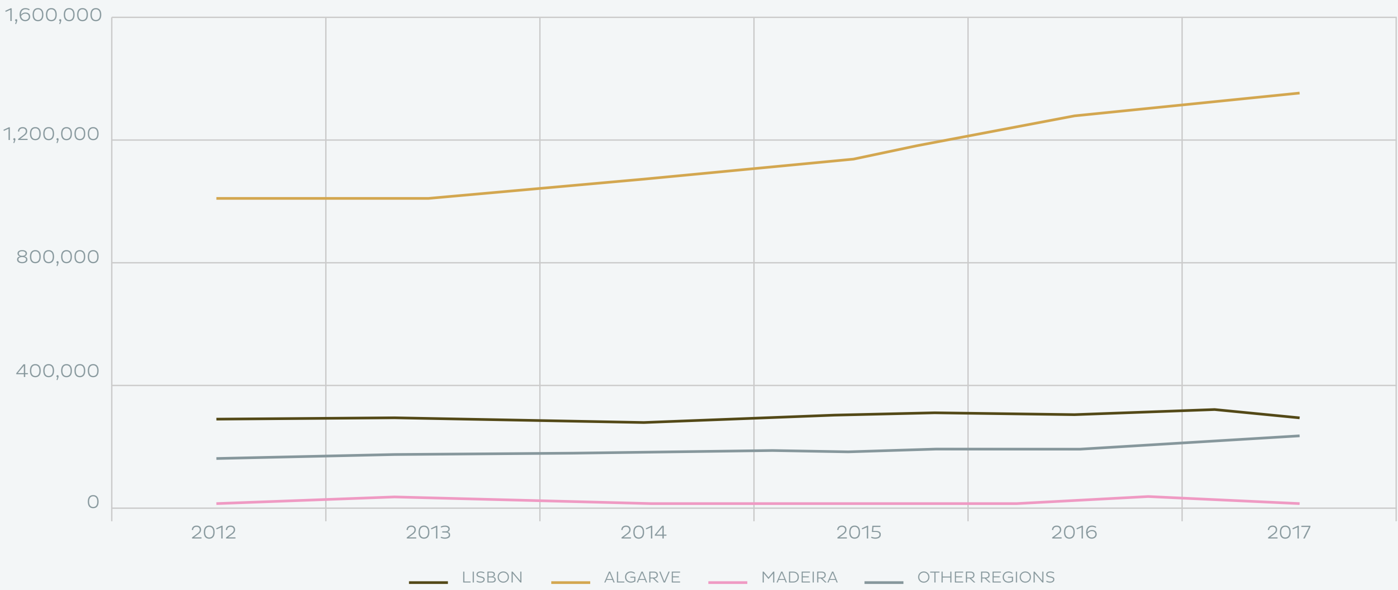
Vacation Club which represents 8% of Pestana Hotel Group's revenue continues to be supported by close to 30.000 families that have kept following the Group for the last almost 30 years. Pestana continues to develop Pestana Vacation Club (PVC) that allows guests to travel all along the Group's hotels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

The revenue from Pestana Vacation Club is only recognized in the Consolidated income statement when the guest uses the 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 future capex.

D. GOLF

This activity now represents 3% of Pestana Hotel Group's revenue and decreased when compared with 2017, as a result of essentially two factors: airline bankruptcy's such as Monarch since it represented a significant flow of tourists from the British market to Algarve and the high level of rain verified in the months that represent golf's high season. The Group continues to explore the same six golf courses, namely Alto Golf, Pinta, Gramacho, Silves and Vila Sol in Algarve and Beloura in Lisbon.

TABLE 22
EVOLUTION OF GOLF ROUNDS IN PORTUGAL

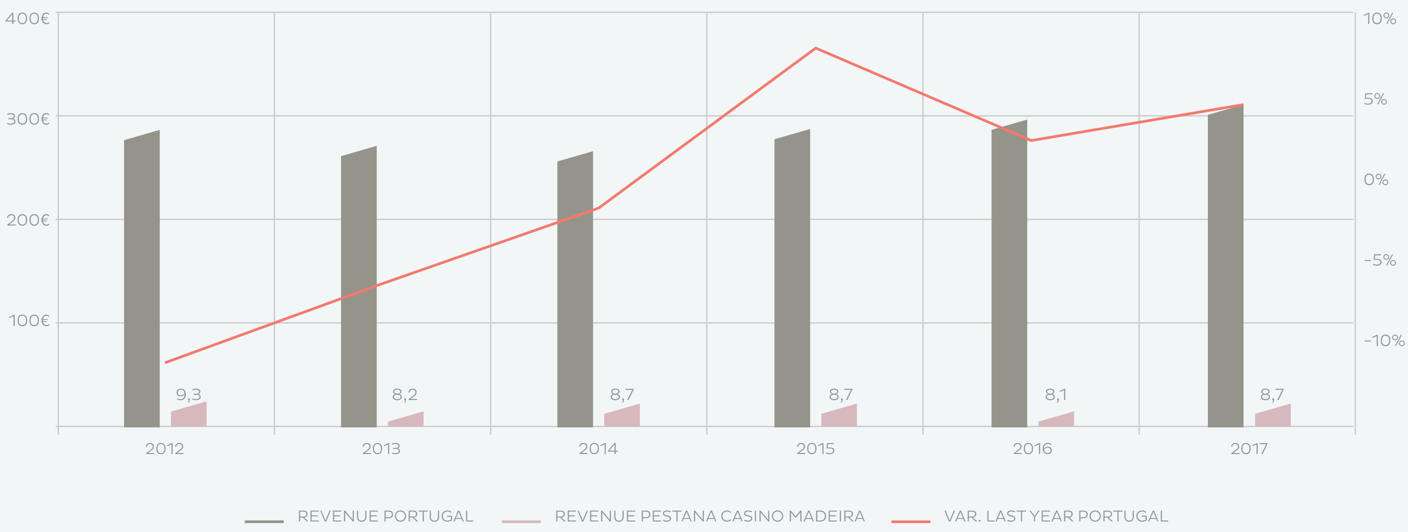


SOURCE: CONSELHO NACIONAL DA INDÚSTRIA DO GOLFE (CNIG)

E. ENTERTAINMENT

Casino activity represents 2% of the Group's activities, as a complement to the main hotel business, slightly decreased in 2018, and is supported by two Casinos, one in Madeira and the other in São Tomé & Principe. Madeira's casino, continues to represent the majority of the revenue of this segment. The Pestana Casino da Madeira increased its G.O.P. by 11%.

TABLE 23
EVOLUTION OF GAMBLING IN PORTUGAL (IN MILLIONS OF EUROS)



SOURCE: ASSOCIAÇÃO PORTUGUESA DE CASINOS - CTP

F. OTHER BUSINESS

Pestana Hotel Group's other businesses continues to represent 3% of the total revenue in 2018. 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 decreased revenue and G.O.P. due to a decrease in exports, expected to be temporary.

4
THE NEAR FUTURE

The next two years will be of paramount importance for Pestana Hotel Group considering the number of units which are currently under construction and which are expected to open within that period. Although this will be relevant in Portugal, country which still represents the majority of the Group's activity, it will be more so in other destinations namely in Europe and the United States and it will accelerate the Group's risk diversification through a larger internationalization.

Therefore, and despite the fact that some of the destinations in which the Group operates are expected to decelerate, namely in Portugal, it is the Group's conviction that it will continue to present growth globally leveraged by the new openings in Portugal, Spain, United States and Morrocco.

This effect on the Portuguese touristic destinations is to be expected specially in resort destinations which face greater competition from destinations outside the Eurozone. These destinations which are direct competition for Algarve and Madeira combine currency devaluation with very aggressive policies to gain market share (market share which is mostly originated in countries in the European Union) with pratices which are not possible to be replicated since they can be considered anti-competitive if followed by countries in the European Union. In addition to these facts, there is the uncertainty generated by Brexit on British consumers which represent the main market for resort tourism in Portugal and the bankruptcy of Germania airline introduced significant complications for German resort tourist, the Group's third largest feeder market.

Another cause for concern in terms of tourism activity in Portugal is the constant delay regarding decisions concerning the increase in capacity of Lisbon's airport. Not all relevant decisions concerning the expansion of Humberto Delgado airport in Lisbon are yet taken and there are still studies to be concluded in order to allow for the possibility to build an airport in Montijo which will take at least 4 to 5 years to build. Consequently, even if demand for portuguese destinations continue to increase, those who are most dependent upon Lisbon's airport will not be able to access this demand due to the lack of capacity which is nowadays a significant constraint.

As a result Pestana Hotel Group's activities outside of Portugal will tend to increase in weight. Pestana Hotel Group intends to open units in Madrid, one in Plaza Mayor and one in Gran Via, in Manhattan, New York, one on 39th West and another on 39th East in 2019 and another one in Newark by the end of 2020 as well as hotels in Marrakech and Montevideo. Pestana Hotel Group also expects 2019 to be the year in which the license for a Paris hotel is granted which will allow the Group to begin construction in this important European capital. This will represent another significant step towards the Group's investment and risk diversification strategy.

Pestana Hotel Group will continue to seek new destinations for its investments and to open new units resulting from either own investment or partnerships with external investors through management deals using the Group's sub-brands.

Last but not least, Pestana Hotel Group will continue to strive for increased operational efficiency and to adapt to new business models which have been transforming the tourism activity. In 2019, according to the Group's approved plans, the most pressing projects relate to human resources, marketing and loyalty programs, revenue management and the next stages of the Group's 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 the interest rate, among others.

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

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

6 RELEVANT ISSUES THAT OCCURRED AFTER THE YEAR END

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 Pestana Hotel Group.

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

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

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

Luxembourg, 22 March 2019

The Board of Directors

Dionísio Fernandes Pestana

Director

Chiara Louise Deceglie

Director

Hermanus Roelof Willem Troskie

Director

José Alexandre Lebre Theotónio

Director

Rodrigo de Freitas Branco

Director

CONSOLIDATED FINANCIAL STATEMENTS

PESTANA INTERNATIONAL HOLDINGS S.A.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(AMOUNTS EXPRESS IN EUROS)

	NOTES	31 DECEMBER 2018	31 DECEMBER 2017
ASSETS			
NON-CURRENT			
TANGIBLE FIXED ASSETS	6	901.776.247	840.568.185
INTANGIBLE ASSETS	7	10.482.612	12.114.786
INVESTMENT PROPERTIES	8	8.328.251	8.420.704
INVESTMENT IN JOINT VENTURES	9	20.361.543	18.156.297
INVESTMENT IN ASSOCIATES	10	11.737.962	11.930.722
EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	11	1.020.543	868.218
DEFERRED TAX ASSETS	12	11.973.295	33.037.831
TRADE AND OTHER RECEIVABLES	14	13.922.406	18.657.531
		979.602.859	**943.754.274**
CURRENT			
INVENTORIES	15	70.620.974	83.545.321
TRADE AND OTHER RECEIVABLES	14	65.013.356	62.103.339
INCOME TAX RECEIVABLE	16	1.542.684	2.378.273
CASH AND CASH EQUIVALENTS	17	60.260.136	80.720.300
		197.437.150	**228.747.233**
TOTAL ASSETS		**1.177.040.009**	**1.172.501.507**
EQUITY			
CAPITAL	18	238.000.000	207.336.573
OTHER RESERVES	19	4.000.326	(3.206.020)
RETAINED EARNINGS	20	98.341.163	84.039.012
PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		72.970.742	55.310.788
NON-CONTROLLING INTERESTS	21	19.627.297	18.126.446
TOTAL EQUITY		**432.939.528**	**361.606.799**
LIABILITIES			
NON-CURRENT			
PROVISIONS	22	5.021.994	8.583.100
BORROWINGS	23	339.952.619	354.050.520
DERIVATIVES	24	1.023.292	1.926.455
DEFERRED TAX LIABILITIES	12	38.054.784	58.625.447
DEFERRED REVENUE	25	149.173.314	168.173.878
TRADE AND OTHER PAYABLES	26	3.995.733	5.367.964
		537.221.736	**596.727.364**
CURRENT			
PROVISIONS	22	7.622.576	7.217.574
BORROWINGS	23	71.802.710	53.528.867
DEFERRED REVENUE	25	27.430.121	32.990.386
TRADE AND OTHER PAYABLES	26	97.952.832	110.917.313
INCOME TAX LIABILITIES	16	2.070.506	9.513.204
		206.878.745	**214.167.344**
TOTAL LIABILITIES		**744.100.481**	**810.894.708**
TOTAL EQUITY AND LIABILITIES		**1.177.040.009**	**1.172.501.507**

The following notes form an integral part of the Consolidated statement of financial position as at 31 December 2018.

CONSOLIDATED INCOME STATEMENT

(AMOUNTS EXPRESS IN EUROS)	NOTES	PERIOD 2018	PERIOD 2017
REVENUE	27	434.207.488	393.467.781
COST OF GOODS SOLD	15	(72.074.685)	(53.476.245)
EXTERNAL SERVICES AND SUPPLIES	28	(128.735.014)	(125.019.703)
PERSONNEL EXPENSES	29	(89.668.561)	(88.838.010)
CHARGES OF DEPRECIATION AND AMORTIZATION	6;7;8	(36.817.320)	(37.419.313)
REVERSALS OF IMPAIRMENT LOSSES OF TANGIBLE ASSETS	6;7	95.142	4.673.946
IMPAIRMENT OF RECEIVABLES	14	(232.351)	(833.758)
IMPAIRMENT OF INVENTORIES	15	(153.975)	(106.589)
PROVISIONS	22	1.423.855	(716.851)
OTHER INCOME	30	12.655.072	15.590.483
OTHER EXPENSES	31	(15.086.637)	(19.631.275)
GAINS AND LOSSES ON INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES, ASSOCIATES AND EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	32	6.094.517	(9.101.110)
OPERATING PROFIT		**111.707.531**	**78.589.356**
FINANCIAL EXPENSES	33	(16.903.124)	(20.278.689)
FINANCIAL INCOME	33	1.589.708	8.977.991
PROFIT BEFORE TAX		**96.394.115**	**67.288.658**
INCOME TAX	34	(16.143.443)	(7.256.943)
PROFIT FOR THE PERIOD		**80.250.672**	**60.031.715**
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
SHAREHOLDERS OF THE GROUP		72.970.742	55.310.788
NON-CONTROLLING INTERESTS		7.279.930	4.720.927
		80.250.672	**60.031.715**
EBITDA		150.580.514	114.082.425
EBITDAR		168.428.951	130.151.912

The following notes form an integral part of the Consolidated income statement for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(AMOUNTS EXPRESS IN EUROS)		PERIOD	
	NOTES	**2018**	**2017**
PROFIT FOR THE PERIOD		**80.250.672**	**60.031.715**
ITEMS THAT RECYCLED THROUGH PROFIT AND LOSS:			
FOREIGN CURRENCY TRANSLATION DIFFERENCES	19;20;21	(7.689.567)	(12.708.699)
CHANGE IN FAIR VALUE OF HEDGING DERIVATIVES	24	558.864	899.395
TAX IMPACT IN ITEMS BOOKED DIRECTLY IN EQUITY	12	(105.101)	(232.789)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD – NET OF INCOME TAX		**(7.235.804)**	**(12.042.093)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**73.014.868**	**47.989.622**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
SHAREHOLDERS OF THE GROUP		65.737.503	43.268.695
NON-CONTROLLING INTERESTS		7.277.365	4.720.927
		73.014.868	**47.989.622**

The following notes form an integral part of the Consolidated statement of comprehensive income for the year ended 31 December 2018.

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 2018	166.625.238	40.711.335	(3.206.020)	84.039.012	55.310.788	18.126.446	361.606.799
CHANGES IN THE PERIOD							
CHANGES IN ACCOUNTING POLICIES (NOTE 2)			-	3.383.342	-	-	3.383.342
PROFIT FOR THE PERIOD APPLICATION			10.553.826	44.756.962	(55.310.788)	-	-
TRANSFERS			4.066.539	(2.559.179)	-	(1.507.360)	-
OTHER CHANGES RECOGNIZED IN EQUITY			-	(82.173)	-	-	(82.173)
			14.620.365	**45.498.952**	**(55.310.788)**	**(1.507.360)**	**3.301.169**
FOREIGN CURRENCY TRANSLATION DIFFERENCES			(7.699.894)	17.430	-	(7.103)	(7.689.567)
CHANGE IN FAIR VALUE RESERVE - HEDGING DERIVATIVES (NET OF TAX)			449.225	-	-	4.538	453.763
PROFIT FOR THE PERIOD			-	-	72.970.742	7.279.930	80.250.672
COMPREHENSIVE INCOME			**(7.250.669)**	**17.430**	**72.970.742**	**7.277.365**	**73.014.868**
			7.369.696	**45.516.382**	**17.659.954**	**5.770.005**	**76.316.037**
TRANSACTIONS WITH SHAREHOLDERS IN THE PERIOD							
SHAREHOLDERS CONTRIBUTION	-	30.663.427	-	-	-	22.065	30.685.492
ACQUISITION OF NON-CONTROLLING INTEREST	-	-	-	(4.214.231)	-	-	(4.214.231)
DISTRIBUTIONS	-	-	(163.350)	(27.000.000)	-	(4.291.219)	(31.454.569)
	-	**30.663.427**	**(163.350)**	**(31.214.231)**	**-**	**(4.269.154)**	**(4.983.308)**
AT 31 DECEMBER 2018	**166.625.238**	**71.374.762**	**4.000.326**	**98.341.163**	**72.970.742**	**19.627.297**	**432.939.528**

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
TRANSFERS			(1.435.828)	4.265.203	–	(2.829.375)	–
OTHER CHANGES RECOGNIZED IN EQUITY			–	(408.685)	–	–	(408.685)
			8.552.865	**24.876.546**	**(24.458.921)**	**(8.195.920)**	**774.570**
FOREIGN CURRENCY TRANSLATION DIFFERENCES			(12.319.065)	(363.286)	–	(26.348)	(12.708.699)
CHANGE IN FAIR VALUE RESERVE - HEDGING DERIVATIVES (NET OF TAX)			659.942	–	–	6.664	666.606
PROFIT FOR THE PERIOD			-	–	55.310.788	4.720.927	60.031.715
COMPREHENSIVE INCOME			**(11.659.123)**	**–**	**55.310.788**	**4.701.243**	**47.989.622**
			(3.106.258)	**24.876.546**	**30.851.867**	**(3.494.677)**	**48.764.192**
TRANSACTIONS WITH SHAREHOLDERS IN THE PERIOD							
SHAREHOLDERS CONTRIBUTION	–	–	–	–	–	2.255.738	2.255.738
ACQUISITION OF NON-CONTROLLING INTEREST	–	–	–	(4.471.813)	–	–	(4.471.813)
DISTRIBUTIONS	–	–	–	–	–	(14.865.161)	(14.865.161)
	–	**–**	**–**	**(4.471.813)**	**-**	**(12.609.423)**	**(17.081.236)**
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**

The following notes form an integral part of the Consolidated statement of changes in equity for the year ended 31 December 2018.

CONSOLIDATED CASH FLOW STATEMENT

(AMOUNTS EXPRESS IN EUROS)		PERIOD ENDED 31 DECEMBER	
	NOTE	**2018**	**2017**
CASH FLOW FROM OPERATING ACTIVITIES			
RECEIPTS FROM CUSTOMERS		407.005.246	376.753.603
PAYMENTS TO SUPPLIERS		(198.949.532)	(169.539.790)
PAYMENTS TO PERSONNEL		(88.902.956)	(87.092.842)
CASH GENERATED FROM OPERATIONS		119.152.758	120.120.971
INCOME TAX PAID		(22.686.615)	(4.714.787)
OTHER PAYMENTS		(3.055.360)	(5.018.922)
NET CASH FLOW FROM OPERATING ACTIVITIES		**93.410.783**	**110.387.262**
CASH FLOW FROM INVESTING ACTIVITIES			
RECEIPTS RELATED TO:			
TANGIBLE ASSETS		2.503.899	8.470.265
INTANGIBLE ASSETS		–	133.910
INVESTMENTS IN JOINT VENTURES		3.960.000	–
DISPOSAL OF SUBSIDIARIES		–	9.108.919
OTHER FINANCIAL INVESTMENTS		–	2.436.321
INTEREST INCOME AND SIMILAR		468.890	745.108
PAYMENTS RELATED TO:			
TANGIBLE ASSETS		(102.442.835)	(52.523.329)
INTANGIBLE ASSETS		(909.272)	(1.142.810)
INVESTMENTS IN JOINT VENTURES		–	(4.530.000)
ACQUISITION OF NON-CONTROLLING INTERESTS		(4.214.231)	(4.471.813)
NET CASH FROM INVESTING ACTIVITIES		**(100.633.549)**	**(41.773.429)**
CASH FLOW FROM FINANCING ACTIVITIES			
RECEIPTS RELATED TO:			
BORROWINGS		65.528.397	14.277.778
SHAREHOLDER'S OTHER EQUITY INSTRUMENTS		30.663.427	–
OTHER FINANCING ITEMS		–	2.255.738
PAYMENTS RELATED TO:			
BORROWINGS		(58.850.552)	(59.839.365)
INTEREST EXPENSES AND SIMILAR CHARGES		(18.663.197)	(17.774.657)
DIVIDENDS TO NON-CONTROLLING INTERESTS		(3.039.619)	(12.600.395)
OTHER EQUITY DISTRIBUTIONS		(28.251.600)	(1.264.766)
NET CASH FROM FINANCING ACTIVITIES		**(12.613.144)**	**(74.945.667)**
CHANGES IN CASH AND CASH EQUIVALENTS		**(19.835.910)**	**(6.331.834)**
EFFECTS OF EXCHANGE DIFFERENCES		1.418.411	6.935.680
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	17	77.850.027	77.246.181
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	17	**59.432.528**	**77.850.027**

The following notes form an integral part of the Consolidated cash flow statement for the year ended 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Pestana International Holdings S.A. (in this document referred to 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 American, initiated in 2013, with the opening of Pestana South Beach in Miami.

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

Through the promotion of two brands (Pestana and “Pousadas de Portugal”) and the newly launched brand “Pestana CR7”, it currently operates 106 units of touristic lodging totaling approximately 11.398 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 55 hotels (16 in Madeira, 9 in Algarve, 5 in Lisbon/Cascais/Sintra, 2 in Oporto, 1 in Azores, 6 in Brazil, 1 in Argentina, 3 in Mozambique, 3 in São Tomé and Príncipe, 1 in South Africa, 1 in Cape Verde, 1 in Morocco, 1 in London, 1 in Berlin, 1 in Barcelona, 1 in Netherlands, 1 in Miami, 1 in Cuba) and the management of the 34 “Pousadas de Portugal”, 9 units of Vacation Club, 8 real estate / touristic ventures, 6 golf courses, 2 casino gambling concessions (one in Madeira and one in São Tomé and Príncipe), 1 travel agency, 1 company in the drinks industry and the management of the public concession of the Free Trade Zona of Madeira.

UNITS	LOCATION	UNITS	LOCATION
PESTANA BAHIA PRAIA	AZORES	PESTANA MIRAMAR VACATION CLUB	MADEIRA
PESTANA ALGARVE RACE (a)	ALGARVE	PESTANA PALMS	MADEIRA
PESTANA ALGARVE RACE APARTMENTS (a)	ALGARVE	PESTANA PALMS VACATION CLUB	MADEIRA
PESTANA ALTO GOLF RESORT	ALGARVE	PESTANA PORTO SANTO	MADEIRA
PESTANA ALVOR ATLANTICO (a)	ALGARVE	PESTANA PROMENADE	MADEIRA
PESTANA ALVOR BEACH CLUB	ALGARVE	PESTANA PROMENADE VACATION CLUB	MADEIRA
PESTANA ALVOR PARK (b)	ALGARVE	PESTANA QUINTA DOS ARCOS (a)	MADEIRA
PESTANA ALVOR PRAIA	ALGARVE	PESTANA PESTANA ROYAL (a)	MADEIRA
PESTANA ALVOR SOUTH BEACH	ALGARVE	PESTANA VILLAGE	MADEIRA
PESTANA DOM JOÃO II	ALGARVE	PESTANA VILLAGE VACATION CLUB	MADEIRA
PESTANA DOM JOÃO II BEACH CLUB	ALGARVE	PESTANA PALÁCIO DO FREIXO (a)	OPORTO
PESTANA DELFIM (a)	ALGARVE	PESTANA VINTAGE PORTO	OPORTO
PESTANA GRAMACHO GOLF RESORT	ALGARVE	PESTANA BELOURA GOLF RESORT	SINTRA
PESTANA GRAMACHO GOLF RESIDENCE	ALGARVE	PESTANA SINTRA GOLF	SINTRA
PESTANA GRAMACHO RESIDENCES	ALGARVE	PESTANA TRÓIA ECO RESORT	TRÓIA
PESTANA PALM GARDENS (b)	ALGARVE	POUSADAS DE PORTUGAL (REDE) (a) (c)	PORTUGAL
PESTANA SILVES GOLF RESORT	ALGARVE	PESTANA BUENOS AIRES	ARGENTINA
PESTANA VALE DA PINTA GOLF RESORT	ALGARVE	PESTANA ANGRA	BRAZIL
PESTANA VIKING (a)	ALGARVE	PESTANA BAHIA	BRAZIL
PESTANA VIKING VACATION CLUB	ALGARVE	PESTANA CONVENTO DO CARMO (a)	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 (d)	NETHERLANDS
PESTANA CASINO PARK HOTEL	MADEIRA	PESTANA SÃO TOMÉ	SÃO TOMÉ
PESTANA CASINO STUDIOS	MADEIRA	PESTANA MIRAMAR GARDEN & OCEAN	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 CHELSEA BRIDGE	UNITED KINGDOM
PESTANA MIRAMAR	MADEIRA	PESTANA MIAMI	U.S.A.

(a) Management / Leased contract; (b) Franchised; (c) Concession; (d) Opened in January 2018

These consolidated financial statements were approved by the Board of Directors on the meeting dated 22 March 2019. 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 2018. 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, except for the effect of the newly applicable standards as described below.

The consolidated financial statements have been prepared on a going concern basis under historical cost convention, except for the derivative financial instruments, measured at fair value, to meet its contractual financial commitments at their maturity date.

The preparation of the consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and critical judgments in the process of determining the accounting policies to be adopted by 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 standards that became effective on 1 January 2018 is as follows:

- **IAS 40** (amendment), 'Transfer of investment property". This amendment clarifies that when assets are transferred to, or from investment property, the evidence of the change in use is required. A change in management intention in itself is not evidence enough to support a transfer. This amendment had no impact on the Group's Consolidated financial statements.

- **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 application of the classification and measurement requirements in IFRS 9 did not have any significant impact on the Group's Consolidated financial statements. The Group's accounting policy already provided for the recognition of a general impairment charge on trade receivables considering the uncollectable history of each business. Additionally, most of the Group's sales are made on a cash basis. The Group determined that all hedging relationships that were designated as hedge under IAS 39 will continue to qualify as hedge with the adoption of IFRS 9. All assets classified as available-for-sale financial assets under IAS 39 were reclassified to equity instruments at fair value through profit and loss with the adoption of IFRS 9. In conclusion, the adoption of this new standard had no significant impacts on the Group's Consolidated financial statements.

- **IFRS 15** (new), 'Revenue from contracts with customers'. This new standard applies only to contracts with customers who provide goods or services, and requires an entity to recognize revenue when the performance obligations to deliver the goods or services are satisfied and by the amount that reflects the consideration to which the entity is entitled to, as described on five steps model. Depending on the fulfillment of some criteria, revenue is recognized i) at the specific moment, when control of a good or service is transferred to the customer, or ii) over time as the performance obligation is satisfied.

This standard replaced IAS 18, 'Revenue' and the Group has reviewed its accounting policy for revenue recognition related to Pestana Vacation Club in Brazil and Options (Nota 3.21) using the modified retrospective approach (recognizing the cumulative effect of applying this standard as an adjustment to the opening balance), taking into account points which are expected to remain unused on their expiration date. Therefore, on 1 January 2018, the Group decreased Deferred revenue in the amount of 5.123.196 Euros and 249.327 Euros, respectively (Note 25), decreased Trade and other receivables in the amount of 1.741.887 Euros and 83.164 Euros, respectively (Note 14) and increased Deferred taxes liabilities in the amount of 1.181.044 Euros and 35.725 Euros, respectively (Note 12), against an increase in Retained earnings in the amount of 2.200.265 Euros and 130.438 Euros, respectively (Note 20). The adoption of this standard in 2018 resulted in a decrease in Revenue in the amount of 1.719.246 Euros, a decrease in External services and supplies in the amount of 585.609 Euros and a decrease in Income tax in the amount of 387.290 Euros.

This standard also replaced IFRIC 13, 'Customer loyalty programmes' and the Group reviewed its accounting policy for revenue recognition related to Pestana Priority Guest (Note 3.21) using the modified retrospective approach (recognizing the cumulative effect of applying this standard as an adjustment to the opening balance), taking into account points which are expected to remain unused on their expiration date. The Group also reviewed its revenue recognition policy related with vouchers, taking into account as well the vouchers which are expected to remain unused on their expiration date. Therefore, on 1 January 2018, the Group decreased Deferred revenue in the amount of 1.324.412 Euros (Note 25), decreased Trade and other payables in the amount of 33.833 Euros (Note 26), decreased Deferred tax assets in the amount of 297.993 Euros (Note 12) and increased Deferred tax liabilities in the amount of 7.612 Euros (Note 12), against an increase in Retained earnings in the amount of 1.052.640 Euros (Note 20). The adoption of this standard in 2018 resulted in an increase in Revenue in the amount of 470.250 Euros.

- **Amendments to IFRS 15**, 'Revenue from contracts with customers'. These amendments refer to additional guidance for determining performance obligations in a contract, the timing for revenue recognition for a license of intellectual property, the review of the indicators for principal versus agent classification, and to new practical expedients to simplify transition. These amendments had no impact on the Group's Consolidated financial statements.

- **IFRIC 22** (new), ‘Foreign currency transactions and advance consideration’. An interpretation of IAS 21 ‘The effect of changes in foreign exchange rates’ refers to the determination of the transaction date when an entity pays or receives prepayments for foreign currency denominated contracts. The ‘transaction date’ determines the exchange rate to be used to convert transactions in foreign currency. The adoption of this new interpretation had no impact on the Group’s Consolidated financial statements.

b) New standard which is mandatory for the accounting periods beginning on or after 1 January 2019 and which has been endorsed by EU:

- **IFRS 16** (new), ‘Leases’. This new standard replaces IAS 17 and requires lessees to recognize a lease liability reflecting future lease payments and a “right-of-use” asset for all lease contracts, except for certain short-term leases and for low-value assets. The definition of a lease contract also changed, being based on the “right to control the use of an identified asset”. Currently, the Group estimates this adoption using the retrospective approach as foreseen in the standard with an equally estimated impact of an increase in assets of approximately 139 million Euros, an increase in liabilities of approximately 159 million Euros and a decrease in Retained earning of approximately 20 million Euros.

c) Standards (new and amendments) and interpretations that are mandatory for the accounting periods beginning on or after 1 January 2019 (or after that date if expressively indicated), which have been already endorsed by the EU:

- **Annual Improvement 2014 – 2016**. The 2014-2016 annual improvements impacts IAS 28 and IFRS 12 will have no impact on the Group’s Consolidated financial statements.

- **IAS 1** (amendment), ‘Presentation of Financial Statements’ and IAS 8 (amendment), ‘Acounting policies, changes in accounting estimates and errors (effective for annual periods beginning on or after 1 January 2019). These amendments made by IASB changed the materiality definition, which the Group will adopt in the period it becomes effective.

- **IAS 28** (amendment), ‘Investments in associates and joint ventures’. This amendment clarifies that long-term investments in associates and joint ventures (investment components in associates and joint ventures) which are not accounted for using the equity method are registered according to IFRS 9 and are subject to the impairment loss model before any other impairment tests to the investment as a whole. This amendment will have no impact on the Group’s Consolidated financial statements.

- **IFRS 9** (amendment), ‘Prepayment features with negative compensation’. This amendment introduces the possibility to classify certain financial assets with negative compensation features at amortized cost, provided that specific conditions are fulfilled, instead of being classified at fair value through profit or loss. This amendment will have no impact on the Group’s Consolidated financial statements.

- **Annual Improvements 2015 – 2017**. The 2015-2017 annual improvements impact IAS 23, IAS 12, IFRS 3 and IFRS 11. The Group will adopt these improvements in the periods they become effective.

- **IFRIC 23** (new), 'Uncertainty over income tax treatment'. 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, except for the effect of the newly applicable standards as described in Note 2.

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 Note 38.

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.

Classification as a joint venture ceases when control of the entity is acquired which can happen when: i) the other parties' shares are acquired and the agreement ceases to be in effect; or ii) when the unconditional right to acquire (purchase option) the other parties' shares is obtained even if that right has not been exercised but can be done so at any time.

In the consolidated financial statements, investments in joint ventures are measured by the amount resulting from applying the equity method. Under this method, the financial statements include 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 38.

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 38

3.1.4. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

Equity instruments at fair value through profit and loss correspond to investments in entities in which 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 Equity instruments at fair value through profit and loss for which it is not possible to reliably determine fair value, being measured at the acquisition cost less impairment losses, if any, and dividends are recognized as gains in the year in which they are assigned.

Entities that qualify as Equity instruments at fair value through profit and loss are listed in Note 11.

3.2. 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 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 in Argentina, considered an hyperinflationary economy since July 2018, are also translated as stated before since the operations in this subsidiary are immaterial. In 2017, the Venezuelan subsidiary was translated into the currency at the date of the sale (Note 39).

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	31-12-2018	31-12-2017
ARS - ARGENTINE PESO	44,3000	21,0000
BRL - BRAZILIAN REAL	4,4235	3,9437
CAD - CANADIAN DOLLAR	1,5596	1,5047
CHF - SWISS FRANC	1,1272	1,1701
CVE - CAPE VERDE ESCUDO	110,2650	110,2650
DKK - DANISH KRONE	7,4671	7,4449
GBP - POUND STERLING	0,8948	0,8875
MAD - MOROCCAN DIRHAM	10,9530	11,2096
MZN – METICAL	70,4500	70,8400
NOK - NORWEGIAN KRONE	9,9452	9,8348
SEK - SWEDISH KRONOR	10,2423	9,8387
STD – DOBRA	24,5000	24.500,0000
USD - US DOLLAR	1,1454	1,1994
UYU - URUGUAYAN PESO	37,0549	34,3488
ZAR - RAND	16,4530	14,8140

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	2018	2017
ARS - ARGENTINE PESO	33,8918	19,1031
BRL - BRAZILIAN REAL	4,3059	3,6049
CVE - CAPE VERDE ESCUDO	110,2650	110,2650
GBP - POUND STERLING	0,8847	0,8763
MAD - MOROCCAN DIRHAM	11,0835	10,9444
MZN - METICAL	71,3122	71,4316
STD – DOBRA	24,5000	24.500,0000
USD - US DOLLAR	1,1813	1,1288
UYU - URUGUAYAN PESO	36,2105	32,3546
VEF - BOLÍVAR FORTE VENEZUELANO	–	2.387,7360
ZAR - RAND	15,6075	15,0366

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, namely in 2010, which in the case of land and buildings allocated to the hotel business, timeshare and golf, were almost all measured at their revalued amount, whereas, for all other assets, these were measured at the net amount carried over from the previous GAAP, including legal revaluations, and (b) the acquisition cost of assets acquired or constructed after that date.

The 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 VACATION CLUB	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 in IAS 17, and this period varies between 3 to 30 years.

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

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

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

3.4. INTANGIBLE ASSETS

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

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

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

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

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

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

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.

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.

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

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

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

	YEARS
CONCESSIONS	BETWEEN 20 AND 70 YEARS
WEBSITE	6 YEARS

3.5. INVESTMENT PROPERTIES

Investment properties are real estate assets (land, buildings or parts of buildings) held for the purpose of capital appreciation, obtaining rental income, or both, and, therefore, not used in Pestana 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 Company continues to apply the cost model, which is applied to all assets classified as investment properties.

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

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

3.6. 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, impairment is recorded.

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

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

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

3.7. FINANCIAL ASSETS

i. Classification

Financial asset classification depends on the business model used in the management of financial assets (cash flow receipts ou fair value variations) and on the contractual terms associated with cash in flows.

Changes to financial asset's classification can only be done when the business model is altered except in what relates to financial assets at fair value through comprehensive income which are equity instruments and which may never be altered to a different category.

Financial assets can be classified as:

i) Financial assets at amortized cost: includes financial assets which correspond exclusively to the payment of the nominal value and interest and whose management's business model is contractual cash flow receipts;

ii) Financial assets through other comprehensive income: this category may include financial assets which qualify as debt instruments (contractual obligation to deliver cash flows) or as equity instruments (residual interest in an entity):

a) In what concerns debt instruments this category includes financial assets which correspond exclusively to the payment of the nominal value and interest and whose management's business model is contractual cash flow receipts or occasionally its sale;

b) In what concerns equity instruments this category includes the percentage of interest held in an entity over which no control, joint control or significant influence is exercised and for which it has been irrevocably decided at the time of initial recognition to be designated as fair value through other comprehensive income;

iii) Financial assets at fair value through profit or loss: includes assets which do not fulfil the criteria for classification as financial assets at amortized cost or fair value through other comprehensive income whether they are debt or equity instruments.

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

ii. Measurement

Financial assets are initially recognized at fair value plus transaction costs directly attributable to the asset's acquisition for financial assets which are not measured at fair value through profit and loss. Transaction costs of financial asset at fair value through profit and loss are recognized in profit and loss in the period in which they occur.

Financial assets at amortized cost are subsequently measured according to the effective interest rate method less impairment losses. Interest earned from these financial assets are included in "Interest earned from assets at amortized cost" in financial income.

Financial assets through other comprehensive income which constitute debt instruments are subsequently measured at fair value and fair value changes are recognized in other comprehensive income with the exception of changes concerning impairment losses, interest earned and exchange rate gains/(losses) which are recognized in profit and loss. Financial assets at fair value through other comprehensive income are subject to impairment.

Financial assets through other comprehensive income which constitute equity instruments are initially and subsequently measured at fair value and fair value changes are recognized directly in other comprehensive income, in Equity, and no future reclassification can take place even after the investment is derecognized. Dividends obtained from these assets are recognized as gains in profit and loss in the date they are attributed.

iii. Impairment

Pestana Hotel Group prospectively assess estimated credit losses associated with financial assets which constitute debt instruments classified as amortized cost and fair value through other comprehensive income.

The impairment methodology applied has in consideration the debtor's credit risk profile and is applied differently taking into account their nature.

In what concerns trade receivables and customer contractual assets, the Group applies the simplified approach allowed for in IFRS 9 according to which estimated credit losses are recognized from the initial recognition of the receivable balance and throughout the period to its maturity taking into account an historical default matrix for the maturity of the receivable balances adjusted by prospective estimates whenever appropriate.

As at 31 December 2018 and 2017 all related parties have the ability to pay having the probability of default been considered as close to 0% and therefore no impairment has been recognized.

For all other situations and nature of receivable balances the Group applies the impairment model's general approach assessing at each reporting date if an increase in credit risk has occurred since the asset's initial recognition date. If no increase in credit risk has occurred the Group calculates an impairment corresponding to the amount equivalent to estimated losses in a 12 month period. If there has been an increase in credit risk, the Group calculates an impairment corresponding to the amount equivalent to estimated losses for all contractual flows until the asset's maturity.

Financial assets are derecognized when the right to receive cash flows originated by those assets have expired or been transferred. Financial assets at fair value through other comprehensive income which constitute debt intruments at the date of derecognition which have had their gains/(losses) recognized in equity/other comprehensive income previously are reclassified from the corresponding equity lines to profit and loss.

3.8. 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, financial assets at fair value through other comprehensive income and other financial assets and liabilities at fair value through profit and loss. The valuation models that are most often used are discounted cash flows and option valuation models that incorporate, for example, the interest rate curves and market volatility.

For some types of assets and liabilities valuation models are used considering data and assumptions that are not directly observable in the market, for which Pestana 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. Impairment losses of Trade and other receivables are recorded in accordance with the principles described in the Note Financial Assets – impairment. Impairment losses identified are recorded in the consolidated income statement under Impairment of receivables.

3.10. 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 Borrowings 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.

Additional contributions without issuance of shares are recognized as Other equity instruments.

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) Financial liabilities at amortized cost.

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

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

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

Purchase and sale of investments in financial liabilities are registered at the transaction date meaning the date in which the Group commits to purchase or liquidate the liability.

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 directly attributable to the emission. Borrowings are subsequently measured at amortized cost, being the difference between nominal amount and the initial fair value recognized in the consolidated income statement during the loan term, using the effective interest rate method.

Borrowings are classified as current liabilities unless 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 as trading or hedging.

A derivative is considered as hedging when: i) there is an economic relationship between the item being hedged and the hedging instrument which the Group has defined as being between 85% and 125%; ii) the changes in fair value do not mainly result from credit risk; and iii) the coverage ratio designated by the Group, in each transaction, is what results from the quantity of the hedged item and the quantity of the hedging instrument which the entity effectively uses to hedge the quantity of the hadged item.

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

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

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

If a hedging relationship ceases to satisfy the hedging efficacy criteria relating to the hedging ratio defined but the objective for risk management and the designated hedging relationship continues to be the same, the Group will readjust the hedging ratio (rebalance) in order to once again satisfy the elegibility criteria to be recognized as hedge accounting.

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

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 from the transactions with customers in the ordinary course of business of Pestana Hotel Group. Revenue is recorded net of any taxes, trade discounts and assigned financial discounts.

When determining the amount of revenue, Pestana Hotel Group assess for each transaction the performance obligations it assumes before customers, the transaction price to attribute to each identified performance obligation in the transaction and the existence of variable price conditions which may originate future corrections to the revenue recognized and for which the Group makes its best estimate.

Revenue is recognized in the consolidated income statement when control over the product or service is transferred to the customer, meaning the moment the customer has the ability to manage the use of the product or service and obtain the associated remaining economic benefits.

Pestana Hotel Group considers that depending on the nature of product or service associated with the performance obligations assumed the transfer of control occurs mainly on a specific date but there may be transactions in which the transfer of control happens continuously and through a contractualy defined period of time.

The revenue recognition policy for the Group's following main activities is as follows:

i) Hospitality

Revenue corresponds mainly to accommodation services and sales related to the consumption of food and drinks in bars, restaurants and mini-bars, which are recorded on the date of consumption. For other hospitality services revenue is recorded on the day of the service.

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. Considering that transactions that qualify for point's award is a separate performance obligation, at the date the services are rendered there is a segregation of the amount invoiced to the client between the revenue of product or services and the value of points awarded, considering the separate sale price of each performance obligation and the customer's point redemption history. 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 vacation club, depending on the transfer of control of the customer's right to use the service throughout the contract's period.

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

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

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

Contractually defined maintenance costs on timeshare periods sold are charged to customers and do not constitute a separate performance obligation from the initial contract since the Group has a right to receive this amount at the defined date regardless of the customer's use of the asset during the period established. Therefore revenue is recognized at the defined date during the contract's period.

In cases of sale of Options contracts 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. Much like what happens with PPG, revenue associated with these points is recognized by usage or at its expiration date, corrected for the historic percentage of expired points due to lack of use by the customer.

iii) Touristic real estate business

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

Revenue from the sale of land and apartments is recognized when the Group transfers control of the land or apartments to the customer.

In the case of land, the sale's revenue is generally recognized when control over the land is transferred to the customer which generally occurs on the date that the deed of sale is signed.

In the case of houses, apartments and townhouses, built at the risk of Pestana Hotel Group, for sale to third parties (Inventories), revenue is recognized when control is transferred to the client. This happens at the date in which the asset's key is handed to the customer and can be previous to the date in which the deed on the property is signed.

Revenue from management services for condominiums is recognized 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) Construction contracts

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

Revenue in these type of contracts is recognized according to the percentage of completion using the input method, which means based on the costs incurred in each period instead of the estimated total costs in each contract, with the recognition of the estimated margin for the contract. Any changes to the contract are only considered to calculate revenue if previously approved by the customer.

Whenever it is estimated that the costs associated with the construction services rendered exceed the agreed revenue, Pestana Hotel Group recognizes a provision for onerous contracts. The estimated cost associated with the construction warranty is also recognized as the Group transfers control to the customer. Estimated warranty costs are excluded from the contract's total estimated costs and do not affect the conclusion percentage in each reporting period.

v) Touristic entertainment

Revenue from gambling, both table games and gaming machines, is determined daily and recognized as revenue on a daily basis, for the difference between the bets placed and the prizes won less the estimated premiums payable and accrued gambling tax.

vi) Management contracts

Management services represent fees received for managing hotels owned by third parties and managed by Pestana Hotel Group are recognized throught the contract's period because it is considered that control over the service and the associated benefits are transferred to the customer as the Group provides the service. Revenue normally corresponds ordinarily to a percentage of the hotel revenue plus a payment of incentives that tend to be calculated by applying a percentage (fixed or variable) to the revenues and / or to the gross operating profits of the hotel (G.O.P.) therefore revenue is only recognized when the probability of reversal is considered to be low.

3.22. SUBSEQUENT EVENTS

Events after the reporting period that provide additional information about conditions that existed at the end of the reporting period (adjusting events or events after the reporting period that give rise to adjustments) are reflected in the consolidated financial statements. Events after the reporting period that provide information on conditions occurring after the end of the reporting period (non-adjusting events or events after the statement of financial position date that 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. Market 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 2018 and 2017, would lead to an increase/(decrease) in Pestana Hotel Group's financial results as follows:

	CONSOLIDATED INCOME STATEMENT			
	31-12-2018		31-12-2017	
	+10%	-10%	+10%	-10%
USD	2.997.556	(3.663.679)	2.184.485	(2.669.926)
GBP	1.497.159	(1.829.861)	1.806.018	(2.207.355)
	4.494.715	**(5.493.540)**	**3.990.503**	**(4.877.281)**

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

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

For long-term borrowings, and as a way to mitigate a possible change in long-term interest rate, 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 the finance 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 2018 and 2017.

Considering Pestana Hotel Group's consolidated net debt as at 31 December 2018, an increase of 0,25% in the interest rate would result in the increase in the net finance expenses for the year of approximately 880.000 Euros (31 December 2017: approximately 820.000 Euros).

Pestana Hotel Group follows a growth strategy which implies significant volumes of investments with relatively long return dates and, therefore, associated with financing sources with adequate refund dates. 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 hotel 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 hotel business management itself and ensuring to each new significant investment its medium and/or long term financial structure and whenever possible with fixed rate interest.

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

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 classified as financial assets at amortized cost or as financial assets at fair value through other comprehensive income.

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

In order to increase credit risk hedging, Pestana Hotel Group acquired in 2018 a credit insurance from a leading insurance company in the Portugese market which includes the most significant part of the credit on companies and tour operators in the main feeder markets for the Group's units.

The follow up of credit risk is made centrally by the finance department of Pestana Hotel Group, overseen by the Board of Directors, based on the credit rating attributed by the insurance company, the client's institutional nature, the type of transactions which originate the credit, the experience of past transactions performed, the established credit limits for each client and their financial information made available by a recognized entity specialized in the market for the effect.

Rating levels attributed to customers are: low, medium or high while taking into account that the Group considers related parties to have a credit risk rating close to 0% and therefore their impairment is considered to be zero.

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

	BANK DEPOSITS		BANK LOANS	
	2018	2017	2018	2017
RATING				
AA2	670.556	2.449.347	23.000.000	23.000.000
AA3	359.890	414.326	38.273.701	41.137.447
A1	1.183	206.363	–	–
A2	10.602.575	–	33.380.381	–
A3	8.155.651	13.483.081	35.931.733	12.734.880
BAA1	739.459	1.816.734	5.000.000	32.551.283
BAA2	9.968.151	7.488.446	105.962.589	5.000.000
BAA3	1.469.417	1.944.190	8.904.762	2.666.667
BA1	423.254	20.543.005	–	107.621.161
BA2	–	82.167	–	–
BA3	14.917.595	–	86.328.573	–
B1	–	12.325.401	–	60.352.181
B3	684.060	789.930	11.396.825	15.214.286
CAA2	4.786.823	14.930.673	37.016.786	59.562.552
NO CLASSIFICATION	5.839.086	2.374.618	27.699.606	48.870.963
	58.617.700	**78.848.281**	**412.894.956**	**408.711.420**

iii. Liquidity risk

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

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

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

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

31 OF DECEMBER OF 2018	LESS THAN 1 YEAR	BETWEEN 1 YEAR AND 5 YEARS	MORE THAN 5 YEARS
BORROWINGS:	80.417.056	259.170.178	116.271.964
- BANK LOANS	45.808.976	103.896.697	106.392.232
- BOND LOANS	11.636.110	107.500.000	-
- COMMERCIAL PAPER	11.444.444	25.388.889	-
- BANK OVERDRAFTS	827.608	-	-
- UNDISCOUNTED INTERESTS PAYABLE UNTIL MATURITY	10.699.918	22.384.592	9.879.732
TRADE AND OTHER PAYABLES - NON GROUP	97.864.502	3.995.708	25
DERIVATIVES FINANCIAL INSTRUMENTS	503.647	376.739	-

31 OF DECEMBER OF 2017	LESS THAN 1 YEAR	BETWEEN 1 YEAR 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

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, that after being approved, will guide its management during the year. The results generated by operations are monitored on a regular and detailed basis to ensure that the expected results are met or exceeded.

The gearing ratios as at 31 December 2018 and 2017 were as follows:

	31-12-2018	31-12-2017
TOTAL BORROWINGS	411.755.329	407.579.387
LESS: CASH AND CASH EQUIVALENTS	60.260.136	80.720.300
NET DEBT	**351.495.193**	**326.859.087**
EQUITY	432.939.528	361.606.799
TOTAL CAPITAL	**784.434.721**	**688.465.885**
GEARING	**45%**	**47%**

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 moved be as follows:

	31-12-2018	31-12-2017
TOTAL BORROWINGS	411.755.329	407.579.387
LESS: CASH AND CASH EQUIVALENTS	60.260.136	80.720.300
NET DEBT	**351.495.193**	**326.859.087**
EQUITY ADJUSTED	591.787.016	540.509.484
TOTAL CAPITAL	**943.282.209**	**867.368.571**
GEARING	**37%**	**38%**

4.3. ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2018 and 2017, and whenever appropriate, Pestana Hotel Group has hedged its economic exposure to cash flows from existing borrowing through the negotiation of interest rate swaps.

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

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 40 years, are, however, a good indicator to assess the estimates that have been used.

5.4. PROVISIONS

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

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

5.5. LEASES

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

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

Management considers that the existence of contractual conditions like: i) the existence of a call option at a bargain price; ii) the use of a substantial part (+75%) of the remaining useful life of the asset; or iii) the discounted value of the rentals payable corresponds to more than 90% of the fair value of the asset, are indicators that the substance of the leasing contract 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 2018 the movements occurred in Tangible fixed assets are as follows:

	LAND	BUILDINGS AND OTHER CONSTRUCIONS	BASIC EQUIPMENT	TRANSPORT EQUIPMENT	ADMINISTRATIVE EQUIPMENT	OTHER TANGIBLE ASSETS	ASSETS UNDER CONSTRUCION	TOTAL
1 JANUARY 2018								
ACQUISITION COST	171.345.814	940.385.927	269.439.376	6.559.778	29.512.054	12.189.281	98.744.208	1.528.176.440
ACCUMULATED DEPRECIATION	-	(452.158.401)	(190.148.308)	(5.716.575)	(28.138.756)	(9.595.827)	-	(685.757.867)
ACCUMULATED IMPAIRMENT	-	(1.812.042)	(34.490)	-	(3.855)	-	-	(1.850.388)
NET BOOK VALUE	**171.345.814**	**486.415.483**	**79.256.578**	**843.204**	**1.369.443**	**2.593.454**	**98.744.208**	**840.568.185**
CHANGES IN 2018								
ADDITIONS	9.780.476	38.670.819	5.629.459	116.657	403.750	474.114	45.179.362	100.254.637
DISPOSALS - ACQUISITION COST	(135.277)	(731.849)	(68.229)	(299.560)	(42.838)	(221.177)	-	(1.498.930)
DISPOSALS - ACCUMULATED DEPRECIATION	-	54.717	62.986	250.263	26.862	221.177	-	616.005
TRANSFERS - ACQUISITION COST	3.980.453	41.900.299	2.560.844	-	317.428	-	(48.759.024)	-
TRANSFER FROM INTANGIBLE ASSETS (NOTE 7)	(3.127.035)	(12.151.211)	(432.694)	(23.726)	(656.903)	(5.377)	244.246	(16.152.700)
TRANSFER FROM INVENTORIES (NOTE 15)	-	4.126.442	414.494	23.571	642.654	1.260	-	5.208.420
DEPRECIATION	-	75.893	-	-	-	-	-	75.893
IMPAIRMENT - CHARGE	-	6.714.026	-	-	-	-	-	6.714.026
IMPAIRMENT - REVERSAL	-	961.333	-	-	-	-	-	961.333
FOREIGN CURRENCY TRANSLATION - ACQUISITION COST	-	(23.724.722)	(9.972.182)	(228.773)	(709.440)	(573.147)	-	(35.208.264)
FOREIGN CURRENCY TRANSLATION - ACCUMULATED DEPRECIATION	-	-	-	-	-	-	(149.450)	(149.450)
FOREIGN CURRENCY TRANSLATION - ACCUMULATED IMPAIRMENT	-	352.617	34.475	-	-	-	-	387.092
	10.498.617	**56.248.363**	**(1.770.847)**	**(161.567)**	**(18.488)**	**(103.150)**	**(3.484.866)**	**61.208.062**
31 DECEMBER 2018								
ACQUISITION COST	181.844.431	1.015.749.344	277.128.756	6.353.149	29.533.491	12.436.841	95.408.792	1.618.454.806
ACCUMULATED DEPRECIATION	-	(471.701.965)	(199.643.010)	(5.671.513)	(28.178.681)	(9.946.537)	-	(715.141.706)
ACCUMULATED IMPAIRMENT	-	(1.383.532)	(15)	-	(3.855)	-	(149.450)	(1.536.853)
NET BOOK VALUE	**181.844.431**	**542.663.847**	**77.485.731**	**681.636**	**1.350.955**	**2.490.304**	**95.259.342**	**901.776.247**

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

	LAND	BUILDINGS AND OTHER CONSTRUCIONS	BASIC EQUIPMENT	TRANSPORT EQUIPMENT	ADMINISTRATIVE EQUIPMENT	OTHER TANGIBLE ASSETS	ASSETS UNDER CONSTRUCION	TOTAL
1 JANUARY 2017								
ACQUISITION COST	175.427.321	980.108.686	261.755.841	6.482.652	30.670.673	11.423.857	109.866.868	1.575.735.898
ACCUMULATED DEPRECIATION	–	(445.652.063)	(183.017.347)	(5.899.814)	(28.966.658)	(9.223.385)	–	(672.759.267)
ACCUMULATED IMPAIRMENT	(425.607)	(6.443.051)	(54.182)	–	(44.470)	(22)	(321.600)	(7.288.932)
NET BOOK VALUE	**175.001.714**	**528.013.572**	**78.684.312**	**582.838**	**1.659.545**	**2.200.450**	**109.545.268**	**895.687.703**
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 (PREVIOUS) – 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
TRANSFERS TO INVENTORIES – ACQUISITION COST	–	–	–	–	–	–	(15.711.977)	(15.711.977)
TRANSFERS TO INVENTORIES – ACCUMULATED IMPAIRMENT	–	–	–	–	–	–	321.600	321.600
DEPRECIATION	–	(24.562.023)	(9.670.656)	(199.632)	(701.952)	(625.981)	–	(35.760.244)
IMPAIRMENT – REVERSALS	425.627	4.227.641	19.692	–	964	22	–	4.673.946
FOREIGN CURRENCY TRANSLATION – ACQUISITION COST	(5.036.576)	(15.183.709)	(959.817)	(14.952)	(1.107.179)	23.754	(891.100)	(23.169.579)
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	–	(4.497)	–	–	–	–	–	(4.497)
	(3.655.900)	**(41.598.089)**	**572.270**	**260.367**	**(290.102)**	**393.001**	**(10.801.059)**	**(55.119.515)**
31 DECEMBER 2017								
ACQUISITION COST	171.345.814	940.385.927	269.439.376	6.559.778	29.512.054	12.189.281	98.744.208	1.528.176.440
ACCUMULATED DEPRECIATION	–	(452.158.401)	(190.148.308)	(5.716.575)	(28.138.756)	(9.595.827)	–	(685.757.867)
ACCUMULATED IMPAIRMENT	–	(1.812.042)	(34.490)	–	(3.855)	–	–	(1.850.388)
NET BOOK VALUE	**171.345.814**	**486.415.483**	**79.256.578**	**843.204**	**1.369.443**	**2.593.454**	**98.744.208**	**840.568.185**

Additions excluding Assets under construction

Additions in 2018 refer mainly to the acquisition of Pestana D. João II, which was already being explored through an operational lease contract, for the amount of 39.000.000 Euros and also a new unit in Óbidos, Pousada Vila de Óbidos, with 17 keys which is located within the walls of the medieval village, whose total investment was approximately 750.000 Euros. There were also some significant refurbishments and renovations in existing hotel units, namely, Pestana Quinta do Arco, Pestana Delfim, Pestana Palace and Pestana Promenade for an amount, of approximately, 4.700.000 Euros.

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.

The remaining additions as at 31 December 2018 and 2017 relate to refurbishment and renovations in other hotels, Madeira's brewery company, Casino da Madeira and timeshare contracts acquisition costs (Note 3.3).

Disposals

In 2018, disposals refer mainly to the sale of 8 apartments from Pestana Gramacho Residences, in Algarve, for the amount of 1.708.770 Euros, obtaining a gain in the amount of 925.544 Euros (Note 30).

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 30).

Transfers

In 2018, Transfers from Assets under construction refer mainly to the opening of 5-star Pestana Amsterdam Riverside with 154 rooms in the old Amstel Community Archive and Town Hall and 4-star Pestana Gramacho Residences in Algarve with 54 apartments and a villa whose building had been bought in 2017 and refurbished, both of which opened in January 2018.

Also in 2018, Pestana Hotel Group decided to change the purpose for the Villa Maria project, where initially it was expected to build villas and then selling them it is now the Group's intention to explore the villas. Therefore the amount of 6.714.026 Euros was transferred from Inventories (Note 15) which includes the incurred expenses with the development of the corresponding infrastructures.

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 with the development of the corresponding infrastructures.

Impairment

The impairment tests carried out with reference to December 31, 2018 and 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% - 7%; Brazil: 14% - 16%; Africa: 12% - 19%.

In 2018, Pestana Hotel Group reversed part of the impairment losses booked against Madeira Magic (Madeira) in the amount of 342.253 Euros as a result of the significant improvement in the operational results generated by the exploration of this asset. Therefore, and considering the estimated future cash flows and the applicable discount rate, the recoverable amount of this asset is now higher than its net book value.

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 2018 would have increased by 0,3 million Euros.

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.

Foreign currency translation

This caption in 2018 is mainly explained by i) the depreciation of the Brazilian Real against the Euro, decreasing the Brazilian fixed assets in the total net amount of 9.563.987 Euros and ii) the depreciation of the Argentinian peso against the Euro decreasing the Argentinian fixed assets in the total amount of 1.823.622 Euros (2017: decreasing the Brazilian fixed assets in the total net amount of 13.368.803 Euros and 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.

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 39).

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 39).

Assets under construction

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

	2018	2017
PESTANA BLUE ALVOR PROJECT (ALGARVE)	31.329.670	18.855.722
PESTANA NEW YORK EAST PROJECT	17.174.184	5.876.609
PESTANA DUNAS PROJECT (MADEIRA)	10.539.843	10.689.293
PESTANA RUA DAS FLORES PROJECT (OPORTO)	8.375.387	–
PESTANA MADRID PROJECT IN PLAZA MAYOR	7.653.313	2.262.187
PESTANA MONTEVIDEO PROJECT (URUGUAY)	4.811.968	5.098.506
PESTANA DOURO PROJECT (OPORTO)	4.245.141	–
NORTH OF GRAMACHO LAND (ALGARVE)	2.165.720	2.165.720
D. FERNANDO LAND (ALGARVE)	1.926.288	1.926.288
PESTANA CHURCHILL PROJECT (MADEIRA)	1.766.862	71.723
GOLF COURSE PROJECT (ALGARVE)	1.199.852	1.199.852
SILVES GOLF COURSE PROJECT (ALGARVE)	504.301	500.001
VALE DA PINTA ADJACENT LANDS (ALGARVE)	354.900	354.900
PESTANA AMSTERDAM PROJECT	–	40.258.174
GRAMACHO RESIDENCE PROJECT (ALGARVE)	–	3.875.847
LISBON DOWNTOWN BUILDING	–	1.850.925
PROJECT IN SILVES AREA (ALGARVE)	–	1.215.396
PRAIA ALVOR - URBAN INTERVENTION PLAN (ALGARVE)	–	385.677
OTHERS (MAINLY HOTEL REFURBISHMENTS AND RENNOVATIONS)	3.211.913	2.157.387
	95.259.342	**98.744.208**

Pestana Blue Alvor 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 beach in Alvor. The hotel will be the first in Portugal to be built from scratch for the sophisticated all-inclusive 5-star market. This new unit will have 551 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. This project's total investment is estimated to be 36.500.000 Euros and it is expected to open in May 2019.

The Pestana New York East project refers to a 96 room hotel distributed through 27 floors and on a privileged location in New York which is expected to begin to operate by mid-2019. This project's total investment is estimated to be 32.000.000 US Dollars.

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

The Pestana Rua das Flores project refers to a 4-star 87-key hotel in Oporto's historic city center which will result from the refurbishment of a building in advanced state of disrepair. This project's total investment is expected to be 13.500.000 Euros and it is expected to open by the end of 2019.

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 the first quarter of 2019. This hotel will have 80 rooms, spa and gym. This project's total investment is expected to be 9.000.000 Euros.

The Pestana Montevideo project (Uruguay) relates to the development of a new 100-key hotel unit with spa, indoor pool and ample meetings and event areas. It will also have two restaurants, one of which on the top floor with an excellent view over the city of Montevideo and will be especially focused on the business and event segment. The Group's total investment is expected to be of 16.000.000 USD.

The Pestana Douro project refers to a 4-star hotel, near Pousada do Freixo, with 165 keys which results from the refurbishment of the old floral soap factory in Oporto with a priviledged view over the river Douro acquired by the Group. The Group's total investment is expected to be 13.500.000 Euros and it is expected to open by the end of 2019.

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.

The Pestana Churchill project refers to the refurbishment of an upper 4-star hotel in the port building in Câmara de Lobos on the island of Madeira that is expected to be concluded in July 2019. This beautiful building hosted Winston Churchill in the past and will be transformed into a themed hotel with 59 keys in order to increase the Group's offer in the region. The Group's total investment is estimated to be 3.900.000 Euros

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 2018 is 9.237.129 Euros (2017: 9.458.062 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 2018 and 2017, the net book value of Tangible fixed assets acquired through financial leasing is as follows:

	2018	2017
ACQUISITION COST	9.154.781	9.112.027
ACCUMULATED DEPRECIATION	(3.354.163)	(2.916.767)
	5.800.618	**6.195.260**

7. INTANGIBLE ASSETS

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

	CONCESSIONS	WEBSITE AND SOFTWARE	TOTAL
1 JANUARY 2018			
ACQUISITION COST	22.035.353	3.686.996	25.722.349
ACCUMULATED AMORTIZATION	(11.358.804)	(2.248.759)	(13.607.563)
ACCUMULATED IMPAIRMENT	–	–	–
NET BOOK VALUE	**10.676.549**	**1.438.237**	**12.114.786**
CHANGES IN 2018			
ADDITIONS	–	909.270	909.270
TRANSFERS - ACQUISITION COST AND ACCUMULATED DEPRECIATION (NOTE 6)	(961.333)	–	(961.333)
FOREIGN CURRENCY TRANSLATION - ACQUISITION COST	(527)	70.534	70.007
FOREIGN CURRENCY TRANSLATION - ACCUMULATED AMORTIZATION	526	8.458	8.984
AMORTIZATION	(1.117.796)	(398.806)	(1.516.602)
IMPAIRMENT - CHARGE	–	(142.500)	(142.500)
	(2.079.130)	**446.956**	**(1.632.174)**
31 DECEMBER 2018			
ACQUISITION COST	21.004.826	4.666.800	25.671.626
ACCUMULATED AMORTIZATION	(12.407.407)	(2.639.107)	(15.046.514)
ACCUMULATED IMPAIRMENT	–	(142.500)	(142.500)
NET BOOK VALUE	**8.597.419**	**1.885.193**	**10.482.612**

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

	CONCESSIONS	WEBSITE AND SOFTWARE	TOTAL
1 JANUARY 2017			
ACQUISITION COST	21.006.080	3.038.981	24.045.062
ACCUMULATED AMORTIZATION	(10.173.688)	(1.851.200)	(12.024.888)
ACCUMULATED IMPAIRMENT	–	(26.936)	(26.936)
NET BOOK VALUE	**10.832.392**	**1.160.846**	**11.993.238**
CHANGES IN 2017			
ADDITIONS	–	782.311	782.311
DISPOSALS AND WRITE-OFFS - ACQUISITION COST	–	(146.446)	(146.446)
DISPOSALS AND WRITE-OFFS - ACCUMULATED AMORTIZATION	–	(14.400)	(14.400)
DISPOSALS AND WRITE-OFFS - ACCUMULATED IMPAIRMENT	–	26.936	26.936
PERIMETER ENTRIES - ACQUISITION COST (NOTE 39)	1.030.000	–	1.030.000
FOREIGN CURRENCY TRANSLATION - ACQUISITION COST	(727)	12.150	11.423
FOREIGN CURRENCY TRANSLATION - ACCUMULATED AMORTIZATION	723	(11.443)	(10.720)
AMORTIZATION	(1.185.839)	(371.715)	(1.557.554)
	(155.843)	**277.391**	**121.548**
31 DECEMBER 2017			
ACQUISITION COST	22.035.353	3.686.996	25.722.349
ACCUMULATED AMORTIZATION	(11.358.804)	(2.248.759)	(13.607.563)
ACCUMULATED IMPAIRMENT	–	–	–
NET BOOK VALUE	**10.676.549**	**1.438.237**	**12.114.786**

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.

8. INVESTMENT PROPERTIES

During the year ended as at 2018 and 2017, the movements occurred in Investment properties are as follows:

	2018	2017
1 JANUARY	11.268.350	10.504.714
ACQUISITION COST	(2.731.469)	(2.678.555)
ACCUMULATED DEPRECIATION	(116.177)	(116.177)
ACCUMULATED IMPAIRMENT	**8.420.704**	**7.709.982**
NET BOOK VALUE	–	1.239.950
CHANGES IN PERIMETER (NOTE 39)	–	(476.314)
TRANSFERS AND WRITE-OFFS - ACQUISITION COST	–	48.601
TRANSFERS AND WRITE-OFFS - ACCUMULATED DEPRECIATION	(92.454)	(101.515)
DEPRECIATION	**(92.454)**	**710.722**
31 DECEMBER		
ACQUISITION COST	11.268.350	11.268.350
ACCUMULATED DEPRECIATION	(2.823.922)	(2.731.469)
ACCUMULATED IMPAIRMENT	(116.177)	(116.177)
NET BOOK VALUE	**8.328.251**	**8.420.704**

As at 31 December 2018 and 2017 Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2018	2017
COMMERCIAL PROPERTIES LEASED TO THIRD PARTIES, ALGARVE	2.893.517	3.067.221
FUNCHAL LAND, MADEIRA	1.269.455	1.269.455
SÃO VICENTE LAND, MADEIRA	1.239.950	1.239.950
ANGRA DOS REIS LAND, BRAZIL	962.902	962.902
S.GONÇALO HOUSES, MADEIRA	712.192	755.019
OTHERS	1.250.235	1.126.158
	8.328.251	**8.420.704**

As at 31 December 2018 and 2017, 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:

	2018	2017
RENTS OBTAINED	381.505	221.407
OPERATING EXPENSES	(41.770)	(24.241)
AMORTIZATIONS	(92.454)	(101.515)
	247.281	**95.651**

9. INVESTMENTS IN JOINT VENTURES

The movements occurred in Investments in joint ventures during 2018 and 2017 are as follows:

	2018	2017
1 JANUARY	18.156.297	5.067.351
PERIMETER CHANGES (NOTE 39)	–	8.596.271
ACQUISITIONS	–	4.530.000
GAINS FROM EQUITY ACCOUNTING (NOTE 32)	6.110.626	288.283
FOREIGN CURRENCY TRANSLATION	219.620	(325.608)
REIMBURSEMENTS OF LOANS GRANTED	(3.210.000)	–
REIMBURSEMENTS OF ACESSORY CONTRIBUTIONS	(750.000)	–
DIVIDENDS	(165.000)	–
31 DECEMBER	**20.361.543**	**18.156.297**

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 Invest. Turísticos, S.A. was incorporated and in the following month Pestana CR7 – Lisboa Hotel Invest. 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.

U.R.P. – Urban Renew, Promoção Imobiliária, S.A. is a joint venture which aims to develop real estate projects in Lisbon, Portugal. In 2018, this joint venture sold a building in Lisbon (the building which used to house IADE university), resulting in a gain from equity accounting of 5.184.692 Euros, the Group's share. On October 2018, U.R.P., S.A. reimbursed loans and accessory contributions in the amount of 3.210.000 Euros and 750.000 Euros, respectively.

In 2018, Pestana CR7 – Lisboa Hotel Invest. Turísticos, S.A. distributed dividends in the amount of 165.000 Euros.

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).

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.

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

		ACQUISITION COST			ACCESSORY CONTRIBUTIONS			LOANS GRANTED			
ENTITY	% OWNED	EQUITY METHOD	IMPAIRMENT LOSS	TOTAL	INVESTMENT	IMPAIRMENT LOSS	TOTAL	INVESTMENT	IMPAIRMENT LOSS	TOTAL	TOTAL INVESTIMENT
PESTANA CR7 MANHATTAN 39 LLC	51,00%	8.657.477	–	8.657.477	–	–	–	–	–	–	8.657.477
URP - URBAN RENEW PROMOÇÃO IMOBILIÁRIA, S.A.	50,00%	6.143.279	–	6.143.279	–	–	–	–	–	–	6.143.279
SOLPOR - SOCIEDADE TURISMO DO PORTO SANTO LDA.	50,00%	2.240.597	–	2.240.597	430.000	–	430.000	–	–	–	2.670.597
PESTANA CR7 - LISBOA HOTEL INVEST. TURÍST., S.A.	50,00%	172.453	–	172.453	1.875.000	–	1.875.000	–	–	–	2.047.453
PESTANA CR7 - MADEIRA INVEST. TURÍSTICOS, S.A.	50,00%	405.237	–	405.237	437.500	–	437.500	–	–	–	842.737
		17.619.043	**–**	**17.619.043**	**2.742.500**	**–**	**2.742.500**	**–**	**–**	**–**	**20.361.543**

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	IMPAIRMENT LOSS	TOTAL	INVESTMENT	IMPAIRMENT LOSS	TOTAL	TOTAL INVESTIMENT
PESTANA CR7 MANHATTAN 39 LLC	51,00%	8.222.712	–	8.222.712	–	–	–	–	–	–	8.222.712
URP - URBAN RENEW PROMOÇÃO IMOBILIÁRIA, S.A.	50,00%	570.000	–	570.000	750.000	–	750.000	3.210.000	–	3.210.000	4.530.000
SOLPOR - SOCIEDADE TURISMO DO PORTO SANTO LDA.	50,00%	2.241.341	–	2.241.341	430.000	–	430.000	–	–	–	2.671.341
PESTANA CR7 - LISBOA HOTEL INVEST. TURÍST., S.A.	50,00%	4.219	–	4.219	1.875.000	–	1.875.000	–	–	–	1.879.219
PESTANA CR7 - MADEIRA INVEST. TURÍSTICOS, S.A.	50,00%	415.525	–	415.525	437.500	–	437.500	–	–	–	853.025
		11.453.797	**–**	**11.453.797**	**3.492.500**	**–**	**3.492.500**	**3.210.000**	**–**	**3.210.000**	**18.156.297**

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

As at 31 December 2018 and 2017, Investments in joint ventures do not include any goodwill.

10. INVESTMENTS IN ASSOCIATES

The movements occurred in Investments in associates during 2018 and 2017 are as follows:

	2018	2017
1 JANUARY	11.930.722	11.735.124
PERIMETER CHANGES	–	(298.426)
(LOSSES) / GAINS FROM EQUITY ACCOUNTING (NOTE 32)	(192.760)	494.024
31 DECEMBER	**11.737.962**	**11.930.722**

The 2018 and 2017 results from equity accounting mainly refer to Enatur – Empresa Nacional de Turismo, S.A. (Note 32).

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

ENTITY	% OWNED	ACQUISITION COST			LOANS GRANTED			TOTAL INVESTIMENT	GOODWILL INCLUDED
		EQUITY METHOD	IMPAIRMENT LOSS	TOTAL	INVESTMENT AMOUNT	IMPAIRMENT LOSS	TOTAL		
ENATUR - EMPRESA NACIONAL DE TURISMO, S.A.	49,00%	10.253.599	–	10.253.599	1.190.593	–	1.190.593	11.444.192	3.837.382
ALBAR - SOCIEDADE IMOBILIÁRIA BARLAVENTO, S.A.	49,81%	293.770	–	293.770	–	–	–	293.770	–
SOEHOTUR, S.A.	25,00%	596.403	(596.403)	–	172.521	(172.521)	–	–	–
FANTASY LAND, LTD.	33,33%	150.068	(150.068)	–	–	–	–	–	–
		11.293.840	**(746.471)**	**10.547.369**	**1.363.114**	**(172.521)**	**1.190.593**	**11.737.962**	**3.837.382**

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

ENTITY	% OWNED	ACQUISITION COST			LOANS GRANTED			TOTAL INVESTIMENT	GOODWILL INCLUDED
		EQUITY METHOD	IMPAIRMENT LOSS	TOTAL	INVESTMENT AMOUNT	IMPAIRMENT LOSS	TOTAL		
ENATUR - EMPRESA NACIONAL DE 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 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**

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

11. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

The movements occurred in Equity instruments at fair value through profit and loss during 2018 and 2017 are as follows:

	2018	2017
1 JANUARY	868.218	7.882.751
PERIMETER CHANGES (NOTE 39)	–	(6.886.224)
GAINS OF THE PERIOD (NOTE 32)	176.651	53.704
OTHER MOVEMENTS IN EQUITY	(24.326)	120
DISPOSALS	–	(182.133)
31 DECEMBER	**1.020.543**	**868.218**

In 2017, Perimeter changes relates to Imóveis Brisa – F.I.I.F. that entered the consolidation perimeter (Note 39).

In 2017 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 2018 the Equity instruments at fair value through profit and loss have the following detail:

		ACQUISITION COST			LOANS GRANTED			
ENTITY	**% OWNED**	**INVESTMENT VALUE**	**IMPAIRMENT LOSS**	**TOTAL**	**INVESTMENT VALUE**	**IMPAIRMENT LOSS**	**TOTAL**	**TOTAL INVESTMENT**
LEAN COMPANY VENTURES II, S.A.	5,00%	2.500	–	2.500	247.500	–	247.500	250.000
SOCIEDADE TURÍSTICA PALHEIRO GOLFE, S.A.	3,00%	74.820	–	74.820	10.474	–	10.474	85.294
IBERPARTNERS, S.A.	2,00%	65.000	–	65.000	–	–	–	65.000
OTHERS	N.A.	819.861	(302.633)	517.228	103.021	–	103.021	620.249
		962.181	**(302.633)**	**659.548**	**360.995**	**–**	**360.995**	**1.020.543**

As at 31 December 2017 the Equity instruments at fair value through profit and loss have the following detail:

		ACQUISITION COST			LOANS GRANTED			
ENTITY	**% OWNED**	**INVESTMENT VALUE**	**IMPAIRMENT LOSS**	**TOTAL**	**INVESTMENT VALUE**	**IMPAIRMENT LOSS**	**TOTAL**	**TOTAL INVESTMENT**
LEAN COMPANY VENTURES II, S.A.	5,00%	2.500	–	2.500	247.500	–	247.500	250.000
SOCIEDADE TURÍSTICA PALHEIRO GOLFE, S.A.	3,00%	74.820	–	74.820	10.474	–	10.474	85.294
IBERPARTNERS, S.A.	2,00%	65.000	–	65.000	–	–	–	65.000
OTHERS	N.A.	978.348	(613.445)	364.903	103.021	–	103.021	467.924
		1.120.668	**(613.445)**	**507.223**	**360.995**	**–**	**360.995**	**868.218**

12. DEFERRED TAX ASSETS AND LIABILITIES

As at 31 December 2018 and 2017, 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:

	2018	2017
IMPACT ON EQUITY OF CHANGES IN ACCOUNTING POLICIES (NOTE 2)		
DEFERRED TAX ASSETS	(297.993)	–
DEFERRED TAX LIABILITIES	(1.224.381)	–
	(1.522.374)	–
IMPACT ON INCOME STATEMENT		
DEFERRED TAX ASSETS	(1.067.629)	4.439.284
DEFERRED TAX LIABILITIES	863.270	1.585.999
	(204.359)	6.025.283
IMPACT ON EQUITY, EXCLUDING FOREIGN CURRENCY TRANSLATION		
DEFERRED TAX ASSETS	(105.101)	(232.789)
DEFERRED TAX LIABILITIES	–	–
	(105.101)	(232.789)
IMPACT ON PERIMETER CHANGES (NOTE 39)		
DEFERRED TAX ASSETS	–	–
DEFERRED TAX LIABILITIES	–	8.853.354
	–	8.853.354
NET IMPACT OF DEFERRED TAXES	**(1.831.834)**	**14.645.848**

The impact on equity of changes in accounting policies refers exclusively to the adoption of IFRS 15 – Revenue from contracts with customers, the new revenue recognition standard which had an impact on revenue recognition concerning the sale of Pestana vacation club in Brazil, Pestana Priority Guest, Options and vouchers (Note 2).

The impact of perimeter changes is related to the sale of Inversiones Vistalparque C.A. (Note 39).

In Portugal, as a consequence of the increases in share capital in 2018 in the companies which belong to the consolidation perimeter and the change in the Tax benefit code concerning the share capital's conventional remuneration introduced by the Portuguese state budget of 2017 and 2018 which grants companies a benefit corresponding to 7% of cash share capital increases for the period in which it is made and the following five tax periods in 2018 a deferred tax asset was registered, through profit and loss, corresponding to the benefits for the following years in the amount of 1.362.065 Euros.

In 2018, in the Portuguese companies included in the consolidation perimeter, state surcharge was included in the valuation of deferred taxes with an impact of increasing deferred tax assets and liabilities in the amount of 535.497 Euros and 3.385.119 Euros, respectively, and a decrease in profit and loss in the amount of 2.849.622 Euros.

In 2018 Pestana Hotel Group started to offset deferred tax assets and liabilities in which the corresponding subsidiary has a legally enforceable right to offset current tax liabilities and assets and the deferred tax liabilities and assets relate to income taxes levied by the same tax authority on the same taxable entity.

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

	IMPAIRMENT LOSSES ON TRADE RECEIVABLES	IMPAIRMENT LOSSES ON INVENTORIES	CHANGES IN FAIR VALUE	HEDGING RESERVES	DEEMED COST (IFRS1) ON TANGIBLE ASSETS	LITIGATIONS IN PROGRESS	CARRY FORWARD TAX LOSSES	LOYALTY PROGRAM (PPG)	SHARE CAPITAL'S CONVENTIONAL REMUNERATION	OTHERS	TOTAL
1 JANUARY 2018	308.870	44.606	353.227	269.938	3.293.678	2.923.145	22.241.265	780.359	-	2.822.742	33.037.831
CHANGES IN ACCOUNTING POLICIES (NOTE 2)	-	-	-	-	-	-	-	(297.993)	-	-	(297.993)
REVERSAL THROUGH EQUITY	-	-	-	(105.101)	-	-	-	-	-	-	(105.101)
CONSTITUTION THROUGH INCOME STATEMENT	-	26.632	92.970	-	-	27.930	210.856	40.287	1.317.965	932.604	2.649.244
REVERSAL THROUGH INCOME STATEMENT	(110.887)	(347)	-	(35.750)	(227.678)	(995.344)	(2.089.266)	-	(224.552)	(33.049)	(3.713.873)
FOREIGN CURRENCY TRANSLATION	(17.880)	-	-	-	(304.005)	(271.156)	(808.804)	-	-	(35.220)	(1.437.065)
CHANGES ON PERIOD	**(128.767)**	**26.285**	**92.970**	**(140.851)**	**(531.683)**	**(1.238.570)**	**(2.687.214)**	**(257.706)**	**1.093.413**	**864.335**	**(2.907.788)**
	180.103	70.891	446.197	129.087	2.761.996	1.684.575	19.554.051	522.653	1.093.413	3.687.077	30.130.043
OFFSET OF DEFERRED TAX LIABILITIES	(172.052)	(70.891)	(446.197)	(47.180)	(2.761.996)	(1.684.575)	(7.822.228)	(522.653)	(1.093.413)	(3.535.563)	(18.156.748)
31 OF DECEMBER OF 2018	**8.051**	**-**	**-**	**81.907**	**-**	**-**	**11.731.823**	**-**	**-**	**151.514**	**11.973.295**

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 have been incurred until 31 December 2016, date until which they also do not expire.

Foreign currency translation in 2018 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 1.302.040 Euros (2017: decreasing the Brazilian Deferred tax assets by 1.994.991 Euros) (Note 3.2. iv).

	IMPAIRMENT LOSSES ON TRADE RECEIVABLES	IMPAIRMENT LOSSES ON INVENTORIES	CHANGES IN FAIR VALUE	HEDGING RESERVES	DEEMED COST (IFRS 1) ON TANGIBLE ASSETS	LITIGATIONS IN PROGRESS	CARRY FORWARD TAX LOSSES	LOYALTY PROGRAM (PPG)	OTHERS	TOTAL
1 JANUARY 2017	301.548	614.320	473.772	441.487	4.324.193	3.462.028	18.805.042	613.649	2.566.580	31.602.619
REVERSAL THROUGH EQUITY	-	-	-	(232.789)	-	-	-	-	-	(232.789)
REVERSAL THROUGH INCOME STATEMENT	(79.275)	(569.867)	(120.545)	(46.890)	(636.463)	(331.571)	(1.138.409)	-	(132.045)	(3.055.064)
CONSTITUTION THROUGH INCOME STATEMENT	103.621	153	-	108.130	-	215.099	6.485.656	166.710	414.978	7.494.348
UTILIZATIONS	-	-	-	-	-	-	(640.562)	-	-	(640.562)
FOREIGN CURRENCY TRANSLATION	(17.024)	-	-	-	(394.052)	(422.411)	(1.270.462)	-	(26.771)	(2.130.721)
CHANGES ON PERIOD	**7.322**	**(569.714)**	**(120.545)**	**(171.549)**	**(1.030.515)**	**(538.883)**	**3.436.223**	**166.710**	**256.162**	**1.435.212**
31 OF DECEMBER OF 2017	**308.870**	**44.606**	**353.227**	**269.938**	**3.293.678**	**2.923.145**	**22.241.265**	**780.359**	**2.822.742**	**33.037.831**

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

	DEEMED COST (IFRS 1) ON TANGIBLE ASSETS	OTHERS	TOTAL
1 JANUARY 2018	55.127.385	3.498.062	58.625.447
CHANGES IN ACCOUNTING POLICIES (NOTE 2)	–	1.224.381	1.224.381
CONSTITUTION THROUGH INCOME STATEMENT	3.349.515	995.667	4.345.182
REVERSAL THROUGH INCOME STATEMENT	(2.674.642)	(2.533.810)	(5.208.452)
FOREIGN CURRENCY TRANSLATION	(2.802.991)	27.965	(2.775.026)
CHANGES ON PERIOD	**(2.128.118)**	**(285.797)**	**(2.413.915)**
	52.999.267	3.212.265	56.211.532
OFFSET OF DEFERRED TAX ASSETS	(17.320.980)	(835.768)	(18.156.748)
31 OF DECEMBER OF 2018	**35.678.287**	**2.376.497**	**38.054.784**

Foreign currency translation mainly refer to the variance of the Brazilian Real against the Euro, decreasing the Brazilian Deferred tax liabilities in the total net amount of 2.384.563 Euros (2017: decreasing the Brazilian Deferred tax liabilities in the total net amount of 3.318.177 Euros) (Note 3.2 iv).

	DEEMED COST (IFRS 1) ON TANGIBLE ASSETS	OTHERS	TOTAL
1 JANUARY 2017	69.563.995	2.898.680	72.462.675
PERIMETER CHANGES (NOTE 39)	(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 OF DECEMBER OF 2017	**55.127.385**	**3.498.062**	**58.625.447**

13. FINANCIAL ASSETS AND LIABILITIES

The accounting policies for measuring financial instruments in accordance with IFRS 9 were applied to the following financial assets and liabilities:

31 DECEMBER 2018	AMORTIZED COST	FAIR VALUE THROUGH PROFIT AND LOSS	FAIR VALUE THROUGH COMPREHENSIVE INCOME	OTHER NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
FINANCIAL ASSETS					
CASH AND CASH EQUIVALENTS	60.260.136	–	–	–	60.260.136
TRADE AND OTHER RECEIVABLES	50.120.918	–	–	28.814.844	78.935.762
EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	–	1.020.543	–	–	1.020.543
	110.381.054	**1.020.543**	**–**	**28.814.844**	**140.216.441**
FINANCIAL LIABILITIES					
BORROWINGS	411.755.329	–	–	–	411.755.329
DERIVATIVES	–	609.753	413.539	–	1.023.292
TRADE AND OTHER PAYABLES	69.233.809	–	–	32.714.756	101.948.565
	480.989.138	**609.753**	**413.539**	**32.714.756**	**514.727.186**

31 DECEMBER 2017	AMORTIZED COST	FAIR VALUE THROUGH PROFIT AND LOSS	FAIR VALUE THROUGH COMPREHENSIVE INCOME	OTHER NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
FINANCIAL ASSETS					
CASH AND CASH EQUIVALENTS	80.720.300	–	–	–	80.720.300
TRADE AND OTHER RECEIVABLES	53.077.809	–	–	27.683.062	80.760.871
EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	–	868.218	–	–	868.218
	133.798.109	**868.218**	**–**	**27.683.062**	**162.349.389**
FINANCIAL LIABILITIES					
BORROWINGS	407.579.387	–	–	–	407.579.387
DERIVATIVES	–	952.991	973.464	–	1.926.455
TRADE AND OTHER PAYABLES	87.259.278	–	–	29.025.999	116.285.277
	494.838.665	**952.991**	**973.464**	**29.025.999**	**525.791.119**

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:

	31-12-2018			31-12-2017		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS						
EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	-	-	1.020.543	-	-	868.218
	-	**-**	**1.020.543**	**-**	**-**	**868.218**
FINANCIAL LIABILITIES						
DERIVATIVES	-	1.023.292	-	-	1.926.455	-
	-	**1.023.292**	**-**	**-**	**1.926.455**	**-**

14. TRADE AND OTHER RECEIVABLES

As at 31 December 2018 and 2017, Trade and other receivables are detailed as follows:

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
TRADE RECEIVABLES (I)	28.407.110	-	28.407.110	32.660.055	-	32.660.055
OTHER RECEIVABLES (II)	12.657.236	394.402	13.051.638	13.077.239	594.773	13.672.012
PREPAYMENTS (III)	6.639.166	13.426.060	20.065.226	7.549.989	18.059.460	25.609.449
ACCRUED INCOME (IV)	8.647.674	101.944	8.749.618	2.070.315	3.298	2.073.613
TAXES RECEIVABLE (V)	8.662.170	-	8.662.170	6.745.741	-	6.745.741
	65.013.356	**13.922.406**	**78.935.762**	**62.103.339**	**18.657.531**	**80.760.870**

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

i) Trade receivables

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
TRADE RECEIVABLES - GROUP (NOTE 40)	480.009	-	480.009	1.451.857	-	1.451.857
TRADE RECEIVABLES - OTHER	27.927.101	-	27.927.101	31.208.198	-	31.208.198
DOUBTFUL DEBTORS	14.763.028	-	14.763.028	14.955.356	-	14.955.356
	43.170.138	-	43.170.138	47.615.411	-	47.615.411
IMPAIRMENT OF TRADE RECEIVABLES	(14.763.028)	-	(14.763.028)	(14.955.356)	-	(14.955.356)
	28.407.110	**-**	**28.407.110**	**32.660.055**	**-**	**32.660.055**

Impairment of Trade receivables – movements of the year:

	2018	2017
1 JANUARY	14.955.356	16.705.267
CHANGES IN THE PERIMETER	–	92.148
INCREASES	1.254.475	1.205.447
REVERSALS	(993.683)	(371.689)
UTILIZATIONS	(317.068)	(2.458.824)
TRANSFERS – OTHER RECEIVABLES	26.205	(68.993)
FOREIGN CURRENCY TRANSLATION	(162.257)	(148.000)
31 DECEMBER	**14.763.028**	**14.955.356**

ii) Other receivables

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
OTHER DEBTORS – GROUP (NOTE 40)	7.572	–	7.572	198.204	–	198.204
OTHER DEBTORS	12.899.215	394.402	13.293.617	13.260.685	594.773	13.855.458
IMPAIRMENT	(249.551)	–	(249.551)	(381.650)	–	(381.650)
	12.657.236	**394.402**	**13.051.638**	**13.077.239**	**594.773**	**13.672.012**

Impairment of Other receivables – movements of the year:

	2018	2017
1 JANUARY	381.650	299.348
CHANGES IN THE PERIMETER	–	13.839
INCREASES	10.879	–
REVERSALS	(39.320)	–
UTILIZATIONS	(76.999)	–
TRANSFERS – TRADE RECEIVABLES	(26.205)	68.993
FOREIGN CURRENCY TRANSLATION	(454)	(530)
31 DECEMBER	**249.551**	**381.650**

The ageing of overdue balances without impairment is as follows:

	2018	2017
0 TO 6 MONTHS	29.068.801	32.445.941
6 TO 12 MONTHS	4.269.104	4.567.018
12 TO 18 MONTHS	3.382.802	5.013.682
18 TO 24 MONTHS	763.922	2.022.516
MORE THAN 24 MONTHS	3.974.119	2.232.171
	41.458.748	**46.281.328**

The ageing of overdue balances with impairment is as follows:

	2018	2017
0 TO 6 MONTHS	67.390	413.945
6 TO 12 MONTHS	136.097	186.761
12 TO 18 MONTHS	354.284	792.736
18 TO 24 MONTHS	333.977	643.060
MORE THAN 24 MONTHS	14.120.831	13.300.504
	15.012.579	**15.337.006**

iii) Prepayments

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
COMMISSIONS	2.288.234	13.381.997	15.670.231	2.745.620	17.655.568	20.401.188
RENTALS	1.277.032	-	1.277.032	2.178.462	-	2.178.462
INSURANCE	370.286	-	370.286	278.279	-	278.279
MAINTENANCE SERVICES	464.915	-	464.915	821.816	-	821.816
OTHER SERVICES	2.238.699	44.063	2.282.762	1.525.812	403.892	1.929.704
	6.639.166	**13.426.060**	**20.065.226**	**7.549.989**	**18.059.460**	**25.609.449**

As at 31 December 2018 and 2017, the balance of Commissions relates exclusively to commissions paid related to sales of Pestana Vacations Club – Options contracts (Note 3.21 ii). On 1 January 2018 this caption decreased 1.825.051 Euros as a consequence of the adoption of the new revenue recognition accounting standard (IFRS 15) (Note 2).

As at 31 December 2017, the caption Rentals included the rent for the months of January through March 2018 for Pestana D. João II which has been acquired by the Group in November 2018 (Note 6).

iv) Accrued income

This caption mainly refers to pending invoices concerning construction services, which are recognized according to the conclusion percentage using the input method, as well as the receivable amount at the time of signing the deed for units already delivered to customers.

v) Taxes receivable

This caption is mainly related to VAT receivable.

15. INVENTORIES

As at 31 December 2018 and 2017 Inventories are detailed as follows:

	2018	2017
GOODS	5.504.950	5.413.117
RAW AND SUBSIDIARY MATERIALS	3.161.231	3.013.409
FINISHED GOODS	987.580	2.039.908
WORK IN PROGRESS	61.294.281	74.930.741
	70.948.042	85.397.175
IMPAIRMENT OF INVENTORIES	(327.068)	(1.851.854)
	70.620.974	**83.545.321**

Finished goods and Work in progress are as follows:

	2018	2017
TRÓIA PROJECT (TRÓIA, PORTUGAL)	31.211.953	40.916.054
SILVES TURISTIC PROJECT (ALGARVE, PORTUGAL)	10.350.837	8.894.264
NORTH OF GRAMACHO LAND (ALGARVE, PORTUGAL)	7.798.482	7.788.994
ABRUNHEIRA PROJECT (PORTALEGRE, PORTUGAL)	6.291.949	6.291.949
COMPORTA LAND (TRÓIA, PORTUGAL)	3.569.463	–
BAZARUTO VILLAS (MOZAMBIQUE)	966.876	1.144.609
BEVERAGES AND PACKAGING	696.339	661.633
VALE DA PINTA LAND (ALGARVE, PORTUGAL)	586.026	968.997
PORTO SANTO LAND (MADEIRA, PORTUGAL)	443.360	423.360
S. MARTINHO LAND (MADEIRA, PORTUGAL)	359.750	359.750
VILA MARIA VILLAS (SÃO TOME AND PRÍNCIPE)	–	8.360.561
FLATS (ALGARVE, PORTUGAL)	–	272.163
OTHERS	6.826	888.315
	62.281.861	**76.970.649**

The Tróia project is mainly related to the construction of houses and the infrastructures of a touristic village in a 100 ha plot of land with a building capacity of 54.184 thousand m2.

The Silves touristic project is associated to a touristic project which includes two 4 star touristic resorts with 232 accommodation units with a total expected investment of 47.000.000 Euros.

The land North of Gramacho relates to a real estate project under development.

The Abrunheira project is related to a development project which will be composed by a set of 13 touristic undertakings, divided in 10 tourist villages, 2 touristic apartments with houses and 1 hotel or apart-hotel.

In 2018, the Group acquired a plot of land in Comporta for the amount of 3.560.463 Euros in which it plans to develop a future real estate project.

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

Vila Maria Villas are 29 villas in a luxury condominium located in São Tomé and Príncipe, near the beach in the country's capital, the city of São Tomé. The change occurred in 2018 relates to the transfer to tangible fixed assets in the amount of 6.714.026 Euros (this project included an impairment loss in the amount of 1.646.535 Euros) (Note 6) resulting from the change in use to be given to the project where initially the villas were to be sold and now are to be explored.

The 2018 Cost of goods sold amounted to 72.074.685 Euros (31 December 2017: 53.476.245 Euros).

Impairment of Inventories – movements of the year:

	2018	2017
1 JANUARY	1.851.854	1.939.226
INCREASES	167.427	122.827
REVERSALS	(13.452)	(16.238)
UTILIZATIONS	(32.056)	(193.817)
TRANSFER FOR TANGIBLE FIXED ASSETS (NOTE 6)	(1.646.535)	–
FOREIGN CURRENCY TRANSLATION	(170)	(144)
31 DECEMBER	**327.068**	**1.851.854**

16. CORPORATE INCOME TAX

The balances of Corporate income tax for the years ended 31 December 2018 and 2017 are as follows:

	31-12-2018		31-12-2017	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
CURRENT INCOME TAX	1.542.684	2.070.506	2.378.273	9.513.204
	1.542.684	**2.070.506**	**2.378.273**	**9.513.204**

The balance of Current income tax is detailed as follows:

	2018	2017
ADVANCE PAYMENTS	15.454.381	6.538.227
WITHHOLDING TAXES	571.352	296.376
CURRENT INCOME TAX ESTIMATE	(16.553.555)	(13.969.534)
	(527.822)	**(7.134.931)**

17. CASH AND CASH EQUIVALENTS

As at 31 December 2018 and 2017 Cash and cash equivalents are detailed as follows:

	31-12-2018	31-12-2017
CASH	1.642.436	1.872.019
BANK DEPOSITS	58.617.700	78.848.281
	60.260.136	**80.720.300**

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 2018 and 2017 is as follows:

	31-12-2018	31-12-2017
CASH	1.642.436	1.872.019
BANK OVERDRAFTS	(827.608)	(2.870.273)
BANK DEPOSITS	58.617.700	78.848.281
	59.432.528	**77.850.027**

Balances in foreign currency are included in Bank deposits and are mainly composed by 5.900.220 USD and 3.788.179 GBP (31 December 2017: 8.749.955 USD and 4.263.610 GBP).

18. CAPITAL

As at 31 December 2018 and 2017 Capital is as follows:

	2018	2018
SHARE CAPITAL (I)	166.625.238	166.625.238
OTHER EQUITY INSTRUMENTS:(II)		
OTHER CAPITAL CONTRIBUTIONS NOT REMUNERATED NOR WITH REIMBURSEMENT DATE	71.374.762	40.711.335
	238.000.000	**207.336.573**

(i) Share capital

As at 31 December 2018 and 2017, Pestana International Holdings S.A.'s subscribed Share capital amounts to 166.625.238 Euros, represented by 1.319.177 fully paid 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 2018 and 2017 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**

As at 31 December 2018 and 2017, basic earnings per share are 60,83 Euros and 45,51 Euros, respectively, and net earnings per share are 60,83 Euros and 45,51 Euros, respectively.

(ii) Other equity instruments

On October 2018, Mr. Dionísio Pestana reinforced his shareholder contributions in the amount of 30.663.427 Euros according to the master contribution agreement amendment celebrated between both parties.

These capital contributions are not remunerated and do not have an established reimbursement date, having been granted to 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

As at 31 December 2018 and 2017 Other reserves had the following movements were as follows:

	LEGAL RESERVE (I)	FREE RESERVES	FAIR VALUE RESERVE C.F.H. (II)	FAIR VALUE RESERVE A.F.S.	EQUITY METHOD (III)	CUMULATIVE TRANSLATION ADJUSTMENTS (IV)	TOTAL
1 JANUARY 2017	19.591.749	2.100.400	4.824.256	(29.276)	(8.263.107)	(18.323.786)	(99.763)
CHANGES IN THE PERIMETER (NOTE 39)	19.107	–	–	–	–	–	19.107
PROFIT FOR THE PERIOD APPLICATION	3.438.893	–	–	–	–	–	3.438.893
CHANGE IN FAIR VALUE RESERVE – HEDGING DERIVATIVES (NET OF TAX)	–	–	659.942	–	–	–	659.942
TRANSFERS TO NET INCOME (NOTE 39)	–	–	–	–	–	6.530.693	6.530.693
TRANSFER TO AND FROM RETAINED EARNINGS (NOTE 20)	(156.446)	(2.100.400)	(30.717)	29.276	828.123	(5.662)	(1.435.828)
FOREIGN CURRENCY TRANSLATION	–	–	–	–	–	(12.319.065)	(12.319.065)
31 DECEMBER 2017	**22.893.303**	**-**	**5.453.481**	**-**	**(7.434.984)**	**(24.117.774)**	**(3.206.020)**
PROFIT FOR THE PERIOD APPLICATION	10.553.827	–	–	-	–	–	10.553.827
CHANGE IN FAIR VALUE RESERVE - HEDGING DERIVATIVES (NET OF TAX)	-	–	449.225	-	–	–	449.225
DIVIDENDS (NOTE 35)	-	–	–	-	(163.350)	–	(163.350)
TRANSFER TO AND FROM RETAINED EARNINGS (NOTE 20)	-	21.192	(1.193.436)	-	7.598.334	(2.359.551)	4.066.539
FOREIGN CURRENCY TRANSLATION	-	–	–	-	–	(7.699.895)	(7.699.895)
31 DECEMBER 2018	**33.447.130**	**21.192**	**4.709.270**	**-**	**-**	**(34.177.266)**	**4.000.326**

(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) Equity method

As at 31 December 2017 this caption included all acumulated gains not distributed by dividends and all accumulated losses from the equity method applied in the valuation of Joint ventures and Associates in the Consolidated income statement of previous years. In 2018 these amounts were transferred to Retained earnings (Note 20).

(iv) Currency translations adjustments

The differences arising from the conversion of the Income statement and the conversion of the Statement of financial position of the subsidiaries that have a functional currency other than the Euro, as described in Note 3.2.iii) are recognized under this caption. The accumulated currency translations adjustments are detailed as follows as at 31 December 2018 and 2017:

	2018	2017
BRL - BRAZILIAN REAL	(18.877.432)	(11.932.744)
ARS - ARGENTINIAN PESO	(7.927.612)	(6.443.186)
MZN - MOZAMBICAN METICAL	(7.166.545)	(7.228.057)
UYU - URUGUAYAN PESO	(816.531)	(415.435)
GBP - POUND STERLING	653	2.423.146
USD - US DOLLAR	19.217	(1.045.695)
ZAR - SOUTH AFRICAN RAND	668.517	612.360
OTHERS	(77.533)	(88.163)
	(34.177.266)	**(24.117.774)**

20. RETAINED EARNINGS

As at 31 December 2018 and 2017, Retained earnings movements were as follows:

	TOTAL
1 JANUARY 2017	**63.997.565**
PROFIT FOR THE PERIOD APPLICATION	21.020.028
ACQUISITIONS OF SHARES OWNED BY NON-CONTROLLING INTERESTS (I)	(4.471.813)
TRANSFERS TO AND FROM OTHER RESERVES (NOTE 19)	1.435.824
TRANSFERS FROM NON-CONTROLING INTEREST OF THE SHARES ACQUIRED (NOTE 21) (II)	2.829.379
FOREIGN CURRENCY TRANSLATION	(363.286)
OTHERS	(408.685)
31 DECEMBER 2017	**84.039.012**
CHANGES IN ACCOUNTING POLICIES (NOTE 2) (I)	3.383.342
PROFIT FOR THE PERIOD APPLICATION	44.756.962
ACQUISITIONS OF SHARES OWNED BY NON-CONTROLLING INTERESTS (II)	(4.214.231)
TRANSFERS TO AND FROM OTHER RESERVES (NOTE 19)	(4.066.539)
TRANSFERS FROM NON-CONTROLING INTEREST OF THE SHARES ACQUIRED (NOTE 21) (III)	1.507.360
OTHER DISTRIBUTIONS (IV)	(27.000.000)
FOREIGN CURRENCY TRANSLATION	17.430
OTHERS	(82.173)
31 DECEMBER 2018	**98.341.163**

(i) Changes in accounting policies

Changes in accounting policies refer exclusively to the impact of the adoption of the new revenue recognition standard (IFRS 15) on the sale of Pestana vacation club in Brazil, Pestana Priority Guest, Options and vouchers in the amount of 2.200.265 Euros, 1.026.420 Euros, 130.438 Euros and 26.220 Euros, respectively.

(ii) Acquisitions of Non-controlling interest

In 2018, Pestana Hotel Group acquired the remaining 4,29% of Grupo Pestana Pousadas, S.A. as well as the existing accessory contributions, the remaining 33,33% of the share capital of Herdade da Abrunheira, S.A. as well as the existing accessory contributions and the remaining 0,08% of Hotéis do Atlântico, S.A.'s share capital for the amount of 3.476.590 Euros, 706.667 Euros and 30.974 Euros, respectively.

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.

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

As a result of the 2018 acquisitions, the corresponding previous Non-controlling interests' balances were transferred to Retained earnings in the amount of 1.507.360 Euros (2017: 2.829.379 Euros) (Note 21).

(iv) Other distributions

On 22 October 2018, it was deliberated in General Assembly of the subsidiary Grupo Pestana, S.G.P.S., S.A. to partially reimburse Acessory contributions to its shareholder, Mr. Dionísio Pestana, in the amount of 27.000.000 Euros.

21. NON-CONTROLLING INTERESTS

As at 31 December 2018 and 2017, Non-controlling interests' movements were as follows:

	2018	2017
1 JANUARY	**18.126.446**	**34.230.547**
CHANGES IN THE PERIMETER (NOTE 39)	–	(311.797)
CHANGE IN FAIR VALUE RESERVE - HEDGING DERIVATIVES (NET OF TAX)	4.538	6.664
CAPITAL INCREASES	22.065	2.255.738
DIVIDENDS (NOTE 35)	(3.039.619)	(13.600.395)
TRANSFERS TO RETAINED EARNINGS OF THE SHARES ACQUIRED (NOTE 20)	(1.507.360)	(2.829.375)
REIMBURSEMENT OF SUPPLEMENTARY CAPITAL	(1.251.600)	(1.264.766)
TRANSFERS TO NET INCOME (NOTE 39)	–	(5.054.748)
FOREIGN CURRENCY TRANSLATION	(7.103)	(26.348)
PROFIT FOR THE PERIOD	7.279.930	4.720.927
31 DECEMBER	**19.627.297**	**18.126.446**

In 2018, Dividends were mainly distributed by SDM – Sociedade de Desenvolvimento da Madeira, S.A. and Porto Carlton, S.A. (2017: distributed by SDM – Sociedade de Desenvolvimento da Madeira, S.A.).

Reimbursement of Supplementary capital in 2018 and 2017 relates to the reimbursement of Acessory contributions owned by Non-controlling interests in the subsidiary Ponta da Cruz S.A..

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 39).

Non-controlling interests relate to the following investments:

	31-12-2018		31-12-2017	
	% HELD	VALUE	% HELD	LIABILITIES
PESTANA S.G.P.S. SUB-GROUP (PORTUGAL) (I)	N.A.	11.089.819	N.A.	11.978.327
SDM - SOCIEDADE DE DESENVOLVIMENTO DA MADEIRA, S.A. (II)	52,27%	6.328.118	52,27%	5.205.460
URP - URBAN RENEW PROMOÇÃO IMOBILIÁRIA, S.A. (III)	40,00%	2.034.572	N.A.	-
HOTEIS DO ATLÂNTICO SUB-GROUP (EUROPE AND NORTH AMERICA) (I)	N.A.	340.593	N.A.	745.618
PESTANA INVERSIONES SUB-GROUP (LATIN AMERICA) (I)	N.A.	24	N.A.	120.784
SALVINTUR SUB-GROUP (AFRICA) (I)	N.A.	(165.829)	N.A.	76.257
		19.627.297		**18.126.446**

(i) Not disclosed because it relates to a subgroup aggregation. Corresponding financial information is disclosed in Note 38.

(ii) SDM's financial information as at 31 December 2018 and 2017 is as follows:

	SDM, S.A.	
	2018	2017
ASSETS		
NON CURRENT	3.725.314	4.226.918
CURRENT	11.982.753	12.794.228
	15.708.067	17.021.146
LIABILITIES		
NON CURRENT	17.782	26.747
CURRENT	4.466.949	6.892.676
	4.484.731	6.919.423
EQUITY	11.223.336	10.101.723
YEAR'S ACTIVITY		
REVENUE	11.472.093	11.046.785
EXPENSES	(7.496.421)	(8.043.339)
NET INCOME	3.975.672	3.003.446
NON-CONTROLLING INTEREST OWNED %	52,27%	52,27%
	2.078.084	**1.569.901**

(iii) URP – Urban Renew Promoção Imobiliária, S.A. is a joint venture in which Pestana Hotel Group owns 30% of the share capital and has a shareholder's agreement with Mr. Dionísio Pestana and Mr. José Roquette for their respective 10% share of capital each (Note 38).

22. PROVISIONS

As at 31 December 2018 and 2017, the movements in Provisions were as follows:

	LITIGATIONS AND CLAIMS IN PROGRESS (I)	CUSTOMER GUARANTEES (II)	OTHER PROVISIONS (III)	TOTAL
1 JANUARY 2018	13.942.717	216.163	1.641.794	15.800.674
INCREASES	2.170.424	48.662	164.990	2.384.076
DECREASES	(3.351.301)	-	(456.630)	(3.807.931)
UTILIZATIONS	(1.267.294)	-	314.856	(952.438)
INTERESTS CHARGES (NOTE 33)	133.645	-	-	133.645
FOREIGN CURRENCY TRANSLATION (IV)	(913.220)	-	(236)	(913.456)
CHANGES ON PERIOD	(3.227.746)	48.662	22.980	(3.156.104)
31 OF DECEMBER OF 2018	**10.714.971**	**264.825**	**1.664.774**	**12.644.571**
CURRENT BALANCE	6.394.744	134.739	1.093.093	7.622.576
NON-CURRENT BALANCE	4.320.227	130.086	571.681	5.021.994
	10.714.971	**264.825**	**1.664.774**	**12.644.570**

	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)
INTERESTS CHARGES (NOTE 33)	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 OF DECEMBER OF 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**

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

(i) Litigation and claims in progress

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

As at 31 December 2018, the subsidiary Brasturinvest, S.A. is an involved party in several labour processes which mainly correspond to claims from past employees of greater compensation than paid by the subsidiary at the time they were laid off, in the total amount of 3.745.806 Euros (31 December 2017: 6.349.834 Euros). However, it has been the subsidiary's practice to settle several of these cases outside of court for amounts lower than those which have been provided considering the estimated losses calculated by the Brazilian external expert legal entities.

The subsidiary Empresa de Cervejas da Madeira, Lda. (ECM) received an inspection carried out by Customs in Lisbon related to Special Tax on Consumption (IEC) for the years 2002, 2003 and the first half of 2004, an officious liquidation in the amount of 2.029.130 Euros with the addition of 321.270 Euros of compensatory interest. Until 2014, this claim was on hierarchical court appeal and the subsidiary ECM had constituted bank guarantees, and no outflow was expected to occur based on the opinion of reputable external advisors. However, in 2015, the court has taken its decision which was unfavorable to ECM. Despite the extraordinary judicial administrative appeal that was immediately submitted, considering the development occurred in the process, Pestana Hotel Group recognized a provision in the total amount of 2.755.052 Euros.

This proceeding is in review appeal and there have been no further developments which allow for any change in the amount of the provision which is prudently presented as a current liability.

(ii) Customer guarantees

Based on the history and typology of work developed, this provision includes the estimated costs to be incurred in future with the assurance that has been given on the construction of villas, 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 Carvoero Golfe, S.A. decided to exert its right to resolve the contract having booked the entirety of the advance received as revenue, in the amount of 950.000 Euros.

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

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

In 2018 no changes have occurred in this process remaining the bank guarantee active and the provision presented as a current liability following a prudent approach.

As at 31 December 2018 and 2017, the remaining Other provisions result from ordinary and inherent business risks.

(iv) Foreign currency translation

Mainly refers 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:

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
BANK LOANS	45.808.976	210.288.929	256.097.905	42.358.265	212.092.882	254.451.147
BOND LOANS	11.636.110	107.500.000	119.136.110	–	118.612.223	118.612.223
COMMERCIAL PAPER	11.444.444	25.388.889	36.833.333	5.944.444	26.833.333	32.777.777
BANK OVERDRAFTS	827.608	–	827.608	2.870.273	–	2.870.273
	69.717.138	343.177.818	412.894.956	51.172.982	357.538.438	408.711.420
INTERESTS PAYABLE - ACCRUAL	2.355.955	–	2.355.955	2.589.831	157.689	2.747.519
INTERESTS PAID - DEFERRAL	(270.383)	(3.225.199)	(3.495.582)	(233.946)	(3.645.607)	(3.879.552)
	71.802.710	**339.952.619**	**411.755.329**	**53.528.867**	**354.050.520**	**407.579.387**

Bank loans have as collateral the mortgage over some assets of subsidiaries, 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 2018, no exceptions have been identified in any of these covenants.

The future payments of the outstanding bank loans, bond loans and commercial paper, by currency of denomination, as at 31 December 2018 and 2017, are as follows:

	2019	2020	2021	2022	2023	FOLLOWING YEARS	TOTAL
BANK LOANS							
EURO	44.175.029	24.981.599	21.818.252	31.857.623	15.202.285	78.346.082	216.380.870
BRITISH POUND	1.299.173	1.299.173	1.299.173	1.299.173	1.299.173	11.909.086	18.404.951
AMERICAN DOLLAR	334.774	989.159	1.137.212	1.282.800	1.431.074	16.137.064	21.312.083
	45.808.976	**27.269.931**	**24.254.637**	**34.439.596**	**17.932.532**	**106.392.232**	**256.097.905**
BOND LOANS							
EURO	-	65.000.000	27.500.000	15.000.000	-	-	107.500.000
AMERICAN DOLLAR	11.636.110	-	-	-	-	-	11.636.110
	11.636.110	**65.000.000**	**27.500.000**	**15.000.000**	**-**	**-**	**119.136.110**
COMMERCIAL PAPER							
EURO	11.444.444	2.944.444	444.444	444.444	20.444.444	1.111.113	36.833.333
	11.444.444	**2.944.444**	**444.444**	**444.444**	**20.444.444**	**1.111.113**	**36.833.333**
	68.889.530	30.214.375	52.199.082	49.884.040	38.376.977	107.503.345	412.067.348

	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	19.866.196
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

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

In May 2018, the subsidiary M.&J. Pestana, S.A. proceeded to amortize a bank loan before its due date (June 2025) in the amount of 9.550.000 Euros. In December 2018, the subsidiary contracted two new lines of commercial paper in the amount of 3.500.000 Euros and 6.500.000 Euros. These lines are subject to the Euribor interest rate plus spread.

In November 2018, the subsidiaries M.&J. Pestana, S.A. and Salvor, S.A. acquired new bank loans in the amount of 12.500.000 Euros and 25.000.000 Euros, respectively. In December 2018, the subsidiary Salvor, S.A. acquired a new bank loan in the amount of 5.000.000 Euros. In 2018, the subsidiary Pestana New York East LLC. acquired a new bank loan in the amount of 9.771.156 USD.

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 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 (11.287.000 USD in 2015) of the total amount of 30.000.000 USD has already been paid in February 2017 and in July 2015 and the outstanding balance was paid in February 2019 (at the maturity date).

Pestana Hotel Group holds, as at 31 December 2018, a set of unused contracted credit lines in Financial Institutions with a total amount of 92.165.522 Euros related to authorized credit lines and overdrafts.

24. DERIVATIVES

As at 31 December 2018 and 2017, Pestana Hotel Group had interest rate swaps (hedging derivatives) as follows:

	31-12-2018		31-12-2017	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
INTEREST RATE SWAPS – NON-CURRENT	–	1.023.292	–	1.926.455
INTEREST RATE SWAPS – CURRENT	–	–	–	–
	–	**1.023.292**	**–**	**1.926.455**

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

SUBSIDIARY	CLASSIFICATION IFRS 9	INITIAL REFERENCE VALUE	MATURITY	PAYMENT PERIOD	FEES RECEIVABLE/ PAYABLE	FAIR VALUE A 31-12-2018	FAIR VALUE A 31-12-2017	VARIATION
BELOURA HOTEL E GOLFE – INVEST. TURÍST., S.A.	HEDGE	9.600.000	30-07-2019	SEMIANNUAL	EUR 6M / 4,77%	(12.142)	(65.788)	53.646
M & J PESTANA, S.A.	HEDGE	5.000.000	18-12-2019	SEMIANNUAL	EUR 6M / 3,08%	(18.778)	(62.500)	43.722
GRUPO PESTANA S.G.P.S., S.A.	HEDGE	10.000.000	28-12-2019	SEMIANNUAL	EUR 6M / 3,08%	(37.556)	(124.999)	87.443
CARLTON PALÁCIO, S.A.	HEDGE	5.000.000	28-12-2019	SEMIANNUAL	EUR 6M / 3,08%	(18.778)	(62.500)	43.722
SALVOR, S.A.	HEDGE	5.000.000	28-12-2019	SEMIANNUAL	EUR 6M / 3,08%	(18.778)	(62.500)	43.722
GRUPO PESTANA S.G.P.S., S.A.	HEDGE	10.000.000	30-12-2019	SEMIANNUAL	EUR 6M / 3,04%	(37.034)	(123.124)	86.091
M & J PESTANA, S.A.	HEDGE	5.000.000	30-12-2019	SEMIANNUAL	EUR 6M / 3,04%	(18.517)	(61.562)	43.045
CARLTON PALÁCIO, S.A.	HEDGE	5.000.000	30-12-2019	SEMIANNUAL	EUR 6M / 3,04%	(18.517)	(61.562)	43.045
SALVOR, S.A.	HEDGE	5.000.000	30-12-2019	SEMIANNUAL	EUR 6M / 3,04%	(18.514)	(61.562)	43.048
ITI SOC.INVES. TUR. ILHA MADEIRA, S.A. (I)	PROPORTION HEDGE	7.000.000	26-09-2022	SEMIANNUAL	EUR 6M / 4,82%	(286.567)	(383.157)	96.590
PESTANA INTERNATIONAL HOLDINGS S.A.	TRADING	17.921.875	28-05-2024	QUARTELY	GBP LIBOR 3M / 1,20%	(10.817)	(181.151)	170.335
HOTEL RAUCHSTRASSE 22, S.À.R.L. (II)	TRADING	11.500.000	16-06-2025	SEMIANNUAL	EUR 6M / 2,10%	(527.294)	(676.050)	148.756
						(1 023 292)	**(1 926 455)**	**903 163**

(i) 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 33).

(ii) 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 33).

The change in the fair value of the derivatives financial instruments occurred in 2018 and 2017 were as follows:

	2018	2017
1 JANUARY	1.926.455	2.928.884
HEDGING DERIVATIVES - FAIR VALUE CHANGES	(559.925)	(892.855)
TRADING DERIVATIVES - FAIR VALUE CHANGES (NOTE 33)	(343.238)	(106.303)
SETTLEMENT (NOTE 33)	-	(3.272)
31 DECEMBER	**1.023.292**	**1.926.455**

The changes in the fair value reserve related to cash flow hedges in 2018 and 2017 were as follows:

	2018	2017
1 JANUARY	5.453.481	4.824.256
HEDGING DERIVATIVES - FAIR VALUE CHANGES	554.326	862.014
DEFERRED TAX (NOTE 12)	(105.101)	(232.789)
TRANSFER TO RETAINED EARNINGS	(1.193.436)	-
31 DECEMBER	**4.709.270**	**5.453.481**

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 IFRS 9. 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 2018 and 2017, the detail of Deferred revenue is as follows:

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
PESTANA VACATIONS CLUB (I)	16.604.704	104.137.842	120.742.546	18.448.426	122.352.193	140.800.619
PESTANA VACATIONS CLUB – OPTIONS (II)	3.538.104	34.287.041	37.825.145	3.525.896	35.129.292	38.655.188
GOVERNMENT GRANTS (III)	497.993	7.320.076	7.818.069	669.544	7.674.535	8.344.079
CUSTOMER LOYALTY PROGRAM ("PPG") (IV)	2.219.028	-	2.219.028	3.547.864	-	3.547.864
OTHER DEFERRED INCOME (V)	4.570.292	3.428.355	7.998.647	6.798.656	3.017.858	9.816.514
	27.430.121	**149.173.314**	**176.603.435**	**32.990.386**	**168.173.878**	**201.164.264**

(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 2019 and 2039. On 1 January 2018 this caption decreased 5.123.196 Euros as a consequence of the adoption of the new revenue recognition accounting standard (IFRS 15) related to Pestana Vacation Club in Brazil (Note 2).

(ii) Pestana Vacations Club – Options

This item refers to the sale of the timeshare program Options. The customer acquires points that give him the right to use accommodation without having to choose the specific hotel at that time. Revenue is recognized according to the redemption of points in the program and their validity date (Note 3.21 ii)). On 1 January 2018 this caption decreased 249.327 Euros as a consequence of the adoption of the new revenue recognition accounting standard (IFRS 15) (Note 2).

(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 (Note 30).

(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. Considering that transactions that qualify for point's award is a separate performance obligation, at the date the services are rendered there is a segregation of the amount invoiced to the client between the revenue of product or services and the value of the points awarded, considering the separate sale price of each performance obligation and the customer's point redemption history. Thus, 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. On 1 January 2018 this caption decreased 1.324.412 Euros as a consequence of the adoption of the new revenue recognition accounting standard (IFRS 15) (Note 2).

(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, until 2044.

26. TRADE AND OTHER PAYABLES

As at 31 December 2018 and 2017, the detail of Trade and other payables is as follows:

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
TRADE PAYABLES						
SUPPLIERS (I)	26.975.344	–	26.975.344	30.540.901	–	30.540.901
OTHER PAYABLES						
OTHER PAYABLES	1.975.516	-	1.975.516	3.768.913	608.895	4.377.808
SUPPLIERS OF PROPERTY, PLANT AND EQUIPMENT (II)	4.480.646	3.933.997	8.414.643	5.705.421	4.759.069	10.464.490
ADVANCES FROM CUSTOMERS (III)	26.657.619	–	26.657.619	36.529.852	–	36.529.852
TAXES PAYABLE (IV)	5.210.687	–	5.210.687	5.346.227	–	5.346.227
ACCRUED EXPENSES						
WAGES AND CORREPONDING TAXES	15.472.854	–	15.472.854	14.628.009	–	14.628.009
OTHERS	17.180.166	61.736	17.241.902	14.397.990	–	14.397.990
	97.952.832	**3.995.733**	**101.948.565**	**110.917.313**	**5.367.964**	**116.285.277**

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

(i) Suppliers

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
SUPPLIERS - GROUP (NOTE 40)	88.330	–	88.330	397.323	–	397.323
OTHER SUPPLIERS	26.887.014	–	26.887.014	30.143.578	–	30.143.578
	26.975.344	**–**	**26.975.344**	**30.540.901**	**–**	**30.540.901**

(ii) Suppliers of property, plant and equipment

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

	31-12-2018	31-12-2017
LESS THAN 1 YEAR	912.439	942.034
BETWEEN 1 AND 5 YEARS	3.933.972	3.303.761
MORE THAN 5 YEARS	25	1.455.308
	4.846.436	**5.701.102**

(iii) Advances from customers

Refers mainly to the amounts received along the construction works, amounting in total to 16.602.119 Euros (31 December 2017: 25.447.939 Euros) and maintenance fees charged in advance under timeshare contracts amounting to 5.534.442 Euros (31 December 2017: 6.137.312 Euros).

The residual amount in 31 December 2018 and 2017 are mainly related to reservations made by tour operators.

(iv) Taxes payable

	31-12-2018			31-12-2017		
	CURRENT	NON-CURRENT	TOTAL	CURRENT	NON-CURRENT	TOTAL
PERSONNEL INCOME TAX WITHHELD	1.140.994	-	1.140.994	1.106.882	-	1.106.882
VALUE ADDED TAX	2.402.252	-	2.402.252	2.293.510	-	2.293.510
SOCIAL SECURITY CONTRIBUTIONS	1.586.015	-	1.586.015	1.631.274	-	1.631.274
OTHERS	81.426	-	81.426	314.561	-	314.561
	5.210.687	**-**	**5.210.687**	**5.346.227**	**-**	**5.346.227**

27. REVENUE

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

	2018	2017
HOSPITALITY BUSINESS (I)	268.771.816	260.934.640
REAL ESTATE (II)	68.483.786	32.118.151
VACATION CLUB (III)	33.637.181	32.622.889
BEVERAGES (INDUSTRY)	27.163.855	28.039.616
GOLF	11.358.407	13.402.423
ENTERTAINMENT	10.397.186	10.504.609
OTHERS	14.395.257	15.845.452
	434.207.488	**393.467.781**

(i) Hospitality business

The 2018 and 2017 detail of sales and services rendered in Hospitality business by country of origin related to the number of customer are as follows:

	HOSPITALITY BUSINESS	
COUNTRY	2018	2017
PORTUGAL	24,8%	24,8%
UNITED KINGDOM	19,0%	20,2%
GERMANY	11,0%	10,3%
BRAZIL	6,5%	7,6%
UNITED STATES	5,6%	4,8%
FRANCE	4,9%	4,3%
SPAIN	3,4%	3,3%
NETHERLANDS	2,3%	1,8%
SWITZERLAND	1,7%	2,0%
IRELAND	1,5%	1,3%
BELGIUM	1,3%	1,4%
SWEDEN	1,3%	1,4%
ITALY	1,3%	1,2%
DENMARK	1,1%	1,1%
NORWAY	1,0%	1,0%
OTHERS	13,3%	13,3%
	100%	**100%**

(ii) Real estate

In 2018, the first sales of apartments belonging to Tróia Eco-resort's Lot 1 were made, namely 34 apartment units were sold in the amount of 17.671.500 Euros. Simultaneously, the Group continues to sell units from Lots 3 and 4 which amounted to 29.851.506 Euros in 2018 corresponding to 66,25 units. In 2017, 71 townhouses were sold from Lots 3 and 4 in the amount of 16.823.725 Euros.

As at 31 December 2018 and 2017, Real estate includes revenue recognized according to the measurement of performance obligation satisfaction at those dates, according to the percentage of completion using the input method in the amount of 3.247.684 Euros (2017: 1.995.132 Euros).

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

(iii) Vacation Club

The 2018 and 2017 detail of sales and services rendered in Vacation Club by country of origin related to the number of customer are as follows:

	VACATION CLUB	
COUNTRY	2018	2017
UNITED KINGDOM	50,5%	46,1%
PORTUGAL	13,0%	10,7%
GERMANY	9,0%	8,4%
BRAZIL	6,8%	15,9%
FINLAND	6,4%	6,1%
SWEDEN	3,0%	2,6%
OTHERS	11,3%	10,2%
	100%	**100%**

28. EXTERNAL SERVICES AND SUPPLIES

The detail of External services and supplies is as follow:

	2018	2017
RENTS	24.468.378	22.754.437
PROFESSIONAL FEES	22.734.358	21.355.670
CLEANING	18.903.719	17.268.835
ENERGY	14.918.294	15.058.501
COMMISSIONS	13.992.739	14.151.091
MAINTENANCE	8.577.674	8.670.567
ADVERTISING	8.169.692	7.161.101
SUBCONTRACTS	5.121.236	7.341.713
TRAVELLING AND TRANSPORT EXPENSES	2.539.435	2.408.695
INSURANCE	1.702.938	1.453.510
OTHERS	7.606.551	7.395.583
	128.735.014	**125.019.703**

Costs incurred with Rents as at 31 December 2018 contain 15.492.987 Euros related to operational leases and 2.736.954 Euros related to concessions (2017: 13.314.874 Euros and 2.976.020 Euros, respectively).

The 2018 Group auditor's consolidated audit fees amounted to 228.200 Euros. Audit services performed on the remaining companies included in the consolidation perimeter by different auditors amounted to 42.390 Euros. There were no other service fees charged by any of these auditors.

29. PERSONNEL EXPENSES

The detail of Personnel expenses is as follows:

	2018	2017
BOARD OF DIRECTORS (INCLUDING SUBSIDIARIES)		
WAGES AND SALARIES	2.669.554	2.631.720
SOCIAL SECURITY CONTRIBUTIONS	662.271	480.394
	3.331.825	**3.112.114**
STAFF		
WAGES AND SALARIES	68.390.356	67.538.427
SOCIAL SECURITY CONTRIBUTIONS	14.099.105	14.159.895
OTHERS	3.847.275	4.027.574
	86.336.736	**85.725.896**
	89.668.561	**88.838.010**

The average number of employees of Pestana Hotel Group in 2018 was 4.399 (2017: 4.353). The average number of Board directors of Pestana Hotel Group's subsidiaries in 2018 was 43 (2017: 43).

30. OTHER INCOME

The detail of Other income is presented as follows:

	2018	2017
FOREIGN CURRENCY EXCHANGE GAINS	1.987.466	3.938.304
SUPPLEMENTARY INCOME	6.735.240	6.251.262
GOVERNMENT GRANTS (NOTE 25)	529.823	593.288
GAINS ON DISPOSAL OF TANGIBLE FIXED ASSETS (NOTE 6)	1.649.477	2.279.927
OTHERS	1.753.066	2.527.702
	12.655.072	**15.590.483**

In 2018, Gains on disposal of tangible fixed assets are mainly related to the disposal of apartments from Pestana Gramacho Residences with gains in the amount of 925.544 Euros (Note 6).

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 Euros (Note 6).

31. OTHER EXPENSES

The detail of Other expenses is as follows:

	2018	2017
TAXES	8.414.588	8.924.591
CREDIT CARD COMMISSIONS	2.236.731	2.456.088
FOREIGN CURRENCY EXCHANGE LOSSES	1.438.407	3.951.867
LOSSES ON INVENTORIES	460.426	1.048.920
OTHERS	2.536.485	3.249.809
	15.086.637	**19.631.275**

As at 31 December 2018 Taxes includes 3.552.940 Euros of property taxes (2017: 4.054.099 Euros).

The change occurred in Others relates mainly to the donation given by Pestana Hotel Group in 2017 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.

32. GAINS AND LOSSES ON INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES, ASSOCIATES AND EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

	2018	2017
GAINS/(LOSSES) FROM EQUITY METHOD IN JOINT VENTURES (NOTE 9):		
URP - URBAN RENEW PROMOÇÃO IMOBILIÁRIA, S.A.	5.573.879	-
PESTANA CR7 - LISBOA HOTEL INVESTIMENTOS TURÍSTICOS, S.A.	333.234	282.828
PESTANA CR7 MANHATTAN 39 LLC	214.545	(431.484)
PESTANA CR7 - MADEIRA HOTEL INVESTIMENTOS TURÍSTICOS, S.A.	(10.288)	54.430
SOLPOR, LDA.	(744)	(1.024)
GAINS/(LOSSES) FROM EQUITY METHOD IN ASSOCIATES (NOTE 10):		
ENATUR - EMPRESA NACIONAL DE TURISMO, S.A.	(190.506)	769.488
ALBAR - SOCIEDADE IMOBILIÁRIA DO BARLAVENTO, S.A.	(2.254)	(278.250)
GAINS IN EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	176.651	149.606
DISPOSAL OF THE SUBSIDIARY INVERSIONES VISTALPARQUE, C.A. (NOTE 39)	-	(10.030.237)
IMPACT OF CHANGES IN CONSOLIDATION METHOD (NOTE 39)	-	383.533
	6.094.517	**(9.101.110)**

33. FINANCIAL EXPENSES AND INCOME

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

	2018	2017
FINANCIAL EXPENSES		
INTEREST EXPENSES	12.410.049	13.779.151
COMMISSIONS AND GUARANTEE FEES	2.162.723	2.339.920
FOREIGN CURRENCY EXCHANGE LOSSES	1.108.233	1.575.445
INTEREST RATE SWAPS	1.088.474	1.289.731
PROVISIONS INTEREST CHARGES (NOTE 22)	133.645	1.113.291
DERIVATIVES FAIR VALUE (NOTE 24)	–	177.880
DERIVATIVES SETTLEMENT	–	3.272
	16.903.124	**20.278.689**
FINANCIAL INCOME		
INTEREST INCOME	449.130	464.298
FOREIGN CURRENCY EXCHANGE GAINS	358.338	7.166.022
DERIVATIVES FAIR VALUE (NOTE 24)	343.238	284.183
INTEREST RATE SWAPS	127.580	23.576
OTHERS	311.422	1.039.912
	1.589.708	**8.977.991**

As at 31 December 2018 and 2017 foreign currency exchange gains and losses are mainly related to bank and bond loans negotiated in US Dollars and British Pounds which depreciated during the year (Note 3.2 iv).

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

34. INCOME TAX

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

	2018	2017
CURRENT INCOME TAX		
CURRENT PERIOD INCOME TAX	(16.740.650)	(14.204.135)
ADJUSTMENTS IN RESPECT OF PRIOR YEAR ESTIMATES	801.566	921.909
	(15.939.084)	**(13.282.226)**
DEFERRED INCOME TAX (NOTE 12)		
ORIGIN AND REVERSAL OF TEMPORARY DIFFERENCES	(204.359)	6.025.283
	(204.359)	6.025.283
	(16.143.443)	**(7.256.943)**

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:

	2018	2017
PROFIT BEFORE TAX	**96.394.115**	**67.288.658**
TAX CALCULATED AT DOMESTIC TAX RATES APPLICABLE TO PROFITS IN THE RESPECTIVE COUNTRIES	20.714.841	14.130.168
TAX EFFECTS OF:		
DIFFERENCES OF TAXES RATES ON INCOME AND DEFERRED TAXES	1.131.791	(9.194)
INCOME NOT SUBJECT TO TAX	(4.737.612)	(3.530.585)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	1.077.486	3.705.526
DEFERRED TAX ON TAX LOSSES	–	(5.997.323)
UTILIZATION OF TAX LOSSES	(1.103.265)	(1.170.695)
ADJUSTMENTS IN RESPECT OF PRIOR YEAR ESTIMATES	(801.566)	(921.909)
OTHER TAXATION	(138.232)	1.050.504
	16.143.443	**7.256.943**

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

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

	2018	2017
ARGENTINA	30%	35%
BRAZIL	34%	34%
CAPE VERDE	25%	25%
GERMANY	29% - 32,825%	29% - 32,825%
LUXEMBOURG	26,01%	27,08%
MOROCCO	31%	31%
MOZAMBIQUE	32%	32%
NETHERLANDS	25%	25%
PORTUGAL	21% - 31,5%	21% - 29,5%
SÃO TOMÉ AND PRINCIPE	25%	25%
SOUTH AFRICA	28%	28%
SPAIN	25%	25%
UNITED KINGDOM	19%	19%
UNITED STATES	21%	40%
URUGUAY	25%	25%

35. DIVIDENDS

During 2018 and 2017, Dividends were only paid to Non-controlling interests, in the amount of 3.039.619 Euros and 13.600.395 Euros, respectively (Note 21).

36. COMMITMENTS

Non discounted commitments with minimum lease payments of operating leases, by maturity, are as follows:

	NON DISCOUNTED AMOUNTS				
31 DECEMBER 2018	**LESS THAN 1 YEAR**	**BETWEEN 1 AND 5 YEARS**	**BETWEEN 6 AND 10 YEARS**	**MORE THAN 10 YEARS**	**TOTAL**
FUTURE RENTS OF OPERATING LEASES	16.493.636	64.867.327	65.848.184	336.063.755	**483.272.902**

	NON DISCOUNTED AMOUNTS				
31 DECEMBER 2017	**LESS THAN 1 YEAR**	**BETWEEN 1 AND 5 YEARS**	**BETWEEN 6 AND 10 YEARS**	**MORE THAN 10 YEARS**	**TOTAL**
FUTURE RENTS OF OPERATING LEASES	16.713.297	68.941.240	69.087.704	348.367.932	**503.110.173**

The values presented refer to the last amounts paid as established by contract and are, in their vast majority, updated with the inflation rate and as at 31 December 2018 and 2017 these amounts have not been discounted. The estimated impact of the adoption of the new standard IFRS 16 – Leases is presented in Note 2.

The changes occurred in 2018 refer mainly to two new contracts signed, Pestana Rua Augusta and Pestana Braancamp (total of approximately 30.000.000 non discounted Euros) and to the acquisition of Pestana D. João II which was being leased in 2017 (approximately 41.000.000 non discounted Euros).

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 2018 it has spent the corresponding annual amount.

Since 1987 a supplementary pension plan in in place for employees of ECM, Lda., that were at service on that date and until 31 December 2007 that qualifies as a defined benefit plan. To cover this liability a pension fund was incorporated being managed autonomously by the insurance company SGF. As at 2018, the fund amounts to 1.294.330 Euros and corresponds to 12 former employees.

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.

37. CONTINGENCIES

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

	2018	2017
MORTGAGES OVER LANDS AND BUILDINGS	215.064.969	189.001.715
BANK GUARANTEES	63.213.788	63.609.724

Contingent assets

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

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

In this context, in March 2017, the subsidiary Grupo Pestana, S.G.P.S., S.A. filed a gracious grievance requesting the recovery of the financial expenses, the deductibility of which was not allowed for, as referred above, at the same time that no tax exemption could be applied for capital gains or losses obtained under the regime, and for which it will not be possible to benefit from in the future since this tax regime was revoked. As a consequence of the developments verified in 2017, Pestana Hotel Group presented, in November 2017, a Judicial Challenge in Funchal's Tax and Administrative Court which is still pending decision.

Contingent liabilities

As at 31 December 2018, Pestana Hotel Group has ongoing claims, assessed as contingent liabilities of, approximately, 6.326.510 Euros (local currency: 190.899 Euros and 26.419.326 Brazilian Real). Contingent liabilities in Brazil mainly correspond to claims from past employees of greater compensation than paid by the subsidiary at the time they were laid off.

38. CONSOLIDATION PERIMETER

The Subsidiaries of Pestana Hotel Group as at 31 December 2018 are as follows:

NAME	HEADQUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	ASSETS	LIABILITIES	SALES	PROFIT/ (LOSS)	% OWNED	% CONTROL
AFROTOURS, S.A.	SÃO TOMÉ	HOSPITALITY	31-12-2018	15.118.794	15.857.581	738.787	4.643.874	795.051	100,00%	100,00%
AMESTELDIJK HOTEL ONTWKKELING B.V.	NETHERLANDS	HOSPITALITY	31-12-2018	16.265.314	41.761.208	25.495.894	7.291.441	(488.784)	100,00%	100,00%
AMOREIRA - ALDEAMENTOS TURÍSTICOS, LDA.	PORTUGAL	REAL ESTATE	31-12-2018	4.973.952	6.378.468	1.404.516	-	(44.619)	99,00%	100,00%
ARGENTUR INVERSIONES TURISTICAS S.A.	ARGENTINA	HOSPITALITY	31-12-2018	754.892	1.758.869	1.003.977	3.554.566	915.906	100,00%	100,00%
BAZARUTO, LDA.	MOZAMBIQUE	HOSPITALITY	31-12-2018	4.788.834	6.764.808	1.975.974	1.636.644	422.641	96,97%	100,00%
BELOURA HOTEL E GOLFE - INVESTIMENTOS TURÍSTICOS, S.A.	PORTUGAL	HOSPITALITY	31-12-2018	11.692.884	14.801.422	3.108.536	4.443.672	852.690	99,00%	100,00%
BRASTURINVEST INVESTIMENTOS TURÍSTICOS, S.A.	BRAZIL	HOSPITALITY	31-12-2018	48.640.652	77.561.484	28.920.832	18.831.569	37.825	100,00%	100,00%
CARLTON PALÁCIO - SOCIEDADE CONSTRUÇÃO E EXPLORAÇÃO HOTELEIRAS, S.A.	PORTUGAL	HOSPITALITY	31-12-2018	56.798.491	75.694.637	18.896.146	25.437.766	5.919.407	99,00%	100,00%
CAROLGUD, S.A.	URUGUAY	HOSPITALITY	31-12-2018	616.396	622.802	6.406	-	(39.844)	100,00%	100,00%
CARVOEIRO GOLFE - SOCIEDADE DE MEDIAÇÃO IMOBILIÁRIA, UNIPESSOAL LDA.	PORTUGAL	REAL ESTATE	31-12-2018	409.948	727.524	317.576	974.632	396.688	99,00%	100,00%
CARVOEIRO GOLFE, S.A.	PORTUGAL	GOLF AND REAL ESTATE	31-12-2018	50.457.189	107.867.925	57.410.736	91.062.738	18.195.237	99,00%	100,00%
COTA QUARENTA - GESTÃO E ADMINISTRAÇÃO DE CENTROS COMERCIAS, S.A.	PORTUGAL	REAL ESTATE	31-12-2018	22.012.243	22.440.968	428.725	-	252.348	99,00%	100,00%
DESAROLLOS HOTELEROS BARCELONA 2004 S.A.	SPAIN	HOSPITALITY	31-12-2018	17.257.438	25.050.955	7.793.517	3.281.127	378.492	100,00%	100,00%
DJEBEL, S.A.	PORTUGAL	SUB-HOLDING	31-12-2018	65.554.627	94.935.442	29.380.815	288.000	(759.422)	100,00%	100,00%
ECM - EMPRESA CERVEJAS DA MADEIRA, SOCIEDADE UNIPESSOAL LDA.	PORTUGAL	BEVERAGES	31-12-2018	7.582.561	29.906.285	22.323.724	27.163.855	21.358	99,00%	100,00%
EMPREENDIMENTOS TURÍSTICOS, LDA.	CAPE VERDE	HOSPITALITY	31-12-2018	2.704.560	3.154.300	449.739	2.547.532	551.254	100,00%	100,00%
EUROGOLFE, S.A.	PORTUGAL	GOLF	31-12-2018	13.378.043	15.825.759	2.447.715	653.617	199.204	99,00%	100,00%
ESGAP, S.A.	PORTUGAL	SUB-HOLDING	31-12-2018	18.270.361	38.889.513	20.619.152	220.000	114.267	100,00%	100,00%
GLOBAL MANDALAY, S.L.U.	SPAIN	HOSPITALITY	31-12-2018	9.436.724	10.190.359	753.635	-	(134.429)	100,00%	100,00%

NAME	HEADQUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	ASSETS	LIABILITIES	SALES	PROFIT/ (LOSS)	% OWNED	% CONTROL
GRUPO PESTANA - S.G.P.S., S.A.	PORTUGAL	SUB-HOLDING	31-12-2018	237.430.919	376.823.018	139.392.099	6.333.333	73.531.611	99,00%	99,00%
GRUPO PESTANA POUSADAS - INVESTIMENTOS TURÍSTICOS, S.A.	PORTUGAL	HOSPITALITY	31-12-2018	44.814.869	63.687.587	18.872.718	40.994.502	4.542.119	99,00%	100,00%
HERDADE DA ABRUNHEIRA - PROJECTOS DESENV. TURÍSTICO E IMOBILIÁRIO, S.A.	PORTUGAL	REAL ESTATE	31-12-2018	4.268.890	6.545.208	2.276.318	-	(231.110)	99,00%	100,00%
HOTEIS DO ATLÂNTICO - SOCIEDADE IMOBILIÁRIA E DE GESTÃO DE HOTÉIS, S.A.	PORTUGAL	SUB-HOLDING	31-12-2018	51.847.121	117.589.172	65.742.050	4.624.875	547.570	100,00%	100,00%
HOTEL RAUCHSTRASSE 22, S.A.R.L.	LUXEMBOURG	HOSPITALITY	31-12-2018	8.730.768	18.751.777	10.021.009	1.784.310	806.378	96,04%	100,00%
IMÓVEIS BRISA – F.I.I.F.	PORTUGAL	REAL ESTATE	31-12-2018	14.071.001	14.169.323	98.322	47.981	(124.534)	99,00%	100,00%
INDÚSTRIA AÇOREANA TURÍSTICO-HOTELEIRA (I.A.T.H.), S.A.	PORTUGAL	HOSPITALITY	31-12-2018	3.350.443	5.364.715	2.014.272	2.877.294	274.963	99,00%	100,00%
INTERVISA VIAGENS E TURISMO, UNIPESSOAL LDA.	PORTUGAL	DISTRIBUTION	31-12-2018	178.555	1.285.009	1.106.454	2.488.039	118.555	100,00%	100,00%
ITI - SOCIEDADE DE INVESTIMENTOS TURÍSTICOS NA ILHA DA MADEIRA, S.A.	PORTUGAL	HOSPITALITY / ENTERTAINMENT	31-12-2018	42.980.746	65.479.348	22.498.602	34.656.449	8.966.305	99,00%	100,00%
M. & J. PESTANA - SOCIEDADE DE TURISMO DA MADEIRA, S.A.	PORTUGAL	HOSPITALITY / TIMESHARE	31-12-2018	139.785.447	344.637.842	204.852.395	70.920.105	20.841.267	99,00%	100,00%
MUNDO DA IMAGINAÇÃO - PROJECTOS DE ANIMAÇÃO TURÍSTICA, S.A.	PORTUGAL	ENTERTAINMENT	31-12-2018	2.558.760	3.893.902	1.335.142	660.861	215.161	99,00%	100,00%
NATURA XXI, LDA.	PORTUGAL	REAL ESTATE	31-12-2018	1.458.406	1.482.712	24.306	48.000	5.136	99,00%	100,00%
PESTANA BERLIM S.A.R.L.	LUXEMBOURG	HOSPITALITY	31-12-2018	436.511	2.277.559	1.841.047	6.089.577	(81.474)	100,00%	100,00%
PESTANA CIDADELA - INVESTIMENTOS TURISTICOS, S.A.	PORTUGAL	HOSPITALITY	31-12-2018	9.754.312	16.033.968	6.279.656	6.617.331	932.317	99,00%	100,00%
PESTANA INTERNATIONAL HOLDINGS S.A.	LUXEMBOURG	ADMINISTRATION	31-12-2018	382.448.448	511.144.955	128.696.507	19.708	39.071.596	100,00%	100,00%
PESTANA INVERSIONES, LDA.	PORTUGAL	SUB-HOLDING	31-12-2018	17.161.386	20.519.815	3.358.429	-	(233.073)	100,00%	100,00%
PESTANA MANAGEMENT - SERVIÇOS DE GESTÃO, S.A.	PORTUGAL	SERVICES	31-12-2018	20.553.559	32.060.595	11.507.036	39.719.240	3.422.785	100,00%	100,00%
PESTANA MANAGEMENT UK, LIMITED	UNITED KINGDOM	HOSPITALITY	31-12-2018	654.832	2.361.221	1.706.389	12.143.252	491.028	75,00%	75,00%
PESTANA MARROCOS, S.A.R.L.	MOROCCO	HOSPITALITY	31-12-2018	625.253	2.418.398	1.793.146	3.277.076	122.888	100,00%	100,00%
PESTANA MIAMI LLC	UNITED STATES	HOSPITALITY	31-12-2018	3.350.703	16.475.510	13.124.808	4.754.263	169.387	100,00%	100,00%
PESTANA NY EAST SIDE 39	UNITED STATES	HOSPITALITY	31-12-2018	11.187.684	20.004.809	8.817.125	-	16.553	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	31-12-2018	298.120	621.122	323.002	1.338.657	45.088	100,00%	100,00%
PESTANA USA INC	UNITED STATES	SERVICES	31-12-2018	20.609.135	20.801.321	192.187	-	180.979	100,00%	100,00%
PONTA DA CRUZ – SOCIEDADE IMOBILIÁRIA E DE GESTÃO DE HOTÉIS, S.A.	PORTUGAL	HOSPITALITY / TIMESHARE	31-12-2018	11.934.154	25.558.194	13.624.040	9.182.220	2.134.036	51,48%	52,00%
PORTO CARLTON – SOCIEDADE DE CONSTRUÇÃO E EXPLORAÇÃO HOTELEIRA, S.A.	PORTUGAL	HOSPITALITY	31-12-2018	8.045.012	16.436.557	8.391.545	8.525.202	3.003.562	59,40%	60,00%
ROTAS DE ÁFRICA – INVESTIMENTOS TURÍSTICOS E IMOBILIÁRIOS, S.A.	PORTUGAL	SERVICES	31-12-2018	1.756.747	1.771.617	14.869	28.029	(165.801)	100,00%	100,00%
ROTAS DE ÁFRICA, LDA.	SÃO TOMÉ	HOSPITALITY	31-12-2018	1.551.728	1.782.018	230.290	1.460.733	(197.515)	100,00%	100,00%
SALVINTUR – SOCIEDADE DE INVESTIMENTOS TURÍSTICOS, S.A.	PORTUGAL	SUB-HOLDING	31-12-2018	18.185.042	44.192.394	26.007.352	315.000	371.190	100,00%	100,00%
SALVOR – SOCIEDADE DE INVESTIMENTO HOTELEIRO, S.A.	PORTUGAL	HOSPITALITY / TIMESHARE	31-12-2018	105.143.934	196.777.425	91.633.491	46.227.737	8.216.456	99,00%	100,00%
SALVORHOTÉIS MOÇAMBIQUE – INVESTIMENTOS TURÍSTICOS, S.A.	MOZAMBIQUE	HOSPITALITY	31-12-2018	9.461.098	12.598.515	3.137.417	2.146.543	86.665	96,97%	96,97%
SÃO TOMÉ INVEST S.A.	SÃO TOMÉ	HOSPITALITY	31-12-2018	542.157	902.768	360.611	1.499.289	303.020	100,00%	100,00%
SDM – SOCIEDADE DE DESENVOLVIMENTO DA MADEIRA, S.A. (A)	PORTUGAL	SERVICES	31-12-2018	11.223.336	15.708.067	4.484.730	11.265.550	3.975.672	47,25%	51,14%
SDEM – SOCIEDADE DESENVOLVIMENTO EMPRESARIAL DA MADEIRA, S.A.	PORTUGAL	SERVICES	31-12-2018	866.237	1.512.709	646.472	19.308	(70.650)	47,25%	100,00%
SOCIEDADE DE INVESTIMENTOS HOTELEIROS D. JOÃO II, S.A.	PORTUGAL	HOSPITALITY / TIMESHARE	31-12-2018	1.430.782	4.200.582	2.769.800	619.591	62.997	99,00%	100,00%
SOUTHERN ESCAPES TRAVEL AND TOURISM (PTY), LTD	SOUTH AFRICA	HOSPITALITY	31-12-2018	-	-	-	-	(18.473)	100,00%	100,00%
SURINOR, S.A.	URUGUAY	HOSPITALITY	31-12-2018	4.715.963	5.182.184	466.221	-	(544.088)	100,00%	100,00%
WILD BREAK 29 (PTY), LTD	SOUTH AFRICA	HOSPITALITY	31-12-2018	1.929.437	2.765.565	836.128	1.929.413	(235.634)	100,00%	100,00%

(a) Pestana Hotel Group owns 47,73% of this subsidiary's equity, however, as at 31 December 2018 and 2017 it controls the entity via a shareholder agreement with a minority shareholder which gives its 3,41% voting rights to Pestana Hotel Group.

The Joint ventures of Pestana Hotel Group as at 31 December 2018 are as follows:

NAME	HEADQUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	ASSETS	LIABILITIES	SALES	PROFIT/ (LOSS)	% OWNED	% CONTROL
PESTANA CR7 MANHATTAN 39 LLC	USA	HOSPITALITY	31-12-2018	16.913.908	52.765.709	35.851.801	–	429.089	51,00%	50,00%
PESTANA CR7 - LISBOA HOTEL INVESTIMENTOS TURÍSTICOS, S.A.	PORTUGAL	HOSPITALITY	31-12-2018	8.196.741	16.173.431	7.976.690	4.200.602	666.467	49,50%	50,00%
PESTANA CR7 - MADEIRA HOTEL INVESTIMENTOS TURÍSTICOS, S.A.	PORTUGAL	HOSPITALITY	31-12-2018	1.685.473	3.462.431	1.776.958	1.903.813	(20.577)	49,50%	50,00%
SOLPOR - SOCIEDADE TURISMO DO PORTO SANTO, LDA.	PORTUGAL	REAL ESTATE	31-12-2018	939.165	940.882	1.717	–	(1.485)	49,50%	50,00%
URP - URBAN REVIEW PROMOÇÃO IMOBILIÁRIA, S.A.	PORTUGAL	REAL ESTATE	31-12-2018	4.607.838	25.602.076	20.994.238	363.582	–	30,00%	50,00%

The Associates of Pestana Hotel Group as at 31 December 2018 are as follows:

NAME	HEADQUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	ASSETS	LIABILITIES	SALES	PROFIT/ (LOSS)	% OWNED	% CONTROL
ALBAR - SOCIEDADE IMOBILIÁRIA DO BARLAVENTO, S.A.	PORTUGAL	REAL ESTATE	31-12-2018	1.143.374	1.183.763	40.390	–	(4.524)	49,50%	49,81%
ENATUR - EMPRESA NACIONAL DE TURISMO, S.A.	PORTUGAL	REAL ESTATE	31-12-2018	60.822.948	87.103.420	26.280.471	2.492.396	(388.789)	48,51%	49,00%
SOEHOTUR, S.A.	ANGOLA	CONSTRUCTION	31-12-2018	435.937	1.839.333	1.403.396	–	(254.157)	25,00%	25,00%

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	HOSPITALITY	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	HOSPITALITY	31-12-2017	12.723.854	44.134.908	31.411.054	5.218	(196.921)	100,00%	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	HOSPITALITY	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	HOSPITALITY	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	HOSPITALITY	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	HOSPITALITY	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	HOSPITALITY	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	HOSPITALITY	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	HOSPITALITY	31-12-2017	10.228.946	19.022.378	8.793.432	3.182.024	1.281.682	100,00%	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	HOSPITALITY	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	HOSPITALITY	31-12-2017	2.921.153	3.594.539	673.386	–	(95.798)	100,00%	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	HOSPITALITY	31-12-2017	36.747.649	65.951.128	29.203.479	39.606.632	5.654.844	99,00%	100,00%
HERDADE DA ABRUNHEIRA - PROJECTOS DESENV. TURÍSTICO E IMOBILIÁRIO, S.A.	PORTUGAL	REAL ESTATE	31-12-2017	214.725	6.510.769	6.296.044	–	(267.353)	99,00%	100,00%
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	100,00%	100,00%
HOTEL RAUCHSTRASSE 22, S.A.R.L.	LUXEMBOURG	HOSPITALITY	31-12-2017	7.424.390	18.822.504	11.398.113	1.549.887	606.551	96,04%	100,00%
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	HOSPITALITY	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	HOSPITALITY / 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	HOSPITALITY / TIMESHARE	31-12-2017	118.745.630	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	HOSPITALITY	31-12-2017	517.985	2.563.685	2.045.700	5.833.421	33.268	100,00%	100,00%
PESTANA CIDADELA - INVESTIMENTOS TURISTICOS, S.A.	PORTUGAL	HOSPITALITY	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	HOSPITALITY	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	26.624.198	1.569.936	100,00%	100,00%
PESTANA MANAGEMENT UK, LIMITED	UNITED KINGDOM	HOSPITALITY	31-12-2017	472.309	1.732.850	1.260.541	11.858.935	305.406	75,00%	75,00%
PESTANA MARROCOS, S.A.R.L.	MAROCCO	HOSPITALITY	31-12-2017	698.150	1.947.752	1.249.602	3.367.560	212.246	100,00%	100,00%

NAME	HEADQUARTERS	ACTIVITY	REFERENCE DATE	EQUITY	ASSETS	LIABILITIES	SALES	PROFIT/ (LOSS)	% OWNED	% CONTROL
PESTANA MIAMI LLC	UNITED STATES	HOSPITALITY	31-12-2017	3.033.015	16.804.710	13.771.695	4.573.512	(697.795)	100,00%	100,00%
PESTANA NY EAST SIDE 39	UNITED STATES	HOSPITALITY	31-12-2017	8.249.808	8.121.440	(128.367)	–	(93.268)	100,00%	100,00%
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	HOSPITALITY	31-12-2017	18.502.512	18.510.711	8.199	–	(18.645)	100,00%	100,00%
PONTA DA CRUZ – SOCIEDADE IMOBILIÁRIA E DE GESTÃO DE HOTÉIS, S.A.	PORTUGAL	HOSPITALITY / 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 DE CONSTRUÇÃO E EXPLORAÇÃO HOTELEIRA, S.A.	PORTUGAL	HOSPITALITY	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	HOSPITALITY	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.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	HOSPITALITY / 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	HOSPITALITY	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	HOSPITALITY	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	HOSPITALITY / 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	HOSPITALITY	31-12-2017	19.462	35.609	16.147	–	(16.106)	100,00%	100,00%
SURINOR, S.A.	URUGUAY	HOSPITALITY	31-12-2017	4.596.717	5.382.585	785.868	–	(102.591)	100,00%	100,00%
WILD BREAK 29 (PTY), LTD	SOUTH AFRICA	HOSPITALITY	31-12-2017	(2.921.670)	2.730.542	5.652.212	2.026.640	730.088	100,00%	100,00%

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 MANHATTAN 39 LLC	USA	HOSPITALITY	31-12-2017	15.729.788	17.774.745	2.044.958	–	(431.484)	50,96%	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 - 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	REAL ESTATE	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%

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
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%
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%
SOHEOTUR, S.A.	ANGOLA	CONSTRUCTION	31-12-2017	1.121.420	3.239.066	2.117.646	–	(212.129)	25,00%	25,00%

39. CHANGES IN THE PERIMETER

In 2018, Pestana Hotel Group ceased to include in the consolidation perimeter the subsidiary Atlantic Holidays Ltd due to it liquidation. This liquidation had no significant impacts on the Group's Consolidated financial statements.

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	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
EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS	–	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 VALUR	**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	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 (Note 32).

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 32)	**(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 (NOTE 32)	**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

40. RELATED PARTIES

As at 31 December 2018 and 2017 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 29.

Transactions and balances with related parties

During the year of 2018, Pestana Hotel Group carried out the following transactions with those entities:

	SERVICES OBTAINED	SERVICES RENDERED	INTEREST EARNED
JOINTLY CONTROLLED ENTITIES	**169.227**	**1.545.563**	**309.497**
PESTANA CR7 - LISBOA HOTEL INVESTIMENTOS TURÍSTICOS, S.A.	167.421	763.371	–
PESTANA CR7 - MADEIRA INVESTIMENTOS TURÍSTICOS, S.A.	1.806	703.200	70
URP - URBAN RENEW PROMOÇÃO IMOBILIÁRIA, S.A.	–	21.995	181.250
PESTANA CR7 MANHATTAN 39 LLC	–	56.957	128.177
SOLPOR - SOCIEDADE TURISMO PORTO SANTO LDA.	–	40	–
ASSOCIATES	**2.846.167**	**39.847**	**15.644**
ENATUR - EMPRESA NACIONAL DE TURISMO, S.A.	2.845.544	39.282	15.644
SOEHOTUR, S.A.	623	507	–
ALBAR – SOC. IMOBILIÁRIA DO BARLAVENTO, S.A.	–	58	–
KEY MANAGEMENT PERSONNEL	–	–	–
	3.015.394	**1.585.410**	**325.141**

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

	SERVICES OBTAINED	DISPOSAL OF SUSBIDIARIES	DISPOSAL OF TANGIBLE FIXED ASSETS	SERVICES RENDERED	INTEREST EARNED
JOINTLY CONTROLLED ENTITIES	**52.386**	**–**	**–**	**1.512.212**	**6.704**
PESTANA CR7 - LISBOA HOTEL INVESTIMENTOS TURÍSTICOS, S.A.	52.386	–	–	787.069	–
PESTANA CR7 - MADEIRA INVESTIMENTOS TURÍSTICOS, S.A.	–	–	–	597.138	–
PESTANA CR7 MANHATTAN 39 LLC	–	–	–	127.960	6.704
SOLPOR - SOCIEDADE TURISMO PORTO SANTO LDA.	–	–	–	46	–
ASSOCIATES	**2.707.964**	**–**	**–**	**104.106**	**16.871**
ENATUR - EMPRESA NACIONAL DE TURISMO, S.A.	2.707.964	–	–	43.699	16.871
SOEHOTUR, S.A.	–	–	–	60.000	–
ALBAR – SOC. IMOBILIÁRIA DO BARLAVENTO, S.A.	–	–	–	407	–
OTHER RELATED PARTIES	**–**	**9.108.919**	**5.350.000**	**–**	**–**
QUANLUX, S.A.R.L	–	9.108.919	5.350.000	–	–
KEY MANAGEMENT PERSONNEL	–	–	–	–	–
	2.760.349	**9.108.919**	**5.350.000**	**1.616.318**	**23.575**

As at the end of the years 2018 and 2017, loans with related parties are as follows:

	31-12-2018		31-12-2017	
	BORROWINGS OBTAINED	LOANS GRANTED	BORROWINGS OBTAINED	LOANS GRANTED
JOINTLY CONTROLLED ENTITIES	**–**	**–**	**–**	**3.210.000**
URP - URBAN RENEW PROMOÇÃO IMOBILIÁRIA, S.A.	–	–	–	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	–	–	–	–
	–	**1.190.593**	**–**	**1.190.593**

The balances arising from transactions with related parties as at 2018 are as follows:

	TRADE RECEIVABLES CURRENT	IMPAIRMENT OF TRADE RECEIVABLES	NET TRADE RECEIVABLES	TRADE PAYABLES CURRENT
JOINTLY CONTROLLED ENTITIES	**385.344**	**–**	**385.344**	**38.243**
PESTANA CR7 - LISBOA HOTEL INVESTIMENTOS TURÍSTICOS, S.A.	139.240	–	139.240	12.397
PESTANA CR7 - MADEIRA INVESTIMENTOS TURÍSTICOS, S.A.	133.244	–	133.244	23.799
PESTANA CR7 MANHATTAN 39 LLC	70.620	–	70.620	2.047
URP - URBAN RENEW PROMOÇÃO IMOBILIÁRIA, S.A.	41.155	–	41.155	–
SOLPOR - SOCIEDADE DE TURISMO DO PORTO SANTO LDA.	1.085	–	1.085	–
ASSOCIATES	**1.160.483**	**1.058.246**	**102.237**	**50.087**
ENATUR - EMPRESA NACIONAL DE TURISMO, S.A.	66.408	–	66.408	50.087
ALBAR - SOCIEDADE IMOBILIÁRIA DO BARLAVENTO, S.A.	35.829	–	35.829	–
SOEHOTUR, S.A.	1.058.246	1.058.246	–	–
KEY MANAGEMENT PERSONNEL	–	–	–	–
	1.545.827	**1.058.246**	**487.581**	**88.330**

The balances arising from transactions with related parties as at 31 December 2017 were 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 MANHATTAN 39 LLC	411.312	–	411.312	122.385
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
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**

41. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

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

			CASH FREE TRANSACTIONS		
	2017	CASH FLOWS	ACCRUAL / DEFERRAL	OTHER	2018
BANK LOANS	252.227.171	2.622.289	3.308.324	(3.199.507)	254.958.277
BOND LOANS	119.681.284	–	(1.069.061)	523.887	119.136.110
COMMERCIAL PAPER	32.800.659	4.055.556	(22.881)	-	36.833.333
CASH FLOW FROM FINANCING ACTIVITIES	**404.709.114**	**6.677.845**	**2.216.382**	**(2.675.620)**	**410.927.721**

42. SUBSEQUENT EVENTS

There are no relevant subsequent events to report.

Luxembourg, 22 March 2019

The Board of Directors

Dionísio Fernandes Pestana

Director

Chiara Louise Deceglie

Director

Hermanus Roelof Willem Troskie

Director

José Alexandre Lebre Theotónio

Director

Rodrigo de Freitas Branco

Director

AUDITOR’S REPORT

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Pestana International Holdings S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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.

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 the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also 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, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of Pestana International Holdings S.A. for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those accounts on 22 May 2018.

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Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated management report but does not include the consolidated financial statements and our report of "Réviseur d'Entreprises agréé" thereon.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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 a report of "Réviseur d'Entreprises agréé" 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 skepticism throughout the audit. We also:

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

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- 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 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 report of the "Réviseur d'Entreprises agréé" 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 report of the "Réviseur d'Entreprises agréé". 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 and 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 is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

Luxembourg, 10 May 2019

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Fabien Hedouin

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