Pestana International Holdings S.A.

Consolidated Annual Report

31 December
2019

PESTANA
HOTEL GROUP

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Consolidated management report for 2019

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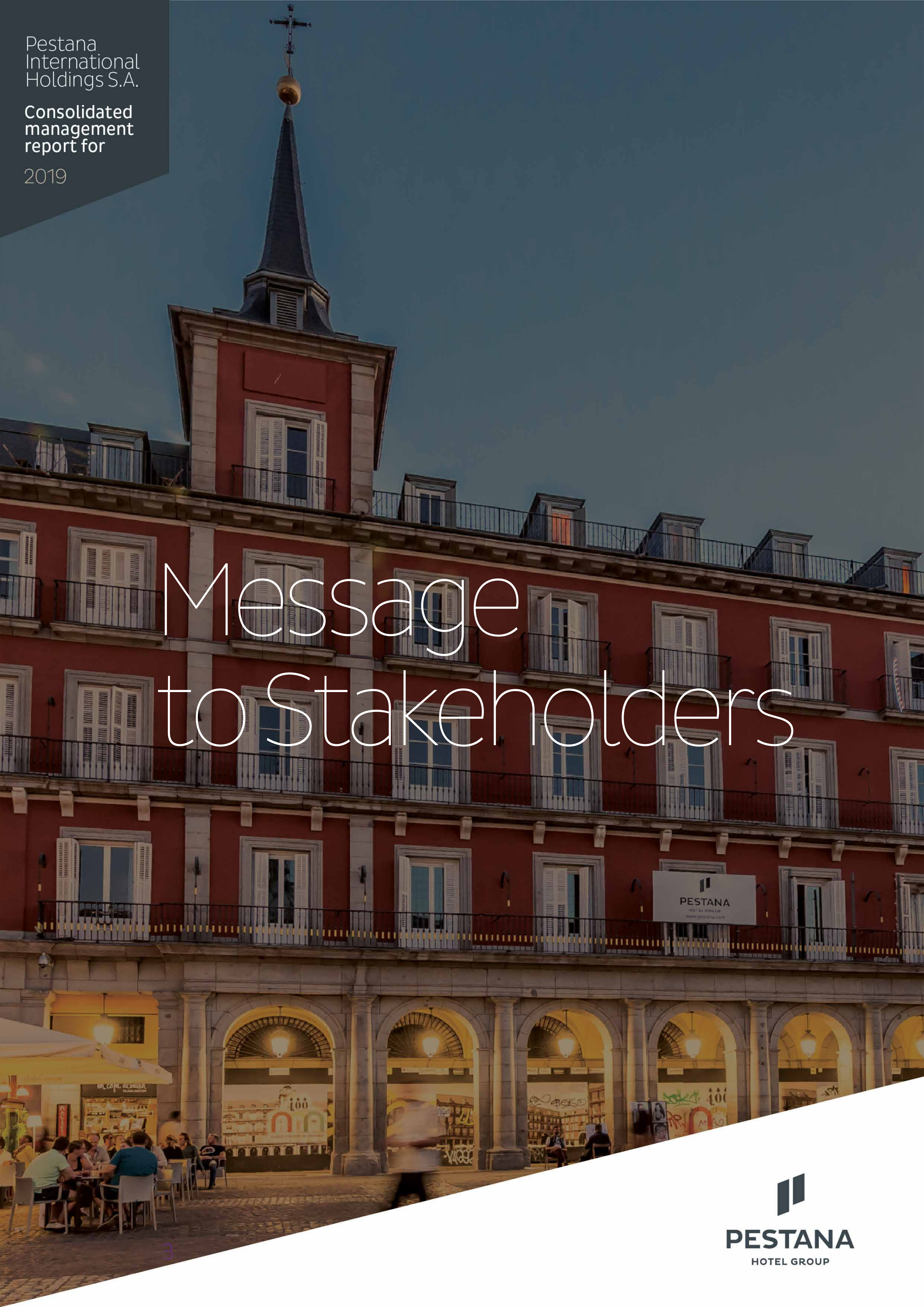

Message to Stakeholders

PESTANA HOTEL GROUP

2019 was a challenging and important year in Pestana Hotel Group's history.

Financially speaking consolidated net income was the highest in the Group's history even though some indicators were slightly worse than in the previous year which had been the Group's best year ever. Even more important than the record net income, Pestana Hotel Group fulfilled other very important goals. First off, the Group issued the first green bond in the Hospitality sector with great success both in terms of demand, which was substantial and which resulted in an increase in the amount issued, as well as in respect of the actual interest rate which was substantially lower than initially foreseen. The Group's sustainability plan also showed remarkable progress in 2019 in terms of a 60% reduction in the use of single use plastic when compared with the previous year as well as investment in clean energy which led to an important decrease in the overall energy bill. In this period Pestana Hotel Group opened three new units: **Pestana Blue in Algarve, Pestana Churchill Bay on the bay of Câmara de Lobos and Pestana Plaza Mayor in Madrid**. The Group also ended the year with the conclusion on the construction of **Pestana Park Avenue in Manhattan**, New York which resulted in the opening of the Group's 100th unit. 2019 ended with a pipeline of 20 new projects, ten of which are expected to open in 2020 and another ten which are expected to open between 2021 and 2023.

Pestana Hotel Group rendered services to more than 3,5 million clients and employed throughout the year about 7.000 employees. The Group also had a meaningful and positive impact on some communities through its social responsibility actions.

Therefore, the Group's aim to provide personal growth opportunities for its employees, to provide a service of excellence to our customers and to be attentive and listen to the surrounding communities' concerns will continue to be an integral part of Pestana Hotel Group's corporate mission alongside the Group's financial goals.

In 2020 the Group pursued the defined strategic goals of becoming increasingly competitive through an operating model adapted to the constant changes in business models and uncertainty of the surrounding economic environment. In addition to responding to the digital transformation of those economic and business models the main challenges and goals were focused on key areas such as People, Customers, Technology and Knowledge.

The following areas can be highlighted:

- Revenue Management improvement – a new system (Duetto) was introduced, the training of several Revenue Managers was promoted and a Corporate Revenue Management area was created which has already performed several relevant projects such as a survey of all existing procedures from tariff creation and promotions, to overbooking management, as well as providing advice on specific operations which allowed for increased results;

- Business Intelligence improvement – several different dashboards in Power BI and periodic reports or "deep dives" on specific issues or units were created and made available to the different decision makers in the organization, which provided very relevant and important information to allow for better decision making;

- SAP success factors was introduced in Human Resources management – Teamer project – which allowed for much-improved resource and talent visibility and, consequently, has allowed for a better management of the most important resource in the Hospitality business, our employees;

- Pestana Priority Guest (PPG) was redesigned – next month the new loyalty program will be launched which will continue to allow for point accumulation but, more importantly, aims for a better recognition of our customers and what they value to guarantee that each of the Group's units improves its service quality and therefore improve our customer's experience during their stay in our units;

- Customer relationship management was improved – using data from several different systems a unique data base was compiled which has allowed for improved customer communication which in turn translated to an increase in sales in the direct channel through the Group's newsletter; a Salesforce module is being implemented which should improve the relationship management process which is crucial to the Group's competitiveness;

- The Group's innovation level was increased and the participation in the process was extended to a wider number of employees through Envision, a corporate innovation program initiated in 2019 which is expected to be widened and which currently includes more than 2.000 employees, to listen and obtain ideas from both operational and shared service employees in a more structured process.

These challenges represent a significant investment in systems and teams and is a process which is not yet finished but on track. The correct steps will continue to be taken to increase Pestana Hotel Group's competitiveness.

1 Overview of the World Economy

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According to the World Bank's Global Economic Prospects 2020 report issued in January, following a year during which weak trade and investment dragged the world economy to its weakest performance since the global financial crisis, economic growth was poised for a modest rebound this year. However, for even that modest uptick to occur, many things would have to go right.

Global growth was set to rise by 2.5 percent this year, a small rise from an estimated 2.4 percent in 2019, as trade and investment gradually recover.

Emerging market and developing economies were anticipated to see growth accelerate to 4.1 percent from 3.5 percent last year. However, that acceleration would not be broad-based: the pickup was anticipated to come largely from a handful of large emerging economies stabilizing after deep recessions or sharp slowdowns.

Even this tepid global rally could be disrupted by any number of threats. Trade tensions could re-escalate. A sharper-than-expected growth slowdown in major economies could reverberate widely. A resurgence of financial stress in large emerging markets, an escalation of geopolitical tensions, or a series of extreme weather events could all have adverse effects on economic activity. These comments were applicable before the fall-out from COVID-19, which is starting to have a meaningful impact across the board.

This slowdown in growth is happening at the same time as monetary policy has eased across most markets, leading to significant debt accumulation. The absence of inflationary pressures led major central banks to prevent de-anchoring of inflation expectations and support optimistic financial conditions.

REAL GDP

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

Source: World Bank Global Economic Prospects Jan/2020

The US economy has suffered negative impacts on investment as a result of the trade uncertainty resulting from the tensions between the US and China and Europe, however, employment and consumption continue robust as a result of the existing policy stimulus. The recent trade agreement with China increased tariffs and therefore trade costs. Consequently, growth rate is expected to slow down to 1,8% in 2020 as a consequence of the fiscal changes being promoted since the second half of 2019.

In the Eurozone growth decreased as a result of weak exports and a decrease in industrial production resulting in an expected growth of 1,0% in 2020. The United Kingdom continues to suffer with Brexit which has a significant impact in economic growth, especially through a decrease in exports, due to the uncertainty associated with the process and the respective consequences.

China continues to be the main engine of world economy, but growth is decreasing as a result of escalating tariffs and weakening external demand which was exacerbated by the slowdown resulting from the accumulation of debt. Policy stimulus are expected to continue to support activity against external shocks resulting in an expected growth rate of 5,9% for 2020.

The exponential rise of people infected by COVID-19 led the World Health Organization to declare a global pandemic status on March 11, 2020. As a result, many countries have implemented quarantine measures to prevent the spread. These measures are now in place in most European countries, and it is difficult to predict how long it will last for. What is clear, however, is that the impact on the world economy is likely to be significant.

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2 Tourism

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Despite the global economic slowdown, trade tensions and rising geopolitical challenges, social unrest and prolonged uncertainty about Brexit, tourism business continued to register significant growth up until the recent past. International tourist arrivals increased 3,8% reaching an estimated 1,5 billion tourists according to the UNWTO. However, this growth was uneven across regions, with the highest growth in the Middle East (+7,8%) and the lowest in the Americas region (+2%).

OUTLOOK FOR INTERNATIONAL TOURIST ARRIVALS

	CHANGE				AVERAGE A YEAR	2020 PROJECTION (issued January)
	2016	2017	2018	2019*	2009-2019*	From
WORLD	3,8%	7,2%	5,6%	3,8%	5,1%	+3% a 4%
EUROPE	2,5%	8,8%	5,8%	3,7%	4,6%	+3% a +4%
ASIA AND THE PACIFIC	7,7%	5,7%	7,3%	4,6%	7,1%	+5% a +6%
AMERICAS	3,7%	4,7%	2,4%	2,0%	4,6%	+2% a +3%
AFRICA	7,8%	8,5%	8,5%	4,2%	4,4%	+3% a +5%
MIDDLE EAST	-4,7%	4,1%	3,0%	7,6%	2,7%	+4% a +6%

Source: World Toursim Organization (UNWTO) ©
* Provisional data

The collapse of major British travel group Thomas Cook, which left 600.000 travelers stranded around the world and led to the cancellation of more than 8,6 million flight seats until the end of August 2020, and of several small European airlines has disrupted some tourist flows, namely in Europe and the Americas which have been partly absorbed by other travel service providers.

According to the International Air Transport Association (IATA) international air passenger traffic increased about 4% with all regions contributing positively to this result. This growth has, however, been below the long-term average of 5,5% as a consequence of geopolitical tensions, the slowdown in world economy and lower business confidence.

Europe is estimated to follow the world's trend and to reach a growth rate between 3% and 4% which is lower than verified in the previous year. The stronger markets in terms of demand were southern and mediterranean countries as has been the case in the last few years with central and eastern countries also presenting a growth rate above average. Uncertainty from Brexit as well as the slight depreciation of the pound sterling has affected British tourists and prompted a wait-and-see attitude.

The United States of America has seen a decrease in number of tourist arrivals but still presented a positive growth of 2% with occupancy rates remaining steady but with a slight increase in terms of average daily rate and revenue per available room of about 1% each.

In Brazil, with the establishment in prior years of a Tourism Ministry, tourism presented a positive growth of 2,6% when compared with the previous year due to an increased international openness, reduced visa requirements and better trade integration. This was also backed up by a growth in Brazilian economy as a result of soaring business and consumer confidence which has been built up throughout the previous years.

The main touristic regions in Portugal are, in the resort segment, Madeira and the Algarve and, in the city breaks and meetings, incentives, conventions and exhibitions (MICE) segment, Lisbon and Oporto. Algarve registered an increase of 7% in global revenue mainly through an increase in average price while Madeira suffered a decrease in global revenue as a result of the collapse of several small European airlines as well as restrictions caused by the local airport which is also highly susceptible to poor weather conditions. Both Lisbon and Oporto presented significant increases when compared with the previous year.

Following a period with significant increase in the demand for Portuguese hotels, 2019 was the year of stabilization - the number of bed nights grew approximately +3,9% when compared to 2018, with significant demand from the domestic market (residents + 6,3% and nonresidents +3%). Hotel bed nights only grew by +2% while the house/room rentals have grown by +14%.

Looking at the source markets for international tourists (bed nights) in Portugal, we can see that the German market has reduced significantly in 2019 (-9%) as well as the Netherlands (-8%) and France (-3%). On the opposite side the USA has grown significantly (+18%) followed by Ireland (+9%) and Spain (+4%).

The bankruptcy of Germania airline company in the beginning of 2019 and later of Thomas Cook tour operator had a significant impact on the number of tourists flying to Madeira island in 2019 and will continue to impact 2020 figures.

As of today, it is not possible to be sure that Condor airline, a subsidiary of Thomas Cook that the German government helped in 2019 to keep operations running, will continue to fly to Madeira in 2020.

On the other hand, the alternative to Tour Operators flights depends nowadays on flights from Lisbon to Funchal. It is public that the Lisbon airport is working in full capacity and therefore unable to accommodate an increase in flights. As result, the flights from Lisbon to Madeira are priced very high constraining even further the demand from tourists to travel to Madeira.

Looking at the source markets for international tourists (bed nights) in Madeira, we can see that the German market has reduced significantly in 2019 (-10%) as well as the UK (-8%) and France (-6%). No other country with size enough compensated such reductions.

Despite of the market's challenges the Algarve region was able to maintain a moderate increase in its Tourism in 2009 (+2,4%), mainly supported by the domestic market (+5%).

Looking at the source markets for international tourists (bed nights) in Algarve, we can see that the German market has reduced significantly in 2019 (-10%) as well as the Netherlands (-11%). The UK, continues to be by far the most relevant source market for the Algarve, has grown +2,5% and Spain +8%, Ireland +5% and Italy +29% were the countries with higher contribution to the dynamic of this region.

Lisbon continues to be on the radar of most European travelers, as a wonderful destination to go to. The excellent weather conditions allied with authentic gastronomy and the welcoming spirit of the Portuguese people attract significant flow of tourists to the Portuguese capital city, that should continue to be competitive, despite the recent rise in prices.

Looking at the source markets for international tourists (bed nights) in Lisbon, we can see that the German market has reduced in 2019 by -4%, France -3% and the Netherlands -4%. The USA with a significant increase (+18%), Brazil (+12%), Ireland (+34%) and UK (+6%) are the countries with higher demand increases.

The Lisbon airport was known to be running at full capacity and the new airport will be ready, according to optimistic projections, only by 2024. At the same time the pipeline for new hotels and houses for short term rental is developing significantly. The combined effect will pressure hotel prices down in the near future.

Oporto and the northern region of Portugal continue with the growing trend from previous years boosted by the low-cost flights' activity. Number of bed nights in 2019 increased +9,5%, especially in the international source markets (+12%) with significant relevance for the USA (+32%), Spain (+11%), Brazil (+16%) and UK (+19%).

Europe continues to account for more than 50% of the world's international tourist arrivals and in 2019 it grew by +4%, a slower pace than 2018 (+6%). Demand from overseas source markets such as the United States, China, Japan and countries from the Gulf Cooperation Council (GCC) held up well and contributed to the overall positive results of Europe. France (+0,9%), Spain (+1,2%) and Italy (+5%) continue to be in the world's top5 destinations, but with lower increases when compared to their competitors.

The collapse of the British travel group Thomas Cook in September 2019 as well as of some small European airlines such as Aigle Azur, XL Adrian Airways, Germania and Flybmi contributed to the reduction of air capacity in Europe, despite some replacements.

Due to Brexit, the slowdown of British economy and the depreciation of the pound sterling against the euro bookings out of the UK to the Euro Area have reduced in 2019.

Southern / Mediterranean Europe is leading the results in 2019 with +5,5% increase on arrivals (Italy, Greece, Portugal and Turkey saw robust performance), followed by Central / Eastern Europe with +3,9% and Western Europe with +1,8%.

According to STR these are the top 5 and bottom 5 major European cities in terms of growth:

2019 OCTOBER YTD REVPAR PERFORMANCE

Top 5 Growth Markets	Bottom 5 Decline Markets
1. Bucharest	1. Moscow
2. Madrid	2. Frankfurt
3. Barcelona	3. Copenhagen
4. Vienna	4. Warsaw
5. Milan	5. Dublin

Source: STR

Spain suffered a significant blow with the bankruptcy of Thomas Cook, especially in the Canary and Balearic Islands, with hotels fully dependent on this tour operator struggling to survive.

The decreases in the traditional source markets, UK (-2,4%), Germany (-2,1%) and France (-1,2%) have been compensated by the rise in the US (+12,6%), Russia (+6,9%), Ireland (+6%), Portugal (+4,9%) and Latin America.

Catalunya had a slight increase (+0,8%) in the number of tourist arrivals, where tourists from France play a primary role.

Madrid continued with very good trend by increasing its tourist arrival by +7% with American tourists playing the main role.

The United Kingdom, the most visited destination in Northern Europe, reported approximately +1,7% growth in international arrivals in 2019. The increase in the number of visitors from North America and Middle east countries compensated for the slight decrease in visitors from the Eurozone members.

The rise of economic and political tensions with the US, the appreciation of the US dollar and increased control in visa issuance reduced the appetite of travellers to visit the US in 2019 (-1,3%).

Arrivals from its main source markets, and neighbors Canada and Mexico, went down.

Growth in arrivals from top overseas markets the United Kingdom and Japan continued to offset declines from several key markets such as China and the Republic of Korea America do Sul.

New York continues year after year to show a unique dynamic, with very high average room rates combined with also very high occupancy rates. Projections from CBRE show this is a trend to maintain in the following years:

NEW YORK FORECAST SUMMARY

Year	OCC	ΔOCC	ADR	ΔADR	REVPAR	ΔREVPAR
2014	85,6%	-0,1%	$ 270,93	2,0%	$ 232,01	1,9%
2015	85,2%	-0,5%	$ 265,42	-2,0%	$ 226,22	-2,5%
2016	85,7%	0,6%	$ 258,98	-2,4%	$ 221,95	-1,9%
2017	86,5%	1,0%	$ 255,35	-1,4%	$ 220,96	-0,4%
2018	87,2%	0,7%	$ 261,02	2,2%	$ 227,51	3,0%
2019F	86,2%	-1,1%	$ 257,50	-1,3%	$ 221,92	-2,5%
2020F	84,9%	-1,5%	$ 260,93	1,3%	$ 221,42	-0,2%
2021F	85,6%	0,8%	$ 266,52	2,1%	$ 228,04	3,0%
2022F	86,1%	0,6%	$ 275,74	3,5%	$ 237,35	4,1%
2023F	86,5%	0,5%	$ 285,01	3,4%	$ 246,51	3,9%

Source: CBRE Hotels Research, STR, Q3 2019

Tourism in Africa continues to grow but at a lower rate (+4,2%) than in previous years, especially in Sub-Saharan Africa (+1,2%).

The rising tensions in South Africa and its economic slow-down contributed to the reduction (-2,2%) in tourist arrivals.

Mozambique continues to struggle to implement economic, tax and organizational reforms in order to boost confidence from international markets. The number of tourist arrivals is low as a consequence of the economic environment. The announced development of big projects in the oil, carbon and gas area has also been postponed year after year.

Cape Verde continues to show a very positive trend by increasing tourist arrivals in 2019 by +13%, after rising 7,3% in 2018.

North African countries, however, present themselves in very good shape with a growth of 9,1% in tourist arrivals (after +11% in 2018).

According to Jan-Jul 2019 figures, Morocco recorded an increase of +6,4% in international tourist arrivals. Arrivals from France represent 33% of the market's share and grew +10%, while arrivals from Spain represent a market share of 16% and grew +9%, as the two main contributors for growth of Moroccan tourism. Marrakech represents 33% of the total overnight stays in Morocco and grew +8% in 2019 while Agadir represents 24% and grew +3%, Casablanca represents 9% and grew +3% and Tanger represents 6% and grew +11%.

All these trends were meaningful before the COVID-19 pandemic. Now, with reservation cancellations rising sharply for flights, tours and hotels and the pace of new reservations completely frozen for several weeks, most of the operators in the tourism industry will be forced to apply layoff procedures and probably suspend activities for some weeks or months. The European Union and each country's governments are already issuing contingent measures to help the economy and minimize the impact of this shutdown.

China was the first country to face this coronavirus infection and therefore has also been the first to apply strict quarantine measures to prevent the virus spread. The success of the Chinese strategy should help other countries to do the same and provides some hope to the world economy in containing the virus spread in a matter of months. Nevertheless, tourism is expected to recover fairly slowly.

3
Key figures

	2019	2018	Δ	Δ%
Number of rooms	11.530	11.382	148	1,3%
Revenue	418,8	434,1	(15,3)	-3,5%
Gross Operating Profit (GOP)	160,2	164,8	(4,6)	-2,8%
EBITDA	161,8	166,9	(5,1)	-3,1%
Adjusted EBITDA*	150,6	160,8	(10,2)	-6,4%
Net debt **	498,1	526,0	(27,9)	-5,3%
Net debt/EBITDA	3,08	3,15	(0,07)	-2,3%
Net debt/Adjusted EBITDA	3,31	3,27	0,04	1,1%
Total Assets	1.428,8	1.318,8	110,0	8,3%
Total Equity	482,7	410,5	72,2	17,6%
Average Room Rate (ARR)	103,1	100,2	2,9	2,9%
Pestana Collection	178,2	178,6	(0,4)	-0,2%
Pestana CR7 Lifestyle	116,8	123,3	(6,5)	-5,3%
Pousadas de Portugal	125,8	121,8	4,0	3,3%
Pestana Hotels & Resorts	92,2	88,8	3,4	3,8%
% Occupation	68,2%	67,4%	0,8%	1,2%
Pestana Collection	67,4%	67,3%	0,1%	0,2%
Pestana CR7 Lifestyle	76,2%	74,3%	1,9%	2,6%
Pousadas de Portugal	59,3%	61,3%	-2,0%	-3,3%
Pestana Hotels & Resorts	69,6%	68,2%	1,4%	2,1%
Guest Satisfaction Index (GSI)	87,7%	87,4%	0,3%	0,4%
Pestana Collection	91,0%	90,8%	0,2%	0,2%
Pestana CR7 Lifestyle	89,3%	89,9%	-0,6%	-0,7%
Pousadas de Portugal	89,3%	89,0%	0,3%	0,4%
Pestana Hotels & Resorts	86,2%	85,9%	0,4%	0,4%

* Excluding Gains/Losses on financial investments

** Includes IFRS 16 adoption

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4 Pestana Hotel Group

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4.1-Description

Pestana International Holdings S.A.'s (in this document referred to as "Pestana Hotel Group" or "Group") origin dates back to 1972 with the establishment of M.&J. Pestana, S.A. to invest in what is today known as Pestana Carlton Madeira hotel in Madeira. Pestana Carlton Madeira hotel was the first of the current 99 hotels now being operated by the Group in 15 countries under 4 different Pestana hotel sub-brands. On February 2020, Pestana Hotel Group opened its 100th hotel, Pestana Park Avenue in Manhattan, New York.

The Group started with resort operations in Madeira in the 1970's and then in Algarve in the late 1980's. The internationalization was initiated in the 1990's through investments in Portuguese speaking countries, first in Africa and then in Brazil. In 2003, Pestana Hotel Group won the tender to manage the concession of the "Pousadas de Portugal" network, a Portuguese boutique hotel chain at that time with 42 Pousadas. In the last 10 years the development strategy has focused on enlarging the Group's footprint throughout major European and North American cities such as London, Berlin, Miami, Amsterdam, Barcelona, Madrid, New York, Manchester and Paris.

4.2-Corporate structure

Pestana Hotel Group includes 65 companies in 15 countries spread out across five major regions, each one represented by a corresponding subholding company, including the Group's shared services entity, namely:

- Grupo Pestana, S.G.P.S., S.A. – Portugal (Hospitality, Vacation Club, Real Estate, Residence, Golf, Entertainment, Brewery and the public concession of the free trade zone of Madeira);
- Djebel, S.A. – Brazil as South American Portuguese speaking country (Hospitality and Residence);
- ESGAP, S.A. – Group's shared services companies;
- Hotéis do Atlântico, S.A. – Europe and North America (Hospitality);

- Pestana Inversiones, Lda. – South American Spanish speaking countries (Hospitality);

- Salvintur, S.A. – Africa (Hospitality, Real Estate, Residence and Entertainment).

Pestana International Holdings S.A. is the main holding company and its share capital is 100% owned by Mr. Dionísio Pestana, its President and only son of the Group's founder.

Although the President still actively supervises the Group's operations, with special emphasis on the investment process, the Group's day-to-day management has been delegated to an executive committee board. This board meets on a monthly basis with the presence of all the directors responsible for each area to discuss the status of operations and execute major strategic plans. Smaller meetings occur on a weekly basis with fewer members of the board to discuss more operational matters.

4.3-Strategy

Pestana Hotel Group's development strategy is based on five vectors:

- Continue to expand the Group's geographic footprint, preferably through the expansion in major European and North American cities, but also exploring good opportunities in other markets. Investment decisions will continue to be done cautiously (low investment amounts per hotel room), based on the Group's capacity to generate cash flow and to maintain a reduced level of leveraging.

- Continue to invest in innovation either through the implementation of new technology, partnerships with startups, adapting brands to new markets or exploring different business models or hotel concepts.

- Continued operational focus on gaining/maintaining efficiency, constantly reviewing business processes, enhancing new technology and engaging new people. The creation of the Group's shared services center enabled the hiring of specialized and talented people and created centers of excellence with enough scale for significant technology investments to be able to provide top quality services to all group business units around the globe.

- Continue to hire, train and maintain the best people always motivated to do their best and to exceed customer expectations. Partnerships with hotel management schools helps with the hiring of new skilled people and the Group continues to invest in ongoing its employees' ongoing training.

- Continue to provide top quality services to our guests generating demand for our products and services and providing excellent value for money thus earning the trust that our guests will have "The time of their lives" with Pestana Hotel Group.

All Group companies share the same IT network, the same front office per business line and the same back office financial system (SAP), which enables the setting up of standard procedures on a worldwide basis, as well as providing the Group's management real time information at a centralized point on any figures, operations, sales, investments or cashflows from any Group operation in the world. Therefore, management can react to any event instantaneously.

Pestana Hotel Group's shared services also provide high quality specialized services to all group companies under standardized processes that permit much faster reactions to certain events and allows for more efficiency in all administrative processes. Some examples are explained below:

Central reservations – All hotels use the same PMS (Opera) and the same CRS (Opera) systems. This allows for a single central reservations and call center department to record reservations for all Group hotels. It also allows automatic integration of reservations with all tour operators in the market as well as with the Pestana website.

Sales – Although each sales team has its own sales objectives, by using the same systems they can cross sell, share resources and centrally monitor sales information and better manage the sales per channel. Using the same technology infrastructure also allows for innovative sales projects and partnerships with startups, easy to roll out for all portfolio of hotels.

Procurement – All of the Group's hotels benefit from the scale given by the group in negotiations with vendors, therefore reducing unit costs or improving conditions, increasing quality of products and providing appropriate logistics.

Finance – All major finance processes are centralized. This enables the monitoring of major finance risks more accurately and to spread them throughout the group. Each hotel benefits from much better financing conditions due to the Group's global negotiations, risk dilution and in some cases support from holding companies. Implementation of cash pooling procedures continues to improve the group's cash management. Entering into a credit insurance policy for the majority of the group's accounts receivable has also contributed to reduce risk.

HR and Operations – working as a group enables hotels to share resources among themselves. In an activity with high seasonality (summer vs winter or weekends vs weekdays) this is an important factor for success.

Pestana Hotel Group has an asset-heavy business model which limits its pace of portfolio growth and exposes it to higher demand risk relative to asset-light business models. However, this model results in a high-quality asset portfolio and provides for additional financial flexibility.

Pestana Hotel Group has had very profitable and consistent operations for the past few years and has used the cash generated to significantly reduce its leveraging. Financial debt was eliminated in countries with significant inflation and currency fluctuation such as African and South American countries. All debt reimbursement plans have been aligned with the ability of each company to generate cash. No significant dividends were requested by the shareholder, which means that the available cashflow could be either reinvested in the business or used to reduce leverage.

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5 Investment

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In 2019, the Group's growth was supported not only by existing hotels but also by new openings, namely:

- Five-star Pestana Blue Alvor, an all-inclusive 352 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 Three brother beach in Alvor. The hotel opened in May 2019;

- Four-star Plaza Mayor Madrid (Spain) a 89 key luxury hotel in the center of Madrid with a spa & fitness center, 2 swimming pools, meeting rooms with natural light and a restaurant specializing in beef opened in May 2019;

- Four-star Pestana Churchill, a 57-key hotel in the port building in Câmara de Lobos on the island of Madeira, a beautiful building which hosted Winston Churchill in the past and that increases the Group's offer in the region. The hotel opened in June 2019.

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

- Four-star Pestana Park Avenue located in the USA, New York, in the 39th street and two blocks away from Central Station, a 96-key hotel in Manhattan which opened in February 2020. The Group's total investment was 39 million USD;

- Four-star Pestana CR7 NY also in the US, New York Manhattan, 39th street West, closer to Times Square, a 177-key hotel, to open towards the end of 2020. Construction is currently in progress. This project's total investment is estimated to be 61 million USD;

- Four-star New Jersey city hotel (USA) for a 109-key hotel, to open in 2022 following a management agreement signed in 2016. Construction was delayed but is expected to start in mid-2020;

- **Pestana CR7 Madrid** in the city center of the Spanish capital, 29 Gran Via, for a 168-key hotel lease agreement. Significant building conversion works are in fast progress, the hotel is expected to open in the third quarter 2020. The Group's total investment is estimated to be of 2 million Euros;

- **Pestana CR7 Paris (France)**, a 210-key hotel in Paris' city center (13th district) integrated in a commercial and office enterprise. The project is still in its licensing phase and is expected to be concluded in 2023. The Group's total investment is estimated to be 60 million Euros;

- **Pestana CR7 Marrakech**, located in Morocco in the famous luxury M-Avenue, surround by world class hotels and shops, for a 168-key hotel under a lease agreement. Construction is presently in progress and it is expected to open around November 2020;

- **Pestana Tanger**, located in Morocco, in Tanger's city center, will be composed of 120 apartments leased for 9 years with a management contract similar to Pestana Casablanca. Construction is presently in progress and it is expected to open around August 2020. The Group's expected investment does not exceed 1,5 million Euros;

- **Pestana CR7 Manchester** in the city center of Manchester, near Picadilly Gardens, for a 151-key hotel lease agreement. Conversion works are in the preparation phase and the Group's expectation is that it will open towards the end of 2021. The Group's total investment is estimated to be 6,9 million British pounds.

- **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 project development is in preparation phase. The Group's total investment is expected to be approximately 16 million USD;

- Vila Real de Santo António's Pousada started construction following the agreement signed with the municipality of Vila Real de Santo António in Algarve in 2017. It's 57 rooms are expected to open in May 2020. The Group's total investment will be 3 million Euros;

- Pestana Lisboa Vintage will be located in rua Braancamp, in Lisbon's city center, with 90 keys resulting from an urban sub-lease agreement for 15 years. The Group's total investment is expected to be 8,5 million Euros. It is expected to open around June 2020;

- Pestana Douro, near Pousada do Freixo, with 165 keys is a project resulting from the refurbishment of the old floral soap factory in Gondomar with a priviledged view over the Douro river acquired by the Group. The Group's total investment is expected to be 16,5 million Euros. It is expected to open around August 2020;

- Project Pestana Rua das Flores is located in rua das Flores, with 87 keys, an hotel in Oporto's historic center which will result from the refurbishment of a building that was in a high state of disrepair, expected to open towards the end of 2020. The Group's total investment is estimated to be 17 million Euros;

- Four-star Pestana Lisboa Augusta is located in rua Augusta, the core of Lisbon's downtown, with 89 keys resulting from a lease agreement for 26,5 years renewable for three equal and consecutive 5 year periods. The Group's total investment is expected to be 7 million Euros. It is expected to open in 2021;

- Pestana Fisherman is located in Câmara de Lobos the picturesque village of Madeira island with 40 rooms and an estimated investment of 2 million Euros, to open in 2021;

- Project Pestana Rua de São Tomé is located in Alfama, the most traditional neighborhood in Lisbon's city center, on top of Lisbon's castle hill facing the Tagus river. The lease of the 39 rooms is held for 25 years and is expected to open in 2022 with no significant investment.

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

6 Activity of Pestana Hotel Group

6.1-Profit and loss highlights

(Amounts in millions of Euros)	TOTAL 2019	Grupo Pestana SGPS	Djebel	Hotéis do Atlântico	Pestana Inversiones	Salvintur	Other	TOTAL 2018 (a)	TOTAL 2017 (a)
Rooms (total keys)	11.530	8.350	1.270	790	329	702	89	11.382	10.921
of which Rooms under management contract (keys)	1.143	882	63	0	195	3	0	1.274	1.009
Hotel units (total)	99	73	7	6	2	10	1	106	105
of which Units under management contract	5	3	1	0	1	0	0	9	8
Revenue	418,8	338,7	17,3	38,6	3,2	16,7	4,2	434,1	393,3
GOP (b)	160,2	135,3	2,2	14,5	1,1	5,1	2,0	164,8	155,7
EBITDA	161,8	142,9	-1,0	10,5	1,6	3,8	4,0	166,9	130,2
Depreciation and amortization	-53,5	-43,5	-1,7	-4,0	-0,0	-3,1	-1,2	-47,5	-43,4
EBIT	108,3	99,4	-2,7	6,5	1,6	0,7	2,8	119,4	86,8
Interest net (includes fees)	-22,6	-16,1	-0,1	-3,5	0,3	-0,2	-3,0	-23,8	-19,5
Income taxes (c)	-5,5	-3,0	1,2	-0,8	-0,4	-0,2	-2,3	-16,8	-8,1
Net income including non-controlling interests share	79,4	79,9	-2,7	-0,2	1,5	-0,3	1,1	78,1	57,9
GOP margin (%)	38%	40%	13%	38%	34%	30%	47%	38%	40%
EBITDA margin (%)	39%	42%	-6%	27%	51%	23%	94%	38%	33%
EBIT margin (%)	26%	29%	-16%	17%	49%	4%	66%	28%	22%
ROE (%)	13,2%	20,1%	-3,8%	-0,2%	18,8%	-0,7%	-4,0%	14,4%	11,6%
EPS	60,17	N/A	N/A	N/A	N/A	N/A	N/A	59,20	43,90
EBITDA / Net interests (..x)	7,2	8,9	-7,0	3,0	-5,2	16,7	1,3	7,0	6,7
Average cost of gross debt (%)	3,8%	3,8%	109,1%	12,2%	N/A	11,7%	-2,1%	3,8%	3,9%

Notes:

(a) Considering IFRS 16 adoption when applicable

(b) "Gross operating profit" - management accounts (uniform system of accounts) only includes fully consolidated companies

(c) includes gambling tax paid by Casino

The Group's revenue reached 418,8 million Euros (a decrease of about 4%), for an EBITDA of 161,8 million Euros (decrease of 3%). This was mainly due to the decrease in the Group's real estate business; if this effect were to be ignored, revenue would have increased by about 4 million Euros, which represented an increase of about 1% on the previous year. The EBITDA / Net interest ratio is 7,2x, reaching an excellent ratio based on an average interest rate that remained at 3,8% despite the decrease in EBITDA.

REVENUE AND GOP 2019 BY BUSINESS AREA

The revenue and G.O.P. (Gross operating profit) structure continue to show similar weightings for the different business units with a slight increase towards Hotéis do Atlântico. However, it is possible to see that G.O.P. margin decreased when compared with last year but still presents a very similar margin to the previous year of 36%, with the same happening with the EBITDA margin which remains steady at 39%. The Group's return on equity (ROE) also remains steady when compared with the previous year since net income grew approximately the same as equity. Meanwhile, despite the Group's significant investment in capex in 2019, some of it originated from debt funding which meant that the Group remains in a strong cash position; the Group's liquidity ratio increased from 14% to 22%.

In December 2019, Pestana Hotel Group disposed of its shares which represented 100% of Beloura Hotel e Golfe – Investimentos Turísticos, S.A.'s share capital for 25.000.000 Euros, which generated a gain of 10.965.373 Euros.

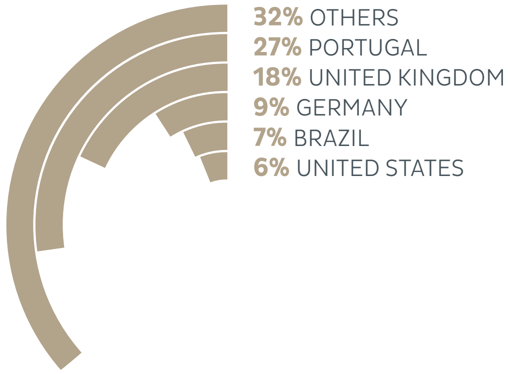
A. HOSPITALITY

Hospitality, with more than 3,5 million guests, presented a GOP similar to the previous year with new openings, Pestana Blue Alvor, Pestana Churchill and Pestana Plaza Mayor, compensating for the decrease in results in Madeira, Africa and Miami, including the foreign exchange effect. Madeira suffered with the loss of several airline connections mainly in the German market with the bankruptcy of Germania even before the collapse of Thomas Cook. Furthermore, the restrictions in Madeira's airport due to poor weather conditions continued to negatively affect Madeira's image. African units presented decreases in GOP as a consequence of South Africa's economic slowdown as well as Mozambique's struggle to implement economic, fiscal and organizational reforms. Brazil remained at levels similar to the previous year with São Paulo being the best performing hotel in terms of GOP gain. Argentina presented a decrease as a result of the economic turmoil it has been going through in the past few years.

On average, all hotels in Europe grew in ARR (Average Room Rate) in local currency with the exception of Amsterdam, which had a significant occupancy rate increase which more than compensated for this decrease. In all American hotels an increase in occupancy was registered with the exception of Miami as a result of the increased difficulty in acquiring visas as well as the trade tensions between the US, China and Europe while prices, on the other hand, remained steady or increased. However, in Argentina ARR decreased in Euros due to the depreciation of the Argentinian peso.

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

REVENUE 2019



B. REAL ESTATE

Real Estate now represents 12% in revenue and 9% in G.O.P. of Pestana Hotel Group's activity and continues to be developed mainly in Portugal through the projects in Troia (near Lisbon) and in Carvoeiro (in Algarve). This activity decreased significantly in 2019 as a result of the decrease in available stock with Lots 3 and 4 in Troia being close to sold out and with the new real estate projects being only in their infancy, which means that the delivery of villas and apartments flows at a slower pace than in the two previously mentioned projects.

Pestana's real estate business concept is usually based on selling villas and apartments for touristic use, either near a Pestana golf course or a Pestana hotel unit that provides a wide range of high standard services to the owners, including maintenance, housekeeping, food & beverage and condominium management, and that represents a significant cash flow stream. Pestana's strategy for this business is to only build houses at the same rhythm as they are being sold (no construction is made for stock), which proved to be the right choice during market downturns avoiding high opportunity costs.

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 only give the buyer a legal temporary right to the property but is also a cash flow stream like Timeshare being all part of the Group loyalty program.

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

In 2019, this business had a decrease in sales both in terms of new contracts as well as management fees. Despite the fact that sales of the new resort (Madeira Beach Club) are running at a good pace there was a decrease in sales not only due to the facts previously mentioned which have affected the island of Madeira but also due to the fact that Madeira Beach Club's 30-year contract have ended and that this unit was closed for refurbishment for a 6-month period. Therefore, the Group has new inventory available for future sales. There is another factor which has contributed to a decrease in values which was the decrease in average price of the contracts sold as a consequence of an increase in competition with a new unit opening in Funchal. Besides the facts mentioned, shorter term contracts (3, 5 and 7 years) have had an increase in weight when compared with more classic and longer-term contracts (10 to 20 years).

D. GOLF

This activity continues to represent 3% of Pestana Hotel Group's revenue having maintained a steady level when compared with the previous year, as a result of a minor decrease in the number of rounds played on the Group's golf courses which, however, has been compensated for with an increase in average price. The Group continues to operate the same six golf courses, namely Alto Golf, Pinta, Gramacho, Silves and Vila Sol in Algarve and Beloura in Lisbon.

E. ENTERTAINMENT

Entertainment activity represents 3% of the Group's activities, as a complement to the main hotel business, had a slight increase in 2019, 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 21%, following a year of tight management of resources allocated to this business unit. Also, gambling registered a 12% increase in revenue.

F. OTHER BUSINESS

Pestana Hotel Group's other businesses continues to represent 3% of the total revenue in 2019. SDM – Sociedade de Desenvolvimento da Madeira continues to run well and ECM – Empresa de Cervejas da Madeira significantly increased its results mainly as a consequence of winning its lawsuit against the Coca Cola Company.

6.2-Balance sheet highlights

(Amounts in millions of Euros)	2019	% TOTAL	Grupo Pestana SGPS	Djebel	Hotéis do Atlântico	Pestana Inversiones	Salvintur	Other	2018 (a)	2017 (a)
NET ASSETS										
Investment (Fixed assets) (b)	1.034,7	94%	717,5	77,6	186,2	6,4	43,1	3,9	1.015,5	946,8
Deferred tax liabilities	-27,6	-2%	-14,1	-7,3	-1,7	-0,2	-4,3	0,0	-31,6	-52,8
Total adjusted fixed assets	**1.007,1**	**91%**	**703,4**	**70,3**	**184,5**	**6,2**	**38,8**	**3,9**	**983,9**	**894,0**
Investment (Financial assets) (c)	31,9	3%	17,5	0,0	11,8	0,0	0,0	2,6	32,1	30,0
Other non-current assets (d)	25,2	2%	10,9	2,1	1,4	0,0	0,5	10,2	28,8	54,6
Current Assets - Current liabilities (e)	41,9	4%	49,4	0,8	-2,9	-0,2	0,1	-5,2	29,2	20,1
Total adjusted assets	**1.106,1**	**100%**	**781,2**	**73,2**	**194,8**	**6,0**	**39,4**	**11,5**	**1.074,0**	**998,7**
FUNDING ORIGINS										
Equity	482,7	44%	291,5	64,2	106,7	8,2	42,3	-30,2	410,5	341,4
Collected deferred revenues (f)	164,0	15%	152,1	8,0	1,4	0,0	0,1	2,4	176,6	201,2
Deferred sales cost (f)	-45,2	-4%	-45,2	0,0	0,0	0,0	0,0	0,0	-45,2	-44,8
Total non remunerated funding (adjusted equity)	**601,6**	**54%**	**398,4**	**72,2**	**108,1**	**8,2**	**42,4**	**-27,7**	**541,9**	**497,8**
Long term financial debt (g)	527,0	48%	401,2	0,0	89,8	0,0	2,2	33,8	505,3	509,0
Other non-current liabilities (h)	6,5	1%	0,8	5,0	0,4	0,0	0,0	0,3	6,1	11,1
Total non-current funding	**1.135,0**	**103%**	**800,4**	**77,2**	**198,4**	**8,2**	**44,6**	**6,3**	**1.053,3**	**1.017,9**
Short term financial debt (g)	115,3	10%	102,1	0,5	6,6	0,0	1,0	5,0	82,0	62,4
Cash + Financial assets available for sale (i)	-144,2	-13%	-121,3	-4,5	-10,1	-2,1	-6,3	0,2	-61,3	-81,6
Net current debt	**-28,9**	**-3%**	**-19,2**	**-3,9**	**-3,5**	**-2,1**	**-5,2**	**5,1**	**20,7**	**-19,2**
Total funding origins	**1.106,1**	**100%**	**781,2**	**73,2**	**194,8**	**6,0**	**39,4**	**11,5**	**1.074,0**	**998,7**
Net debt (j)	498,1		382,0	-3,9	86,3	-2,1	-3,0	38,9	526,0	489,8
EBITDA (k)	161,8		142,9	-1,0	10,5	1,6	3,8	4,0	166,9	130,2
Working capital	41,9		49,4	0,8	-2,9	-0,2	0,1	-5,2	29,2	20,1
Net capex (l)	89,0		69,7	2,2	16,0	0,6	0,1	0,4	99,4	49,4
Capex under construction	89,2		51,4	1,4	31,2	4,8	0,3	0,0	95,3	98,7
Net debt / EBITDA ratio	3,08		2,67	N/A	8,24	N/A	N/A	9,85	3,15	3,76
(Net debt - Capex under construction) / EBITDA ratio	2,53		2,31	N/A	5,26	N/A	N/A	9,85	2,58	3,00
Net debt / Equity ratio	0,83		0,96	N/A	0,80	N/A	N/A	-1,40	0,97	0,98
Net debt / Total assets ratio (%)	45%		49%	N/A	44%	N/A	N/A	340%	49%	49%
Liquidity ratio (%) (f / (g+h+i))	22%		24%	81%	10%	N/A	194%	0%	10%	14%

Notes:
(a) Considering the adoption of IFRS 16; (b) Includes Tangible fixed assets, Intangible assets and Investment properties and excludes Deferred sales cost; (c) Includes Investments in joint ventures and associates; (d) Includes Deferred tax assets and Trade and other receivables
(e) Excludes Cash and cash equivalents, Borrowings, Deferred revenue and Lease liabilities; (f) Collected sales of Pestana Vacation Club ("timeshare"); (g) Includes Lease liabilities; (h) Includes Provisions, Derivatives and Trade and other payables; (i) Includes Equity instruments at fair values through profit and loss; (j) Long term financial debt plus Net current debt; (k) Operating profit excluding Charges of depreciation and amortization, Impairment losses of tangible assets, Gambling tax paid by Casino and other minor accounts; (l) Additions net of Disposals

Pestana Hotel Group follows an ownership model which means that it owns most of its assets making it a capital-intensive Group. It is important to mention that the Group has a highly specialized shared services center which allows for the opening of new units without virtually any additional 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.

In 2019, total assets reached, approximately 1.429 bn Euros, which represents an increase of 8% when compared with the previous year mainly due to an increase in fixed assets from 979 million Euros to 1.049 million Euros (+7%). This increase was a result of the construction of the Group's new openings, Pestana Blue Alvor, Pestana Churchill and Pestana Plaza Mayor as well as the Right of use assets acquired or renewed, namely, Pousadas de Portugal network, Pestana Rua São Tomé and Pestana Sintra Golf with the corresponding impact on Lease liabilities. It is noteworthy that Capex under construction represents about 10% of fixed assets excluding Right of use assets. It is also 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 in historical costs, 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.

2019 was marked by the first green bond issue in the hospitality sector which elevated Pestana Hotel group to the first hospitality group worldwide to perform a green bond issue according with ICMA principles (International Capital Markets Association). It was a 60 million Euro issue with an interest rate of 2,5% and a maturity of 6 years which was placed with about 30 national and international investors. This bond issue turned out to be a huge success due to high demand registered in the

European market. The initially foreseen amount of 50 million Euros was increased to 60 million Euros based on the demand from the market. In this operation, Pestana Hotel Group was rated by Axesor with a "BBB with a stable outlook" which qualifies it within the restricted "investment grade" group and one of the lowest risk players in the hospitality sector worldwide.

The Group's net debt decreased 5% from 524 million Euros in 2018 to 498 million Euros in 2019, including Lease liabilities (IFRS 16). The Group's EBITDA, however, also decreased but at a lower rate (3%) and, consequently, the leverage ratio (Net debt / EBITDA) decreased from 3,15x to 3,08x. Also, if Capex under construction was removed from Net debt, since these assets are not yet generating any EBITDA, the leverage ratio would decrease to 2,53x while the previous year's ratio would be 2,57x.

Equity increased from 411 million Euros to 483 million Euros, Adjusted Equity (AE) increased from 542 million Euros to 602 million Euros. Total adjusted assets (TAA) increased to 1.106 million Euros and the ratio (AE/ANA) increased to 55%, with the remainder covered by the aforementioned debt and other liabilities.

The Group has a debt service aligned with its annual cash flow, and the refinancing risk is well controlled. The funding is well diversified with an average maturity of 3 years, mainly due to the new 60 million Euro green bond issue that matures in 2025.

Pestana Hotel Group continues to keep a sound liquidity position with cash and cash equivalents of around 144 million Euros. Bank overdrafts and unused commercial paper facilities were available at the end of 2019 in an amount of approximately 84 million Euros from several different financial institutions.

Pestana Hotel Group has around 74% of its assets in Portugal, while local demand remained steady at 27% of the overall revenue (19% 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.

7 The Near Future

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Prior to the arrival of COVID-19, Pestana Hotel Group considered the great challenge of 2020 to be the opening of new units. All of our plans will be monitored carefully in the context of COVID-19. There are 10 openings currently scheduled for this year with 8 hotels opening between May and August. It is a significant effort, for which Pestana Hotel Group is prepared and one that is unavoidable in order for the Group to scale up and remain competitive.

The hospitality business has changed a lot. Taking a look at Pestana Hotel Group's sale by channel until 2016 the best year had been 2007 and on that year the Group sold less than 1% through online channels. In 2019, between direct channel, call center and additional own sites online channels and OTA's in B2B or B2C sales were more than 50% of the total. This is the digital transformation mentioned in business models and which require action from companies and Pestana Hotel Group is reacting positively to this change. In order to do so a big investment in systems and teams to run these systems was needed. The Group will only be able to turn a profit on this investment, which allows for the Group to remain competitive, through scale hence the 20 units in the pipeline which follow the 10 that opened in the last couple of years. This scale is what allows the Group to profit from the significant investment in technology and teams, meaning people, Pestana employees.

This leads us to another of the Group's priorities: its Human Resources. This implies an investment in our people, stronger and better prepared teams, meaning more training and increased focus on talent recruitment and retention. Brand awareness and investment is needed in order to have these talents which has been attained, however, in order to retain it teams must have a voice, have to be heard and recognized which is the responsibility of every team leader.

To sum up, the Group's challenge is to increase in scale (10 openings in 2020) in order to make the investment in systems and people viable without forgetting the communities it is in. Thus, economic sustainability is assured and allows the Group to fulfill its role in social and environmental sustainability in the community.

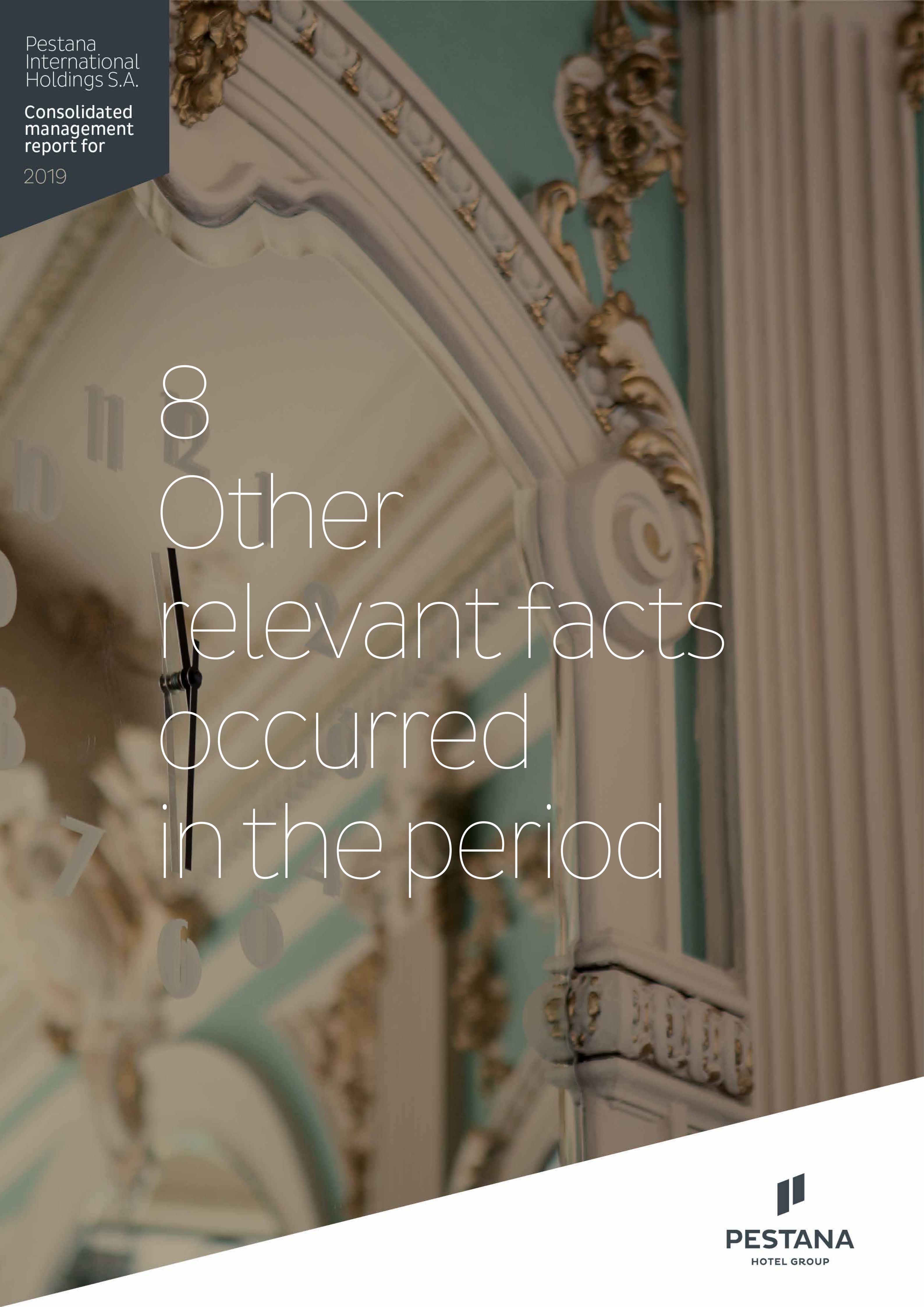
Economy is increasingly volatile with shorter and more intense cycles which are impossible to predict or anticipate. The tension surrounding global trade deals, the constant diplomatic or political incidents under discussion and the increased weight of extreme political movements contribute to stagnant or anemic growth in some economies.

Hospitality does not escape these factors and is able to absorb hard to estimate impacts, however, it is important to point out that it is one of the few sectors which presents a constant demand growth rate above 3% in the last 50 years.

Pestana Hotel Group systematically accompanies the different risks it faces and implements strategies and action plans in order to prevent situations and reduce as much as possible its potential negative effects. The Group is confident that in the long run, the existing strategy is adequate to face the challenges which are presented and to contribute to the Group's sustainable growth.

In the last few months COVID-19 has been disseminated in several countries. The respective health authorities have been acting in concert and have issued guidance in an effort to rapidly contain its expansion. At this moment it is impossible to predict the future evolution of this disease and its corresponding impacts, but we know that the impact on Tourism and the world economy will be significant. We remain confident in our well trained and experienced teams to overcome this crisis, with focus, commitment and flexibility. The Group is well structured and financed to weather this storm.

Until February the impact on Pestana Hotel Group's operations has been minimal however for preventive measure, in line with its contingent plan, the Group is actively following the guidelines issued by and in strict cooperation with each health authority; the Group has a unit implementing all appropriate measures in an effort to protect our clients, suppliers and employees while looking to assure the continuity of operations at the same time as minimizing the risks. If necessary, operational team reorganization measures will be taken in order to minimize the impacts of this reality.



8 Other relevant facts occurred in the period

PESTANA
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In 2019 the new Leases standard, IFRS 16, replaced IAS 17 with the lessee now having to recognize a lease liability that reflects future lease payments and a right of use asset for all lease contracts, except for certain short-term or low-value leases. The definition of a lease contract was also changed being now based on the right to control the identified asset. Therefore, and in accordance with the new standard, Pestana Hotel Group restated comparative amounts in its financial statements. The Group decided to use the retrospective approach in its transition with the impacts of the standard's adoption disclosed in Note 2.2 of the consolidated financial statements.

9 Objectives and policies of Pestana Hotel Group regarding risk

PESTANA
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Pestana Hotel Group's financial risk management is controlled by the finance department in accordance with policies approved by the Board of Directors.

The Board of Directors has defined global risk management principles as well as specific policies for some areas defining limits, measures and adequate controls to mitigate the potential impact of these risks.

Pestana Hotel Group is exposed to the following general risk areas:

- Strategic and operational risks regarding business models and portfolio;
- Financial risks;
- Corporate structure risks;
- Technology and Cybersecurity risks;
- Human capital risks;
- Other risks.

Strategic and operational risks regarding business models and portfolio include risks associated with ownership, brand, service quality, guest satisfaction, guest behaviour, seasonality, regulation, staff turnover, staff commitment and outdated equipment.

Financial risks include such risks as exchange rate risk, interest rate risk, liquidity risk, credit risk and capital risk. Corporate structure risks include shareholder succession and corporate governance structure.

Technology and cybersecurity risks include risks related to the implementation of new technology, its maintenance and update, monitoring the reliance and dependence on existing systems and its control environment. With the development of internet and cloud systems, the importance of GDPR rules and brand protection, monitoring the cybersecurity risks became vital.

Human capital risks in a labour-intensive activity with significant development in progress include the risks of lack of availability of qualified professionals, need for intensive recruitment, training and retention plans to provide the human capital needed to support operations expansion plan.

Other risks include environmental risks.

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

Pestana International Holdings S.A.

Consolidated management report for

2019

10 Relevant issues that occurred after the year end

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The 65 million Euro bond maturing on February 28 was fully repaid.

On the other hand, also in February, in order to secure all its pipeline in progress, the Group contracted a new mortgage loan of 45 million Euros with a 15-year term and a fixed interest rate.

The COVID-19 pandemic has brought significant uncertainty to confidence levels in the economy for 2020, and its full impact is at this moment impossible to estimate. However, Pestana Hotel Group is confident in its preparedness to overcome this pandemic with success and continue in the long run to grow consistently and with sustainability as shown in the previous 50 years.

11 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 this enough, we thank all of our employees for their high level of professionalism and sense of duty. Their effort and dedication drive the creation of value in the Pestana Hotel Group.

Luxembourg, 23 March 2020

The Board of Directors

Dionísio Fernandes Pestana
Director

Chiara Louise Deceglie
Director

Hermanus Roelof Willem Troskie
Director

José Alexandre Lebre Theotónio
Director

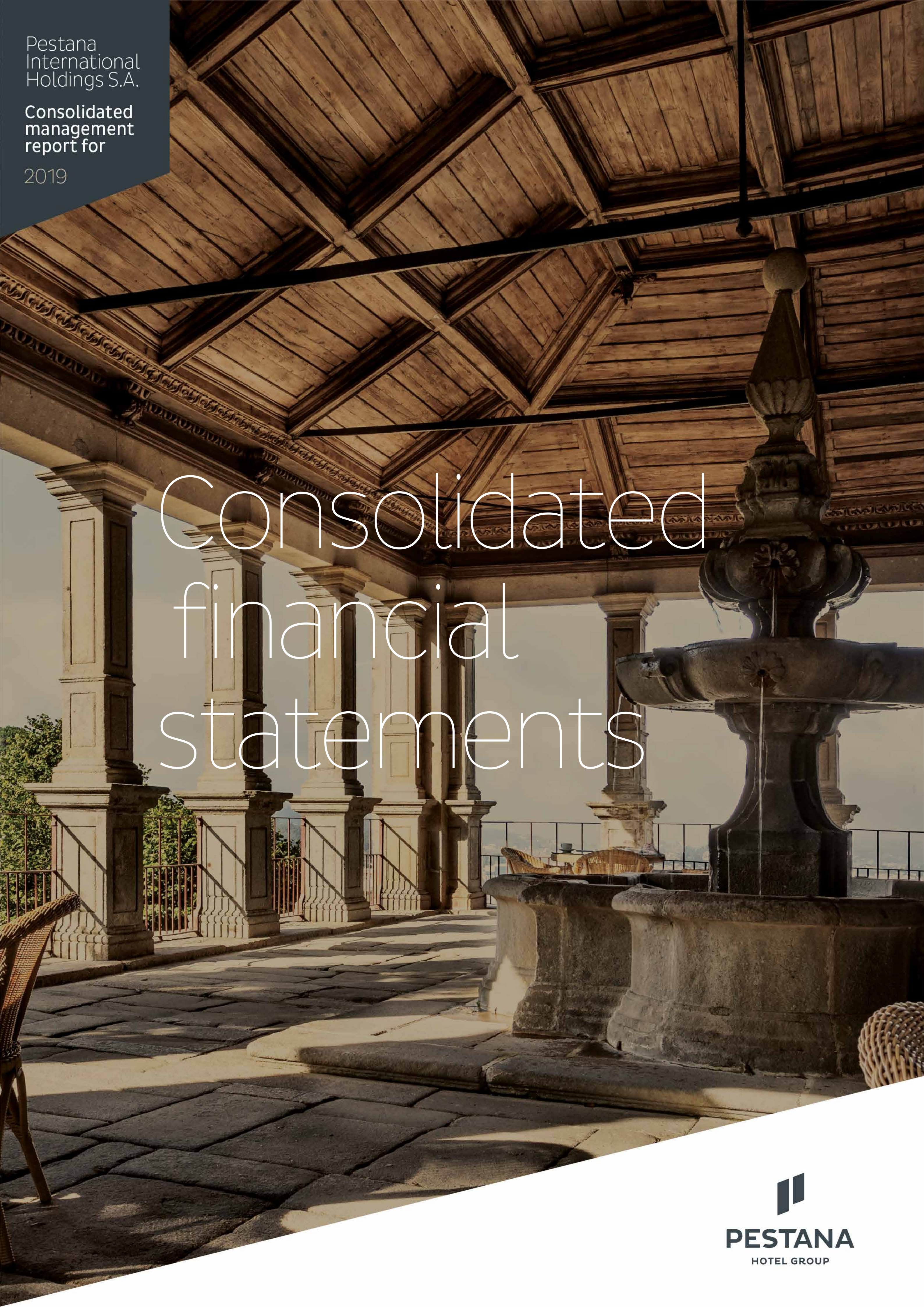
Rodrigo de Freitas Branco
Director

Pestana International Holdings S.A.

Consolidated management report for

2019

Consolidated financial statements



PESTANA
HOTEL GROUP

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts expressed in Euros)	Notes	31 December 2019	31 December 2018 restated	1 January 2018 restated
ASSETS				
Non-current				
Tangible fixed assets	6	1.070.595.800	1.050.493.711	979.687.198
Intangible assets	7	2.289.007	1.891.358	3.523.532
Investment properties	8	6.995.847	8.328.251	8.420.704
Investment in joint ventures	9	19.301.862	20.319.031	18.113.785
Investment in associates	10	12.590.287	11.737.962	11.930.722
Equity instruments at fair value through profit and loss	11	6.278.551	1.020.543	868.218
Deferred tax assets	12	11.443.776	12.937.802	33.910.251
Trade and other receivables	14	13.791.402	15.874.369	20.641.753
		1.143.286.532	1.122.603.027	1.077.096.163
Current				
Inventories	15	68.251.287	70.620.974	83.545.321
Trade and other receivables	14	65.065.090	63.761.350	60.851.333
Income tax receivable	16	14.288.888	1.542.684	2.378.273
Cash and cash equivalents	17	137.934.022	60.260.136	80.720.300
		285.539.287	196.185.144	227.495.227
Total assets		1.428.825.819	1.318.788.171	1.304.591.390
EQUITY				
Capital	18	238.000.000	238.000.000	207.336.573
Other reserves	19	5.451.864	4.000.326	(3.206.020)
Retained earnings	20	146.269.375	78.274.175	63.972.024
Profit for the period attributable to shareholders		74.632.835	70.843.250	55.310.788
Non-controlling interests	21	18.388.220	19.431.540	17.947.899
Total equity		482.742.294	410.549.291	341.361.264
LIABILITIES				
Non-current				
Provisions	22	5.614.554	5.021.994	8.583.100
Borrowings	23	345.046.782	339.952.619	354.050.520
Lease liabilities	24	181.941.038	165.312.183	155.075.124
Derivatives	25	847.359	1.023.292	1.926.455
Deferred tax liabilities	12	27.602.578	31.571.674	52.764.551
Deferred revenue	26	136.665.996	149.173.314	168.173.878
Trade and other payables	27	16.243	61.736	608.895
		697.734.550	692.116.812	741.182.523
Current				
Provisions	22	6.838.183	7.622.576	7.217.574
Borrowings	23	102.505.843	71.802.710	53.528.867
Lease liabilities	24	12.811.708	10.155.762	8.822.293
Deferred revenue	26	27.361.136	27.430.121	32.990.386
Trade and other payables	27	98.062.305	97.040.393	109.975.279
Income tax liabilities	16	769.800	2.070.506	9.513.204
		248.348.975	216.122.068	222.047.603
Total liabilities		946.083.525	908.238.880	963.230.126
Total equity and liabilities		1.428.825.819	1.318.788.171	1.304.591.390

The following notes form an integral part of the Consolidated statement of financial position as at 31 December 2019.

CONSOLIDATED INCOME STATEMENT

(Amounts expressed in Euros)	Notes	Period 2019	2018 restated
Revenue	28	418.779.668	434.066.155
Cost of goods sold	15	(57.204.670)	(72.074.685)
External services and supplies	29	(115.618.334)	(112.299.945)
Personnel expenses	30	(94.905.350)	(89.668.561)
Charges of depreciation and amortization	6;7;8	(50.127.214)	(47.532.661)
Impairment losses and reversals of tangible assets	6	(3.328.960)	95.142
Impairment of receivables	14	(324.339)	(232.351)
Impairment of inventories	15	(160.336)	(153.975)
Provisions	22	(166.752)	1.423.855
Other income	31	14.489.751	12.655.072
Other expenses	32	(16.624.921)	(15.086.637)
Gains on investments in subsidiaries, joint ventures, associates and equity instruments at fair value through profit and loss	33	11.153.930	6.094.517
Operating profit		**105.962.473**	**117.285.926**
Financial expenses	34	(24.512.855)	(25.449.596)
Financial income	34	1.934.914	1.698.782
Profit before tax		**83.384.532**	**93.535.112**
Income tax	35	(4.011.340)	(15.429.142)
Profit for the period		**79.373.190**	**78.105.970**
PROFIT FOR THE PERIOD ATTRIBUTABLE TO:			
Shareholders of the group		74.632.835	70.843.250
Non-controlling interests	21	4.740.357	7.262.720
		79.373.192	**78.105.970**
EBITDA		161.755.838	166.874.250

The following notes form an integral part of the Consolidated income statement for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts expressed in Euros)	Notes	Period 2019	2018 restated
Profit for the period		**79.373.192**	**78.105.970**
Items that recycled through profit and loss:			
Foreign currency translation differences	19;20;21	(2.032.085)	(7.689.567)
Change in fair value of hedging derivatives	25	82.876	558.864
Tax impact in items booked directly in equity	12	-	(105.101)
Other comprehensive income for the period - net of income tax		(1.949.209)	(7.235.804)
Total comprehensive income for the period		77.423.983	70.870.166
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Shareholders of the group		72.682.226	63.610.011
Non-controlling interests		4.741.757	7.260.155
		77.423.983	70.870.166

The following notes form an integral part of the Consolidated statement of comprehensive income for the year ended 31 December 2019.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders						
(Amounts expressed in Euros)	Share capital	Other equity instruments	Other reserves	Retained earnings	Profit/loss for the period	Non-controlling interests	Total
AT 1 JANUARY 2019	166.625.238	71.374.762	4.000.326	78.274.175	70.843.250	19.431.540	410.549.291
Changes in the period							
Changes in the perimeter			697.540	–	–	7.047	704.587
Restated profit for the period application			7.001.053	63.842.197	(70.843.250)	–	–
Transfers			(4.349.686)	4.182.670	–	167.016	–
Other changes recognized in equity			–	23.573	–	–	23.573
			3.348.907	68.048.440	(70.843.250)	174.063	728.160
Foreign currency translation differences			(1.980.701)	(53.240)	–	1.856	(2.032.085)
Change in fair value reserve - hedging derivatives (net of tax)			83.332	–	–	(456)	82.876
Profit for the period			–	–	74.632.835	4.740.357	79.373.192
Comprehensive income			(1.897.369)	(53.240)	74.632.835	4.741.757	77.423.983
			1.451.538	67.995.200	3.789.585	4.915.820	78.152.143
Transactions with shareholders in the period							
Shareholders contribution	–	–	–	–	–	30.000	30.000
Distributions	–	–	–	–	–	(5.989.140)	(5.989.140)
	–	–	–	–	–	(5.959.140)	(5.959.140)
AT 31 DECEMBER 2019	166.625.238	71.374.762	5.451.864	146.269.375	74.632.835	18.388.220	482.742.294

(Amounts expressed in Euros)	Share capital	Other equity instruments	Other reserves	Retained earnings	Profit/loss for the period	Non-controlling interests	Total
	Attributable to shareholders						
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
IFRS 16 adoption adjustments (net of tax) (Note 2)	–	–	–	(20.066.988)	–	(178.547)	(20.245.535)
AT 1 JANUARY 2018 RESTATED	166.625.238	40.711.335	(3.206.020)	63.972.024	55.310.788	17.947.899	341.361.264
Changes in the period							
Changes in accounting policies - IFRS 15 adoption (Note 20)			–	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
Restated profit for the period			–	–	70.843.250	7.262.720	78.105.970
Restated comprehensive income			(7.250.669)	17.430	70.843.250	7.260.155	70.870.166
			7.369.696	45.516.382	15.532.462	5.752.795	74.171.335
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 RESTATED	166.625.238	71.374.762	4.000.326	78.274.175	70.843.250	19.431.540	410.549.291

The following notes form an integral part of the Consolidated statement of changes in equity for the year ended 31 December 2019.

CONSOLIDATED CASH FLOW STATEMENT

(Amounts expressed in Euros)	Notes	Period ended 31 December 2019	Period ended 31 December 2018 restated
Cash flow from operating activities			
Receipts from customers		409.567.087	407.005.246
Payments to suppliers		(170.209.412)	(182.514.463)
Payments to personnel		(94.717.542)	(88.902.956)
Cash generated from operations		**144.640.133**	**135.587.827**
Income tax paid		(19.862.095)	(22.686.615)
Other payments		(1.963.049)	(3.055.360)
Net cash flow from operating activities		**122.814.989**	**109.845.852**
Cash flow from investing activities			
Receipts related to:			
Tangible assets		2.272.423	2.503.899
Investments in joint ventures		500.000	3.960.000
Disposal of subsidiaries		25.000.000	–
Interest income and similar		921.952	468.890
Dividends		3.871.572	–
Payments related to:			
Tangible assets		(60.725.866)	(102.442.835)
Intangible assets		(878.796)	(909.272)
Investments in equity instruments at fair value through profit and loss		(6.258.430)	–
Acquisition of Non-controlling interests		–	(4.214.231)
Other equity instruments		(2.750.000)	–
Net cash from investing activities		**(38.047.145)**	**(100.633.549)**
Cash flow from financing activities			
Receipts related to:			
Borrowings		110.870.874	65.528.397
Shareholder's other equity instruments		–	30.663.427
Payments related to:			
Borrowings		(78.031.953)	(58.850.552)
Lease liabilities		(9.457.968)	(7.888.597)
Interest expenses and similar charges		(26.507.533)	(27.209.669)
Dividends to Non-controlling interests		(5.989.140)	(3.039.619)
Other equity distributions		–	(28.251.600)
Net cash from financing activities		**(9.115.720)**	**(29.048.213)**
Changes in cash and cash equivalents		**75.652.124**	**(19.835.910)**
Effects of exchange differences		443.870	1.418.411
Changes in the consolidation perimeter		10.032	–
Cash and cash equivalents at beginning of the year	17	59.432.528	77.850.027
Cash and cash equivalents at end of the year	17	**135.538.554**	**59.432.528**

The following notes form an integral part of the Consolidated income statement for the year ended 31 December 2019.

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") was incorporated in Luxembourg on 4 July 1980 and since 2005 is classified as a "Société de Participations Financières".

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

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

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

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

In the last 6 years the Group has concentrated on enlarging the chain's footprint throughout major European and North American cities such as Berlin, Amsterdam, Barcelona, Madrid, New York, Manchester and Paris.

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 four brands (Pestana Hotels and Resorts, Pestana Collection, "Pousadas de Portugal" and Pestana CR7 Lifestyle), it currently operates 99 units of touristic lodging totaling approximately 11.530 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 60 hotels (17 in Madeira, 9 in Algarve, 6 in Lisbon/Cascais/Sintra, 4 in Oporto, 1 in Azores, 6 in Brazil, 1 in Argentina, 1 in Venezuela, 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 Madrid, 1 in Netherlands, 1 in Miami) and the management of the 33 "Pousadas de Portugal", 9 units of Vacation Club, 6 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 Zone of Madeira.

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

(a) Leased / concession
(b) Management contract
(c) Franchised
(d) Opened in May 2019
(e) Opened in June 2019

These consolidated financial statements were approved by the Board of Directors on the meeting dated 23 March 2020. 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

2.1-Basis for presentation

The consolidated financial statements are prepared by Pestana Hotel Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and effective as at 1 January 2019. IFRS include standards issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor Board. IFRS were adopted by the Group for the first time in the year ended 31 December 2010.

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

The consolidated financial statements have been prepared 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 2019 is as follows:

- IAS 28 (amendment), 'Long-term interests in Associates and Joint Ventures'. The amendment clarifies that long-term investments in associates and joint ventures (components of an entity's investments in associates and joint ventures), that are not being measured through the equity method, are to be measured in accordance with IFRS 9 – 'Financial instruments'. The long-term investments in associates and joint ventures are subject to the expected credit loss impairment model, prior to being added, for impairment test purposes, to the whole investment in associates and joint ventures, when impairment indicators exist. This amendment had 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 and had no impact on the Group's consolidated financial statements.

- IFRS 9 (amendment), 'Prepayment features with negative compensation'. This amendment introduces the possibility of classifying 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 had no impact on the Group's consolidated financial statements.

- IFRS 16 (new), 'Leases'. This new standard replaces IAS 17 – 'Leases' with lessee's now being required to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for all lease contracts, except for certain short-term leases and for low-value assets. The definition of a lease contract also changed, being based on the "right to control the use of an identified asset". The application of IFRS 16 may be retrospective or retrospective modified. The impacts of the adoption of this new standard are presented in Note 2.2 of the Notes to the consolidated financial statements.

- IFRIC 23 (new), 'Uncertainty over income tax treatment'. This is an interpretation of IAS 12 - 'Income tax' and refers 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 adoption of this new standard had no relevant impacts on the Group's consolidated financial statements.

b) New standard which is mandatory for the accounting periods beginning on or after 1 January 2020 and which has been endorsed by EU:

- Conceptual framework, 'Amendments to references in other IFRS'. As a result of the publication of the new Conceptual Framework, the IASB introduced changes to the text of various standards and interpretations, like: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of asset / liability and expense / income, in addition to some of the characteristics of financial information. These amendments are retrospective, except if impractical. The Group will apply these amendments when they become effective with no expected impacts on the consolidated financial statements.

- IAS 1 and IAS 8 (amendment), 'Definition of material'. The amendment revises the concept of material. Includes clarifications as to obscured information, its effect being similar to the omission or distortion of information; and also, clarifications as to the term 'primary users of general purpose financial statements', defined as 'existing or potential investors, lenders and other creditors' that rely on general purpose financial statements to obtain a significant part of the information that they need. The Group will apply these amendments when they become effective with no expected impacts on the consolidated financial statements.

c) Standards (new and amendments) and interpretations that are mandatory for the accounting periods beginning on or after 1 January 2020, but which the EU has not yet endorsed:

- IFRS 3 (amendment), 'Definition of a business'. This amendment revises the definition of a business in order to account for business combinations. The new definition requires that an acquisition include an input, as well as a substantial process that jointly generate outputs. Outputs are now defined as goods and services rendered to customers, that generate investment income and other income, and exclude returns as lower costs and other economic benefits for shareholders. Optional 'concentration tests' for the assessment if one transaction is the acquisition of an asset or a business combination, are allowed. Pestana Hotel Group will apply this amendment when it becomes effective.

- IFRS 9, IAS 39 and IFRS 7 (amendment), 'Interest rate benchmark reform'. These amendments are part of the first phase of IASB 'IBOR reform' project and provide certain reliefs in connection with interest rate benchmark reform. The relief relate to hedge accounting, in terms of: i) risk components; ii) 'highly probable' requirement; iii) prospective assessment; iv) retrospective effectiveness test (for IAS 39 adopters); and v) recycling of the cash flow hedging reserve, with the objective that interest rate benchmark reform does not cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. The adoption of these amendments will have no relevant impacts on Pestana Hotel Group's consolidated financial statements.

2.2-Changes in accounting policies

Pestana Hotel Group applied IFRS 16 on 1 January 2019 using the retrospective method which resulted in the restatement of the comparative amounts of 2018's period. Reclassifications and adjustments which resulted from the adoption of this new standard were consequently recognized in the statement of financial position at 1 January 2018.

Pestana Hotel Group used the practical expedient allowed by IFRS 16 so as not to reassess whether all its contracts which involve the use of an asset are or contain a lease at the date of first adoption having opted to maintain the previously used classification foreseen by IFRS 17 – 'Leases' and IFRIC 4 – 'Determining whether an Arrangement contains a Lease' for contracts already in place at the date of the initial adoption of IFRS 16.

Pestana Hotel Group also used the practical expedient allowed for by IFRS 16 to not reassess if all 'sale and leaseback' transactions fulfilled the revenue criteria in IFRS 15 – 'Revenue from Contracts with Customers' having opted to maintain the previously foreseen classification under IAS 17 – 'Leases' for contracts already in place at the date of the initial adoption of IFRS 16.

IFRS 16 changed the way the Group, as a lessee, recognizes operational leases which are now recognized and measured as a Right of use asset and a Lease liability.

At the date of adoption of IFRS 16, the Group recognized Lease liabilities concerning leases which had so far been recognized as 'operational leases' in accordance with IAS 17 – Leases. These liabilities were recognized at the present value of the remaining lease payments at 1 January 2018, discounted through a contract implicit interest rate or, in cases where it is not possible to do so, through the lessee's incremental borrowing rate at the date of the commencement of each contract. The balance of the Right of use assets results from the amount recognized at the commencement of each contract less accumulated depreciation and impairments at 1 January 2018, if any exist.

Additionally, the amounts paid to lessor's, at the commencement of contracts for the acquisition of concession rights, were considered a direct initial cost in obtaining the right of use assets which comprise the concession.

After the adoption date, Pestana Hotel Group started to recognize the effect of the depreciation of Right of use assets and the interest on Lease liabilities instead of the lease's rents.

IFRS 16's transition impacts on the Consolidated statement of financial position are as follows:

(Amounts expressed in Euros)	Notes	31 December 2018 Reported amount	31 December 2018 IFRS 16 Impact	31 December 2018 Restated amount	1 January 2018 Reported amount	1 January 2018 IFRS 16 Impact	1 January 2018 Restated amount
ASSETS							
Non-current							
Tangible fixed assets	6	901.776.247	148.717.464	1.050.493.711	840.568.185	139.119.013	979.687.198
Intangible assets	7	10.482.612	(8.591.254)	1.891.358	12.114.786	(8.591.254)	3.523.532
Investment properties	8	8.328.251	–	8.328.251	8.420.704	–	8.420.704
Investment in joint ventures	9	20.361.543	(42.512)	20.319.031	18.156.297	(42.512)	18.113.785
Investment in associates	10	11.737.962	–	11.737.962	11.930.722	–	11.930.722
Equity instruments at fair value through profit and loss	11	1.020.543	–	1.020.543	868.218	–	868.218
Deferred tax assets	12	11.973.295	964.507	12.937.802	33.037.831	872.420	33.910.251
Trade and other receivables	14	13.922.406	1.951.963	15.874.369	18.657.531	1.984.222	20.641.753
		979.602.859	143.000.168	1.122.603.027	943.754.274	133.341.889	1.077.096.163
Current							
Inventories	15	70.620.974	–	70.620.974	83.545.321	–	83.545.321
Trade and other receivables	14	65.013.356	(1.252.006)	63.761.350	62.103.339	(1.252.006)	60.851.333
Income tax receivable	16	1.542.684	–	1.542.684	2.378.273	–	2.378.273
Cash and cash equivalents	17	60.260.136	–	60.260.136	80.720.300	–	80.720.300
		197.437.150	(1.252.006)	196.185.144	228.747.233	(1.252.006)	227.495.227
Total assets		1.177.040.009	141.748.162	1.318.788.171	1.172.501.507	132.089.883	1.304.591.390
EQUITY							
Capital	18	238.000.000	–	238.000.000	207.336.573	–	207.336.573
Other reserves	19	4.000.326	–	4.000.326	(3.206.020)	–	(3.206.020)
Retained earnings	20	98.341.163	(20.066.988)	78.274.175	84.039.012	(20.066.988)	63.972.024
Profit for the period attributable to shareholders		72.970.742	(2.127.492)	70.843.250	55.310.788	–	55.310.788
Non-controlling interests	21	19.627.297	(195.757)	19.431.540	18.126.446	(178.547)	17.947.899
Total equity		432.939.528	(22.390.237)	410.549.291	361.606.799	(20.245.535)	341.361.264

(Amounts expressed in Euros)	Notes	31 December 2018 Reported amount	31 December 2018 IFRS 16 Impact	31 December 2018 Restated amount	1 January 2018 Reported amount	1 January 2018 IFRS 16 Impact	1 January 2018 Restated amount
LIABILITIES							
Non-current							
Provisions	22	5.021.994	–	5.021.994	8.583.100	–	8.583.100
Borrowings	23	339.952.619	–	339.952.619	354.050.520	–	354.050.520
Lease liabilities	24	–	165.312.183	165.312.183	–	155.075.124	155.075.124
Derivatives	25	1.023.292	–	1.023.292	1.926.455	–	1.926.455
Deferred tax liabilities	12	38.054.784	(6.483.110)	31.571.674	58.625.447	(5.860.896)	52.764.551
Deferred revenue	26	149.173.314	–	149.173.314	168.173.878	–	168.173.878
Trade and other payables	27	3.995.733	(3.933.997)	61.736	5.367.964	(4.759.069)	608.895
		537.221.736	154.895.076	692.116.812	596.727.364	144.455.159	741.182.523
Current							
Provisions	22	7.622.576	–	7.622.576	7.217.574	–	7.217.574
Borrowings	23	71.802.710	–	71.802.710	53.528.867	–	53.528.867
Lease liabilities	24	–	10.155.762	10.155.762	–	8.822.293	8.822.293
Deferred revenue	26	27.430.121	–	27.430.121	32.990.386	–	32.990.386
Trade and other payables	27	97.952.832	(912.439)	97.040.393	110.917.313	(942.034)	109.975.279
Income tax liabilities	16	2.070.506	–	2.070.506	9.513.204	–	9.513.204
		206.878.745	9.243.323	216.122.068	214.167.344	7.880.259	222.047.603
Total liabilities		744.100.481	164.138.399	908.238.880	810.894.708	152.335.418	963.230.126
Total equity and liabilities		1.177.040.009	141.748.162	1.318.788.171	1.172.501.507	132.089.883	1.304.591.390

IFRS 16's transition impacts on the Consolidated income statement are as follows:

(Amounts expressed in Euros)	Notes	2018 Reported amount	2018 IFRS 16 Impact	2018 Restated amount
Revenue	28	434.207.488	(141.333)	434.066.155
Cost of goods sold	15	(72.074.685)	-	(72.074.685)
External services and supplies	29	(128.735.014)	16.435.069	(112.299.945)
Personnel expenses	30	(89.668.561)	-	(89.668.561)
Charges of depreciation and amortization	6;7;8	(36.817.320)	(10.715.341)	(47.532.661)
Reversals and impairment losses of tangible assets	6;7	95.142	-	95.142
Impairment of receivables	14	(232.351)	-	(232.351)
Impairment of inventories	15	(153.975)	-	(153.975)
Provisions	22	1.423.855	-	1.423.855
Other income	31	12.655.072	-	12.655.072
Other expenses	32	(15.086.637)	-	(15.086.637)
Gains on investments in subsidiaries, joint ventures, associates and equity instruments at fair value through profit and loss	33	6.094.517	-	6.094.517
Operating profit		**111.707.531**	**5.578.395**	**117.285.926**
Financial expenses	34	(16.903.124)	(8.546.472)	(25.449.596)
Financial income	34	1.589.708	109.074	1.698.782
Profit before tax		**96.394.115**	**(2.859.003)**	**93.535.112**
Income tax	35	(16.143.443)	714.301	(15.429.142)
Profit for the period		**80.250.672**	**(2.144.702)**	**78.105.970**
Profit for the period attributable to:				
Shareholders of the group		72.970.742	(2.127.492)	70.843.250
Non-controlling interests	21	7.279.930	(17.210)	7.262.720
		80.250.672	**(2.144.702)**	**78.105.970**

IFRS 16's transition impacts on the Consolidated cash flow statement at 31 December 2018 refer to the reclassification of the operational lease's rents paid, previously classified as operational activities, to Lease liability payments and corresponding interest in the amount of 7.870.238 Euros and 8.415.943 Euros, respectively.

3-Main accounting policies

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

3.1-Consolidation

3.1.1-Subsidiaries

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

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

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

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

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

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

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

Entities that qualify as Subsidiaries are listed in 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 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.

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	31-12-2019	31-12-2018
ARS - Argentine Peso	67,7000	44,3000
BRL - Brazilian Real	4,5066	4,4235
CVE - Cape Verde Escudo	110,2650	110,2650
GBP - Pound Sterling	0,8512	0,8948
MAD - Moroccan Dirham	10,7438	10,9530
MZN - Metical	69,9350	70,4500
STN - Dobra	24,5000	24,5000
USD - US Dollar	1,1230	1,1454
UYU - Uruguayan Peso	41,7381	37,0549
ZAR - Rand	15,7896	16,4530

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	2019	2018
ARS - Argentine Peso	54,8610	33,8918
BRL - Brazilian Real	4,4123	4,3059
CVE - Cape Verde Escudo	110,2650	110,2650
GBP - Pound Sterling	0,8778	0,8847
MAD - Moroccan Dirham	10,7668	11,0835
MZN - Metical	69,9193	71,3122
STN - Dobra	24,5000	24,5000
USD - US Dollar	1,1196	1,1813
UYU - Uruguayan Peso	39,4042	36,2105
ZAR - South African Rand	16,1709	15,6075

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 Group presents its Right of use assets in the asset class it relates to integrating the Tangible fixed asset caption of the same nature.

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

For buildings allocated in part or in whole to the timeshare business, initial direct costs incurred in negotiating and accepting these contracts, such as commissions paid to promoters, were added to the carrying amount of the leased asset in accordance with IFRS 16 - Leases.

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

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

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

	Years
Buildings and other constructions:	
Hotels and Vacation club Property	40 years
Golf Property	20 years
Right of use	Between 4 and 99 years
Other Property	Between 40 and 50 years
Basic equipment	Between 10 and 20 years
Transport equipment	Between 4 and 8 years
Tools	Between 4 and 10 years
Administrative equipment	Between 3 and 10 years
Other tangible assets	Between 10 and 20 years

Initial direct costs incurred in negotiating and arranging timeshare contracts, added to buildings leased, are recognized as an expense over the lease term on the same basis as the lease income, as required by in IFRS 16, and this period varies between 3 to 30 years.

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.

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

3.4-Intangible assets

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

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

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

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

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

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

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

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

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

Subsequent expenditures on the development of contents to promote 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 related to websites which are amortized in 4 years.

3.5-Investment properties

Investment properties are real estate assets (land, buildings or parts of buildings) held for the purpose of capital appreciation, obtaining rental income, or both, and, therefore, not used in Pestana Hotel Group's ordinary activity. On the date of transition to IFRS, Investment properties were valued at their revalued cost or the value carried from the previous standards. Subsequently, the 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 or 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 2019 and 2018 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 ate fair value through other comprehensive income which constitute debt instruments at the date of derecognition which have had their gains/(losses) recognized in equity/other comprehensive income previously are reclassified from the corresponding equity lines to profit and loss.

3.8-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 Borrowing and are considered in the preparation of the consolidated cash flows statements as Cash and cash equivalents.

3.13-Capital

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

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

3.14-Provisions

Provisions are only recognized when Pestana Hotel Group when a present legal or constructive obligation resulting from past events exists, it is probable that an outflow of internal resources will be necessary to settle this obligation and its amount can be reasonably estimated. Whenever one of the criteria is not met or the existence of the obligation is conditional on the occurrence (or non-occurrence) of a certain future event, 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.

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-Leases

A contract contains a lease when the lessee has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group leases several buildings and vehicles. Lease contracts are usually negotiated for fixed periods but there may be extension options. Lease terms and conditions are negotiated on an individual basis.

The Group determines whether as contract is or includes a lease at the contract's commencement date. In a lease contract the Group registers Right of use assets, with the corresponding Lease liability, at the date in which control over the asset's use is transferred to the Group, except for short term (under 12 months) or low value contracts (assets with a unit value in "new" condition below 5.000 USD) for which payments are recognized as an expense in the period in which the event or condition which gives rise to the payment occurs.

Lease liabilities are initially measured at the present value of lease payments which are due after the lease's commencement date, discounted at the contract's implicit interest rate. When this rate cannot be determined, the Group's incremental borrowing rate, which corresponds to the interest rate the lessee would have to pay to obtain an asset of similar value in an economic environment with comparable terms and conditions, is applied.

Lease payments included in the measurement of Lease liabilities include: fixed payments, less receivable lease incentives; variable payments which depend on an index or rate; amounts which are expected to be paid by the lessee as residual value guarantees; the price to exercise the purchase option if the lessee is reasonably certain it will do so; penalty payments for terminating the contract in case terminating the lease reflects the exercise of the termination option.

Lease liabilities are measured at amortized cost, using the effective interest method and is remeasured when there are changes to the future payments resulting from the application of an index or rate or if there are other changes such as the lease term, the change in expectation concerning the purchase option, contract renewal or contract termination. In these cases, the Group recognizes the remeasured Lease liability as an adjustment to the Right of use asset.

Right of use assets are presented in their corresponding asset class in the Tangible fixed asset caption of the same nature and are initially measured using the cost model which includes the initial value of the Lease liability adjusted for any payments made before the lease's commencement date, including any initial costs incurred and an estimate for dismantling costs (when applicable) less any incentives received. The Right of use asset is subsequently depreciated using the straight-line method according with the lease term. The right of use is periodically adjusted by Lease liability remeasurements, namely changes in the price resulting from renegotiations or indexes and by impairment losses (if any exist).

Variable rents that do not depend on an index or rate are not included in the measurement of a Lease liability or Right of use asset. Such payments are recognized as expenses in the period in which the event or condition which gives rise to the payments occurs.

When Pestana Hotel Group transfers an asset to a third party and simultaneously enters into a lease contract for the same asset with said third party, the Group applies the conditions in IFRS 15 to determine whether the transfer qualifies as an asset sale.

If the transfer qualifies as an asset sale, Pestana Hotel Group will measure the Right of use asset of the leaseback as a proportion of the previous net book value related to the right of use retained by the Group, recognizing a gain or loss in the proportion of the rights transferred to the third party.

In case the fair value consideration for the asset sale is not equivalent to the asset's fair value, or in case the lease's payments do not correspond to market values, Pestana Hotel Group will perform the following adjustments to measure the results of a fair value sale: Any conditions below market will be recognized as anticipated lease payments; and any conditions above market will be recognized as additional borrowings given by the third party to the Group.

When Pestana Hotel Group subleases a Right of use asset to another entity, it begins acting as a lessee in relation to the main lessor and as a lessor in relation to the sublessee.

As a sublessor, Pestana Hotel Group determines at the leases commencement date if a lease qualifies as financial or operational considering: i) the Right of use asset recognized in the main lease contract as a subjacent asset to the sublease contract; and ii) as a discount rate the sublease's implicit tax rate or the main lease contract's incremental interest rate.

When a sublease contract qualifies as a financial lease, Pestana Hotel Group derecognizes the Right of use asset and recognizes a receivable balance which is subsequently regulated by the interest incurred and the reimbursements made by the sublessee.

3.18-Derivatives

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

A derivative is considered as hedging when: i) there is an economic relationship between the item 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 hedged item.

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

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

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

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

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

3.19-Government grants and incentives

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

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

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

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

3.20-Income and Expenses

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

3.21-Revenue

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

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 contractually defined period of time.

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

i) Hospitality

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

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, considering the historic average of expired points and the consumption rhythm of the existing points (breakage) as foreseen in IFRS 15.

ii) Vacation club

Pestana Hotel Group recognizes revenue from the sale of timeshare contracts, also known as 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 throughout the contract's period because it is considered that services rendered transfer control to the owners as they are rendered. Revenue to be recognized corresponds to the commission negotiated 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 types of contracts is recognized according to the percentage of completion using the input method, which means based on the costs incurred in each period instead of the estimated total costs in each contract, with the recognition of the estimated margin for the contract. Any changes to the contract are only considered to calculate revenue if previously approved by the customer.

Whenever it is estimated that the costs associated with the construction services rendered exceed the agreed revenue, 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 through 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 the EU, and, therefore, the vast majority of its transactions are made in these countries' currency. The policy covering this specific risk is to avoid, when possible, contracts expressed in foreign currencies.

In the case of the investments in countries outside of the EU, 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 2019 and 2018, would lead to an increase/(decrease) in the Pestana Hotel Group results as follows:

	Consolidated income statement			
	31-12-2019		31-12-2018	
	+10%	-10%	+10%	-10%
USD	-	-	1.057.828	(1.292.901)
GBP	1.634.724	(1.997.996)	1.497.159	(1.829.861)
	1.634.724	(1.997.996)	2.554.987	(3.122.762)

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

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 continues to go 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.

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 2019 and 2018.

Considering Pestana Hotel Group's consolidated net debt (excluding Lease liabilities) as at 31 December 2019, an increase of 0,25% in the interest rate would result in the increase in the net finance expenses for the year of approximately 800.000 Euros (31 December 2018: approximately 900.000 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.

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 Portuguese 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 follows:

	Bank deposits		Bank loans	
	2019	2018	2019	2018
Rating				
Aa2	-	670.556	-	23.000.000
Aa3	2.772.008	359.890	27.197.918	38.273.701
A1	10.930	1.183	-	-
A2	-	10.602.575	-	33.380.381
A3	65.016.460	8.155.651	12.480.942	14.431.733
Baa1	101.319	739.459	-	5.000.000
Baa2	10.038.356	9.968.151	23.863.977	34.129.255
Baa3	2.399.002	1.469.417	33.977.018	8.904.762
Ba1	12.657.548	423.254	47.906.855	-
Ba2	12.433.052	-	13.773.226	-
Ba3	-	14.917.595	-	37.522.581
B1	445.838	-	17.981.967	-
B3	-	684.060	-	11.396.825
Caa1	27.951.243	-	41.860.668	-
Caa2	-	4.786.823	-	23.983.149
No classification	2.157.021	5.839.086	34.484.316	26.075.518
	135.982.777	58.617.700	253.526.887	256.097.905

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 contractual cash flows:

	Less than 1 year	Between 1 year and 5 years	More than 5 years
31 DECEMBER 2019			
Borrowings:	124.780.005	274.938.641	286.893.694
- bank loans	31.829.855	137.238.582	84.458.450
- bond loans	65.000.000	42.500.000	60.000.000
- commercial paper	1.444.444	23.944.445	–
- bank overdrafts	2.395.468	–	–
- lease liabilities	12.811.708	47.111.222	134.829.816
- undiscounted interests payable until maturity	11.298.530	24.144.392	7.605.428
Trade and other payables - non group	97.975.574	16.243	–
Derivatives financial instruments	339.419	692.338	–

	Less than 1 year	Between 1 year and 5 years	More than 5 years
31 DECEMBER 2018			
Borrowings:	90.572.818	297.782.555	242.971.770
- 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	–	–
- lease liabilities	10.155.762	38.612.377	126.699.806
- undiscounted interests payable until maturity	10.699.918	22.384.592	9.879.732
Trade and other payables - non group	96.952.063	61.736	–
Derivatives financial instruments	503.647	376.739	–

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 2019 and 2018 were as follows:

	31-12-2019	31-12-2018
Total borrowings	447.552.625	411.755.329
Total lease liabilities	194.752.747	175.467.945
Less: cash and cash equivalents	137.934.022	60.260.136
Net debt	504.371.350	526.963.138
Equity	482.742.294	410.549.291
Total capital	987.113.644	937.512.429
Gearing	**51%**	**56%**

If we considered the deferred revenue from Pestana Vacation Club sales (Note 26) as a component of equity and not as liability, since they do not represent future cash payments, the gearing moved be as follows:

	31-12-2019	31-12-2018
Total borrowings	447.552.625	411.755.329
Total lease liabilities	194.752.747	175.467.945
Less: cash and cash equivalents	137.934.022	60.260.136
Net debt	504.371.350	526.963.138
Equity adjusted	629.002.168	569.396.781
Total capital	1.133.373.518	1.096.359.919
Gearing	**45%**	**48%**

4.3-Accounting for derivative financial instruments

As at 31 December 2019 and 2018, 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-Leases

i) Lease term: extension and termination options

Extension and termination options present in lease contracts were considered in the calculation of Lease liabilities for several of the Group's building and equipment leases. In determining lease terms, the Group considers all facts and circumstances which create an economic incentive to exercise, or not, an extension or termination option. Extension options (or periods after extension options) are only included in lease terms which are reasonably certain to be extended (or not terminated).

ii) Fiscal impacts of applying IFRS 16

In the context of the uncertainty regarding the fiscal treatment to be given, in the context of the adoption of IFRS 16, to the Right of use asset and subsequent depreciation as well as the Lease liability and the financial expenses associated, the Group prudently decided to consider that: i) all amounts registered have no fiscal relevance; and that ii) the simultaneous recognition of the Right of use asset and the Lease liability do not fit into the initial recognition exemption foreseen in IAS 12 and, therefore, registered deferred tax assets and liabilities at the commencement date.

In the context of uncertainty, the Group is still considering the fiscal treatment it will adopt when it fills the tax declarations concerning the period ended 31 December 2019.

5.4-Impairment

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

The identification of impairment indicators, the estimate of future cash flows and the computation of the fair value of assets imply a high degree of judgment by the Board of Directors regarding the identification and evaluation of different impairment triggers, expected cash flows, applicable discount rates and useful lives. Pestana Hotel Group's results obtained in this sector, during more than the last 45 years, are, however, a good indicator to assess the estimates that have been used.

5.5-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.

5.6-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 2019 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 2019								
Acquisition cost	197.849.151	1.220.868.071	277.808.666	8.928.678	29.533.491	12.436.841	95.408.792	1.842.833.690
Accumulated depreciation	(356.792)	(540.669.254)	(199.989.993)	(6.925.282)	(28.178.680)	(9.946.537)	–	(786.066.538)
Accumulated impairment	–	(6.120.121)	(15)	–	(3.855)	–	(149.450)	(6.273.441)
Net book value	**197.492.359**	**674.078.696**	**77.818.658**	**2.003.396**	**1.350.956**	**2.490.304**	**95.259.342**	**1.050.493.711**
Changes in 2019								
Additions	–	43.217.068	9.598.048	789.618	677.393	1.377.407	34.369.741	90.029.275
Disposals - acquisition cost	(156.280)	(1.469.284)	(44.255)	(186.630)	(15.185)	(98.494)	–	(1.970.128)
Disposals - accumulated depreciation	–	197.366	10.274	176.597	10.624	98.494	–	493.355
Disposals - accumulated impairment	–	395.742	15	–	3.855	–	–	399.612
Transfers - acquisition cost	9.635.669	27.328.618	2.122.113	–	67.968	13.778	(39.168.146)	–
Depreciation	(225.656)	(36.883.073)	(10.332.425)	(780.747)	(736.887)	(589.207)	–	(49.547.995)
Perimeter exits - acquisition cost (Note 39)	(3.804.594)	(19.237.904)	(2.365.224)	(24.358)	(123.531)	(999.437)	–	(26.555.048)
Perimeter exits - accumulated depreciation (Note 39)	–	8.628.436	1.952.309	24.358	120.709	970.335	–	11.696.147
Perimeter exits - accumulated impairment (Note 39)	–	515.678	–	–	–	–	–	515.678
Impairment - charge	(557.665)	(2.095.756)	(45.754)	–	(139)	(275)	(971.295)	(3.670.884)
Impairment - reversal	–	341.924	–	–	–	–	–	341.924
Foreign currency translation - acquisition cost	(286.711)	(1.684.603)	169.250	4.558	(51.433)	9.133	(310.443)	(2.150.249)
Foreign currency translation - accumulated depreciation	342	643.813	(160.033)	(4.364)	49.488	(8.075)	–	521.171
Foreign currency translation - accumulated impairment	125	(158)	–	–	–	–	(736)	(769)
	4.605.230	**19.897.867**	**904.318**	**(968)**	**2.862**	**773.659**	**(6.080.879)**	**20.102.089**
31 DECEMBER 2019								
Acquisition cost	203.237.235	1.269.021.966	287.288.598	9.511.866	30.088.703	12.739.228	90.299.944	1.902.187.540
Accumulated depreciation	(582.106)	(568.082.712)	(208.519.868)	(7.509.438)	(28.734.746)	(9.474.990)	–	(822.903.860)
Accumulated impairment	(557.540)	(6.962.691)	(45.754)	–	(139)	(275)	(1.121.481)	(8.687.880)
Net book value	**202.097.589**	**693.976.563**	**78.722.976**	**2.002.428**	**1.353.818**	**3.263.963**	**89.178.463**	**1.070.595.800**

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	1.528.176.439
Acquisition cost - IFRS 16 adoption	16.004.720	185.031.121	679.911	2.349.343	–	–	–	204.065.095
Accumulated depreciation	–	(452.158.401)	(190.148.308)	(5.716.575)	(28.138.756)	(9.595.827)	–	(685.757.867)
Accumulated depreciation - IFRS 16 adoption	(243.955)	(60.084.442)	(215.487)	(776.830)	–	–	–	(61.320.714)
Accumulated impairment	–	(1.812.042)	(34.490)	–	(3.855)	–	–	(1.850.387)
Accumulated impairment - IFRS 16 adoption	–	(4.736.589)	–	–	–	–	–	(4.736.589)
Net book value	**187.106.579**	**606.625.574**	**79.721.002**	**2.415.716**	**1.369.443**	**2.593.454**	**98.744.208**	**978.575.977**
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
Additions - IFRS 16	–	20.087.606	–	226.185	–	–	–	20.313.791
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)	–
Transfers from Intangible assets (Note 7)	–	961.333	–	–	–	–	–	961.333
Transfers from Inventories (Note 15)	–	6.714.026	–	–	–	–	–	6.714.026
Depreciation	–	(24.835.944)	(9.972.182)	(228.773)	(709.440)	(573.147)	–	(36.319.486)
Depreciation - IFRS 16 adoption	(112.837)	(9.994.070)	(131.495)	(476.939)	–	–	–	(10.715.341)
Impairment - charge	–	–	–	–	–	–	(149.450)	(149.450)
Impairment - reversals	–	352.617	34.475	–	–	–	–	387.092
Foreign currency translation - acquisition cost	(3.127.035)	(12.151.211)	(432.696)	(23.725)	(656.903)	(5.377)	244.246	(16.152.701)
Foreign currency translation - accumulated depreciation	–	6.348.886	414.494	23.572	642.654	1.260	–	7.430.866
Foreign currency translation - accumulated impairment	–	75.893	–	–	–	–	–	75.893
	10.385.780	**67.453.122**	**(1.902.344)**	**(412.320)**	**(18.487)**	**(103.150)**	**(3.484.866)**	**71.917.735**
31 DECEMBER 2018								
Acquisition cost	197.849.151	1.220.868.071	277.808.666	8.928.678	29.533.491	12.436.841	95.408.792	1.842.833.690
Accumulated depreciation	(356.792)	(540.669.254)	(199.989.993)	(6.925.282)	(28.178.680)	(9.946.537)	–	(786.066.538)
Accumulated impairment	–	(6.120.121)	(15)	–	(3.855)	–	(149.450)	(6.273.441)
Net book value	**197.492.359**	**674.078.696**	**77.818.658**	**2.003.396**	**1.350.956**	**2.490.304**	**95.259.342**	**1.050.493.711**

During the year ended as at 31 December 2019 and 2018, the movements occurred in Right of use assets, by asset type, are as follows:

	Land	Buildings and other construcions	Basic equipment	Transport equipment	Total
1 JANUARY 2019					
Acquisition cost	16.004.720	205.118.727	679.911	2.575.528	224.378.886
Accumulated depreciation	(356.792)	(68.967.290)	(346.982)	(1.253.769)	(70.924.833)
Accumulated impairment	–	(4.736.589)	–	–	(4.736.589)
Net book value	**15.647.928**	**131.414.848**	**332.929**	**1.321.759**	**148.717.464**
Changes in 2019					
Additions	–	27.070.991	125.709	515.240	27.711.940
Perimeter exits - acquisition cost	–	(17.696)	–	(6.185)	(23.881)
Perimeter exits - accumulated depreciation	–	14.009	–	6.185	20.194
Foreign currency translation - acquisition cost	213.185	82.579	–	–	295.764
Foreign currency translation - accumulated depreciation	342	(39.375)	–	–	(39.033)
Foreign currency translation - accumulated impairment	–	(156)	–	–	(156)
Depreciation	(225.656)	(11.591.525)	(194.861)	(581.300)	(12.593.342)
Impairment - charge	–	(252.430)	–	–	(252.430)
Impairment - reversal	–	341.924	–	–	341.924
	(12.129)	**15.608.321**	**(69.152)**	**(66.060)**	**15.460.980**
31 DECEMBER 2019					
Acquisition cost	16.217.905	232.254.601	805.620	3.084.583	252.362.709
Accumulated depreciation	(582.106)	(80.584.181)	(541.843)	(1.828.884)	(83.537.014)
Accumulated impairment	–	(4.647.251)	–	–	(4.647.251)
Net book value	**15.635.799**	**147.023.169**	**263.777**	**1.255.699**	**164.178.444**

	Land	Buildings and other construcions	Basic equipment	Transport equipment	Total
1 JANUARY 2018					
Acquisition cost	16.004.720	185.031.121	679.911	2.349.343	204.065.095
Accumulated depreciation	(243.955)	(60.084.442)	(215.487)	(776.830)	(61.320.714)
Accumulated impairment	–	(4.736.589)	–	–	(4.736.589)
Net book value	**15.760.765**	**120.210.090**	**464.424**	**1.572.513**	**138.007.792**
Changes in 2018					
Additions	–	20.087.606	–	226.185	20.313.791
Depreciation	(112.837)	(9.994.070)	(131.495)	(476.939)	(10.715.341)
	(112.837)	**10.093.536**	**(131.495)**	**(250.754)**	**9.598.450**
31 DECEMBER 2018					
Acquisition cost	16.004.720	205.118.727	679.911	2.575.528	224.378.886
Accumulated depreciation	(356.792)	(68.967.290)	(346.982)	(1.253.769)	(70.924.833)
Accumulated impairment	–	(4.736.589)	–	–	(4.736.589)
Net book value	**15.647.928**	**131.414.848**	**332.929**	**1.321.759**	**148.717.464**

As at 31 December 2019, Buildings' Right of use assets refer, mainly, to the following assets:

- Casino da Madeira
- Madeira magic
- Pestana Alto Golf Resort
- Pestana Amsterdam Riverside
- Pestana Atlantic Gardens
- Pestana Beloura Golf Resort
- Pestana Carlton Madeira
- Pestana Casablanca
- Pestana Cascais
- Pestana Churchill Bay
- Pestana Cidadela de Cascais
- Pestana Colombos
- Pestana Convento do Carmo
- Pestana CR7 Funchal
- Pestana Delfim
- Pestana Ilha Dourada
- Pestana Lisboa Vintage
- Pestana Miramar Garden & Ocean
- Pestana Palácio do Freixo
- Pestana Plaza Mayor
- Pestana Quinta do Arco
- Pestana Royal
- Pestana Rua Augusta
- Pestana Rua de São Tomé
- Pestana Sintra Golf
- Pestana Viking
- Pestana Vilasol Golf Resort
- Pestana Vilasol Hotel
- Pousada de Lisboa
- Pousadas de Portugal (Network)
- Torre Bela building (future Pestana Fisherman hotel)

Additions excluding Assets under construction

Excluding Right of use assets, the main additions in 2019 refer to:

- Construction of Pestana Blue Alvor, a 352 key, 5-star hotel in Quinta da Amoreira in a plot of land of 12,8 Ha situated between Pestana Alto Golfe and hotels Pestana Alvor Praia and Pestana Delfim with a direct connection to the sand of Three Brothers beach in Alvor having spent 9.674.463 Euros (2018: 15.937.306 Euros) opened in May 2019;

- Construction of Pestana Churchill, a 57-key 4-star hotel in the port building of Câmara de Lobos on the island of Madeira for the amount of 2.477.935 Euros which opened in June 2019;

- Construction of Pestana Plaza Mayor, a 89-key 4-star hotel in the center of Madrid for the amount of 2.311.959 Euros (2018: 5.391.125 Euros) which opened in May 2019;

- Refurbishment of Vacation club undertaking Madeira Beach Club in 2019 in the amount of 1.760.352 Euros having started being sold in the first few months of 2019.

Capitalization of direct costs on Vacation Club contract negotiations (Note 3.3) amounted to 3.139.851 Euros in 2019 (2018: 3.160.104 Euros).

There were also some significant refurbishments and renovations in existing hotel units, namely, Pestana Grand, Pestana Vilasol and Pestana Palace for a total amount of approximately 2.200.000 Euros.

Right of use asset additions in 2019 refer to:

- The subsidiary Grupo Pestana Pousadas, S.A. requested Enatur the recognition of the compensation right concerning the establishments that were withdrawn from the network or had their activity interrupted with the Assignor having recognized a 2,22-year compensation which means that if there were no other situations the aforementioned value would be rounded to 2 years increasing the end date of the current

Operation Assignment Agreement to 31 December 2025. Additionally, due to the cancelation by the competent authorities of the funding for Pousada da Serra da Estrela to Enatur and with the need to reinstate the amounts of community funds to the State for the establishment of said Pousada, the Assignor recognized in 2019, the right of compensation of 5,8 years. This recognition is subject to the resolutive condition that Enatur wins the lawsuit brought up against the Portuguese State for the return of these funds. Considering the maximum limit for compensation foreseen in the Assignment Agreement, the agreement's term can only be increased until 31 December 2028 when the previous term was 31 December 2023. In the Group's consolidated financial statements, as a consequence of Enatur not recognizing in their financial statements that it will be refunded by the State, the corresponding impact in Right of use assets and Lease liabilities was registered in the amount of 11.260.281 Euros.

- Contract celebrated on 30 July 2019 for the lease of a building for the construction of a new 4-star 39-bedroom hotel unit in Rua São Tomé in the Alfama neighborhood in Lisbon which is expected to open in 2021. This contract has a 25-year period counting from the hotel's start of operations, renewable for an equal period unless waived by either party, providing for the payment of an inflation updated rent. The hotel's construction, renovation and maintenance works, as well as all furniture and equipment are Pestana Hotel Group's responsibility. The Right of use asset and corresponding Lease liability were registered in the amount of 5.371.557 Euros.

- Contract celebrated on 27 December 2019 with Beloura Hotel e Golfe – Investimentos Turísticos, S.A. (after its disposal) for the lease of the building where Pestana Sintra Golf is located, with effect on 1 January 2020, for a 5-year period with automatically equal period renewals unless waived by either party, providing a fixed annual rent payment and an annual fixed amount payment for renovation works to be performed in the hotel. Additions for this Right of use asset amounted to 5.257.475 Euros.

- Pestana Cascais, which had its lease contract renewed for an additional 5 year, in the amount of 2.469.806 Euros.

- Torre Bela building, resulting from an assignment contract of a contractual position celebrated in 2019 for the lease of the building with the aim of opening a touristic enterprise, the future Pestana Fisherman hotel for a 50-year period in the amount of 1.534.344 Euros.

- Beloura golf course which had its lease agreement renewed for an additional 4 years in the amount of 594.557 Euros.

Right of use asset additions in 2018 refer to:

- Pestana Rua Augusta, a lease agreement signed in 2018 with a 27-year period for a 89-key hotel in the core of Lisbon's downtown, in the amount of 13.190.309 Euros. This unit is expected to open in 2021 and total investment is expected to be approximately 7.000.000 Euros;

- Pestana Lisboa Vintage, a lease agreement signed in 2018 with a 17-year period, in the amount of 5.558.072 Euros.

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.

The remaining additions as at 31 December 2019 and 2018 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 2019, disposals refer mainly to the sale of 8 apartments from Pestana Gramacho Residences, in Algarve, in the amount of 1.171.337 Euros (2018: 1.708.770 Euros), obtaining a gain in the amount of 650.103 Euros (2018: 925.544 Euros) (Note 31).

Transfers

In 2019, Transfers from Assets under construction refer mainly to the opening of 5-star Pestana Blue Alvor and 4-star Pestana Plaza Mayor in Madrid both of which opened in May 2019 and 4-star Pestana Churchill in Madeira which opened in June 2019.

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.

Perimeter exits

Perimeter exits in 2019 refer to hotel Pestana Sintra Golf as a consequence of the disposal of the subsidiary Beloura Hotel e Golfe – Investimentos Turísticos, S.A. (Note 39).

Impairment

The impairment tests carried out with reference to 31 December 2019 and 2018 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 or external and independent valuations whenever applicable. 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% and Africa: 12% - 19%.

In 2019, Pestana Hotel Group registered impairment losses on Madeira Magic, Inhaca and Beloura golf course's right of use asset in the amounts of 1.823.304 Euros, 557.540 Euros and 218.496 Euros, respectively, as a result of the deterioration in the expected operational results to be generated by the exploration of these assets or as a result of the external valuations obtained.

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 improvement in the operational results generated by the exploration of this asset at that date.

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 2019 would have increased by 400.000 Euros.

Foreign currency translation

This caption in 2019 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 1.459.646 Euros and ii) the increase of the US Dollar against the Euro increasing American fixed assets in the total amount of 2.406.375 Euros (2018: decreasing the Brazilian fixed assets in the total net amount of 9.563.987 Euros and decreasing Argentinian fixed assets in the total net amount of 1.823.622 Euros).

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

Assets under construction

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

	2019	2018
Pestana New York East Project	30.900.307	17.174.184
Pestana Douro Project (Oporto)	11.479.112	4.245.141
Pestana Dunas Project (Madeira)	9.912.500	10.539.843
Pestana Rua das Flores Project (Oporto)	9.733.952	8.375.387
Quinta da Amoreira Project (Algarve)	6.345.437	6.345.437
Pestana Montevideo Project (Uruguay)	4.625.519	4.811.968
Pestana Lisboa Vintage Project (Lisbon)	3.249.008	–
Pousada Vila Real Santo António (Algarve)	2.799.920	–
North of Gramacho land (Algarve)	2.168.556	2.165.720
D. Fernando land (Algarve)	1.926.288	1.926.288
Golf course project (Algarve)	1.199.852	1.199.852
Pestana Blue Alvor Project (Algarve)	–	24.984.233
Pestana Madrid Project in Plaza Mayor	–	7.653.313
Pestana Churchill Project (Madeira)	–	1.766.862
Others	4.838.012	4.071.114
	89.178.463	**95.259.342**

The Pestana New York East project refers to a 96-key hotel located in New York, 39th street, two blocks away from Central Station which opened in February 2020. This project's total investment is 39.000.000 US Dollars.

The Pestana Douro project refers to the rehabilitation of a building acquired in 2018 in Oporto which is destined for a new 165-key hotel with a priviledged view over the Douro river located in the old floral soap factory in Oporto next to Pestana Palácio do Freixo. The Group's total investment is expected to be 16.500.000 million Euros. It is expected to open in April 2020.

Pestana Dunas project relates to a new hotel in Porto Santo with a total of 396 beds. It is still in licensing stage which is expected to be obtained in 2020.

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 acquired in 2018, for 8.000.000 Euros, in advanced state of disrepair. This project's total investment is expected to be 17.000.000 Euros and it is expected to open in late 2020.

Quinta da Amoreira project refers to a pre-project for a 98-apartment apart-hotel in a plot of land in the Alvor region in Portimão (Algarve).

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 US Dollars.

Pestana Lisboa Vintage project refers to a hotel for which the Group had celebrated a 17-year period lease contract in 2018 for the renovation and refurbishment of its new 90-key 4-star unit on Rua Braancamp in Lisbon which is expected to open in 2020. The hotel's construction and refurbishment necessary to recover and adapt the building for hospitality purposes, as well as all furniture and equipment are Pestana Hotel Group's responsibility which pays an inflation-updated fixed rent. The Group's total investment is expected to be 8.500.000 Euros.

Pousada Vila Real Santo António project refers to a lease contract celebrated by Pestana Hotel Group in 2017 for a 20-year period for the refurbishment of a set of buildings in Vila Real de Santo António's historic center with the aim of installing and exploring a "Pousada" establishment. This Pousada will have 57 rooms, a restaurant and event rooms which is expected to open by the end of April 2020 with an estimated total investment of 3.000.000 Euros.

The land North of Gramacho, with a total area of approximately 100 ha, is a project in development for a real estate project on the plots of land on the north road which connects Gramacho to Vila de Ferragudo which had a change approved which granted Pestana Hotel Group a total building area of 39.760 m2. It also comprises a golf course project which was approved in 2017 but is, however, subject to fulfilling some specific measures and conditions which are already under development. The real estate project was approved in January 2019 and infrastructures are already being developed. Additionally, Pestana Hotel Group is developing a project for a rural hotel with a building area of 2.000 m2 located on the east entrance of Ferragudo as well as a rural touristic enterprise with a total area of 24.710 m2 located north of the Gramacho goulf course and Pestana Gramacho Residences.

D. Fernando project is being developed on a plot of land with a total area of 30 ha, where the Group had a 77-room apart-hotel approved on 27 December 2018 and which had its license approved on 21 October 2019.

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 statement's 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 2019 is 8.288.229 Euros (2018: 9.237.129 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is lower.

7-Intangible assets

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

	Website and software
1 JANUARY 2019	
Acquisition cost	4.713.465
Accumulated amortization	(2.679.607)
Accumulated impairment	(142.500)
Net book value	**1.891.358**
Changes in 2019	
Additions	884.410
Disposals - acquisition cost	(142.500)
Disposals - accumulated impairment	142.500
Foreign currency translation - acquisition cost	5.870
Foreign currency translation - accumulated amortization	(5.866)
Amortization	(486.765)
	397.649
31 DECEMBER 2019	
Acquisition cost	5.461.245
Accumulated amortization	(3.172.238)
Accumulated impairment	-
Net book value	**2.289.007**

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

	Concessions	Website and software	Others	Total
1 JANUARY 2018				
Acquisition cost	20.958.162	3.699.737	1.064.451	25.722.350
Acquisition cost - IFRS 16 adoption	(20.958.162)	–	–	(20.958.162)
Accumulated amortization	(11.255.686)	(2.248.759)	(103.118)	(13.607.563)
Accumulated amortization - IFRS 16 adoption	11.255.686	–	–	11.255.686
Accumulated impairment	–	–	–	–
Net book value	–	1.450.978	(961.333)	2.412.311
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	–	70.007	–	70.007
Foreign currency translation - accumulated amortization	–	8.983	–	8.983
Amortization	–	(405.380)	–	(405.380)
Impairment - charge	–	(142.500)	–	(142.500)
	–	440.378	(961.333)	(520.953)
31 DECEMBER 2018				
Acquisition cost	–	4.713.465	–	4.713.465
Accumulated amortization	–	(2.679.607)	–	(2.679.607)
Accumulated impairment	–	(142.500)	–	(142.500)
Net book value	–	1.891.358	–	1.891.358

8-Investment properties

During the year ended as at 2019 and 2018, the movements occurred in Investment properties are as follows:

	2019	2018
1 JANUARY		
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**
Changes		
Additions	56.467	–
Disposals - acquisition cost	(118.274)	–
Disposals - accumulated impairment	61.807	–
Transfers to Inventories (Note 15)	(1.239.950)	–
Depreciation	(92.454)	(92.454)
	(1.332.404)	**(92.454)**
31 DECEMBER		
Acquisition cost	9.966.593	11.268.350
Accumulated depreciation	(2.916.377)	(2.823.922)
Accumulated impairment	(54.369)	(116.177)
Net book value	**6.995.847**	**8.328.251**

At the end of 2019, São Vicente land, in Azores, had its purpose changed to building a real estate project in Azores, named Coliseu, therefore the amount of 1.239.950 Euros was transferred to Inventories (Note 15).

As at 31 December 2019 and 2018 Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2019	2018
Commercial properties leased to third parties, Algarve	2.847.602	2.893.517
Funchal land, Madeira	1.269.455	1.269.455
Angra dos Reis land, Brazil	962.902	962.902
S.Gonçalo houses, Madeira	695.310	712.192
São Vicente land, Azores	–	1.239.950
Others	1.220.578	1.250.235
	6.995.847	**8.328.251**

As at 31 December 2019 and 2018, 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:

	2019	2018
Rents obtained	284.333	240.172
Operating expenses	(49.450)	(41.770)
Amortizations	(92.454)	(92.454)
	142.429	**105.948**

9-Investments in joint ventures

The movements occurred in Investments in joint ventures during 2019 and 2018 are as follows:

	2019	2018
1 JANUARY	20.319.031	18.113.785
Share capital constitution	250.000	–
Accessory contributions incorporation	2.750.000	–
Reimbursements of loans granted	–	(3.210.000)
Reimbursements of accessory contributions	(500.000)	(750.000)
Dividends	(3.871.572)	(165.000)
Gains from equity accounting (Note 33)	185.904	6.110.626
Foreign currency translation	168.499	219.620
31 DECEMBER	**19.301.862**	**20.319.031**

In 2019, Pestana CR7 Madrid, S.L. was incorporated with a share capital of 250.000 Euros corresponding to 50% of this company's share capital. Additionally, accessory contributions were granted in the amount of 2.750.000 Euros throughout the year.

Pestana CR7 – Lisboa Hotel Invest. Turísticos, S.A. distributed dividends in the amount of 316.572 Euros (2018: 165.000 Euros) and reimbursed accessory contributions in the amount of 500.000 Euros.

U.R.P. – Urban Renew, Promoção Imobiliária, S.A. is a joint venture which aims to develop real estate projects in Lisbon, Portugal. In 2019, U.R.P., S.A. distributed dividends in the amount of 3.555.000 Euros. 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.

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. Also, in 2016 Pestana CR7 Manhattan 39, LLC was incorporated and later, in 2019, Pestana CR7 Madrid, S.L. was equally incorporated. All four companies are jointly owned by Pestana Hotel Group promoting the partnership "Pestana CR7" in Madeira, Lisbon, New York and Madrid.

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.

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

Entity	% owned	Equity method: Investment amount	Equity method: Impairment loss	Equity method: Total	Accessory contributions: Investment amount	Accessory contributions: Impairment loss	Accessory contributions: Total	Total investment
Pestana Manhattan 39 LLC	51,00%	8.780.266	–	8.780.266	–	–	–	8.780.266
Pestana CR7 Madrid, S.L.	50,00%	221.461	–	221.461	2.750.000	–	2.750.000	2.971.461
Solpor – Soc. de Turismo do Porto Santo Lda.	50,00%	2.241.911	–	2.241.911	430.000	–	430.000	2.671.911
URP - Urban Renew Promoção Imobiliária, S.A.	50,00%	2.590.941	–	2.590.941	–	–	–	2.590.941
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	50,00%	164.154	–	164.154	1.375.000	–	1.375.000	1.539.154
Pestana CR7 - Madeira Invest. Turísticos, S.A.	50,00%	310.629	–	310.629	437.500	–	437.500	748.129
		14.309.362	**–**	**14.309.362**	**4.992.500**	**–**	**4.992.500**	**19.301.862**

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

Entity	% owned	Equity method: Investment amount	Equity method: Impairment loss	Equity method: Total	Accessory contributions: Investment amount	Accessory contributions: Impairment loss	Accessory contributions: Total	Total investment
Pestana 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 – Soc. de 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. Turísticos, 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%	362.725	–	362.725	437.500	–	437.500	800.225
		17.576.531	**–**	**17.576.531**	**2.742.500**	**–**	**2.742.500**	**20.319.031**

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

10-Investments in associates

The movements occurred in Investments in associates during 2019 and 2018 are as follows:

	2019	2018
1 JANUARY	11.737.962	11.930.722
Accessory contributions granted	64.885	-
Gains/(losses) from equity accounting (Note 33)	287.440	(192.760)
Transfers (Note 11)	500.000	-
31 DECEMBER	**12.590.287**	**11.737.962**

The 2019 and 2018 results from equity accounting mainly refer to Enatur – Empresa Nacional de Turismo, S.A. (Note 33).

Transfers refer to Lean Company Ventures II, S.A. which became 20% controlled by Pestana Hotel Group having been transferred from Equity instruments at fair value through profit and loss (Note 11) to Investments in associates.

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

		Equity method			Accessory contributions			Loans granted				
Entity	% owned	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Total investment	Goodwill included
Enatur - Empresa Nacional de Turismo, S.A.	49,00%	10.547.786	–	10.547.786	–	–	–	1.190.593	–	1.190.593	11.738.379	3.837.382
Lean Company Ventures II, S.A.	10,00%	–	–	–	495.000	–	495.000	–	–	–	495.000	–
Albar - Sociedade Imobiliária do Barlavento, S.A.	49,81%	292.023	–	292.023	64.885	–	64.885	–	–	–	356.908	–
Soehotur, S.A.	25,00%	596.403	(596.403)	–	–	–	–	172.521	(172.521)	–	–	–
Fantasy Land, Ltd.	33,33%	150.068	(150.068)	–	–	–	–	–	–	–	–	–
		11.586.280	(746.471)	10.839.809	559.885	–	559.885	1.363.114	(172.521)	1.190.593	12.590.287	3.837.382

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

		Equity method			Loans granted				
Entity	% owned	Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Total investment	Goodwill included
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 – Soc. Imobiliária do 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

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 2019 and 2018 are as follows:

	2019	2018
1 JANUARY	1.020.543	868.218
Acquisitions	6.010.930	-
Disposals	(508.223)	-
Gains/ (losses) of the period (Note 33)	-	176.651
Loans granted	247.500	-
Transfers (Note 10)	(500.000)	-
Foreign currency translation	7.801	-
Other movements in equity	-	(24.326)
31 DECEMBER	6.278.551	1.020.543

On 27 December 2019, the Group subscribed 5.798 participation units of Iberis Bluetech Fund, FCR, EuVECA ("Bluetech Fund") for the amount of 6.000.930 Euros (Note 35).

On May 2019, the Group acquired 250.000 shares of Lean Company Ventures II, S.A. which represent 5% of this company's share capital and 10% of its voting rights, for the amount of 2.500 Euros. With this acquisition, Pestana Hotel Group increased its voting rights to 20% and changed how it accounts for this company to an Associate from that moment forward (Note 10), including the loans granted in 2019 to this same company in the amount of 247.500 Euros.

Disposals in 2019 relate to several investments, all of reduced value, generating a loss in the amount of 284.787 Euros (Note 33).

As at 31 December 2019 the Equity instruments at fair value through profit and loss have the following detail:

Entity	% owned	Acquisition cost: Investment amount	Acquisition cost: Impairment loss	Acquisition cost: Total	Loans granted: Investment amount	Loans granted: Impairment loss	Loans granted: Total	Total investment
Iberis Bluetech Fund, FCR, EuVECA	n.a.	6.000.930	–	6.000.930	–	–	–	6.000.930
Others	n.a.	569.780	(302.633)	267.147	10.474	–	10.474	277.621
		6.570.710	(302.633)	6.268.077	10.474	–	10.474	6.278.551

As at 31 December 2018 the Equity instruments at fair value through profit and loss have the following detail:

Entity	% owned	Acquisition cost: Investment amount	Acquisition cost: Impairment loss	Acquisition cost: Total	Loans granted: Investment amount	Loans granted: Impairment loss	Loans granted: Total	Total investment
Lean Company Ventures II, S.A.	5,00%	2.500	–	2.500	247.500	–	247.500	250.000
Others	n.a.	959.681	(302.633)	657.048	113.495	–	113.495	770.543
		962.181	(302.633)	659.548	360.995	–	360.995	1.020.543

12-Deferred tax assets and liabilities

As at 31 December 2019 and 2018, 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:

	2019	2018
Impact on income statement		
Deferred tax assets	(509.076)	(353.328)
Deferred tax liabilities	2.312.453	863.270
	1.803.377	**509.942**
Impact on equity, excluding foreign currency translation		
Deferred tax assets	-	(105.101)
Deferred tax liabilities	-	-
	-	**(105.101)**
Impact on perimeter changes (Note 39)		
Deferred tax assets	(24.138)	-
Deferred tax liabilities	434.589	-
	410.451	**-**
Impact on equity of changes in accounting policies		
Deferred tax assets	-	(297.993)
Deferred tax liabilities	-	(1.224.381)
	-	**(1.522.374)**

In Portugal, as a consequence of the increases in share capital in 2019 and 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 266.350 Euros and 1.362.065 Euros, respectively.

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.

The impact on equity of changes in accounting policies in 2018 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 Pestana vacation club in Brazil, Pestana Priority Guest, Options and vouchers.

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 (IFRS 1) on tangible assets	Litigations in progress	Carry forward tax losses	Loyalty program (PPG)	Share capital's conventional remuneration	Leases	Others	Total
1 JANUARY 2019	180.103	70.891	446.197	129.087	2.761.996	1.684.575	19.554.051	522.653	1.093.413	7.447.617	3.687.077	37.577.660
Constitution through income statement	15.174	–	794.885	–	–	280.584	501.849	16.029	266.350	706.976	248.816	2.830.663
Reversal through income statement	(88.230)	(2.588)	–	(3.005)	(271.576)	–	(2.241.556)	–	(248.177)	–	(484.607)	(3.339.739)
Foreign currency translation	(1.400)	–	–	–	(23.619)	(32.270)	(112.703)	–	–	–	(3.199)	(173.191)
Perimeter exits (Note 39)	–	(153)	–	–	(24.141)	–	–	–	–	–	156	(24.138)
Changes on period	(74.456)	(2.741)	794.885	(3.005)	(319.336)	248.314	(1.852.410)	16.029	18.173	706.976	(238.834)	(706.405)
	105.647	68.150	1.241.082	126.082	2.442.660	1.932.889	17.701.641	538.682	1.111.586	8.154.593	3.448.242	36.871.254
Offset of Deferred tax liabilities	(33.756)	(68.150)	(1.241.082)	(63.031)	(2.325.642)	(1.932.889)	(8.121.922)	(538.682)	(986.986)	(7.213.987)	(2.901.351)	(25.427.478)
31 DECEMBER 2019	71.891	–	–	63.051	117.018	–	9.579.719	–	124.600	940.606	546.891	11.443.776

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

Foreign currency translation in 2019 mainly refer to the depreciation of the Brazilian Real against the Euro, decreasing the Brazilian deferred tax assets in the total net amount of 220.430 Euros (2018: decreasing the Brazilian deferred tax assets by 1.302.040 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	Provisions Litigations in progress	Carry forward tax losses	Loyalty program (PPG)	Share capital's conventional remuneration	Leases	Others	Total
1 JANUARY 2018	308.870	44.606	353.227	269.938	3.293.678	2.923.145	22.241.265	780.359	–	6.733.316	2.822.742	39.771.147
Changes in accounting policies	–	–	–	–	–	–	–	(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	714.301	932.604	3.363.545
Reversal through income statement	(110.887)	(347)	–	(35.750)	(227.678)	(995.344)	(2.089.266)	–	(224.552)	–	(33.049)	(3.716.873)
Foreign currency translation	(17.880)	–	–	–	(304.005)	(271.156)	(808.804)	–	–	–	(35.220)	(1.437.063)
Changes on period	(128.767)	26.285	92.970	(140.851)	(531.683)	(1.238.570)	(2.687.214)	(257.706)	1.093.413	714.301	864.335	(2.193.487)
	180.103	70.891	446.197	129.087	2.761.996	1.684.575	19.554.051	522.653	1.093.413	7.447.617	3.687.077	37.577.660
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)	(6.483.110)	(3.535.563)	(24.639.858)
31 DECEMBER 2018	8.051	–	–	81.907	–	–	11.731.823	–	–	964.507	151.514	12.937.802

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

	Deemed cost (IFRS 1)	Others	Total
1 JANUARY 2019	52.999.267	3.212.265	56.211.532
Constitution through income statement	–	21.596	21.596
Reversal through income statement	(1.650.072)	(683.977)	(2.334.049)
Foreign currency translation	(425.813)	(8.620)	(434.433)
Perimeter exits (Note 39)	(434.589)	–	(434.589)
Changes on period	**(2.510.474)**	**(671.001)**	**(3.181.475)**
	50.488.793	**2.541.263**	**53.030.056**
Offset of Deferred tax assets	(24.760.690)	(666.788)	(25.427.478)
31 DECEMBER 2019	**25.728.103**	**1.874.475**	**27.602.578**

Foreign currency translation mainly refers to the variance of the Brazilian Real against the Euro, decreasing the Brazilian deferred tax liabilities in the total net amount of 347.023 Euros (2018: decreasing the Brazilian deferred tax liabilities in the total net amount of 2.384.563 Euros) (Note 3.2 iv).

	Deemed cost (IFRS 1)	Others	Total
1 JANUARY 2018	55.127.385	3.498.062	58.625.447
Changes in accounting policies	–	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	(23.682.148)	(835.768)	(24.639.858)
31 DECEMBER 2018	**29.317.119**	**2.376.497**	**31.571.674**

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:

	Amortized cost	Fair value through profit and loss	Fair value through comprehensive income	Other non-financial assets and liabilities	Total
31 DECEMBER 2019					
Financial assets					
Cash and cash equivalents	137.934.022	–	–	–	137.934.022
Trade and other receivables	48.960.603	–	–	29.895.888	78.856.491
Equity instruments at fair value through profit and loss	–	6.278.551	–	–	6.278.551
	186.894.625	**6.278.551**	**–**	**29.895.888**	**223.069.064**
Financial liabilities					
Borrowings	447.552.625	–	–	–	447.552.625
Derivatives	–	–	847.359	–	847.359
Trade and other payables	62.904.353	–	–	35.174.195	98.078.548
	510.456.978	**–**	**847.359**	**35.174.195**	**546.478.532**

	Amortized cost	Fair value through profit and loss	Fair value through comprehensive income	Other non-financial assets and liabilities	Total
31 DECEMBER 2018					
Financial assets					
Cash and cash equivalents	60.260.136	–	–	–	60.260.136
Trade and other receivables	52.072.881	–	–	27.562.838	79.635.719
Equity instruments at fair value hrough profit and loss	–	1.020.543	–	–	1.020.543
	112.333.017	**1.020.543**	**–**	**27.562.838**	**140.916.398**
Financial liabilities					
Borrowings	411.755.329	–	–	–	411.755.329
Derivatives	–	609.753	413.539	–	1.023.292
Trade and other payables	64.387.373	–	–	32.714.756	97.102.129
	476.142.702	**609.753**	**413.539**	**32.714.756**	**509.880.750**

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:

	31-12-2019			31-12-2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Equity instruments at fair value through profit and loss	–	–	6.278.551	–	–	1.020.543
	–	**–**	**6.278.551**	**–**	**–**	**1.020.543**
Financial liabilities						
Derivatives	–	847.359	–	–	1.023.292	–
	–	**847.359**	**–**	**–**	**1.023.292**	**–**

14-Trade and other receivables

As at 31 December 2019 and 2018, Trade and other receivables are detailed as follows:

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables (i)	26.152.588	–	26.152.588	28.407.110	–	28.407.110
Other receivables (ii)	10.174.314	2.280.631	12.454.945	12.657.236	2.346.365	15.003.601
Prepayments (iii)	6.678.749	11.505.744	18.184.493	5.387.160	13.426.060	18.813.220
Accrued income (iv)	11.706.369	5.027	11.711.396	8.647.674	101.944	8.749.618
Taxes receivable (v)	10.353.070	–	10.353.070	8.662.170	–	8.662.170
	65.065.090	**13.791.402**	**78.856.492**	**63.761.350**	**15.874.369**	**79.635.719**

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

i) Trade receivables

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables - group (Note 40)	2.105.458	–	2.105.458	480.009	–	480.009
Trade receivables - other	24.053.189	–	24.053.189	27.927.101	–	27.927.101
Doubtful debtors	14.091.256	–	14.091.256	14.763.028	–	14.763.028
	40.249.903	–	40.249.903	43.170.138	–	43.170.138
Impairment of trade receivables	(14.097.315)	–	(14.097.315)	(14.763.028)	–	(14.763.028)
	26.152.588	–	26.152.588	28.407.110	–	28.407.110

Impairment of Trade receivables – movements of the year:

	2019	2018
1 JANUARY	14.763.028	14.955.356
Increases	1.131.141	1.254.475
Reversals	(806.802)	(993.683)
Utilizations	(931.651)	(317.068)
Transfers - Other receivables	156.534	26.205
Foreign currency translation	(7.208)	(162.257)
Perimeter exits	(207.727)	–
31 DECEMBER	14.097.315	14.763.028

ii) Other receivables

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Other debtors - group (Note 40)	18.138	1.916.189	1.934.327	7.572	1.951.963	1.959.535
Other debtors	10.195.686	411.244	10.606.930	12.899.215	394.402	13.293.617
Impairment	(39.510)	(46.802)	(86.312)	(249.551)	–	(249.551)
	10.174.314	2.280.631	12.454.945	12.657.236	2.346.365	15.003.601

As at 31 December 2019 and 2018, the caption Other debtors – group includes the receivable amount from the sublessee resulting from the derecognition of the Right of use asset concerning the sub concession agreement for the private use of the dominion infrastructure of Praça do Mar in Funchal, specifically Pestana CR7 Funchal hotel with Pestana CR7 – Madeira Hotel Investimentos Turísticos, S.A. (Note 3.17).

Impairment of Other receivables - movements of the year:

	2019	2018
1 JANUARY	249.551	381.650
Increases	–	10.879
Reversals	–	(39.320)
Utilizations	–	(76.999)
Transfers - Trade receivables	(156.534)	(26.205)
Foreign currency translation	140	(454)
Perimeter exits	(6.845)	–
31 DECEMBER	86.312	249.551

The ageing of overdue balances without impairment is as follows:

	2019	2018
0 to 6 months	26.637.948	29.068.801
6 to 12 months	2.614.452	4.269.104
12 to 18 months	3.874.837	3.382.802
18 to 24 months	1.263.573	763.922
more than 24 months	4.216.723	5.926.082
	38.607.533	43.410.711

The ageing of overdue balances with impairment is as follows:

	2019	2018
0 to 6 months	487.586	67.390
6 to 12 months	304.953	136.097
12 to 18 months	217.647	354.284
18 to 24 months	117.370	333.977
more than 24 months	13.056.071	14.120.831
	14.183.627	15.012.579

iii) Prepayments

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Commissions	2.107.873	11.460.509	13.568.382	2.288.234	13.381.997	15.670.231
Rentals	211.363	-	211.363	25.026	-	25.026
Insurance	364.932	-	364.932	370.286	-	370.286
Maintenance services	1.207.554	-	1.207.554	464.915	-	464.915
Other services	2.787.027	45.235	2.832.262	2.238.699	44.063	2.282.762
	6.678.749	**11.505.744**	**18.184.493**	**5.387.160**	**13.426.060**	**18.813.220**

As at 31 December 2019 and 2018, the balance of Commissions relates mainly to commissions paid for sales of Pestana Vacation Club – Options contracts (Note 3.21 ii).

iv) Accrued income

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

v) Taxes receivable

As at 31 December 2019 and 2018, this caption is mainly related to VAT receivable.

15-Inventories

As at 31 December 2019 and 2018 Inventories are detailed as follows:

	2019	2018
Goods	5.094.812	5.504.950
Raw and subsidiary materials	2.762.838	3.161.231
Finished goods	1.044.566	987.580
Work in progress	59.730.740	61.294.281
	68.632.956	**70.948.042**
Impairment of inventories	(381.669)	(327.068)
	68.251.287	**70.620.974**

Finished goods and Work in progress are as follows:

	2019	2018
Tróia project (Tróia, Portugal)	25.219.670	31.211.953
Silves turistic project (Algarve, Portugal)	13.650.941	10.350.837
North of Gramacho land (Algarve, Portugal)	7.886.584	7.798.482
Abrunheira project (Portalegre, Portugal)	6.345.335	6.291.949
Comporta land (Tróia, Portugal)	3.576.673	3.569.463
Coliseu project (Azores, Portugal) (Note 8)	1.249.709	-
Bazaruto Villas (Mozambique)	1.153.146	966.876
Beverages and packaging	774.079	696.339
Others	919.169	1.395.962
	60.775.306	**62.281.861**

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 number of house deliveries decreased in 2019 as a consequence of a decrease in available stock since AT2 is almost sold out and the remaining stock consists of villas of AT1 which present a slower sale pace.

The Silves touristic project is 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 first tourist resort in already licensed while the second tourist resort still needs to be submitted for approval by the competent authorities.

North of Gramacho land relates to a real estate project under as explained in Note 6.

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. This project will be undertaken through phases with the first phase having been submitted for approval in November 2019 and corresponds to an area of 63 ha and is composed of 1 tourist village with 13 lodging units, two tourist apartments and 1 apart-hotel.

In 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.

In 2019, São Vicente land began being used to build a real estate project in the Azores, named Coliseu, therefore an amount of 1.239.950 Euros were transferred from Investment Properties (Note 8). This undertaking refers to a real estate project in Ponta Delgada's city center, in the Azores' islands, near the Micaelense Coliseum with 56 apartments and which represents a total expected investment of 8.300.000 Euros.

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

The 2019 Cost of goods sold amounted to 57.204.670 Euros (31 December 2018: 72.074.685 Euros).

Impairment of Inventories – movements of the year:

	2019	2018
1 JANUARY	327.068	1.851.854
Increases	166.746	167.427
Reversals	(6.410)	(13.452)
Utilizations	(104.814)	(32.056)
Transfer to tangible fixed assets (Note 6)	–	(1.646.535)
Foreign currency translation	(243)	(170)
Perimeter exits	(679)	–
31 DECEMBER	381.669	327.068

16-Corporate income tax

The balances of Corporate income tax for the years ended 31 December 2019 and 2018 are as follows:

	31-12-2019		31-12-2018	
	Assets	Liabilities	Assets	Liabilities
Current income tax	14.288.888	769.800	1.542.684	2.070.506
	14.288.888	**769.800**	**1.542.684**	**2.070.506**

The balance of Current income tax is detailed as follows:

	2019	2018
Advance payments	18.925.667	15.641.476
Withholding taxes	594.039	571.352
Current income tax estimate	(6.000.618)	(16.740.650)
	13.519.088	**(527.822)**

17-Cash and cash equivalents

As at 31 December 2019 and 2018 Cash and cash equivalents are detailed as follows:

	31-12-2019	31-12-2018
Cash	1.951.245	1.642.436
Bank deposits	135.982.777	58.617.700
	137.934.022	**60.260.136**

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 2019 and 2018 is as follows:

	31-12-2019	31-12-2018
Cash	1.951.245	1.642.436
Bank overdrafts	(2.395.468)	(827.608)
Bank deposits	135.982.777	58.617.700
	135.538.554	59.432.528

Balances in foreign currency are included in Bank deposits and are mainly composed by 4.179.525 USD and 2.083.757 GBP (31 December 2018: 5.900.220 USD and 3.788.179 GBP).

18-Capital

As at 31 December 2019 and 2018 Capital is as follows:

	2019	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	71.374.762
	238.000.000	238.000.000

(i) Share capital

As at 31 December 2019 and 2018, 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 2019 and 2018 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 2019 and 2018, basic earnings per share are 61,01 Euros and 59,22 Euros, respectively, and net earnings per share are 61,01 Euros and 59,22 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.

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 2019 and 2018 Other reserves had the following movements were as follows:

	Legal reserve (i)	Free reserves	Fair value reserve C.F.H. (ii)	Equity method	Cumulative translation adjustments (iii)	Total
1 JANUARY 2018	22.893.303	–	5.453.481	(7.434.984)	(24.117.820)	(3.206.020)
Profit for the period application	10.553.826	–	–	–	–	10.553.826
Change in fair value reserve - hedging derivatives (net of tax)	–	–	449.225	–	–	449.225
Dividends (Note 36)	–	–	–	(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	–	–	–	–	(7.699.894)	(7.699.894)
31 DECEMBER 2018	33.447.129	21.192	4.709.270	–	(34.177.265)	4.000.326
Changes in the perimeter (Note 39)	98.839	–	598.701	–	–	697.540
Restated profit for the period application	6.993.092	7.961	–	–	–	7.001.053
Change in fair value reserve - hedging derivatives (net of tax)	–	–	83.332	–	–	83.332
Transfer to and from Retained earnings (Note 20)	–	–	(4.349.686)	–	–	(4.349.686)
Foreign currency translation	–	–	–	–	(1.980.701)	(1.980.701)
31 DECEMBER 2019	40.539.060	29.153	1.041.617	–	(36.157.966)	5.451.864

(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 25). This reserve also includes the deferred tax impact related to the changes in fair value that are not tax deductible, at the reporting date.

(iii) 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) and recognized under this caption. The accumulated currency translations adjustments are detailed as follows as at 31 December 2019 and 2018:

	2019	2018
BRL - Brazilian Real	(20.073.055)	(18.877.432)
ARS - Argentinian Peso	(8.517.922)	(7.927.612)
MZN - Mozambican Metical	(7.222.156)	(7.166.545)
UYU - Uruguayan Peso	(1.474.654)	(816.531)
GBP - Pound sterling	5.831	653
USD - US Dollar	487.979	19.217
ZAR - South African Rand	715.536	668.517
Others	(79.525)	(77.532)
	(36.157.966)	(34.177.265)

20-Retained earnings

As at 31 December 2019 and 2018, Retained earnings movements were as follows:

	2019
1 JANUARY 2018	84.039.012
IFRS 16 adoption adjustment (net of tax) (Note 2)	(20.066.988)
Changes in accounting policies (IFRS 15 adoption) (i)	3.383.342
Profit for the period application	44.756.962
Transfers to and from Other reserves (Note 19)	(4.066.539)
Acquisitions of shares owned by Non-controlling interests (ii)	(4.214.231)
Transfers from Non-controlling interest of the shares acquired (Note 21) (iii)	1.507.360
Distributions (iv)	(27.000.000)
Foreign currency translation	17.430
Others	(82.173)
31 DECEMBER 2018	78.274.175
Restated profit for the period application	63.842.197
Transfers to and from Other reserves (Note 19)	4.349.686
Transfers from Non-controlling interests (Note 21)	(167.016)
Foreign currency translation	(53.240)
Others	23.573
31 DECEMBER 2019	146.269.375

(i) Changes in accounting policies

Changes in accounting policies in 2018 refer exclusively to the impact of the adoption of the new revenue recognition standard (IFRS 15) of Pestana vacation club in Brazil, Pestana Priority Guest, Options and vouchers in the amount of 2.200.265 Euros, 1.026.419 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.

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

As a result of the transactions which happened in 2018 the corresponding Non-controlling interests were transferred to Retained earnings in the amount of 1.507.360 Euros (Note 21).

(iv) 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 Accessory contributions to its shareholder, Mr. Dionísio Pestana, in the amount of 27.000.000 Euros.

21-Non-controlling interests

As at 31 December 2019 and 2018, Non-controlling interests' movements were as follows:

	2019	2019
1 JANUARY	19.431.540	18.126.446
IFRS 16 adoption adjustment (net of tax) (Note 2)	-	(178.547)
Changes in the perimeter (Note 39)	7.047	-
Transfers to Retained earnings of the shares acquired (Note 20)	167.016	(1.507.360)
Change in fair value reserve - hedging derivatives (net of tax)	(456)	4.538
Shareholders contributions	30.000	22.065
Reimbursement of Supplementary capital	-	(1.251.600)
Dividends (Note 36)	(5.989.140)	(3.039.619)
Profit for the period	4.740.357	7.262.720
Foreign currency translation	1.856	(7.103)
31 DECEMBER	18.388.220	19.431.540

In 2019, Dividends were mainly distributed by SDM – Sociedade de Desenvolvimento da Madeira, S.A., Porto Carlton, S.A. and Ponta da Cruz, S.A. (2018: distributed by SDM – Sociedade de Desenvolvimento da Madeira, S.A. and Porto Carlton, S.A.).

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

Non-controlling interests relate to the following investments:

	31-12-2019		31-12-2018	
	% Held	Value	% Held	Value
Pestana S.G.P.S. Sub-group (Portugal) (i)	n.a.	11.112.180	n.a.	10.894.062
SDM – Soc. de Desenvolvimento da Madeira, S.A. (ii)	52,27%	6.537.357	52,27%	6.328.118
URP - Urban Renew Promoção Imobiliária, S.A. (iii)	40,00%	613.637	40,00%	2.034.572
Hotéis do Atlântico Sub-group (Europe and North America) (i)	n.a.	329.157	n.a.	340.593
Pestana Inversiones Sub-group (Latin America) (i)	n.a.	22	n.a.	24
Salvintur Sub-group (Africa) (i)	n.a.	(204.133)	n.a.	(165.829)
		18.388.220		**19.431.540**

(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 2019 and 2018 is as follows:

	2019	2018
Assets		
Non current	2.435.874	3.725.314
Current	13.437.886	11.982.753
	15.873.760	**15.708.067**
Liabilities		
Non current	8.636	17.782
Current	4.253.804	4.466.949
	4.262.440	**4.484.731**
Equity	**11.611.320**	**11.223.336**
Year's activity		
Revenue	11.321.763	11.472.093
Expenses	7.186.242	(7.496.421)
Net income	**4.135.521**	**3.975.672**
Owned %	52,27%	52,27%
	2.161.637	**2.078.084**

(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 2019 and 2018, the movements in Provisions were as follows:

	Litigations and claims in progress (i)	Customer guarantees (ii)	Other provisions (iii)	Total
1 JANUARY 2019	10.714.971	264.825	1.664.774	12.644.570
Increases	58.196	6.185	1.163.923	1.228.304
Decreases	(1.061.552)	–	–	(1.061.552)
Utilizations	–	–	(460.875)	(460.875)
Interest charges (Note 34)	212.553	–	–	212.553
Foreign currency translation (iv)	(14.460)	–	(95.803)	(110.263)
Changes on period	(805.263)	6.185	607.245	(191.833)
31 DECEMBER 2019	9.909.708	271.010	2.272.019	12.452.737
Current balance	4.913.988	155.609	1.768.586	6.838.183
Non-current balance	4.995.720	115.401	503.433	5.614.554
	9.909.708	271.010	2.272.019	12.452.737

	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)
Interest charges (Note 34)	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 DECEMBER 2018	10.714.971	264.825	1.664.774	12.644.570
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

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 2019, 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 4.335.318 Euros (31 December 2018: 3.745.806 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.

As at 31 December 2019 and 2018, 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:

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	31.829.855	221.697.032	253.526.887	45.808.976	210.288.929	256.097.905
Bond loans	65.000.000	102.500.000	167.500.000	11.636.110	107.500.000	119.136.110
Commercial paper	1.444.444	23.944.445	25.388.889	11.444.444	25.388.889	36.833.333
Bank overdrafts	2.395.468	-	2.395.468	827.608	-	827.608
	100.669.767	**348.141.477**	**448.811.244**	**69.717.138**	**343.177.818**	**412.894.956**
Interests payable - accrual	2.444.193	-	2.444.193	2.355.955	-	2.355.955
Interests paid- deferral	(608.117)	(3.094.695)	(3.702.812)	(270.383)	(3.225.199)	(3.495.582)
	102.505.843	**345.046.782**	**447.552.625**	**71.802.710**	**339.952.619**	**411.755.329**

Bank loans have as collateral the mortgage over some assets of subsidiaries, which are booked as tangible fixed assets, of Pestana Hotel Group (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 2019, 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 2019 and 2018, are as follows:

	2020	2021	2022	2023	2024	Following years	Total
Bank loans							
Euro	29.466.108	25.077.835	38.792.741	16.513.567	33.710.241	63.931.991	207.492.483
British pound	1.365.719	1.365.719	1.365.719	1.365.719	12.519.091	-	17.981.967
American dollar	998.028	1.151.902	1.303.437	1.458.089	1.612.407	21.528.574	28.052.437
	31.829.855	**27.595.456**	**41.461.897**	**19.337.375**	**47.841.739**	**85.460.565**	**253.526.887**
Bond loans							
Euro	65.000.000	27.500.000	15.000.000	-	-	60.000.000	167.500.000
	65.000.000	**27.500.000**	**15.000.000**	**-**	**-**	**60.000.000**	**167.500.000**
Commercial paper							
Euro	1.444.444	1.944.444	444.444	20.444.444	444.444	666.669	25.388.889
	1.444.444	**1.944.444**	**444.444**	**20.444.444**	**444.444**	**666.669**	**25.388.889**
	98.274.299	**57.039.900**	**56.906.341**	**39.781.819**	**48.286.183**	**146.127.234**	**446.415.776**

	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	**95.214.375**	**52.199.082**	**49.884.040**	**38.376.977**	**107.503.345**	**412.067.348**

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

In January 2019, the subsidiary M.&J. Pestana, S.A. contracted a new bank loan in the amount of 9.000.000 Euros. In June 2019, the subsidiary Salvor, S.A. contracted a new bank loan in the amount of 12.500.000 Euros. In September 2019, the subsidiary Ponta da Cruz, S.A. contracted a new bank loan in the amount of 4.900.000 Euros. In December 2019, the subsidiary Global Mandalay, S.L. contracted a new bank loan in the amount of 9.500.000 Euros. These lines are subject to the Euribor interest rate plus spread.

Also, during 2019, the subsidiary Pestana New York East, LLC withdrew a previously unused amount of its bank loan in the amount of 7.432.136 US Dollars.

On 20 December 2019, Pestana Hotel Group contracted a bank loan which has not yet been utilized in the amount of 45.000.000 Euros for a period of 15 years with a fixed rate and refundable in 60 quarterly installments with the first installment on 20 March 2020.

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 September 2019, Pestana Hotel Group entered into a paying service contract with BBVA (Banco Bilbao Viscaia Argentaria) and issued the world's first green bond in the hotel industry in the amount of 60.000.000 Euros with a maturity of 6 years placed among professional institutional investors. The funds raised are to be used to refinance two new and innovative sustainable hotels: Pestana Troia Eco Resort and Pestana Blue Alvor. This issue was initially foreseen to be of 50.000.000 Euros, however, due to the success of the issue demand covered more than three times the targeted amount which lead to the increase to 60.000.000 Euros. This issuance was rated by the rating agency Axesor with 'BBB with a stable outlook' classifying the bond as investment grade.

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. This bond loan was paid off in full by Pestana Hotel Group in February 2020 which corresponded to its maturity date.

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 Centralized 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 2019, a set of unused contracted credit lines in Financial Institutions with a total amount of 83.700.000 Euros related to authorized credit lines and overdrafts.

24-Lease liabilities

As at 31 December 2019 and 2018 Lease liabilities refer to:

	31-12-2019	31-12-2018
Current	12.811.708	10.155.762
Non-current	181.941.038	165.312.183
	194.752.746	**175.467.945**

As at 31 December 2018, Lease liabilities mainly refer to:

- Casino da Madeira
- Madeira magic
- Pestana Alto Golf Resort
- Pestana Amsterdam Riverside
- Pestana Atlantic Gardens
- Pestana Beloura Golf Resort
- Pestana Carlton Madeira
- Pestana Casablanca
- Pestana Cascais
- Pestana Churchill Bay
- Pestana Cidadela de Cascais
- Pestana Colombos
- Pestana Convento do Carmo
- Pestana CR7 Funchal
- Pestana Delfim
- Pestana Ilha Dourada
- Pestana Lisboa Vintage
- Pestana Miramar Garden & Ocean
- Pestana Palácio do Freixo
- Pestana Plaza Mayor
- Pestana Quinta do Arco
- Pestana Royal
- Pestana Rua Augusta
- Pestana Viking
- Pestana Vilasol Golf Resort
- Pestana Vilasol Hotel
- Pousada de Lisboa
- Pousadas de Portugal (Network)

Beyond the Lease liabilities referred as at 31 December 2018, as at 31 December 2019 Lease liabilities include the following contracts (Note 6):

- Pestana Rua de São Tomé
- Pestana Sintra Golf
- Torre Bela building (future Pestana Fisherman hotel).

25-Derivatives

As at 31 December 2019 and 2018, Pestana Hotel Group had interest rate swaps (hedging derivatives) as follows:

	31-12-2019		31-12-2018	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – non-current	–	847.359	–	1.023.292
Interest rate swaps – current	–	–	–	–
	–	847.359	–	1.023.292

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 at 31-12-2019	Fair value at 31-12-2018	Variation
Hotel Rauchstrasse 22, S.à.r.l. (i)	Trading	11.500.000	16-06-2025	Semiannual	Eur 6M / 2,10%	(420.214)	(527.294)	107.080
ITI Soc.Inves. Tur. Ilha Madeira, S.A. (ii)	Proportion hedge	7.000.000	26-09-2022	Semiannual	Eur 6M / 4,82%	(174.335)	(286.567)	112.232
Pestana International Holdings S.A.	Trading	17.921.875	28-05-2024	Quartely	GBP Libor 3M / 1,20%	(252.810)	(10.817)	(241.993)
Grupo Pestana S.G.P.S., S.A.	Hedge	10.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	-	(37.556)	37.556
Grupo Pestana S.G.P.S., S.A.	Hedge	10.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	-	(37.034)	37.034
M & J Pestana, S.A.	Hedge	5.000.000	18-12-2019	Semiannual	Eur 6M / 3,08%	-	(18.778)	18.778
Carlton Palácio, S.A.	Hedge	5.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	-	(18.778)	18.778
Salvor, S.A.	Hedge	5.000.000	28-12-2019	Semiannual	Eur 6M / 3,08%	-	(18.778)	18.778
M & J Pestana, S.A.	Hedge	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	-	(18.517)	18.517
Carlton Palácio, S.A.	Hedge	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	-	(18.517)	18.517
Salvor, S.A.	Hedge	5.000.000	30-12-2019	Semiannual	Eur 6M / 3,04%	-	(18.514)	18.514
Beloura Hotel e Golfe - Investimento Turísticos, S.A.	Hedge	9.600.000	30-07-2019	Semiannual	Eur 6M / 4,77%	-	(12.142)	12.142
						(847.359)	(1.023.292)	175.933

(i) This derivative was signed as part of the renegotiation of the borrowings of Hotel Rauchstrasse 22, SARL. It is classified as trading, therefore its fair value variations were recognized in the Income statement (Note 34).

(ii) This derivative is only designated as a hedge instrument in a ratio of 75%. The remaining 25% are considered as trading with the respective variation in fair value recorded in the Income statement (Note 34).

The change in the fair value of the derivatives financial instruments occurred in 2019 and 2018 were as follows:

	2019	2019
1 JANUARY	1.023.292	1.926.455
Settlement (Note 34)	43.154	–
Hedging derivatives - fair value changes	(84.174)	(559.925)
Trading derivatives - fair value changes (Note 34)	(134.913)	(343.238)
31 DECEMBER	847.359	1.023.292

The changes in the fair value reserve related to cash flow hedges in 2019 and 2018 were as follows:

	2019	2019
1 JANUARY	4.709.268	5.453.481
Hedging derivatives - fair value changes	83.333	554.326
Settlement (net of tax)	(4.349.685)	–
Perimeter exits (Note 39)	598.701	–
Deferred tax (Note 12)	–	(105.101)
Transfer from Non-controlling interests	–	(1.193.436)
31 DECEMBER	1.041.617	4.709.270

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.

26-Deferred revenue

As at 31 December 2019 and 2018, the detail of Deferred revenue is as follows:

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Pestana Vacation Club (i)	16.463.530	95.929.516	112.393.046	16.604.704	104.137.842	120.742.546
Pestana Vacation Club – Options (ii)	3.422.927	30.443.900	33.866.827	3.538.104	34.287.041	37.825.145
Government grants (iii)	488.924	6.824.466	7.313.390	497.993	7.320.076	7.818.069
Customer loyalty program ("PPG") (iv)	2.249.607	–	2.249.607	2.219.028	–	2.219.028
Other deferred income	4.736.148	3.468.114	8.204.262	4.570.292	3.428.355	7.998.647
	27.361.136	**136.665.996**	**164.027.132**	**27.430.121**	**149.173.314**	**176.603.435**

(i) Pestana Vacation Club

This balance refers to the sale of Pestana Vacation 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 2020 and 2039.

(ii) Pestana Vacation 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)).

(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 31).

(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 until the date the points expire, considering the historic average of expired points and the consumption rhythm of the existing points (*breakage*) as foreseen in IFRS 15.

27-Trade and other payables

As at 31 December 2019 and 2018, the detail of Trade and other payables is as follows:

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Trade payables						
Suppliers (i)	26.187.453	-	26.187.453	26.975.344	-	26.975.344
Other payables						
Other payables	1.998.913	-	1.998.913	1.975.516	-	1.975.516
Other payables - group (Note 40)	24.738	-	24.738	-	-	-
Suppliers of property, plant and equipment	5.459.758	-	5.459.758	3.568.207	-	3.568.207
Advances from customers (ii)	24.448.122	-	24.448.122	26.657.619	-	26.657.619
Taxes payable (iii)	4.785.369	-	4.785.369	5.210.687	-	5.210.687
Accrued expenses						
Wages and corresponding taxes	16.148.132	-	16.148.132	15.472.854	-	15.472.854
Others	19.009.820	16.243	19.026.063	17.180.166	61.736	17.241.902
	98.062.305	16.243	98.078.548	97.040.393	61.736	97.102.129

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

(i) Suppliers

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Suppliers - group (Note 40)	61.993	-	61.993	88.330	-	88.330
Other suppliers	26.125.460	-	26.125.460	26.887.014	-	26.887.014
	26.187.453	**-**	**26.187.453**	**26.975.344**	**-**	**26.975.344**

(ii) Advances from customers

Refers mainly to the amounts received along the construction works, amounting in total to 12.971.871 Euros (31 December 2018: 16.602.119 Euros) and maintenance fees charged in advance under timeshare contracts amounting to 5.679.121 Euros (31 December 2018: 5.534.442 Euros).

The residual amount in 31 December 2019 and 2018 are mainly related to reservations made by tour operators.

(iii) Taxes payable

	31-12-2019			31-12-2018		
	Current	Non-current	Total	Current	Non-current	Total
Personnel income tax withheld	923.861	-	923.861	1.140.994	-	1.140.994
Value added tax	2.338.789	-	2.338.789	2.402.252	-	2.402.252
Social security contributions	1.414.223	-	1.414.223	1.586.015	-	1.586.015
Others	108.496	-	108.496	81.426	-	81.426
	4.785.369	**-**	**4.785.369**	**5.210.687**	**-**	**5.210.687**

28-Revenue

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

	2019	2018
Hospitality business (i)	274.878.125	268.771.816
Real estate (ii)	48.967.955	68.483.786
Pestana Vacation Club (iii)	33.111.638	33.637.181
Beverages (industry)	25.869.738	27.163.855
Golf	11.264.331	11.358.407
Entertainment	11.371.333	10.397.186
Others	13.316.548	14.253.924
	418.779.668	**434.066.155**

(i) Hospitality business

Madeira suffered with the loss of several airline connections mainly in the german market with the bankruptcy of Germania even before the collapse of Thomas Cook. More so, the constraints verified in Madeira's airport due to poor weather conditions continued to negatively affect Madeira's image.

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

On average, all hotels in Europe grew in ARR (Average Room Rate) in local currency with the exception of Amsterdam which had a significant occupancy rate increase which more than compensated for this decrease.

In all American hotels an increase in occupancy was registered with the exception of Miami as a result of the increased difficulty in acquiring visas as well as the trade tensions between the US and China and Europe while prices, on the other hand, remained steady or increased. However, in Argentina ARR decreased in Euros due to the depreciation of the Argentinian peso.

African units presented decreases in Revenue as a consequence of South Africa's economic slowdown as well as Mozambique's struggle to implement economic, fiscal and organizational reforms.

The 2019 and 2018 detail of sales and services rendered in Hospitality business by country of origin are as follows:

	Hospitality business	
Country	2019	2018
Portugal	27,4%	24,8%
United Kingdom	18,4%	19,0%
Germany	9,4%	11,0%
Brazil	6,6%	6,5%
United States	5,9%	5,6%
France	4,9%	4,9%
Spain	3,3%	3,4%
Netherlands	2,5%	2,3%
Ireland	1,6%	1,5%
Switzerland	1,5%	1,7%
Italy	1,2%	1,3%
Belgium	1,1%	1,3%
Sweden	1,1%	1,3%
Denmark	1,0%	1,1%
Norway	0,8%	1,0%
Others	13,3%	13,3%
	100%	100%

(ii) Real estate

Real estate sales are mainly related to Pestana Troia Eco-Resort. The main changes verified in 2019 refer to the facts explained below.

In 2019, 5 villas from Lots 3 and 4 of Pestana Troia Eco-Resort were delivered for the amount of 4.089.000 Euros remaining an additional 11 units to sell. Concerning Lot 1, 47,75 lodging units were delivered in the total amount of 24.672.150 Euros remaining about 67 lodging units to be sold in the years 2020 and 2021.

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 continued to sell units from Lots 3 and 4 which amounted to 29.851.506 Euros in 2018, corresponding to 66,25 units.

As at 31 December 2019 and 2018, 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 819.405 Euros (2018: 3.247.684 Euros).

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

(iii) Pestana Vacation Club

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

The revenue from Timeshare is only recognized in EBITDA when the guest uses its 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. These amounts do not represent any future cash payments and are not refundable. Additionally, every year during the contract period the customer pays an annual maintenance fee that supports the property within hospitality services and capex.

In 2019, this business had a decrease in sales both in terms of new contracts as well as management fees. Despite the fact that sales of the new resort (Madeira Beach Club) are going at a good pace there was a decrease in sales due to the facts previously mentioned which have assailed the island of Madeira. There is another factor which has contributed to a decrease in values which was the decrease in average price of the contracts sold as a consequence of an increase in competition with a new unit opening in Funchal. Besides the facts mentioned, shorter term contracts (3, 5 and 7 years) have had an increase in weight when compared with more classic and longer-term contracts (10 to 20 years).

The 2019 and 2018 detail of sales and services rendered in Vacation Club by country of origin related to the number of customers are as follows:

	Pestana Vacation Club	
Country	2019	2018
United Kingdom	52,9%	50,5%
Germany	11,0%	9,0%
Portugal	10,0%	13,0%
Finland	6,9%	6,4%
Brazil	5,2%	6,8%
Sweden	2,8%	3,0%
Others	11,2%	11,3%
	100%	**100%**

29-External services and supplies

The detail of External services and supplies is as follow:

	2019	2018
Professional fees	23.906.001	22.734.358
Cleaning	20.205.198	18.903.719
Energy	15.644.242	14.918.294
Commissions	13.848.269	13.992.739
Advertising	9.174.011	8.169.692
Maintenance	8.818.021	8.577.674
Subcontracts	4.565.719	5.121.236
Rents	3.974.238	5.860.624
Property management exploration cost	3.092.438	2.172.685
Travelling and transport expenses	2.735.917	2.539.435
Insurance	1.962.449	1.702.938
Others	7.691.831	7.606.551
	115.618.334	**112.299.945**

The 2019 Group auditor's consolidated audit fees for all subsidiaries amounted to 194.908 Euros. Audit services performed on the remaining companies included in the consolidation perimeter by different auditors amounted to 80.792 Euros. There were no other service fees charged by any of these auditors.

30-Personnel expenses

The detail of Personnel expenses is as follows:

	2019	2018
Board of Directors (including subsidiaries)		
Wages and salaries	2.464.253	2.669.554
Social security contributions	620.776	662.271
	3.085.029	**3.331.825**
Staff		
Wages and salaries	71.854.731	68.390.356
Social security contributions	14.950.643	14.099.105
Others	5.014.947	3.847.275
	91.820.321	**86.336.736**
	94.905.350	**89.668.561**

The average number of employees of Pestana Hotel Group in 2019 was 4.475 (2018: 4.399). The average number of Board directors of Pestana Hotel Group's subsidiaries in 2019 was 46 (2018: 43).

31-Other income

The detail of Other income is presented as follows:

	2019	2018
Supplementary income	6.570.086	6.735.240
Foreign currency exchange gains	2.212.342	1.987.466
Gains on disposal of tangible fixed assets (Note 6)	1.132.185	1.649.477
Government grants (Note 26)	504.678	529.823
Others	4.070.460	1.753.066
	14.489.751	**12.655.072**

Supplementary income refers, mainly, to the assignment of electricity, water, gas and phone to the owners whose properties are administered by Pestana Hotel Group with the corresponding cost participation.

In 2019 and 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 650.103 Euros and 925.544 Euros, respectively (Note 6).

The variation in the caption Others refers, essentially, to the restitution received from Coca Cola Company in the amount of 2.000.000 Euros following the lawsuit filed by the subsidiary ECM, Lda. on 8 July 2005 against The Coca Cola Company and The Coca Cola Export Corporation asking for compensations for customers due and the investments made before the termination of the distribution contract in the total amount of 4.440.384 Euros. The audience took place in several sessions between 7 February and 22 March 2018 with the judgement being handed down on 6 April that the action was partially upheld and sentenced the defendants to pay two million Euros as compensation for customers losses plus interest on late payments. In 22 May 2018, the defendants filed an appeal against the sentence that ordered them to pay compensation for customer losses with this appeal being accepted on 17 September by the First Instance Court that ordered the documents to be submitted to the Lisbon Court of Appeal. On 20 November 2019 the Lisbon Court of Appeal confirmed the final decision handed down on 6 April 2018 ordering the defendants to pay 2.000.000 Euros but without interest on late payments. This amount was received on 11 December 2019.

32-Other expenses

The detail of Other expenses is as follows:

	2019	2018
Taxes	9.877.002	8.414.588
Credit card commissions	2.381.973	2.236.731
Foreign currency exchange losses	1.320.381	1.438.407
Losses on inventories	258.098	460.426
Others	2.787.467	2.536.485
	16.624.921	**15.086.637**

As at 31 December 2019 Taxes includes property taxes and annual installment rates owed to Madeira's Autonomous Region installed by the subsidiary S.D.M., S.A..

33-Gains on investments in subsidiaries, joint ventures, associates and equity instruments at fair value through profit and loss

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

	2019	2018
Gain on the disposal of subsidiary Beloura, S.A. (Note 39)	10.965.373	-
Gains/(losses) from equity method in Joint ventures (Note 9):		
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	308.273	333.234
URP - Urban Renew Promoção Imobiliária, S.A.	2.662	5.573.879
Solpor, Lda.	1.314	(744)
Pestana CR7 Madrid, S.L.	(28.539)	-
Pestana CR7 Manhattan 39 LLC	(45.710)	214.545
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	(52.096)	(10.288)
Gains/(losses) from equity method in Associates (Note 10):		
Enatur - Empresa Nacional de Turismo, S.A.	294.187	(190.506)
Albar - Sociedade Imobiliária do Barlavento, S.A.	(1.747)	(2.254)
Lean Company Ventures II, S.A.	(5.000)	-
Gains in Equity instruments at fair value through profit and loss	(284.787)	176.651
	11.153.930	**6.094.517**

34-Financial expenses and income

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

	2019	2018
Finance expenses		
Interest expenses	11.358.878	12.410.049
Lease liabilities' interest	9.310.952	8.546.472
Interest rate swaps	719.300	1.088.474
Foreign currency exchange losses	1.181.923	1.108.233
Commissions and guarantee fees	1.729.249	2.162.723
Provisions interest charges (Note 22)	212.553	133.645
	24.512.855	**25.449.596**
Finance income		
Interest income	545.213	558.204
Interest rate swaps	149.346	127.580
Foreign currency exchange gains	641.184	358.338
Derivatives fair value (Note 25)	91.759	343.238
Others	507.412	311.422
	1.934.914	**1.698.782**

35-Income tax

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

	2019	2018
Current income tax:		
Current period income tax	(6.000.617)	(16.740.650)
Adjustments in respect of prior year estimates	185.900	801.566
	(5.814.717)	**(15.939.084)**
Deferred income tax (Note 12):		
Origin and reversal of temporary differences	1.803.377	509.942
	1.803.377	**509.942**
	(4.011.340)	**(15.429.142)**

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:

	2019	2018
Profit before tax	83.384.534	93.535.112
Tax calculated at domestic tax rates applicable to profits in the respective countries	17.731.833	20.714.841
Tax effects of:		
Differences of taxes rates on income and deferred taxes	774.329	417.490
Income not subject to tax	(8.194.426)	(4.737.612)
Expenses not deductible for tax purposes	1.017.886	1.077.486
Utilization of tax losses	(655.592)	(1.103.265)
Adjustments in respect of prior year estimates	(185.900)	(801.566)
Perimeter exits	13.956	–
SIFIDE (tax benefit in Portugal)	(4.950.302)	–
RFAI (investment tax benefit in Portugal)	(3.805.239)	(3.616.738)
Other taxation	2.264.795	3.478.506
	4.011.340	**15.429.142**

On December 2019, the Group acquired 5.798 participation units on Iberis Bluetech Fund, FCR, EuVECA in the amount of 6.000.930 Euros (Note 11). This fund has as a policy to invest in companies and research and development projects (R&D) and, therefore, this investment is eligible for SIFIDE II (Fiscal Incentives for Research and Development) in Portugal. Therefore, until May 2020, Pestana Hotel Group has to present this application which it expects will be accepted by the National Innovation Agency.

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:

	2019	2018
Argentina	30%	30%
Brazil	34%	34%
Cape Verde	25%	25%
Germany	29% - 32,825%	29% - 32,825%
Luxembourg	24,94%	26,01%
Morocco	31%	31%
Mozambique	32%	32%
Netherlands	25%	25%
Portugal	20% - 31,5%	21% - 31,5%
São Tomé and Principe	25%	25%
South Africa	28%	28%
Spain	25%	25%
United Kingdom	19%	19%
United States	21%	21%
Uruguay	25%	25%

36-Dividends per share

During 2019 and 2018, Dividends were only paid to Non-controlling interests, in the amount of 5.989.140 Euros and 3.039.619 Euros, respectively (Note 21).

37-Contingencies

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

	2019	2018
Mortgages over lands and buildings	172.367.882	215.064.969
Bank guarantees	61.250.014	63.213.788

Contingent assets

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

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

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

Contingent liabilities

As at 31 December 2019, Pestana Hotel Group has ongoing claims, assessed as contingent liabilities of, approximately, 7.400.000 Euros (local currency: approximately 700.000 Euros and 30.000.000 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 2019 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Afrotours, S.A.	São Tomé	Hospitality	31-12-2019	14.487.516	15.052.273	564.757	4.663.248	1.288.721	100,00%	100,00%
Amesteldijk Hotel Ontwkkeling B.V.	Netherlands	Hospitality	31-12-2019	17.037.196	46.684.245	29.647.049	8.212.687	1.123.663	100,00%	100,00%
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real Estate	31-12-2019	4.928.065	6.376.948	1.448.883	-	(45.887)	99,00%	100,00%
Argentur Inversiones Turisticas S.A.	Argentina	Hospitality	31-12-2019	926.624	1.394.340	467.717	3.195.953	1.003.321	100,00%	100,00%
Bazaruto, Lda.	Mozambique	Hospitality	31-12-2019	4.011.256	5.958.338	1.947.082	109.249	(998.627)	96,97%	100,00%
Brasturinvest Investimentos Turísticos, S.A.	Brazil	Hospitality	31-12-2019	49.394.209	78.354.447	28.960.238	17.464.941	(1.164.807)	100,00%	100,00%
Carlton Palácio – Soc. de Construção e Exploração Hoteleiras, S.A.	Portugal	Hospitality	31-12-2019	51.429.631	105.616.413	54.186.782	26.201.336	15.403.590	99,00%	100,00%
Carolgud, S.A.	Uruguay	Hospitality	31-12-2019	574.850	590.764	15.914	-	(32.309)	100,00%	100,00%
Carvoeiro Golfe - Sociedade de Mediação Imobiliária, Unipessoal Lda.	Portugal	Real Estate	31-12-2019	493.493	810.859	317.367	1.129.048	480.232	99,00%	100,00%
Carvoeiro Golfe, S.A.	Portugal	Golf and Real Estate	31-12-2019	61.180.091	114.591.624	53.411.533	70.559.639	10.931.664	99,00%	100,00%
Cota Quarenta - Gestão e Administração de Centros Comercias, S.A.	Portugal	Real Estate	31-12-2019	22.281.584	22.787.495	505.911	2.575.691	1.269.341	99,00%	100,00%
Desarollos Hoteleros Barcelona 2004 S.A.	Spain	Hospitality	31-12-2019	10.435.490	17.857.731	7.422.240	3.558.309	578.053	100,00%	100,00%
Djebel, S.A.	Portugal	Sub-Holding	31-12-2019	68.821.061	96.092.805	27.271.744	384.000	(7.133.566)	100,00%	100,00%
ECM - Empresa Cervejas da Madeira, Sociedade Unipessoal Lda.	Portugal	Beverages	31-12-2019	9.027.315	30.762.690	21.735.375	26.639.678	2.065.100	99,00%	100,00%
Empreendimentos Turísticos, Lda.	Cape Verde	Hospitality	31-12-2019	2.531.488	2.934.485	402.997	2.708.433	650.619	100,00%	100,00%
Eurogolfe, S.A.	Portugal	Golf and Real Estate	31-12-2019	15.143.327	18.708.771	3.565.444	656.423	165.283	99,00%	100,00%
ESGAP - Empresa de Serviços de Gestão e Adm. Partilhados, S.A.	Portugal	Sub-Holding	31-12-2019	6.027.591	24.263.388	18.235.797	240.000	(242.770)	100,00%	100,00%
Global Mandalay, S.L.U.	Spain	Hospitality	31-12-2019	1.660.569	12.058.475	10.397.906	3.323.197	(376.155)	100,00%	100,00%
Grupo Pestana - S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2019	262.165.642	454.697.397	192.531.754	6.333.333	37.783.485	99,00%	99,00%
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2019	49.213.908	65.308.144	16.094.236	41.692.599	5.220.990	99,00%	100,00%
Herdade da Abrunheira - Projectos de Desenv. Turístico e Imob., S.A.	Portugal	Real Estate	31-12-2019	6.625.606	6.708.889	83.283	-	(167.884)	99,00%	100,00%
Hoteis do Atlântico – Soc. Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hospitality	31-12-2019	58.361.287	117.232.709	58.871.422	4.597.756	614.166	100,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Hotel Rauchstrasse 22, S.A.R.L.	Luxembourg	Hospitality	31-12-2019	9.539.930	18.320.984	8.781.054	1.777.623	809.162	96,04%	100,00%
Imóveis Brisa F.I.I.F.	Portugal	Real Estate	31-12-2019	10.734.760	10.757.331	22.571	35.608	(1.136.241)	99,00%	100,00%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hospitality / Real Estate	31-12-2019	4.544.925	6.388.247	1.843.323	3.022.610	444.482	99,00%	100,00%
Intervisa Viagens e Turismo, Unipessoal Lda.	Portugal	Distribution	31-12-2019	164.202	1.373.918	1.209.716	3.890.706	104.202	100,00%	100,00%
ITI - Sociedade de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hospitality and Entertainment	31-12-2019	45.958.070	65.412.562	19.454.492	33.506.941	8.976.775	99,00%	100,00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hospitality / Timeshare	31-12-2019	151.404.178	381.716.860	230.312.682	67.636.570	22.343.137	99,00%	100,00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.	Portugal	Entertainment	31-12-2019	2.346.800	4.954.091	2.607.292	695.913	205.655	99,00%	100,00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2019	1.549.459	1.593.866	44.407	96.000	91.051	99,00%	100,00%
Pestana Berlim S.A.R.L.	Luxembourg	Hospitality	31-12-2019	493.618	2.101.049	1.607.431	6.334.736	57.107	100,00%	100,00%
Pestana Cidadela - Investimentos Turisticos, S.A.	Portugal	Hospitality	31-12-2019	9.554.770	17.281.077	7.726.307	6.881.740	1.099.108	99,00%	100,00%
Pestana International Holdings S.A.	Luxembourg	Administration	31-12-2019	401.499.715	514.970.939	113.471.223	310.364	19.051.267	100,00%	100,00%
Pestana Inversiones Unipessoal, Lda.	Portugal	Services	31-12-2019	17.600.932	19.973.674	2.372.742	–	1.067.833	100,00%	100,00%
Pestana Management - Serviços de Gestão, S.A.	Portugal	Services	31-12-2019	9.771.363	23.993.932	14.222.569	41.156.832	1.828.294	100,00%	100,00%
Pestana Management UK, Limited	United Kingdom	Hospitality	31-12-2019	490.746	3.062.486	2.571.740	12.653.943	361.953	75,00%	75,00%
Pestana Marrocos, s.a.r.l.	Morocco	Hospitality	31-12-2019	494.320	1.938.861	1.444.541	3.201.011	(22.624)	100,00%	100,00%
Pestana Miami LLC	United States	Hospitality	31-12-2019	2.816.802	15.973.242	13.156.440	4.606.370	(602.560)	100,00%	100,00%
Pestana Newark LLC	United States	Hospitality	31-12-2019	184.847	224.327	39.480	–	(37.945)	100,00%	100,00%
Pestana NY East Side 39 LLC	United States	Hospitality	31-12-2019	13.905.665	42.213.167	28.307.502	–	(1.963.479)	100,00%	100,00%
Pestana Segurança - Serviços de Segurança e Vigilância, Unip. Lda.	Portugal	Services	31-12-2019	305.115	651.015	345.900	1.335.259	49.828	100,00%	100,00%
Pestana USA Inc	United States	Hospitality	31-12-2019	26.428.220	26.640.050	211.829	–	65.370	100,00%	100,00%
Ponta da Cruz - Sociedade Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hospitality / Timeshare	31-12-2019	11.332.665	24.772.417	13.439.752	8.127.766	1.398.511	51,48%	52,00%
Porto Carlton - Sociedade de Construção e Exploração Hoteleira, S.A.	Portugal	Hospitality	31-12-2019	7.628.158	15.155.897	7.527.739	8.494.127	2.586.708	59,40%	60,00%
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	Portugal	Services	31-12-2019	1.738.522	1.751.561	13.039	26.487	(18.225)	100,00%	100,00%
Rotas de África, Lda.	São Tomé	Hospitality	31-12-2019	1.220.547	1.736.504	515.957	1.316.538	(451.815)	100,00%	100,00%
Salvintur - Sociedade de Investimentos Turísticos, S.A.	Portugal	Sub-Holding	31-12-2019	21.741.233	44.012.886	22.271.653	420.000	214.441	100,00%	100,00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hospitality / Timeshare	31-12-2019	92.087.807	242.410.088	150.322.281	55.712.786	11.066.540	99,00%	100,00%
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	Mozambique	Hospitality	31-12-2019	9.316.654	12.837.997	3.521.343	1.875.123	(214.163)	96,97%	96,97%
São Tomé Invest S.A.	São Tomé	Hospitality	31-12-2019	727.326	1.028.660	301.335	1.388.402	185.169	100,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (a)	Portugal	Services	31-12-2019	11.611.320	15.873.760	4.262.440	10.923.671	4.135.521	47,25%	51,14%
SDEM – Soc. de Desenv. Empresarial da Madeira, SGPS, S.A.	Portugal	Services	31-12-2019	600.176	1.029.837	429.661	9.540	(265.737)	47,25%	100,00%
Sociedade de Investimentos Hoteleiros D. João II, S.A.	Portugal	Hospitality / Timeshare	31-12-2019	1.437.028	4.012.688	2.575.660	665.131	6.246	99,00%	100,00%
Surinor, S.A.	Uruguay	Hospitality	31-12-2019	4.692.086	5.039.717	347.631	–	(103.840)	100,00%	100,00%
Wild Break 29 (PTY), Ltd	South Africa	Hospitality	31-12-2019	1.896.518	2.887.577	991.059	1.897.869	(115.314)	100,00%	100,00%

a) Pestana Hotel Group owns 47,73% of this subsidiary's equity, however, as at 31 December 2019 and 2018 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 2019 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2019	7.180.144	14.673.862	7.493.718	4.054.931	616.547	49,50%	50,00%
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2019	1.496.257	4.943.762	3.447.505	1.855.186	(104.192)	49,50%	50,00%
Pestana CR7 Madrid, S.L.	Spain	Hospitality	31-12-2019	5.942.922	6.437.202	494.281	–	(56.422)	50,00%	50,00%
Pestana CR7 Manhattan 39 LLC	USA	Hospitality	31-12-2019	17.159.487	64.679.553	47.520.066	–	(92.074)	51,00%	50,00%
Solpor - Sociedade Turismo do Porto Santo, Lda.	Portugal	Real Estate	31-12-2019	937.891	939.026	1.135	–	(1.274)	49,50%	50,00%
URP - Urban Review Promoção Imobiliária, S.A.	Portugal	Real Estate	31-12-2019	8.861.193	19.798.601	10.937.408	–	(790.054)	30,00%	50,00%

The Associates of Pestana Hotel Group as at 31 December 2019 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	31-12-2019	1.199.866	1.209.885	10.019	–	(3.508)	49,50%	49,81%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Real Estate	31-12-2019	59.745.881	84.390.245	24.644.364	2.678.154	600.384	46,43%	49,00%
Lean Company Ventures II, S.A.	Portugal	Tech innovation	31-12-2019	(17.779)	180.948	198.727	–	(57.492)	10,00%	20,00%
Soheotur, S.A.	Angola	Construction	31-12-2019	2.177.221	1.461.542	(715.678)	–	2.171.299	25,00%	25,00%

The Subsidiaries of Pestana Hotel Group as at 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	15.913.533	46.708.582	30.795.049	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	48.060.144	77.860.534	29.800.389	18.831.569	37.825	100,00%	100,00%
Carlton Palácio – Soc. de Construção e Exploração Hoteleiras, S.A.	Portugal	Hospitality	31-12-2018	56.050.111	96.624.513	40.574.401	25.437.766	5.547.202	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 – Soc. 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	50.248.427	114.463.512	64.215.085	91.062.738	18.096.985	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	1.143.521	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	7.562.215	30.529.018	22.966.802	27.163.855	6.289	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 and Real Estate	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%
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 de Des. Turístico e Imob., 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 – Soc. 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	18.750.262	10.019.494	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, 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	41.897.121	68.792.190	26.895.068	34.656.449	8.998.208	99,00%	100,00%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A. *	Portugal	Hospitality / Timeshare	31-12-2018	134.102.746	383.473.324	249.370.578	70.920.105	20.162.377	99,00%	100,00%
Mundo da Imaginação - Projectos de Animação Turística, S.A.*	Portugal	Entertainment	31-12-2018	2.141.148	4.918.974	2.777.826	660.861	197.888	99,00%	100,00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2018	1.458.407	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	8.455.660	17.917.085	9.461.425	6.617.331	923.872	99,00%	100,00%
Pestana International Holdings S.A.	Luxembourg	Administration	31-12-2018	382.448.448	511.144.955	128.696.507	39.416	39.071.596	100,00%	100,00%
Pestana Inversiones Unipessoal, 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	20.543.068	32.832.539	12.289.470	39.719.240	3.427.348	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	2.308.088	1.682.836	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	30.692.614	19.504.930	–	16.553	100,00%	100,00%
Pestana Segurança - Serviços 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 – Soc. 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.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2018	18.185.042	44.252.394	26.067.352	315.000	371.190	100,00%	100,00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.*	Portugal	Hospitality / Timeshare	31-12-2018	98.851.570	238.367.915	139.516.345	46.227.737	7.538.883	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	10.796.845	15.154.142	4.357.297	11.265.550	3.975.672	47,25%	51,14%
SDEM – Soc. de Desenv. Empresarial da Madeira, SGPS, 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	4.200.583	2.769.801	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%

* Financial statements restated in 2019 with the adoption of IFRS 16.

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 - 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	30,00%	50,00%
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.*	Portugal	Hospitality	31-12-2018	1.600.449	5.344.171	3.743.722	1.903.813	(52.114)	49,50%	50,00%
Pestana CR7 Manhattan 39 LLC	Portugal	Hospitality	31-12-2018	16.913.908	52.765.709	35.851.801	–	429.089	51,00%	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	16.761.247	26.598.376	9.837.129	363.582	–	49,50%	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	86.712.573	25.889.624	2.492.396	(388.789)	48,51%	49,00%
Soheotur, S.A.	Angola	Construction	31-12-2018	435.937	1.839.333	1.403.396	–	(254.157)	25,00%	25,00%

39-Changes in the perimeter

In December 2019, Pestana Hotel Group sold 100% of Beloura Hotel e Golfe – Investimentos Turísticos, S.A.'s share capital to Ninaclau, Lda. for the amount of 25.000.000 Euros which generated a gain in the amount of 10.965.373 Euros.

The Statement of financial position of the company which left the consolidation perimeter at the exit date is as follows:

	Beloura, S.A.
Sale price	25.000.000
ASSETS	
Tangible fixed assets	14.343.223
Deferred tax assets	24.138
Trade and other receivables	29.661
Inventories	5.984
Cash and cash equivalents	10.032
Total Assets at fair value	14.413.038
LIABILITIES	
Lease liabilities	2.993
Deferred tax liabilities	434.589
Trade and other payable current	645.416
Total Liabilities at fair value	1.082.998
Net assets	13.330.040
Other reserves	697.540
Non-controlling interests	7.047
% sold	100,00%
Gains / (losses) on disposal (Note 33)	10.965.373

The Income statement of the company which left the consolidation perimeter between 1 January and the exit date is as follows:

	Beloura, S.A.
Revenue	4.143.802
Cost of goods sold	(331.966)
External services and supplies	(1.464.067)
Personnel expenses	(568.802)
Charges of depreciation and amortization	(423.524)
Impairment of receivables	8.494
Other income	3.626
Other expenses	(165.106)
Profit/(loss) before financial results and taxes	**1.202.457**
Financial expenses	(31.009)
Financial income	3.380
Profit before tax	**1.174.828**
Income tax	(260.669)
Profit for the period until disposal date	**914.157**
Profit for the period until disposal date attributable to:	
Shareholders	905.015
Non-controlling interests	9.142
	914.157
EBITDA	1.626.014

Additionally, also in 2019, Pestana Hotel Group constituted Pestana CR7 Madrid, S.L. and ceased to include in the consolidation perimeter the subsidiary Southern Escapes Travel and Tourism PTY Ltd due to its liquidation. This constitution and this liquidation had no significant impacts on the Group's Consolidated financial statements.

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

40-Related parties

As at 31 December 2019 and 2018 Pestana Hotel Group is owned and controlled by Mr. Dionísio Pestana, who owns 99,99% of the capital.

Board of Directors' remuneration

Pestana Hotel Group's Board of Directors as well as the members of the Board of Directors of the Pestana Hotel Group's subsidiaries were considered, in accordance with IAS 24, as the only key management personnel of the Group. The remuneration paid is detailed in Note 30.

Transactions and balances with related parties

During the year of 2019, Pestana Hotel Group carried out the following transactions with those entities:

	Services obtained	Dividends obtained	Services rendered	Interest earned	Disposal of financial investments
Joint ventures	294.416	316.572	1.409.138	301.720	–
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	157.477	316.572	775.363	–	–
Pestana CR7 - Madeira Invest. Turísticos, S.A.	12.322	–	519.849	107.250	–
Pestana CR7 Manhattan 39 LLC	124.617	–	80.025	194.470	–
URP - Urban Renew Promoção Imobiliária, S.A.	–	–	33.901	–	–
Associates	459.162	–	28.330	16.418	–
Enatur - Empresa Nacional de Turismo, S.A.	459.162	–	28.330	16.418	–
Key management personnel	–	–	–	–	25.000.000
	753.578	316.572	1.437.468	318.138	25.000.000

The amount recognized in Disposal of financial investments related to the disposal of the subsidiary Beloura, S.A. to Ninaclau, Lda., a company owned by Mr. Tomáz Metello and a member of that subsidiary's Board of Administration. As at 31 December 2019, Mr. Tomáz Metello is no longer a member of Pestana Hotel Group's key management personnel and has no function in any entity included in the consolidation perimeter.

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

	Services obtained	Services rendered	Interest earned
Joint ventures	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
Pestana CR7 Manhattan 39 LLC	–	56.957	128.177
Solpor - Sociedade de Turismo do Porto Santo Lda.	–	40	–
URP - Urban Renew Promoção Imobiliária, S.A.	–	21.995	181.250
Associates	459.302	39.847	15.644
Albar - Sociedade Imobiliária do Barlavento, S.A.	–	58	–
Enatur - Empresa Nacional de Turismo, S.A.	458.679	39.282	15.644
Soehotur, S.A.	623	507	–
Key management personnel	–	–	–
	628.529	1.585.410	325.141

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

	Trade receivables current	Trade receivables non current	Impairment of trade receivables	Net trade receivables	Trade payables current
Joint ventures	944.668	1.916.189	–	2.860.857	37.412
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	133.872	–	–	133.872	34.810
Pestana CR7 - Madeira Investimentos Turísticos, S.A.	144.087	1.916.189	–	2.060.276	2.602
Pestana CR7 Madrid, S.L.	476.164	–	–	476.164	–
Pestana CR7 Manhattan 39 LLC	135.860	–	–	135.860	–
Solpor - Sociedade de Turismo do Porto Santo Lda.	1.085	–	–	1.085	–
URP - Urban Renew Promoção Imobiliária, S.A.	53.600	–	–	53.600	–
Associates	1.178.928	–	1.118.288	60.640	49.319
Albar - Sociedade Imobiliária do Barlavento, S.A.	5.297	–	–	5.297	–
Enatur - Empresa Nacional de Turismo, S.A.	55.343	–	–	55.343	49.319
Soehotur, S.A.	1.118.288	–	1.118.288	–	–
Key management personnel	–	–	–	–	–
	2.123.596	1.916.189	1.118.288	2.921.497	86.731

The balances arising from transactions with related parties as at 31 December 2018 were as follows:

	Trade receivables current	Trade receivables non current	Impairment of trade receivables	Net trade receivables	Trade payables current
Joint ventures	385.344	1.951.963	–	2.337.307	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	1.951.963	–	2.085.207	23.799
Pestana CR7 Manhattan 39 LLC	70.620	–	–	70.620	2.047
Solpor - Sociedade de Turismo do Porto Santo Lda.	1.085	–	–	1.085	–
URP - Urban Renew Promoção Imobiliária, S.A.	41.155	–	–	41.155	–
Associates	1.160.483	–	1.058.246	102.237	50.087
Albar - Sociedade Imobiliária do Barlavento, S.A.	35.829	–	–	35.829	–
Enatur - Empresa Nacional de Turismo, S.A.	66.408	–	–	66.408	50.087
Soehotur, S.A.	1.058.246	–	1.058.246	–	–
Key management personnel	–	–	–	–	–
	1.545.827	1.951.963	1.058.246	2.439.544	88.330

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				
	2018	Cash flows	Acquisitions	Effects of exchange differences	Perimeter changes	Accrual / Deferral	2019
Bank loans	254.958.277	(4.080.525)	–	1.509.507	–	628.916	253.016.175
Lease liabilities	175.467.945	(9.457.968)	28.484.084	261.678	(2.993)	–	194.752.746
Bond loans	119.136.110	48.363.890	–	–	–	(798.808)	166.701.192
Commercial paper	36.833.334	(11.444.444)	–	–	–	50.900	25.439.790
Cash flow from financing activities	586.395.666	23.380.953	28.484.084	1.771.185	(2.993)	(118.992)	639.909.903

42-Subsequent events

The 65 million Euro bond maturing on February 28 was fully repaid.

On the other hand, also in February, in order to secure all its pipeline in progress, the Group contracted a new mortgage loan of 45 million Euros with a 15-year term and a fixed interest rate.

The COVID-19 pandemic has brought significant uncertainty to confidence levels in the economy for 2020, and its full impact is at this moment impossible to estimate. However, Pestana Hotel Group is confident to be prepared to overcome this new obstacle with success and continue in the long run to grow constantly and with sustainability as shown in the previous 50 years.

Luxembourg, 23 March 2020

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

Pestana International Holdings S.A.

Consolidated management report for

2019

Auditor's Report

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Luxembourg

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 2019, 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 2019 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.

Emphasis of matter – Uncertainties due to CoVid-19

As disclosed in the Note 42 – Subsequent events to the consolidated financial statements, CoVid-19 affects the Group and results in certain uncertainties for the future consolidated financial position and performance of the Group. We have evaluated the situation and uncertainties, as described in the aforementioned disclosure, and consider the disclosure to be adequate. However, an audit cannot predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to CoVid-19. Our opinion is not modified in respect of this matter.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated report including 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.

KPMG

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 applicable legal requirements.

Luxembourg, 3 April 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Fabien Hedouin

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