Pestana International Holdings S.A.

Consolidated Annual Report
31 December 2020

Index

Consolidated management report for 2020

1. Message to stakeholders

2020 was clearly marked by the COVID-19 pandemic. Its impact on the economy in general, on the health and quality of life of the populations, and also on the Tourism sector, was extremely negative on a global scale and will take some years to recover.

Having emerged in China in late 2019, this new coronavirus quickly proved its high contagion rate and dangerousness causing high mortality rates, especially in older populations. The lack of scientific knowledge about its behaviour did not allow to foresee medical solutions (medicine or vaccine) in the short term.

Thus, the governments of various countries tried to delay the contagion with measures restricting the freedom of movement of populations, closing economic activities, closing borders, limiting flights, implementing sanitary measures and even forcing citizens to be confined to their homes.

The entire tourism sector, and especially in the countries of the Mediterranean basin where Portugal is included, registered successive record years with high levels of occupancy and revenue, with a lack of aircraft to meet the growing demand and a shortage of workers prepared to provide a high quality service to an increasingly demanding tourist. In the space of a month (March 2020) everything changed! With the exclusion of some exceptions provided by law, borders closed, planes were prevented from flying, hotels were prevented from receiving guests and therefore forced to close, as were restaurants, museums, concert halls, bars and nightclubs, shopping malls, among others, all for the common good - pandemic control.

The lack of knowledge, unpreparedness to deal with a crisis of this magnitude and insufficient coordination by governments in general, including those of the EU, caused an asymmetric adoption of unstructured measures and diffuse information aggravating the climate of uncertainty.

In this environment, the affected economic agents had no choice but to follow a strategy of total risk containment, adopting emergency measures to reduce operations, contain fixed costs, ensure liquidity and, in this way, seek to ensure the continuity of their operations and the future of their employees' jobs. It was certainly the most difficult year for the tourism sector in decades.

Like the rest of the sector, Pestana Hotel Group was coming from successive years of growth due to growing tourism demand, but also to its diversification strategy and sustained growth with a high commitment between excellent service quality and focus on results through strict cost control. It took advantage of these times to reorganize, diversify, modernize, reduce its debt level and prepare for the future. It reinvested its profits, adopted innovation and cutting edge technology in its processes. It developed new business models. It trained its professionals based on the best practices in the industry, complementing it by hiring qualified professionals who incorporated know-how and experience, even obtained in other economic sectors.

With the arrival of the crisis it was necessary to implement tough measures quickly. In the first phase, the main concern was to safeguard the health and well-being of our customers and employees. To this end, it was essential to adapt new procedures that would allow us to continue to provide a quality service, but taking into account new health rules that safeguarded the health, well-being and working conditions of our employees (in person and in telework).

RTB.

Once the hotels, restaurants, golf courses and other activities were closed, it was necessary to analyse costs, review processes, reorganize resources, renegotiate contracts and adopt support and incentive measures available to most of the affected companies. Faced with the huge reduction in its turnover in 2020, the Group made use essentially of two types of measures:

- Employment maintenance support measures (simplified lay-off from 15 April to 31 July and progressive recovery support from August onwards but with much greater incidence after October when the units closed again), having to significantly reduce the respective working hours of its employees;

- Liquidity supporting measures with the legal application of debt moratoriums on bank loan repayments through prior agreements with these entities, deferring these repayments to the end of the respective contracts, however the Group has decided to continue to pay most of the interest on its loans.

Despite the rapid creation by the European Commission of a temporary support framework which extended the amount of state aid permitted under the rules of free competition in the European Union, some states, which already had high levels of debt from previous crises, sought to contain the impact of these measures on their budgets by limiting the extent of the support actually granted, with special emphasis on business groups. This was visible in the support per job received in Portugal in relation with other EU countries where the Group operates.

We thank all the stakeholders who interacted and supported the Group during this difficult time:

- To our guests and other customers who continue to believe in the quality of the Group's service and therefore continued, despite the difficulties and limitations, to privilege us with their reservations in the periods of greatest calm in the pandemic;

- To our employees, who from the first hour were willing to overcome difficulties with flexibility, sacrifice and spirit of mission, adapting procedures to the new sanitary rules and continuing to receive our customers with a smile and friendliness, as well as providing their cooperation in the numerous social support initiatives that the Group has been developing in the regions where it operates;

- To our suppliers who, realizing the gravity of the global situation of the sector, have made themselves available to collaborate in the search for quality solutions, reviewing processes and conditions;

- To the State and public entities of the various countries, for the support that was given throughout the unfolding of the crisis;

- To the investors and financial entities for their confidence in financing the Group, continuing to show total availability for additional funds if necessary, and approving with a large vote the application of waivers on the financial covenants of the respective contracts, namely those relating to EBITDA ratios, committed due to *force majeure* caused by the pandemic.

The central objective of the management measures was to safeguard the financial health of the Group's various companies in order to ensure the integrity of their assets and preserve human capital, essential factors for the post-pandemic activity resumption.

Despite the major challenges encountered in 2020, the Group has always fulfilled its responsibilities to third parties, including the completion of construction work and new hotels which were ongoing at the end of 2019.

PBTS.

As a result of this enormous effort and commitment, Pestana Hotel Group has presented a positive EBITDA for 2020 in the accounts that consolidate its entire operation. These are excellent news that reward and encourage the team to do even better in 2021. Then, it was also possible to maintain the Group's net debt at similar values to those reported at the end of 2019, if the investment made during the year with the completion of the expansion capex is excluded, which should reassure all our stakeholders.

The risk diversification strategy implemented by the Group was a determining factor for this result, since its operations in the tourism and residential real estate business showed enormous resilience to the crisis during the year, with a significant increase in sales.

Now that we have reached this stage, with greater scientific knowledge about the virus and its impact, and with several effective vaccines having already been developed and being administered to the population at an accelerated pace, a gradual reduction of restrictive measures by Governments is expected to occur this spring.

Judging by what happened last summer, after a year without travel, the demand for resort destinations will certainly be high this summer, and although it will not reach the record levels of previous years, it should allow for the beginning of a recovery that we know will be gradual but hopefully sustained.

Pestana Hotel Group has safeguarded its assets, its core team and its financial structure in order to be prepared to react quickly to growing demand and to take advantage of good opportunities as they arise in this recovery phase. The teams are prepared and motivated, the hotels and other business units are ready to open within a week of this decision, including the new hotels whose construction work has been completed, with the safety procedures adopted during the pandemic, in order to continue to provide our customers with "The time of their lives".

2. Overview of the world economy

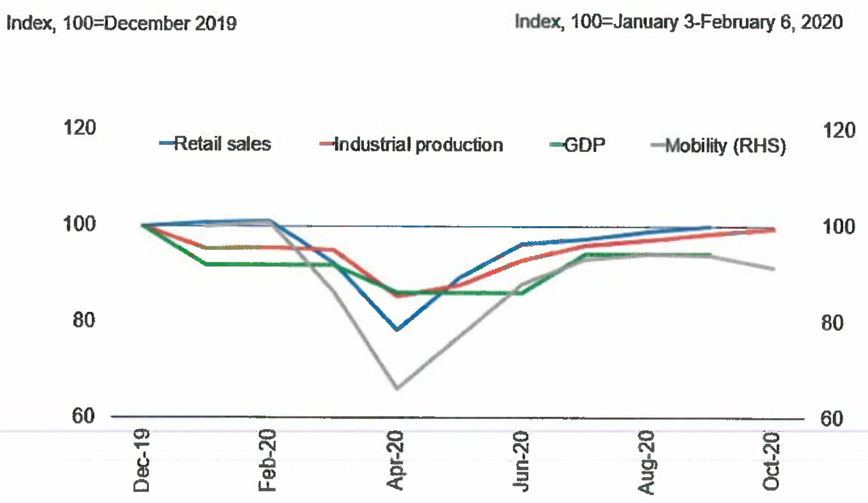
2018 and 2019 were years of pandemic growth in the world economy with global GDP growing 3% and 2,3% respectively (2,2% and 1,6% respectively for economies of developed countries), despite the adoption of expansionary monetary policies by major countries. The increase in geopolitical tensions and the imposition of customs barriers by the USA contributed to the climate of uncertainty.

It was with this background that the global economy saw a new coronavirus emerge in China at the end of 2019 with high rates of contagion. Impossible to contain within Chinese borders, and with a late response from the World Health Organization (WHO) which had serious limitations in efficiently coordinating actions of various countries, the virus quickly spread on a global scale. The lack of scientific knowledge about the behavior of the virus, the inability to contain it, and the high mortality rate, especially among senior citizens, created a generalized climate of insecurity in the population.

The scientific community assumed the inability to develop an effective medicine or vaccine in the short term. The health systems of several of the countries most affected by the pandemic outbreak of the disease, now known as COVID-19, assumed they were not prepared to deal with to the exponential growth of intensive care unit admissions.

Given this scenario, governments in general adopted freedom of movement restricting measures, seeking to ensure the social distancing necessary to delay the transmission of the virus among people. Most developed countries went into full lockdown in March, April and May 2020, closing borders, limiting flights, shutting down economic activities, forbidding hotels from receiving guests, forcing restaurants, bars, nightclubs, event halls, shopping malls, retail stores, among others to close. In June and the following months, the generalized containment measures were eased, moving to a localized or regional containment phase.

The impact of these restrictive measures affected retail trade across various sectors in the first phase. However, as the months went by, the market adjusted for most of the production and sales of goods sectors, recovering the level of commercial exchanges and consequently the level of industrial production.



Source: World Bank - Global economic prospects Jan/21

As the pandemic continued over the months, there were profound changes in the channels through which goods were sold. Prevented from going to the stores, consumers sought to make their purchases through remote channels. Retailers, in turn, unable to sell through their stores, sought to promote their products online, promoting delivery and takeaway services. The big remote-sellers, e.g. Amazon and Alibaba, grew their market share significantly.

Source: Digital Commerce 360, U.S. Commerce Department

Several countries had in recent years been increasing regulation of cross border services. Faced with the need to continue working while ensuring social distance, with the COVID-19 pandemic, companies and families felt the urgent need to implement technological solutions that would allow them to work remotely. Thus, the digital economy had a disruptive and unprecedented growth during this period, especially in the telecommunications, technology, digital content, software, electronic payments and cybersecurity sectors. These changes, more than cyclical, have permanently changed some business models and sharply accelerated the need for the digital transformation of organizations.

Inversely, services based on human contact suffered and continue to suffer significantly with the restrictive measures imposed by governments for the common good, namely with the social distance imposed to control the contagion of the virus.

The transport, travel, hotel, restaurant, entertainment and events sectors are those with the greatest impact and where the negative impacts of these restrictive measures persist.

Therefore, the world economy will see its GDP drop in 2020 to a value around 4,3%, as estimated in January 2021 by the World Bank, broken down into a fall to about 5,4% in developed economies and 2,6% in emerging market countries and developing economies, where the weight of China is relevant, which will end up growing 2% in 2020.

In 2021 a reversal is expected, with average growth projected at 4%, however GDP will remain 5% below pre-pandemic projections. This forecast is at risk of being revised downward if there is a reduction in the expected rate of the vaccination during 2021, with special relevance in emerging markets and developing economies, with greater difficulties in the access and administration of vaccines. The delay in implementing measures to support investment or the implementation of retraction policies to reduce the debt levels of the most affected countries, which during this pandemic period have increased considerably, are relevant factors to take into account.

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

Source: World Bank Global Economic Prospects Jan/2021

The United States is, among advanced economies, the one whose resilience in facing this crisis stands out. Despite being severely impacted by the COVID-19 pandemic, with a high number of cases and deaths, and with significant governmental instability due to electoral and transition governmental incidences, the strength and regeneration capacity of its economy prevails over the rest, managing to limit the reduction of its GDP to only 3,6%. Also contributing decisively to this result were tax incentives and income support measures that were much higher than those made available during the global financial crisis of 2009.

Likewise, after overcoming the worst phase of the pandemic crisis and the referred political instability, according to World Bank projections, the American economy presents favorable growth conditions, and it is estimated that by the year 2021 the losses verified in 2020 will be almost entirely reversed. The productivity stimulation plan to be implemented by the new presidential executive led by President Biden will be decisive for this growth.

Following the historic collapse of the European economy due to the pandemic, in the third quarter of 2020 there was a resurgence of economic activity, which was quickly interrupted by the re-emergence of new COVID-19 cases at the end of the year, leading to the implementation of further containment measures. The majority of the Eurozone's service sectors, particularly travel and tourism, remains severely affected until an effective control of the pandemic leads to a return of confidence.

RTB.

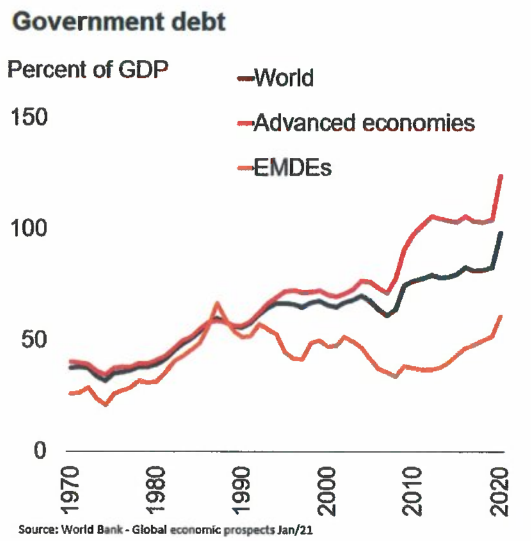
Regardless of the effects of the pandemic, industrial production continues to recover, driven by the increase in external demand, where China plays a major role. This trend and the implementation of measures to stimulate economic development should contribute to the estimated growth for 2021 of 3,6%. The commonly called "European Bazooka" with a total value of 750 billion Euros, whose first tranches are not expected to be delivered before the end of the summer 2021, should focus on development along three axes:

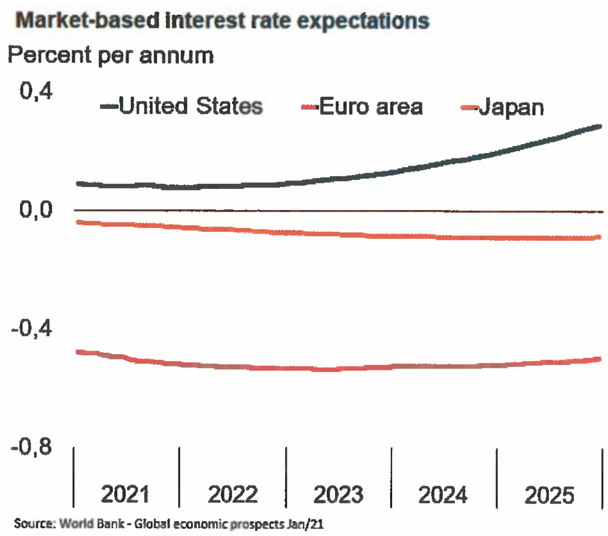
- Recovery and resilience
- Innovation and digital transition
- Climate transition

In the group of developing economies, China plays a relevant role as the engine of the world economy. It was the first country to suffer the consequences of the pandemic, but through strict control it managed to recover quickly, and it was the only country of relevant size to have positive growth in its GDP in 2020 (2%). This growth, heavily supported by state economic recovery stimulus (fiscal and investment), with significant impact on the increase in deficit and debt of the Chinese state, should accelerate in 2021 to about +7,9%, recovering the GDP in this year to pre-pandemic values.

The numerous support measures implemented by governments in general, to limit the reduction in GDP and the increase in unemployment, due to the containment measures adopted, implied a considerable increase in the level of public debt, with special concern for countries, such as Portugal and others in southern Europe, that already carried high debt levels from previous crises.

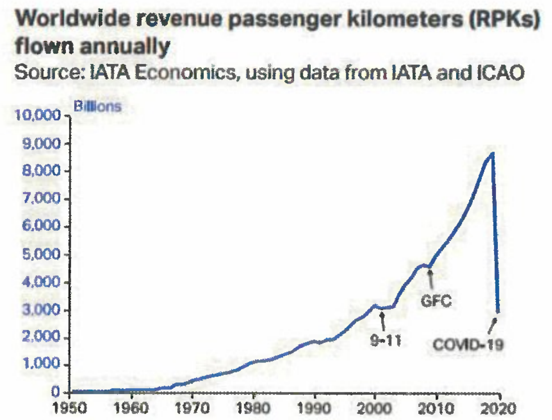
Although in the short term, with the need for monetary stimulus policies to revitalize economies in general, interest rates are projected to remain low, at a later stage it is expected that the most indebted economies will have difficulty paying off their commitments.

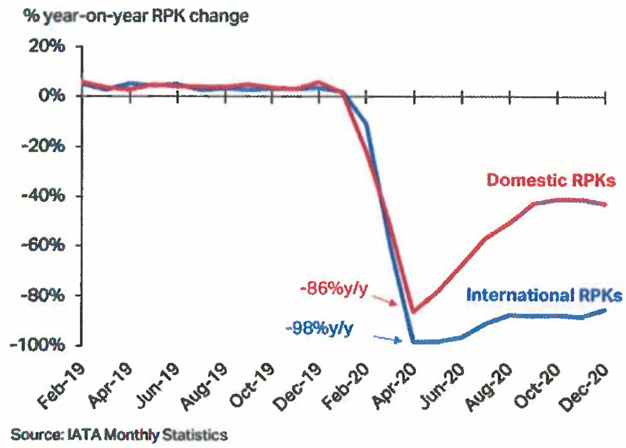




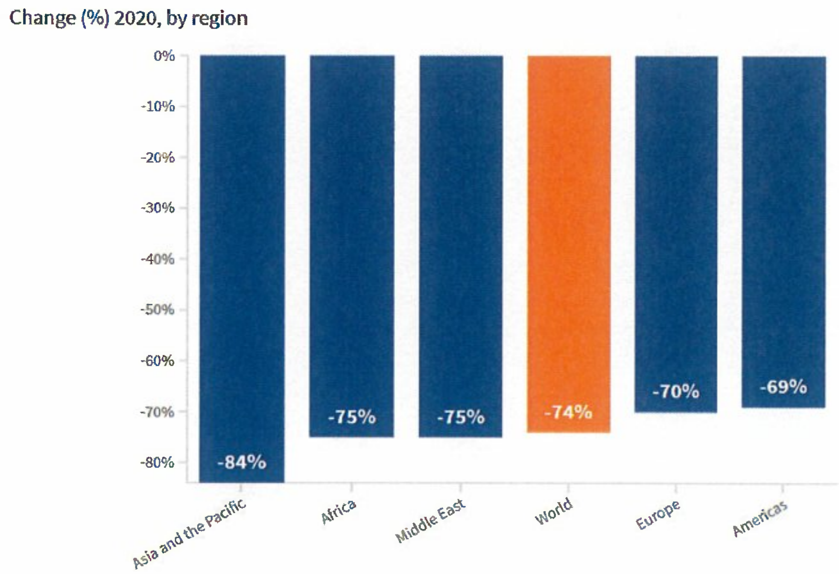
3. Tourism

World tourism had been growing consistently and consecutively at an average rate of about 4% per year for the past 50 years. In 2020, the COVID-19 pandemic caused the biggest shock to the air passenger transportation industry and consequently tourism since the second world war. As shown in the table below the previous September 11 and global financial crisis implied slight adjustments in the curve when compared to the current pandemic crisis.





On the one hand, the containment policies imposed by governments in the current crisis began in March 2020, but have lasted for about a year. On the other hand, unlike previous crises that had a greater impact on some countries than others, due to their market structure or financing, for example, in this case the crisis in the tourism area had an identical and transversal impact on practically the entire world, as can be verified in the most recent information on arrivals made available by the UNWTO.



Source: World Tourism Organization (UNWTO) ©
Data as collected by UNWTO, January 2021. Published: 28/01/2021

The impact of the reduction of tourism activity in each country therefore depends on the degree of relevance of tourism in its economy.

Due to the cancellation of flights, forced closures of events, bars, nightclubs, restaurants, museums, shows and hotels due to the practical impossibility of receiving guests, companies in the tourism sector have been forced to reduce their structure, close operations, reduce fixed costs, and make use of the supports created dropwise by the various governments, many of them constrained by the budget limitations of their countries and by the delay in allocating the support defined under the "European bazooka", whose first funds are expected to reach the real economy only by September 2021.

Thus, in addition to resorting to lay-off measures, tourism companies had to renegotiate contracts, adjust processes and operations, suspend investments, restructure financing, among other cost-cutting and financial reorganization measures, in order to ensure, in an uncertain future, the liquidity that would allow them to continue their operations.

Fortunately, this crisis has found the financial sector stronger and with a more solid capital structure, compared to the global financial crisis of 2009, for example, and therefore more capable of supporting the more resilient groups of companies whose management and operational capacity had already passed previous crises with distinction.

In the summer of 2020 there was an easing of restrictive measures affecting the tourism sector and especially the hospitality sector. Companies quickly adjusted their service level and processes to accommodate the new sanitary procedures advised by health organizations. It was enough to give confidence to customers and employees who, tired of consecutive months of confinement, felt the essential need to go on vacation for a few days/weeks and to resume their professional activity.

Given the practical impossibility of air travel, this demand was confined to proximity markets, where travel by car made many people's vacations a successful reality. Hotels saw demand for bookings in the domestic and regional proximity markets grow rapidly for the summer. Given the cost reductions they had achieved in previous months, despite relatively low occupancy levels, good results were possible, with some groups even achieving positive operating results. That summer was as a great sign for what is expected to occur in the summer of 2021.

After the summer, the off-season returned and was already expected to be exceptionally long, with the winter months in the northern hemisphere contributing to an increase in the level of pandemic contagion and a consequent return to containment measures.

This crisis served as a lever to enhance some structural changes. Online marketing channels have become the preferred channel for booking trips and stays, bringing new challenges in the marketing and promotion of tourist destinations worldwide. The incorporation of technology, digitalization and process automation in the tourism sector and with special focus on the hospitality sector have accelerated, requiring significant allocation of capital that requires size and scale to enhance return on investment. The new areas of revenue management, business intelligence and social marketing are now core business areas, allowing for a quick reaction from hotels to market volatility, leading to deep restructuring of commercial areas of hospitality companies.

Even though at this moment the light at the end of the tunnel is already visible with the vaccination process being rapidly implemented, where the British market stands out as determinant for tourism demand in Portugal and other southern European countries, it is still too early to foresee a full recovery of the sector. The year 2021, and especially the first half, will continue to be significantly affected by restrictive measures and considerable uncertainty.

This recovery will always be gradual, given the need to restore confidence among the different tour operators and the general public and the reactivation of air connections between feeder and receiving markets. Depending on the scenario, recovery is expected to occur between 2022 and 2023.

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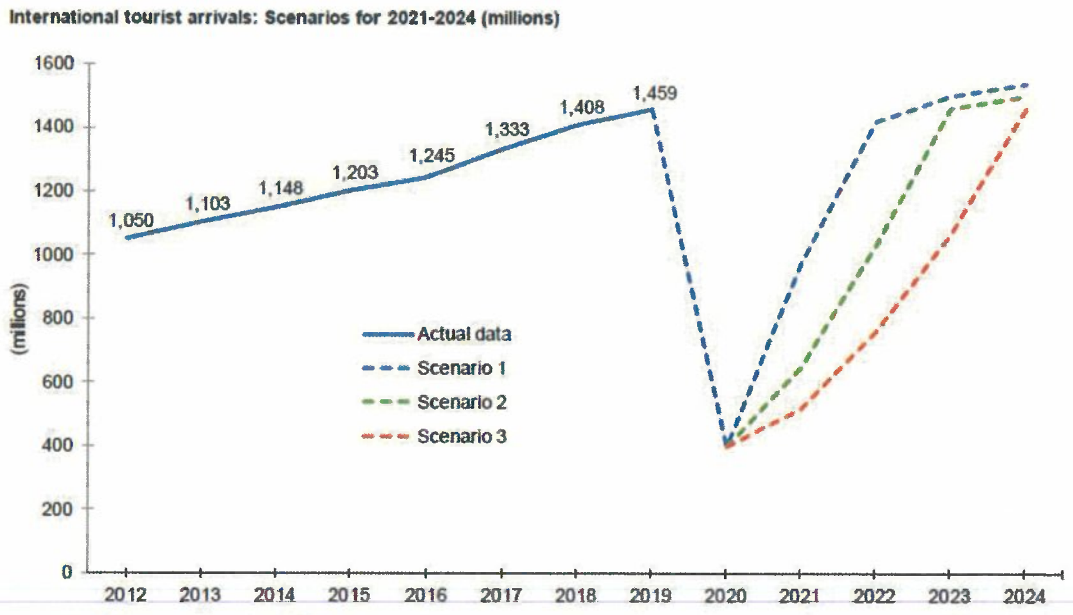


Source: World Tourism Organization (UNWTO) (December 2020)

In this reality it is difficult to highlight the evolution of tourism in each of the regions or countries, since its evolution throughout the year 2020 was somewhat uniform. Naturally, countries with better economic indexes, properly structured financing and less dependence on the travel and tourism sector, which invest on a more aggressive vaccination program, will be the ones that will come out of this crisis earlier with relief from its impact.

Conversely, developing countries, for example in Africa, Asia and South America, with greater difficulties in the level of health care, are expected to emerge from the pandemic crisis later and more gradually.

In any case, the intrinsic factors that led to the success of tourism in several countries, particularly in southern Europe, continue to be present (quality of service, ease of welcome and communication, cultural and artistic diversity, favourable weather and environmental conditions, cost of living differential between the main tourist destinations and the main source markets, among others) and will be the driver for its recovery in the medium term to growth rates similar to those verified in recent years.

4. Key figures

	2020	2019	Δ	Δ%
Number of rooms	11.489	11.382	107	0,9%
Revenue	181,7	418,8	(237,1)	-56,6%
Gross Operating Profit (GOP)	24,2	160,2	(136,0)	-84,9%
EBITDA	33,7	161,8	(128,1)	-79,2%
Adjusted EBITDA*	28,7	150,6	(121,9)	-80,9%
Net debt	534,1	504,4	29,8	5,9%
Net debt/EBITDA	15,86	3,12	12,74	408,7%
Net debt/Adjusted EBITDA	18,59	3,35	15,25	455,4%
Total Assets	1.264,8	1.428,8	(164,0)	-11,5%
Total Equity	417,1	482,7	(65,6)	-13,6%
Average Room Rate (ARR)	85,7	103,1	(17,4)	-16,9%
Pestana Hotels & Resorts	79,1	92,2	(13,1)	-14,2%
Pestana Collection	135,0	178,2	(43,2)	-24,2%
Pestana CR7 Lifestyle	90,0	116,8	(26,9)	-23,0%
Pousadas de Portugal	106,1	125,8	(19,7)	-15,7%
% Occupation**	40,8%	68,2%	-27,4%	-40,1%
Pestana Hotels & Resorts	42,5%	69,6%	-27,1%	-39,0%
Pestana Collection	25,4%	67,4%	-42,0%	-62,3%
Pestana CR7 Lifestyle	54,6%	76,2%	-21,6%	-28,4%
Pousadas de Portugal	39,8%	59,3%	-19,5%	-32,9%
Guest Satisfaction Index (GSI)	88,1%	87,7%	0,4%	0,5%
Pestana Hotels & Resorts	85,5%	86,2%	-0,7%	-0,8%
Pestana Collection	90,9%	91,0%	0,0%	-0,1%
Pestana CR7 Lifestyle	89,9%	89,3%	0,6%	0,7%
Pousadas de Portugal	90,2%	89,3%	0,8%	0,9%

* Excluding Gains/Losses on financial investments
** Adjusted available inventory during confinement periods

5. Pestana Hotel Group

5.1. 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 102 units of touristic lodging now being operated by the Group in 15 countries under 4 different Pestana hotel sub-brands.

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 35 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 and New York as well as Manchester and Paris in the near future.

5.2. Corporate structure

Pestana Hotel Group includes 64 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 and Brewery);
- Djebel, S.A. – Brazil as South American Portuguese speaking country (Hospitality);
- 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.

5.3. 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 very consistent operations and had many profitable years prior to the pandemic outbreak which allowed the Group to generate sufficient cash to significantly reduce its leveraging. Financial debt was eliminated in countries with significant inflation such as African and South American countries. All debt reimbursement plans have been aligned with the ability of each company to generate cash. No dividends were requested by the shareholder, which means that the available cashflow could be either reinvested in the business or used to reduce leverage.

In 2020, Pestana Hotel Group continued its commitment to Sustainability, either in its environmental aspect or in improving the well-being and quality of life of local communities where the Group operates, promoting their development and greater social equity. As a result, energy efficiency and decarbonization projects were maintained and developed and sustainable investment projects were made, funded with the so called "green bonds". On the other hand, support was maintained for projects of a social nature, such as the support and volunteering at Criamar and Associação João 13. In the pandemic context throughout most of the year, support was given to health professionals, both as accommodation, at Pousada do Palácio de Queluz or at Cidadela de Cascais, as well as through the donation of ventilators to the Autonomous Region of Madeira.

6. Investment

In 2020 Pestana Hotel Group completed the following construction works:

- Pestana Park Avenue located in the USA, New York, in the 39th street and two blocks away from Central Station, a 4-star 96-key hotel in Manhattan which opened in February 2020. The Group's total investment was 37 million US dollars, of which 2,7 million US dollars occurred in 2020;

- Pestana Lisboa Vintage, located in Braamcamp street, in Lisbon's city center, a 121-key 4-star hotel resulting from a lease agreement for 17 years. Construction was concluded in June 2020 and it is expected to open in 2021, as soon as the pandemic is under control. The Group's total investment was 5,8 million Euros, of which 2,6 million Euros occurred in 2020;

- The last 139 rooms and a restaurant of Pestana Blue Alvor, a 5-star hotel with 491 rooms, 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 2 million Euros in 2020 of a total investment of 39,9 million Euros;

- Vila Real de Santo António's Pousada with 57 rooms, a restaurant and an event room, resulting from a lease agreement signed in 2017 with the municipality of Vila Real de Santo António in Algarve for a 20-year period. It is expected to open in 2021 and the Group's total investment was 3,8 million Euros, of which 1 million occurred in 2020;

- Refurbishments and renovations in existing hotel units, namely Pestana D. João II, Pousada de Estói, Palácio do Freixo, Pousada de Viana do Castelo, Pestana Ocean Bay, Pestana Bazaruto Lodge, Pestana Amsterdam Riverside, Pestana Arena Barcelona, Pestana Buenos Aires for a total amount of approximately 4,9 million Euros.

In 2020 Pestana Hotel Group continued the construction works or requested permits for:

- Pestana CR7 NY in the United States of America, in New York Manhattan, 39th street West, closer to Times Square, which will be a 4-star 177-key hotel. It is expected to open on the second semester 2021, subject to the pandemic evolution. The Group's total investment is estimated to be 30,5 million US dollars;

- Pestana CR7 Madrid in the city centre of the Spanish capital, in 29 Gran Via, a 168-key hotel resulting from a lease agreement for a 25-year period. The project was concluded in February 2021 and it is expected to open in 2021, subject to the pandemic evolution. This investment is being made solely by the landlord;

- 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 million Euros, of which approximately 15,8 million Euros have already been incurred (2020: 4,3 million Euros). Its opening is scheduled for 2021 depending on to the pandemic evolution;

- Pestana CR7 Marrakech, located in Morocco in the famous luxury M-Avenue, surrounded by world class hotels and shops, a 174-key hotel under a lease agreement. Construction is in progress and the Group's total investment is estimated to be 0,6 million Euros. It is expected to open in 2021;

- Pestana Tanger, located in Morocco, in Tanger's city centre, will be composed of 120 apartments leased for 9 years with a management contract similar to Pestana Casablanca. It is expected to open in 2021;

- A 4-star 87-key hotel in Rua das Flores, in Oporto's historic center which will result from the refurbishment of a building in a high state of disrepair acquired in 2018 for 8 million Euros. The

Group's total investment is estimated to be 15 million Euros, of which 14,7 million Euros have already been incurred (2020: 4,9 million Euros). This refurbishment is expected to be concluded during 2021;

- Pestana Fisherman, a 4-star hotel located in Câmara de Lobos the picturesque village of Madeira island with 42 rooms and a total estimated investment of 2,4 million Euros, of which 1,2 million Euros have already been incurred (2020: 1,1 million Euros). The opening of this unit is scheduled for 2022;

- A four-star hotel located in Rua Augusta, in the heart of Lisbon's downtown, with 89 keys resulting from a 27-year lease agreement renewable for three equal and consecutive 5 year periods. The project is in the final licensing stage and the Group's total investment is expected to be around 7 million Euros;

- Pousada de Alfama, a 39-key unit, located in the most traditional neighborhood in Lisbon's city center, on top of Lisbon's castle hill facing the Tagus river, for which a 25-year lease had been signed. The project is in the final licensing stage. The Group's total investment is estimated to be 2,7 million Euros;

- A 4-star 109-key hotel in New Jersey (USA), to open in 2022 following a management agreement signed in 2016. Construction was delayed due to the Coronavirus;

- Pestana CR7 Manchester (United Kingdom), in the city centre of Manchester, near Piccadilly Gardens, 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 2023. The Group's total investment is estimated to be 6,9 million British pounds;

- Pestana CR7 Paris (France), a 210-key hotel in Paris' city centre (13th district) integrated in a commercial and office enterprise. The project is still in its licensing phase and is expected to be concluded in 2024. The Group's total investment is estimated to be 30 million Euros;

- Pestana Montevideo (Uruguay), an hotel 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. This investment is still in licensing stage.

7. Activity of Pestana Hotel Group

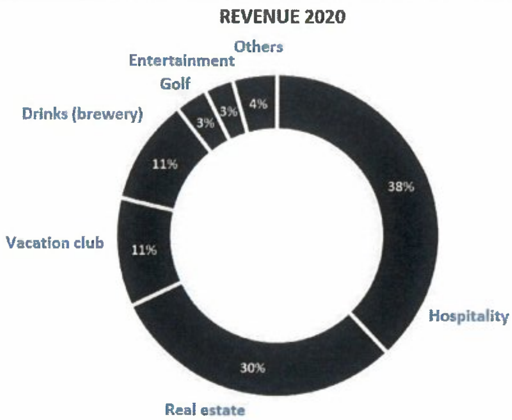
7.1. Profit and loss highlights

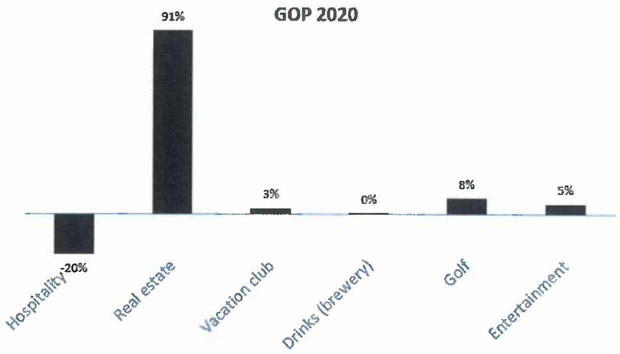
	TOTAL 2020	Grupo Pestana SGPS	Djebel	Hotéis do Atlântico	Pestana Inversiones	Salvintur	Other	TOTAL 2019	TOTAL 2018 (a)
Rooms (total keys)	11.489	8.201	1.140	885	329	702	232	11.530	11.382
of which Rooms under management contract (keys)	882	541	0	0	195	3	143	1.143	1.274
Hotel units (total)	102	74	5	7	2	11	3	99	106
of which Units under management contract	8	6	0	0	1	1	0	5	9
(Amounts in millions of Euros)									
Revenue	181,7	157,8	5,0	11,0	0,4	6,5	1,0	418,8	434,1
GOP (b)	24,2	26,4	-1,0	-0,9	-0,3	0,0	0,0	160,2	164,8
EBITDA (c)	33,7	48,1	-2,7	-3,0	-0,4	-0,2	-8,1	161,8	166,9
Depreciation, amortization and impairment	-55,8	-46,0	-1,5	-4,9	0,0	-2,1	-1,3	-53,5	-47,5
EBIT	-22,1	2,1	-4,2	-7,9	-0,4	-2,3	-9,4	108,3	119,4
Interest net (includes fees)	-20,5	-15,3	-1,3	-6,2	0,2	-0,7	2,8	-22,6	-23,8
Income taxes (d)	10,4	4,4	1,8	2,9	0,0	0,3	1,0	-5,5	-16,8
Net income including non-controlling interests share	-32,2	-8,8	-3,7	-11,2	-0,2	-2,7	-5,6	79,4	78,1
GOP margin (%)	13%	17%	-21%	-8%	-73%	1%	0%	38%	38%
EBITDA margin (%)	19%	30%	-54%	-28%	-78%	-4%	-825%	39%	38%
EBIT margin (%)	-12%	1%	-84%	-72%	-85%	-34%	-959%	26%	28%
ROE (%)	-6,1%	-2,5%	-7,8%	-10,9%	-3,4%	-7,2%	21,8%	13,2%	14,4%
EPS	-24,45	N/A	N/A	N/A	N/A	N/A	N/A	60,19	59,20
EBITDA / Net interests (..x)	1,6	3,0	-15,7	-0,8	4,0	-1,8	-13,1	7,2	7,0
Average cost of gross debt (%)	3,6%	3,3%	8,6%	4,2%	N/A	6,5%	5,0%	3,8%	3,8%

Notes:
(a) Considering IFRS 16 adoption when applicable
(b) "Gross operating profit" - management accounts (uniform system of accounts for the lodging industry (USALI)) only includes fully consolidated companies
(c) Operating profit excluding Charges of depreciation and amortization, Impairment losses of tangible assets, Gambling tax paid by Casino and other minor accounts
(d) Includes gambling tax paid by Casino

Pestana Hotel Group's revenue reached 181,7 million Euros, a decrease of about 57% compared with the previous year, mainly due to the impact of COVID-19 over its businesses. Hospitality revenue decreased by 75% but the diversification strategy followed by the Group dampened the decrease in its revenue. Revenue from Vacation Club and from the Golf business decreased 40% and 47%, respectively. The Group's real estate business, however, grew 12% in 2020 and showed an enormous resilience to the crisis during this year since the COVID-19 pandemic led to an increase in demand for properties in quieter and safer areas with less propensity for virus transmission.

Despite the impact of the pandemic on its revenue in 2020, Pestana Hotel Group maintained a positive EBITDA of 33,7 million Euros. The previously mentioned diversification strategy followed by the Group, it's flexible cost structure and highly specialized shared services centre showed an enormous resilience to downturns, with EBITDA (excluding gains on the sale of financial investments) decreasing only 52% of the decrease in revenue. This was only possible due to Pestana Hotel Group's focus on reducing and controlling costs through different measures such as the immediate reduction in variable expenses (cleaning, laundry, energy, temporary work and commissions), the adoption whenever possible of an insourcing strategy through the relocation of employees, with their prior approval, from temporarily closed to open units, not renewing fixed-term contracts, the use of job maintenance government supports and the renegotiation of contracts with several suppliers, including leases. Additionally, due to its shared services, the Group has the ability to quickly activate or deactivate its operations whenever demand is available or not.





In a year of many restrictions, G.O.P. margins were positive in almost all of the Group's business areas. This once again reiterates the importance of the diversification strategy followed by the Group in achieving this positive operating result as well as the flexibility of its cost structure.

In December 2020, Pestana Hotel Group disposed of its shares which represented 47,73% of SDM – Sociedade de Desenvolvimento da Madeira, S.A.'s share capital for 6.813.058 Euros, which generated a gain of 6.246.025 Euros. This subsidiary's revenue is presented in Others above.

Due to the pandemic the Group registered tax losses in 2020 in several countries which led to the recognition of deferred tax assets in the total amount of 10,5 million Euros (Portugal: 6,6 million Euros; Brazil: 1,4 million Euros; United States of America: 1 million Euros; Spain: 0,6 million Euros and Netherlands 0,5 million Euros).

A. Hospitality

All of the Group's units were prevented from receiving guests between April and June as consequence of the several restrictions imposed by countries where the Group operates. Despite the progressive opening of some units thereafter, major restrictions were maintained throughout the year to mitigate the spread of the virus, which limited the business activity. With the arrival of autumn, the pandemic situation got worse and new restrictions were established, namely concerning travelling restrictions. Thus, in November, the Group anticipated the suspension of the activity of some units that already usually did not operate in the winter and decided to temporarily close almost all of them until the second quarter of 2021, when the gradual recovery of tourism is expected to happen. Furthermore, the air traffic restrictions around the world led hospitality to be almost exclusively dependent on domestic and border tourism in each country. As a result of these restrictions, hospitality did not reach positive operating results in any geography since COVID-19 affected all markets similarly. However, some geographies were able to avoid negative operating results and some hotels were even able to reach positive operating results in 2020.

Despite the decrease in demand, Pestana Hotel Group ensured that there would be no significant fluctuations in the average price per room in its units, having registered a decrease of only 17% compared to the previous year, in a year of pandemic crisis, with an average value in 2020 of 85,7 Euros.

The Group's main feeder markets remained almost the same: United Kingdom, Germany, Brazil and France, except for the United States of America, which had been growing more relevant in recent years but dropped in 2020.

Prior to the pandemic outbreak, the presence of international markets was becoming increasingly more relevant in the hospitality business in Portugal. Therefore, traffic restrictions had a greater relevance in this geography resulting in negative operating results of 2,6 million Euros. However, it is noteworthy that the Pestana Hotel & Resorts brand in Portugal, registered a Gross operating profit ("G.O.P.") in Algarve and Madeira resorts due to the relief in traveling restrictions verified in the summer, namely between Portugal and the United Kingdom, clearly indicating that demand will come back as soon as the pandemic is minimized or overcome, even more so because the Group interacts with very mature markets such as the United Kingdom, Germany, the United States, France and Spain, which have historically recovered more quickly from economic crises.

America was the continent most affected by COVID-19 pandemic worldwide, both in terms of number of cases and deaths, mainly in Brazil and United States of America. Brazil was also impacted by the country's political position in relation to the pandemic situation which caused fear and insecurity in the country as well as a continuous and significant depreciation of the Brazilian real and an increase in inflation. On the other hand, the United States of America were also impacted by uncertainty until the end of the presidential elections which delayed the reopening of the economy in a healthy and safe way. Despite this fact, the Group opened its first hotel in Manhattan, New York, on 15 February 2020. However, it was forced to close a month later and remained so throughout the year and until the beginning of March 2021 but it was very well accepted by the market while open, so the Group's expectations for success as soon as the sanitary conditions allow are great. The hotel in Miami started 2020 with a 23% growth in revenue in the months of January and February compared to the same period of the previous year and despite the decrease for the rest of the year still reached a positive G.O.P..

In Europe, there were long periods of lockdown that greatly limited the hospitality business which explained why hotels in Spain and in United Kingdom presented negative operating results of 0,4 and 0,3 million Euros, respectively. Berlin, however, achieved break-even and Amsterdam despite the pandemic and only being in its third year of activity achieved a positive result of 0,3 million Euros.

The health crisis combined with an economic crisis experienced in Argentina caused by the uninterrupted increase in inflation and the depreciation of peso, caused great instability in the country which shows no signs of slowing down. This situation as well as the temporary closure of all hotel units decreed by the government led the Group's hotel in Buenos Aires present a negative operating result of 0,3 million Euros.

The Group's hotels in Africa are mostly located in developing countries with fewer resources to control the pandemic crisis, however it has as a whole reached break-even. However, some units stood out such as the hotel in Morocco, which presented a positive result because the hotel never closed and the region was less affected by the pandemic as well as the hotel in Cape Green which had an occupancy rate of 29%, as a result of the quarantine program celebrated with the Cape Verdean government.

B. Real Estate

Real Estate represented 30% of Pestana Hotel Group's revenue and it was the most relevant business area in terms of G.O.P in 2020. This business's revenue increased 12% and continues to be developed mainly in Portugal through the projects in Tróia (near Lisbon) that remain the most significant in terms of sales, having grown compared to the previous year. In addition, the Silves Golf Resort real estate project, in the Algarve, contributed to the reinforcement of the available inventory and registered its first deliveries in 2020. Two other real estate projects are still under construction, one in the Azores and one in Madeira. Already in 2021, a new land was acquired in Comporta (near Tróia) with 45.113 m2 for future real estate sales.

The Group's real estate business concept is usually based on selling villas and apartments for touristic use, either near one of its golf courses or hotel units that provide 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. The Group'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 represents 11% of Pestana Hotel Group's revenue and continues to be supported by close to 30.000 families that have followed the Group for the past nearly 30 years. The Group continues to develop Pestana Vacation Club (PVC) which allows guests to travel all along its 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 which are all part of the Group's loyalty program.

The revenue from Vacation Club is only recognized in EBITDA when the guest uses their right in one of the Group'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 2020, this business had a decrease of 40% in revenue both in terms of new contracts as well as management fees. As in the hospitality business, the unit's activity reduction and the restrictions on the air transportation impacted the possibility to use the right contracted and the negotiation of new contracts. Thus, for accommodation units for which use was made impossible by the pandemic and whose maintenance fees were paid, Pestana Hotel Group decided to allow the use of the accommodation unit during the remaining period of the contract.

D. Drinks (brewery)

The Drinks (brewery) business represented 11% of the Group's revenue in 2020 due to the effect of the pandemic in the remaining business areas. The Drinks (brewery) business usually represents 6% of the Group's revenue. Despite the COVID-19 pandemic, operating results only decreased by 25%.

E. Golf

This activity continues to represent 3% of Pestana Hotel Group's revenue having maintained a steady level when compared with the previous year. However, due to the pandemic, golf activity in 2020 was prevented from receiving clients during the high season between March and May and was penalized by air restrictions between European countries, mainly with the United Kingdom. Despite this scenario, it had a positive GOP. The Group continues to operate six golf courses, namely Alto Golf, Pinta, Gramacho, Silves and Vila Sol in Algarve and Beloura in Lisbon.

F. Entertainment

Entertainment activity also represents 3% of the Group's revenue, as a complement to the main hotel business, and is supported by two Casinos, one in Madeira and one in São Tomé & Principe. Madeira's casino continues to represent the majority of the revenue of this segment and its result has been significantly impacted once it was not allowed to receive clients in April and May. However, its reopening at the end of the first half of the year coupled with tight cost management allowed for a positive EBITDA in the second half of the year.

7.2. Statement of financial position highlights

(Amounts in millions of Euros)

Net Assets	2020	% TOTAL	Grupo Pestana SGPS	Djebel	Hotéis do Atlântico	Pestana Inversiones	Salvintur	Other	2019	2018 (a)
Investment (Fixed assets) (b)	975,2	91%	696,3	54,4	178,8	5,0	37,3	3,4	1.034,7	1.015,5
Deferred tax liabilities	-15,1	-1%	-6,4	-3,8	-1,4	0,0	-3,5	0,0	-27,6	-31,6
Total adjusted fixed assets	**960,1**	**90%**	**689,9**	**50,6**	**177,4**	**5,0**	**33,8**	**3,4**	**1.007,1**	**983,9**
Investment (Financial assets) (c)	28,8	3%	16,6	0,0	11,0	0,0	0,0	1,2	31,9	32,1
Other non-current assets (d)	32,1	3%	17,1	1,4	3,4	0,0	0,5	9,7	25,2	28,8
Current Assets - Current liabilities (e)	50,1	5%	52,8	-0,4	0,0	0,0	1,1	-3,4	48,2	29,2
Total adjusted assets	**1.071,1**	**100%**	**776,4**	**51,6**	**191,8**	**5,0**	**35,4**	**10,9**	**1.112,4**	**1.074,0**

Funding origins	2020	% TOTAL	Grupo Pestana SGPS	Djebel	Hotéis do Atlântico	Pestana Inversiones	Salvintur	Other	2019	2018 (a)
Equity	417,1	39%	257,7	43,6	101,5	6,3	36,6	-28,6	482,7	410,5
Collected deferred revenues (f)	152,3	14%	143,1	4,6	1,3	0,0	0,3	3,0	164,0	176,6
Deferred sales costs (f)	-41,0	-4%	-41,0	0,0	0,0	0,0	0,0	0,0	-45,2	-45,2
Total non-remunerated funding (adjusted equity)	**528,4**	**49%**	**359,8**	**48,2**	**102,8**	**6,3**	**36,9**	**-25,6**	**601,6**	**541,9**
Long term financial debt (g)	545,2	51%	424,1	0,0	87,3	0,0	1,0	32,8	527,0	505,3
Other non-current liabilities (h)	8,5	1%	3,4	3,9	0,5	0,0	0,0	0,7	6,5	6,1
Total non-current funding	**1.082,1**	**101%**	**787,3**	**52,1**	**190,6**	**6,3**	**37,9**	**7,9**	**1.135,0**	**1.053,3**
Short term financial debt (g)	56,0	5%	46,7	0,2	5,8	0,0	0,1	3,2	115,3	82,0
Cash and cash equivalents	-67,0	-6%	-57,6	-0,7	-4,6	-1,3	-2,6	-0,2	-137,9	-61,3
Net current debt	**-11,0**	**-1%**	**-10,9**	**-0,5**	**1,2**	**-1,3**	**-2,5**	**3,0**	**-22,6**	**20,7**
Total funding origins	**1.071,1**	**100%**	**776,4**	**51,6**	**191,8**	**5,0**	**35,4**	**10,9**	**1.112,4**	**1.074,0**
Net debt (i)	534,1		413,1	-0,5	88,6	-1,3	-1,5	35,7	504,4	526,0
EBITDA	33,7		48,1	-2,7	-3,1	-0,3	-0,2	-8,1	161,8	130,2
Working capital	50,1		52,8	-0,4	0,0	0,0	1,1	-3,4	48,2	29,2
Net capex (j)	27,3		23,5	1,0	2,3	0,1	-0,3	0,7	89,0	99,4
Capex under construction	57,4		51,8	1,4	0,3	3,8	0,1	0,0	89,2	95,3
Net debt / EBITDA ratio	15,86		8,59	N/A	-28,83	N/A	N/A	-4,41	3,12	4,04
(Net debt - Capex under construction) / EBITDA ratio	14,15		7,51	N/A	-28,73	N/A	N/A	-4,41	2,57	3,31
Net debt / Equity ratio	1,01		1,15	N/A	0,86	N/A	N/A	-1,40	0,84	0,97
Net debt / Total assets ratio (%)	50%		53%	N/A	46%	N/A	N/A	329%	45%	49%
Liquidity ratio (%) (Cash and cash equivalents) / (g+h)	11%		12%	17%	5%	N/A	234%	1%	21%	10%

Notes:
(a) Considering the adoption of IFRS 16
(b) Includes Tangible fixed assets, Intangible assets and Investment properties and excludes Deferred sales costs
(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) Long term financial debt plus Net current debt
(j) Additions net of Disposals

Pestana Hotel Group follows an asset heavy model which means that it owns most of its assets making it a capital-intensive Group. Total adjusted fixed assets, which includes leased assets, represent 90% of total adjusted assets. Consequently, the Group also carries the market value risk of the properties it owns and since it has historically made very prudent investments, generally having a reduced cost per room in its fixed assets, 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 statement of financial position.

After the pandemic outbreak, Pestana Hotel Group focused on measures that would guarantee the preservation of its liquidity, having kept its indebtedness level stable, having cash available in the amount of 67 million Euros, maintaining available credit lines in the amount of 121 million Euros and a working capital of 50 million Euros. Despite having guaranteed the completion of the investments under construction, it did not venture into new projects. Measures were implemented to control and reduce costs and due to the significant weight of the variable costs and the business diversification strategy followed the Group achieved a positive EBITDA of 34 million Euros. The Group also used government grants from several countries where it operates, such as debt moratoriums on capital reimbursements, through prior agreements with these entities, but decided to proceed with interest payments for most borrowings.

The implementation of these measures, the relevance of variable costs and the fact that this pandemic crisis occurred at a time when the Group was in a strong financial position, allow for the continuity of its operations in the medium term. Performing an extreme stress test in a limit situation, which is not expected to happen, the Group's subsistence would be safeguarded for at least 2 years with only the current cash available and the approved and unused financing lines, without the need for additional financing or the sale of assets, which, as previously stated, are mostly recognized at values substantially below market value and free of liens.

Expansion capex amounted to 19 million Euros. If this effect as well as SDM's disposal were excluded, net debt remained stable in 2020 (including lease liabilities). Pestana Hotel Group has a very controlled debt level with a maturity schedule in the medium long term, representing 91% of total financial debt. Furthermore, the cash available and unused credit lines cover 31% of the total financial debt, and when the lease liabilities are excluded from this ratio it increases to 45%. During 2020, the Group monitored the relationship with the financial institutions with which it works, ensuring a close collaboration and that the appropriate information was shared, having these institutions regularly ensured their availability to reduce or suspend commitments, as well as securing additional funding in case of need which was dully demonstrated by the suspension of the covenants provided in the loan agreements, despite the Group not foreseeing difficulties in fulfilling its responsibilities.

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

RTB.

8. Objectives and policies of Pestana Hotel Group regarding risk

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.

PTB.

9. Relevant issues that occurred after the year end

Last February 1st, an urban plot in Brejos da Carregueira de Baixo, parish of Comporta, Municipality of Alcácer do Sal, was acquired by public auction, with the purpose of selling plots with an already approved architectural project. The base value of the sale procedure was 6.870.000 Euros and Pestana Hotel Group bid the amount of 6.952.500 Euros. The respective adjudication has been already obtained by the referred Municipality and has already been paid the amount of 3.451.000 Euros. The remaining will be paid in the coming weeks on the date of the deed. As a result of the acquisition, Pestana Hotel Group commits to perform the urbanization and infrastructure works of the building within 3 to 5 years, estimated to be invested an amount between 1,75 million Euros and 2 million Euros.

On 5 March 2021, the Court of Auditors ("Tribunal de Contas") approved the disposal of the subsidiary SDM – Sociedade de Desenvolvimento da Madeira, S.A. agreed between Pestana Hotel Group and the Autonomous Region of Madeira on December 31, 2020 with effects on that date. This decision was already expected by the Group at the date the contract was signed based on the information provided by its external lawyers who accompanied the transaction.

10. The near future

The current degree of uncertainty leads the Group to prepare the short-term future with great caution. The general containment measures currently in place in most OECD countries reinforce this position. The budget restrictions of several governments that limit the support granted and the delay in making available the incentives of the so-called "European bazooka" continue to contribute to a cautious attitude that discourages new investment by entrepreneurs and investors.

The current situation may generate countless new opportunities, given the difficulties some operators will have in meeting their commitments, with higher levels of financial leverage, allowing other investors to take their place.

The crisis is also an opportunity for companies to reorganize themselves and, once they have successfully overcome this difficult period, to emerge stronger, able to retain and attract talent to meet the challenges of an increasingly global and competitive market.

Pestana Hotel Group has almost 50 years of history, having gone through several economic and financial crises with evident success, always aware that after recovering another crisis will come. The Group has grown significantly in recent years, taking advantage of the good times in the tourism sector, but always preparing for the future, reinvesting, gaining flexibility. Additionally, it has attracted talent from other business areas, made its cost structure more flexible, incorporated state-of-the-art technology into its processes, diversified investments reducing the level of risk, and restructured its financing by diversifying origins and ensuring debt service in line with its cash flow generating capacity and investment plans.

When this pandemic arrived, the Group put all possible solutions in place to reduce its cost structure, without drastic measures that could lead to situations of rupture, preserving as much as possible its assets, be it human, real estate and financial. The Group is thus prepared for the resumption of activity and to enter a new phase of growth which is expected to start as soon as possible and that will certainly bring new challenges that will be overcome with similar efficiency together with its partners.

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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, 28 April 2021

The Board of Directors

Dionísio Fernandes Pestana
Director

Chiara Louise Deceglie
Director

Hermanus Roelof Willem Troskie
Director

José Alexandre Lebre Theotónio
Director

B. de Freitas Branco

Rodrigo de Freitas Branco
Director

Consolidated financial statements

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Consolidated statement of financial position

(Amounts expressed in Euros)

	Notes	31 December 2020	31 December 2019
Assets			
Non-current			
Tangible fixed assets	6	1.007.365.105	1.070.595.800
Intangible assets	7	1.922.819	2.289.007
Investment properties	8	6.903.393	6.995.847
Investment in joint ventures	9	15.552.877	19.301.862
Investment in associates	10	13.275.530	12.590.287
Equity instruments at fair value through profit and loss	11	5.946.142	6.278.551
Deferred tax assets	12	12.521.414	11.443.776
Trade and other receivables	14	20.390.096	13.791.402
		1.083.877.376	**1.143.286.532**
Current			
Inventories	15	54.863.014	68.251.287
Trade and other receivables	14	55.561.415	65.065.090
Income tax receivable	16	3.506.701	14.288.888
Cash and cash equivalents	17	67.019.191	137.934.022
		180.950.321	**285.539.287**
Total assets		**1.264.827.697**	**1.428.825.819**
Equity			
Capital	18	238.000.000	238.000.000
Other reserves	19	(14.709.684)	5.451.864
Retained earnings	20	216.490.913	146.269.375
Profit for the period attributable to shareholders		(32.907.677)	74.632.835
Non-controlling interests	21	10.235.121	18.388.220
Total equity		**417.108.673**	**482.742.294**
Liabilities			
Non-current			
Provisions	22	7.323.495	5.614.554
Borrowings	23	374.429.695	345.046.782
Lease liabilities	24	168.256.539	181.941.038
Derivatives	25	1.176.734	847.359
Deferred tax liabilities	12	15.075.084	27.602.578
Deferred revenue	26	132.904.073	136.665.996
Advances from customers	14	631.500	–
Trade and other payables	27	53.937	16.243
		699.851.057	**697.734.550**
Current			
Provisions	22	3.918.856	6.838.183
Borrowings	23	46.667.109	102.505.843
Lease liabilities	24	11.792.572	12.811.708
Deferred revenue	26	19.425.054	27.361.136
Advances from customers	14	21.713.588	24.448.122
Trade and other payables	27	43.749.330	73.614.183
Income tax liabilities	16	601.458	769.800
		147.867.967	**248.348.975**
Total liabilities		**847.719.024**	**946.083.525**
Total equity and liabilities		**1.264.827.697**	**1.428.825.819**

The following notes form an integral part of the Consolidated statement of financial position as at 31 December 2020.

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Consolidated income statement

(Amounts expressed in Euros)

	Notes	Period 2020	Period 2019
Revenue	28	181.659.629	418.779.668
Cost of goods sold	15	(41.263.204)	(57.204.670)
External services and supplies	29	(62.831.426)	(115.618.334)
Personnel expenses	30	(54.879.291)	(94.905.350)
Charges of depreciation and amortization	6;7;8	(52.519.285)	(50.127.214)
Impairment losses of tangible assets	6	(3.263.106)	(3.328.960)
Impairment of receivables	14	(921.619)	(324.339)
Impairment of inventories	15	(133.264)	(160.336)
Provisions	22	(396.670)	(166.752)
Other income	31	17.185.983	14.489.751
Other expenses	32	(11.121.852)	(16.624.921)
Gains on investments in subsidiaries, joint ventures, associates and equity instruments at fair value through profit and loss	33	4.979.842	11.153.930
Operating profit		**(23.504.263)**	**105.962.473**
Financial expenses	34	(22.416.372)	(24.512.855)
Financial income	34	1.931.267	1.934.914
Profit before tax		**(43.989.368)**	**83.384.532**
Income tax	35	11.756.414	(4.011.340)
Profit for the period		**(32.232.954)**	**79.373.190**
Profit for the period attributable to:			
Shareholders of the group		(32.907.677)	74.632.835
Non-controlling interests		674.723	4.740.357
		(32.232.954)	**79.373.192**
EBITDA		33.740.022	161.755.838

The following notes form an integral part of the Consolidated income statement for the year ended 31 December 2020.

Consolidated statement of comprehensive income

(Amounts expressed in Euros)	Notes	Period 2020	Period 2019
Profit for the period		**(32.232.954)**	**79.373.192**
Items that recycled through profit and loss:			
Foreign currency translation differences	19;20;21	(24.192.504)	(2.032.085)
Change in fair value of hedging derivatives	25	66.552	82.876
Other comprehensive income for the period - net of income tax		**(24.125.952)**	**(1.949.209)**
Total comprehensive income for the period		**(56.358.906)**	**77.423.983**
Comprehensive income attributable to:			
Shareholders of the group		(56.974.963)	72.682.226
Non-controlling interests		616.057	4.741.757
		(56.358.906)	**77.423.983**

The following notes form an integral part of the Consolidated statement of comprehensive income for the year ended 31 December 2020.

Consolidated statement of changes in equity

(Amounts expressed in Euros)	Notes	Share capital	Other equity instruments	Other reserves	Retained earnings	Profit/loss for the period	Non-controlling interests	Total
		Attributable to shareholders						
At 1 January 2020		166.625.238	71.374.762	5.451.864	146.269.375	74.632.835	18.388.220	482.742.294
Changes in the period								
Profit for the period application	19;20			4.832.380	69.800.455	(74.632.835)	-	-
Transfers	19;20;21			(501.653)	(76.658)	-	578.311	-
Other changes recognized in equity	20			-	72.751	-	-	72.751
Changes in the perimeter	21;39			-	-	-	(2.479.296)	(2.479.296)
				4.330.727	**69.796.548**	**(74.632.835)**	**(1.900.985)**	**(2.406.545)**
Foreign currency translation differences	19;20;21			(24.558.161)	424.990	-	(59.332)	(24.192.503)
Change in fair value reserve - hedging derivatives (net of tax)	19;21			65.886	-	-	666	66.552
Profit for the period						(32.907.677)	674.723	(32.232.954)
Comprehensive income				**(24.492.275)**	**424.990**	**(32.907.677)**	**616.057**	**(56.358.905)**
				(20.161.548)	**70.221.538**	**(107.540.512)**	**(1.284.928)**	**(58.765.450)**
Transactions with shareholders in the period								
Distributions	21	-	-	-	-	-	(2.431.067)	(2.431.067)
Reimbursement of equity instruments	21	-	-	-	-	-	(3.400.728)	(3.400.728)
Other changes recognized in equity	21	-	-	-	-	-	(1.036.376)	(1.036.376)
		-	-	-	-	-	**(6.868.171)**	**(6.868.171)**
At 31 December 2020		**166.625.238**	**71.374.762**	**(14.709.684)**	**216.490.913**	**(32.907.677)**	**10.235.121**	**417.108.673**

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(Amounts expressed in Euros)	Notes	Attributable to shareholders: 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	19;21;39			697.540	–	–	7.047	704.587
Restated profit for the period application	19;20			7.001.053	63.842.197	(70.843.250)	–	–
Transfers	19;20;21			(4.349.686)	4.182.670	–	167.016	–
Other changes recognized in equity	20			–	23.573	–	–	23.573
				3.348.907	**68.048.440**	**(70.843.250)**	**174.063**	**728.160**
Foreign currency translation differences	19;20;21			(1.980.701)	(53.240)	–	1.856	(2.032.085)
Change in fair value reserve - hedging derivatives (net of tax)	19;21			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	21	–	–	–	–	–	30.000	30.000
Distributions	21	–	–	–	–	–	(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**

The following notes form an integral part of the Consolidated statement of changes in equity for the year ended 31 December 2020.

Consolidated cash flow statement

(Amounts expressed in Euros)	Notes	Period ended 31 December 2020	2019
Cash flow from operating activities			
Receipts from customers		178.158.801	409.567.087
Payments to suppliers		(109.715.690)	(170.209.412)
Payments to personnel		(61.868.282)	(94.717.542)
Cash generated from operations		6.574.829	144.640.133
Income tax receipt / paid		11.500.089	(19.862.095)
Other receipts / (payments)		2.023.521	(1.963.049)
Net cash flow from operating activities		**20.098.439**	**122.814.989**
Cash flow from investing activities			
Receipts related to:			
Tangible assets		1.420.380	2.272.423
Investments in associates	10	643.000	–
Interest income and similar		531.987	921.952
Dividends	9;34	36.560	3.871.572
Disposal of subsidiaries	39	–	25.000.000
Investments in joint ventures	9	–	500.000
Payments related to:			
Tangible assets		(29.187.368)	(60.725.866)
Investments in joint ventures	9	(250.001)	(2.750.000)
Intangible assets		(173.321)	(878.796)
Investments in equity instruments at fair value through profit and loss	11	–	(6.258.430)
Net cash from investing activities		**(26.978.763)**	**(38.047.145)**
Cash flow from financing activities			
Receipts related to:			
Borrowings		53.412.006	110.870.874
Payments related to:			
Borrowings		(74.527.274)	(78.031.953)
Lease liabilities		(8.076.196)	(9.457.968)
Reimbursement of equity instruments to Non-controlling interests	21	(3.400.728)	–
Dividends to Non-controlling interests	21	(2.431.067)	(5.989.140)
Loan interest expenses and similar charges		(15.227.313)	(17.327.035)
Lease interest expenses		(8.733.188)	(9.180.498)
Net cash from financing activities		**(58.983.760)**	**(9.115.720)**
Changes in cash and cash equivalents		**(65.864.084)**	**75.652.124**
Effects of exchange differences		1.060.482	443.870
Changes in the consolidation perimeter	39	(5.436.435)	10.032
Cash and cash equivalents at beginning of the year	17	135.538.554	59.432.528
Cash and cash equivalents at end of the year	17	**65.298.517**	**135.538.554**

The following notes form an integral part of the Consolidated cash flow statement for the year ended 31 December 2020.

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 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 Pestana 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 and New York. New hotels are also projected in 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 and touristic entertainment. It also includes an investment in industry.

Through the promotion of four brands (Pestana Hotels & Resorts, Pestana Collection, "Pousadas de Portugal" and Pestana CR7 Lifestyle), it currently operates 102 units of touristic lodging totalling 11.489 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 59 hotels (16 in Madeira, 10 in Algarve, 6 in Lisbon/Cascais/Sintra, 3 in Oporto, 1 in Azores, 5 in Brazil, 1 in Argentina, 1 in Venezuela, 2 in United States of America; 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 Amsterdam) and the management of the 35 "Pousadas de Portugal" (including Pousada de Lisboa and Pestana Churchill), 9 units of Vacation Club, 8 real estate/touristic ventures, 6 golf courses, 2 casino gambling concessions (one in Madeira and one in São Tomé and Príncipe), 1 travel agency, 1 entertainment company and 1 company in the drinks industry. These numbers include two hotels resulting from the partnership between Pestana Hotel Group and Cristiano Ronaldo, namely Pestana CR7 Lisboa and Pestana CR7 Funchal.

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

(a) Leased contract
(b) Management contract / Concession
(c) Franchised

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These consolidated financial statements were approved by the Board of Directors on 28 April 2021. The Board of Directors believes that the Consolidated financial statements give a true and fair view of the performance of Pestana Hotel Group, as well as its consolidated financial position and its consolidated cash flows.

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

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

The Consolidated financial statements are prepared by Pestana Hotel Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and effective as at 1 January 2020. 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.

In March 2020, the COVID-19 pandemic was declared by the World Health Organization, which required a quick response and adaptation from Pestana Hotel Group to the new context in order to safeguard its employees, customers and business. This pandemic led to the declaration of a state of emergency in several countries, preventing some hotel units from receiving guests between April and June. Despite the progressive opening of some units thereafter, major restrictions were maintained throughout the year to mitigate the spread of the virus, which limited the business activity (Note 28).

With the arrival of autumn, the pandemic situation got worse around the world and new restrictions have been established, namely the movement of people. Thus, in November, the Group anticipated the suspension of the activity of some units that usually didn't operate in the winter and decided to temporarily close almost all of them until the second quarter of 2021, when the gradual recovery of tourism is expected. This situation was not changed by states of emergency or lockdowns declared in early of 2021 in some countries where the Group operates.

Due to the impact of the pandemic, Pestana Hotel Group has focused on measures that would guarantee the preservation of its liquidity, having kept its level of indebtedness stable, having cash available in the amount of 67 million Euros, maintaining available credit lines in the amount of 121 million Euros and a working capital of 50 million Euros. Despite having guaranteed the completion of the investments under construction, it did not start new projects (Note 6). Measures were implemented to control and reduce costs, such as the immediate reduction of variable expenses (Note 29), fixed-term contracts were not renewed (Note 30), the relocation of employees, with their prior approval, from temporarily closed units to open units and the renegotiation of contracts with suppliers, including leases (Note 24). Government supports were also used, namely debt moratoriums (Note 23), but with the Group deciding to continue to pay most of the interest loans, government job maintenance programs and partial exemption of social security charges borne by the employer (Note 30), as well as exemption of advance payments for corporate income tax (Note 16).

The implementation of these measures, the relevance of variable costs and the fact that this pandemic crisis came at a time when the Group was in a strong financial position, allow for the continuity of its operations in the medium term. Performing an extreme stress test in a limit situation, which is not expected to happen, the Group's subsistence would be safeguarded for at least 2 years with only the current cash available and the approved and unused financing lines, without the need for additional financing or the sale of assets, which are mostly recognized at values substantially below market value and mostly free of liens.

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Expectations are positive considering that vaccination against COVID-19 has already started in Europe and North America, countries with greater purchasing power worldwide, which recover quicker from crisis and where the majority of the Group's customers are located. Thus, according to its analyses, projections and expectations, the Group is convinced that the activity will gradually return to the levels of the recent past, over a period of 3 to 5 years.

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.

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

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

a) The impact of the adoption of standards that became effective on 1 January 2020 is as follows:

- **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: IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRS 2, IFRS 3, IFRS 6, IFRS 14, 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. This amendment had no impact on the Group's Consolidated financial statements.

- **IAS 1 and IAS 8** (amendment), 'Definition of material'. These amendments revise 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. This amendment had no impact on the Group's Consolidated financial statements.

- **IFRS 3** (amendment), 'Definition of a business'. The 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. This amendment had no impact on the Group's Consolidated financial statements.

- **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Interest rate benchmark (IBOR) reform – phase 1'. 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 reliefs relate to hedge accounting, regarding: 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, the objective being that interest rate benchmark reform does not cause hedge accounting to be discontinued. However, any hedge ineffectiveness should continue to be recorded in the income statement. This amendment had no impact on the Group's Consolidated financial statements.

- **IFRS 16** (amendment), 'Leases – COVID-19 related rent concessions. This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether the rent concessions granted by lessors due to the COVID-19 pandemic are a modification to the lease contract, when three criteria are cumulatively met: i) the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change; ii) any reduction in lease payments only affects payments due on or before June 30, 2021; and iii) there are no substantive changes to other lease terms and conditions. Lessees that elect to apply this practical expedient, recognize the change in rent payments, as variable rents in the period(s) in which the event or condition that triggers the reduced payment occurs. This amendment is applied retrospectively with the impacts reflected as an adjustment to retained earnings (or another equity component, as appropriate) at the beginning of the annual reporting period in which the lessee applies this amendment for the first time. The impact of adopting this amendment is explained in Notes 24 and 31.

b) Amendments to standards that are mandatory for accounting periods beginning on or after 1 January 2021, but which the EU has not yet endorsed:

- **IAS 1** (amendment), 'Presentation of financial statements - classification of liabilities'. This amendment intends to clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by expectations (the assessment should determine whether a right exists, but should not consider whether or not the entity will exercise that right) or by events occurred after the reporting date, such as non-compliance with a "covenant". This amendment also introduces a new definition of "settlement" of a liability. This amendment is applied retrospectively. The Group will apply this amendment when it become effective with no expected impacts on the Consolidated financial statements.

- **IAS 16** (amendment), 'Proceeds before intended use'. This amendment changes the accounting treatment of the proceeds obtained from the sale of products that resulted from the production test phase of property, plant and equipment, prohibiting their deduction to the acquisition cost of assets. This amendment is applied retrospectively without restating comparatives. The Group will apply this amendment when it becomes effective with no expected impacts on the Consolidated financial statements.

- **IAS 37** (amendment), 'Onerous contracts - cost of fulfilling a contract'. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to labour and materials as well as the allocation of other expenses directly related to the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment must be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without restating comparatives. The Group will apply this amendment when it becomes effective with no expected impacts on the Consolidated financial statements.

- **Annual improvements 2018 – 2020.** This cycle of improvements impacts the following standards: IAS 41, IFRS 1, IFRS 9 e IFRS 16. The Group will apply these amendments when they become effective with no expected impacts on the Consolidated financial statements.

- **IFRS 3** (amendment), 'Reference to the Conceptual framework'. This amendment updates the references to the Conceptual framework published in the text of IFRS 3 without changing the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be given to liabilities and contingent liabilities within the scope of IAS 37 and IFRIC 21, incurred separately versus within a business combination. This amendment is applied prospectively The Group will apply this amendment when it become effective with no expected impacts on the Consolidated financial statements.

- **IFRS 9, IAS 39, IFRS 7 and IFRS 16** (amendments), 'Interest rate benchmark (IBOR) reform - phase 2'. These amendments address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one, providing exceptions as: i) changes to designations and hedging documentation; ii) amounts accumulated in the cash flow hedge reserve; iii) assessment of retrospective effectiveness on a hedge relationship under IAS 39; iv) amendments to hedge relationships for groups of items; v) presumption that an alternative benchmark rate designated as a non-contractually specified risk component is separately identifiable and qualifies as a hedged risk; and vi) update the effective interest rate, with no gain or loss recognized, for financial instruments measured at amortized cost with changes in the contractual cash flows as a result of IBOR reform, including leases that are indexed to an IBOR. The Group will apply this amendment when it become effective with no expected impacts on the Consolidated financial statements.

3. Main accounting policies

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

3.1. Consolidation

3.1.1. Subsidiaries

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

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

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

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

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

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

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

Entities that qualify as Subsidiaries are listed in 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.

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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	31-12-2020	31-12-2019
ARS - Argentine Peso	101,7500	67,7000
BRL - Brazilian Real	6,3719	4,5066
CVE - Cape Verde Escudo	110,2650	110,2650
GBP - Pound Sterling	0,8981	0,8512
MAD - Moroccan Dirham	10,8820	10,7438
MZN - Metical	91,6450	69,9350
STN - Dobra	24,5000	24,5000
USD - US Dollar	1,2268	1,1230
UYU - Uruguayan Peso	51,9596	41,7381
ZAR - Rand	18,0167	15,7896

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	2020	2019
ARS - Argentine Peso	80,1594	54,8610
BRL - Brazilian Real	5,8880	4,4123
CVE - Cape Verde Escudo	110,2650	110,2650
GBP - Pound Sterling	0,8896	0,8778
MAD - Moroccan Dirham	10,8244	10,7668
MZN - Metical	79,1099	69,9193
STN - Dobra	24,5000	24,5000
USD - US Dollar	1,1414	1,1196
UYU - Uruguayan Peso	47,9596	39,4042
ZAR - South African Rand	18,7719	16,1709

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.

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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 it has the expectation of using 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.

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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 so they are considered as extraordinary amortizations when they occur.

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.

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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 2020 and 2019 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 Hotel Group uses internal estimates and assumptions. This is the third level of the hierarchy of fair value.

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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, villas and apartments 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 and apartments 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 and apartments are recognized at their specific cost.

3.11. Income tax

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

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.

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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.

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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.

In accordance with the practical expedient COVID-19 - Related Rent Concessions – Amendment to IFRS 16, rent concessions granted as a direct consequence of the COVID-19 pandemic were not accounted as lease modifications, having been recognized in Other income.

3.18. Derivatives

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

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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 to subsidize wages and salaries or other charges with employees are recognized as a decrease in Personnel expenses in the Consolidated income statement in the same period in which the related costs are incurred and recorded. Other Operating grants are recognized as income in the Consolidated income statement in the same 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.

Revenue relating to maintenance costs defined contractually as an amount to be billed to timeshare customers, separately from the value of the accommodation right, is recognized on the agreed date during the contract period as Pestana Hotel Group has the right to receive this amount on that date, regardless of the use of the accommodation unit by the customer.

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 and apartments 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 completion 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 mainly 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.

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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 2020 and 2019, would lead to an increase/(decrease) in the Pestana Hotel Group results as follows:

	Consolidated income statement			
	31-12-2020		31-12-2019	
	+10%	-10%	+10%	-10%
GBP	1.519.939	(1.857.703)	1.634.724	(1.997.996)
	1.519.939	**(1.857.703)**	**1.634.724**	**(1.997.996)**

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.

Short term treasury excesses, when existent, are firstly used 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 with whom presents 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.

The Group's risk management strategy has not changed due to the fact that there is a worldwide pandemic situation. Considering its cost structure, it is expected that results will follow the evolution of the economic recovery, after the vaccination against COVID-19 has started. Tourism is expected to return to 2019 levels in a 3 to 5-year period. In addition, the Group has taken the measures it considers to be the most appropriate in order to quickly adapt to the new context, ensuring the safety of customers, employees and business continuity.

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 2020 and 2019.

Considering Pestana Hotel Group's consolidated net debt as at 31 December 2020 (excluding lease liabilities), an increase of 0,25% in the interest rate would result in the increase in the net finance expenses for the year of approximately 900.000 Euros (31 December 2019: approximately 800.000 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 number 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 has 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 from the main feeder markets for the Group's units. Due to the current pandemic context, there was a decrease in the ceiling of this insurance. This impact was reduced since transactions with companies and operators with assigned credit were fewer, while revenue in 2020 presented a significant weight of direct customers, who have no credit risk.

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 Long term bank deposits (domestic) rating, credit ratings for the Group's bank deposits and loans contracted with financial institutions, classified as Cash and cash equivalents are as follow:

	Bank deposits		Bank loans	
	2020	2019	2020	2019
Rating				
Aa3	842.894	2.159.855	20.240.000	21.620.000
A1	5.804	10.930	–	–
A2	19.038.755	72.245.047	125.716.593	82.904.423
A3	3.563.629	1.550.749	4.000.000	4.000.000
Baa1	16.172.440	11.479.744	36.431.513	33.281.642
Baa2	55.979	461.202	6.431.361	8.319.997
Baa3	16.809.926	13.962.014	52.399.422	51.121.397
Ba1	332.963	392.353	–	–
Ba2	51.159	211.109	–	–
B1	1.004.560	470.838	8.365.079	9.079.365
B2	4.297.340	27.611.734	–	–
No classification	4.007.981	5.427.203	39.912.831	43.200.063
	66.183.430	**135.982.777**	**293.496.799**	**253.526.887**

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.

Due to the impact of the COVID-19 pandemic, Pestana Hotel Group focused on measures that guarantee the preservation of its liquidity, having cash available in the amount of 67 million Euros, maintaining available credit lines in the amount of 121 million Euros and a working capital of 50 million Euros. Despite having guaranteed the completion of the investments under construction, the level of indebtedness remained stable, and there was no investment in new projects at this stage. This pandemic crisis emerged at a time when the Group had a strong financial position, enabling it to ensure the continuity of its operations in the medium term. Performing an extreme stress test in a limit situation, which is not expected to happen, the Group's subsistence would be safeguarded for at least 2 years with only the current cash available and the approved and unused financing lines, without the need for additional financing or the sale of assets, which are mostly recognized at values substantially below market value and mostly free of liens. In addition, government supports were also used, namely debt moratoriums postponing capital reimbursements, government job maintenance programs as well as exemption of advance payments for corporate income tax.

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. Whenever necessary, Pestana International Holdings S.A. supports its subsidiaries by ensuring that they continue to have a solid financial capacity.

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

31 december 2020	**Less than 1 year**	**Between 1 year and 5 years**	**More than 5 years**
Borrowings:	67.833.190	320.860.035	263.292.520
- bank loans	13.533.632	153.730.841	126.232.326
- bond loans	27.500.000	75.000.000	–
- commercial paper	2.944.444	21.777.776	444.447
- bank overdrafts	1.720.674	–	–
- lease liabilities	11.792.572	43.666.086	124.590.453
- undiscounted interests payable until maturity	10.341.868	26.685.332	12.025.294
Trade and other payables - non group	43.662.130	53.937	–
Derivatives financial instruments	366.670	810.064	–

31 december 2019	**Less than 1 year**	**Between 1 year and 5 years**	**More than 5 years**
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	–

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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 2020 and 2019 were as follows:

	31-12-2020	31-12-2019
Total borrowings	421.096.804	447.552.625
Total lease liabilities	180.049.111	194.752.747
Less: cash and cash equivalents	67.019.191	137.934.022
Net debt	534.126.724	504.371.350
Equity	417.215.011	482.742.294
Total capital	951.341.735	987.113.644
Gearing	**56%**	**51%**

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 would be as follows:

	31-12-2020	31-12-2019
Total borrowings	421.096.804	447.552.625
Total lease liabilities	180.049.111	194.752.747
Less: cash and cash equivalents	67.019.191	137.934.022
Net debt	534.126.724	504.371.350
Equity adjusted	554.152.807	629.002.168
Total capital	1.088.279.531	1.133.373.518
Gearing	**49%**	**45%**

4.3. Accounting for derivative financial instruments

As at 31 December 2020 and 2019, 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

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

5.4. Impairment

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 almost 50 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 2020 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 2020								
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**
Changes in 2020								
Additions	-	10.415.310	4.098.849	429.178	381.260	1.188.693	12.604.932	29.118.222
Disposals – acquisition cost	(58.373)	(1.459.478)	(685.751)	(104.726)	(959)	-	(54.958)	(2.364.245)
Disposals - accumulated depreciation	-	1.141.815	652.640	89.900	719	-	-	1.885.074
Write-offs - acquisition cost	-	(909.691)	-	(123.879)	(3.519)	-	(387.156)	(1.424.245)
Write-offs - accumulated depreciation	-	393.661	-	43.081	3.519	-	-	440.261
Write-offs - accumulated impairment	-	25.429	-	-	-	-	342.121	367.550
Transfers from and to Inventories	-	-	-	-	-	-	(1.482.928)	(1.482.928)
Transfers	-	34.588.725	2.862.116	-	124.300	111.827	(37.686.968)	-
Depreciation	(223.502)	(38.881.700)	(10.495.525)	(879.283)	(656.489)	(716.447)	-	(51.852.946)
Perimeter exits - acquisition cost	-	(29.581.222)	(483.390)	(216.485)	(461.157)	(4.647)	(363.660)	(31.110.561)
Perimeter exits - accumulated depreciation	-	28.472.454	475.292	214.350	460.932	2.489	-	29.625.517
Foreign currency translation - acquisition cost	(9.066.903)	(36.452.797)	(1.906.786)	(34.755)	(1.752.305)	(540.942)	(1.944.040)	(51.698.528)
Foreign currency translation - accum.depreciation	17.220	14.830.986	1.373.761	33.078	1.694.982	436.773	-	18.386.800
Foreign currency translation - accum.impairment	132.077	7.796	-	-	-	-	2.567	142.440
Impairment – charge	-	(449.465)	(42.861)	-	(946)	(234)	(2.769.600)	(3.263.106)
	(9.199.481)	**(17.858.177)**	**(4.151.655)**	**(549.541)**	**(209.663)**	**477.512**	**(31.739.690)**	**(63.230.695)**
31 December 2020								
Acquisition cost	194.111.959	1.245.622.813	291.173.636	9.461.199	28.376.323	13.494.159	60.985.166	1.843.225.255
Accumulated depreciation	(788.388)	(562.125.496)	(216.513.700)	(8.008.312)	(27.231.083)	(9.752.175)	-	(824.419.154)
Accumulated impairment	(425.463)	(7.378.931)	(88.615)	-	(1.085)	(509)	(3.546.393)	(11.440.996)
Net book value	**192.898.108**	**676.118.386**	**74.571.321**	**1.452.887**	**1.144.155**	**3.741.475**	**57.438.773**	**1.007.365.105**

PTB.

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

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Administrative equipment	Other tangible assets	Assets under construction	Total
1 January 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 (Nota 39)	(3.804.594)	(19.237.904)	(2.365.224)	(24.358)	(123.531)	(999.437)	-	(26.555.048)
Perimeter exits - accum. depreciation (Note 39)	-	8.628.436	1.952.309	24.358	120.709	970.335	-	11.696.147
Perimeter exits - accum. impairment (Note 39)	-	515.678	-	-	-	-	-	515.678
Impairment - charge	(557.665)	(2.095.756)	(45.754)	-	(139)	(275)	(971.295)	(3.670.884)
Impairment - reversals	-	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 - accum. depreciation	342	643.813	(160.033)	(4.364)	49.488	(8.075)	-	521.171
Foreign currency translation - accum. 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**

PB.

During the year ended as at 31 December 2020 and 2019, the movements occurred in Right of use assets, by asset type, are as follows:

	Land	Buildings and other constructions	Basic equipment	Transport equipment	Total
1 January 2020					
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**
Changes in 2020					
Additions	–	1.289.929	27.972	399.569	1.717.470
Write-offs - acquisition cost	–	(909.089)	–	(123.879)	(1.032.968)
Write-offs - accumulated depreciation	–	393.059	–	43.081	436.140
Write-offs - accumulated impairment	–	25.429	–	–	25.429
Foreign currency translation - acquisition cost	(922.337)	(4.313.892)	–	–	(5.236.229)
Foreign currency translation - accumulated depreciation	17.221	3.428.955	–	–	3.446.176
Foreign currency translation - accumulated impairment	–	7.796	–	–	7.796
Depreciation	(223.502)	(13.496.857)	(161.746)	(719.694)	(14.601.799)
Impairment - charge	–	(440.715)	–	–	(440.715)
	(1.128.618)	**(14.015.385)**	**(133.774)**	**(400.923)**	**(15.678.700)**
31 December 2020					
Acquisition cost	15.295.568	228.321.549	833.592	3.360.273	247.810.982
Accumulated depreciation	(788.387)	(90.259.024)	(703.589)	(2.505.497)	(94.256.497)
Accumulated impairment	–	(5.054.741)	–	–	(5.054.741)
Net book value	**14.507.181**	**133.007.784**	**130.003**	**854.776**	**148.499.744**

PTB.

	Land	Buildings and other constructions	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**

Additions excluding Right of use assets and Assets under construction

The main additions in 2020 refer essentially to:

- Refurbishments and renovations in existing hotel units, namely, Pestana D. João II, Pousada de Estói, Palácio do Freixo, Pousada de Viana do Castelo, Pestana Ocean Bay, Pestana Bazaruto Lodge, Pestana Amsterdam Riverside, Pestana Arena Barcelona, Pestana Buenos Aires for a total amount of approximately 4.875.000 Euros;

- Completion of the new hotel Pestana Lisboa Vintage for which the Group had celebrated a 17-year period lease contract in 2018 for the renovation and refurbishment of its new 121-key 4-star unit on Rua Braamcamp in Lisbon. The hotel's construction and refurbishment necessary to recover and adapt the building for hospitality purposes, as well as all furniture and equipment are Pestana Hotel Group's responsibility which pays an inflation-updated fixed rent. The Group's total investment was approximately 5.800.000 Euros, of which 2.550.000 Euros occurred in 2020. Given the uncertainty of the tourist flow caused by the COVID-19 pandemic, the opening date will be set as soon as the control over the pandemic allows;

- Completion of the last 139 rooms and a restaurant of Pestana Blue Alvor, a 5-star hotel with 491 rooms, 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 in 2020 2.000.000 Euros of a total investment of 39.900.000 Euros;

- Completion of Pestana Park Avenue, 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 was 36.900.000 Euros, of which 1.935.000 Euros occurred in 2020;

- Capitalization of direct costs on Vacation Club contract negotiations (Note 3.3) amounted to 1.125.000 Euros in 2020 (2019: 3.140.000 Euros);

- Completion of the necessary improvements in the urban buildings located in the historic center of Vila Real de Santo António that make up the new Pousada de Vila de Real Santo António and which were provided in the lease agreement signed in 2017 for a period of 20 years, for the installation and operation of a new unit under the brand "Pousada". This Pousada has 57 rooms, a restaurant and event rooms which is expected to open in 2021, but being subject to pandemic evolution, with a total investment of 3.760.000 Euros, of which 960.000 Euros occurred in 2020.

The main additions in 2019 refer to:

- Completion of Pestana Blue Alvor, having spent 9.675.000 Euros in 2019, which 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 2.480.000 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 2.310.000 Euros which opened in May 2019;

- Several replacement and refurbishment investments were carried out in the existing hotel units existing hotels, namely, in the Pestana Grand, Pestana Vilasol and Pestana Palace hotels for a value of approximately 2.200.000 Euros;

- Refurbishment of Vacation club undertaking Madeira Beach Club in 2019 in the amount of 1.760.000 Euros having started being sold in the first few months of 2019.

Right of use asset additions

Right of use assets refer, mainly, to buildings and other constructions as presented in Note 24.

In 2020 Right of use asset additions refer to:

- Adjustments made to reflect changes to the lease payments resulting from a change in Consumer Price Index as well as the extension of the term of some low-value lease agreements, in the amount of 1.320.000 Euros;

- New car lease agreements contracted, mainly by Pestana Management, S.A., the Group's shared services company, in the amount of 400.000 Euros.

PTB.

In 2019 Right of use asset additions 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 reimburse the amounts of community funds to the State for the establishment of said Pousada, the Assignor recognized in 2019, the subsidiary's 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, it was registered the extension of the period of the contract and of the Right of use assets and Lease liabilities in the amount of 11.260.000 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. 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 5.370.000 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 5.257.000 Euros;

- Pestana Cascais, which had its lease contract renewed for an additional 5 year, in the amount of 2.470.000 Euros;

- Pestana Fisherman, 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, or a 50-year period in the amount of 1.535.000 Euros;

- Beloura golf course which had its lease agreement renewed for an additional 4 years in the amount of 595.000 Euros.

Disposals

In 2020, disposals refer mainly to the sale of 7 apartments from Pestana Gramacho Residences, in Algarve, in the amount of 952.600 Euros (2019: 1.171.000 Euros), obtaining a gain in the amount of 532.600 Euros (2019: 650.000 Euros) (Note 31).

Writte-offs

With effect on 1 January 2020, the lease agreement for a 20-year period ended in 2037, in Empreendimento da Zona Lúdica do Penedo do Sono, in Porto Santo, in Madeira, was terminated due to causes beyond Pestana Hotel Group's control. The right of use asset at the termination date was 390.000 Euros.

The right of use for Convento do Carmo, in Brasil was terminated on September 30, 2020. This right of use asset was already fully impaired and was completely written off on the effective date. The lease liability on that date was 386.000 Euros.

Transfers from and to Inventories

In 2020, Pestana Hotel Group decided to change the purpose for the D. Fernando project to real estate, therefore the amount relating to land and costs incurred to date of 1.926.288 Euros was transferred to Inventories (Note 15). The Porto Santo land which was previously classified as Inventories (Note 15) has been integrated in the Pestana Dunas project, and consequently, the amount of 443.360 Euros was transferred to Tangible fixed assets.

Transfers

In 2020, Transfers from Assets under construction refer mainly to the completion of 4-star Pestana Park Avenue in New York, Pestana Lisboa Vintage in Lisbon and the new Pousada in Vila Real de Santo António (Algarve). Pestana Park Avenue opened in February 2020 and the remaining will open as soon as the pandemic is under control.

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.

PBTS.

Assets under construction

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

	2020	2019
Pestana Douro (Oporto)	15.767.389	11.479.112
Hotel in Rua das Flores (Oporto)	14.722.152	9.733.952
Pestana Dunas (Madeira)	8.103.539	9.912.500
Quinta da Amoreira (Algarve)	6.345.437	6.345.437
Pestana Montevideo (Uruguay)	3.738.557	4.625.519
North of Gramacho land (Algarve)	2.179.793	2.168.556
Pestana Fisherman	1.216.675	108.547
Golf course project (Algarve)	1.199.852	1.199.852
Pousada de Alfama	311.992	382
Hotel in Rua Augusta	286.088	248.845
Pestana Park Avenue (New York East)	–	30.900.307
Pestana Lisboa Vintage (Lisbon)	–	3.249.008
Pousada Vila Real de Santo António (Algarve)	–	2.799.920
D. Fernando land (Algarve)	–	1.926.288
Others	3.567.299	4.480.238
	57.438.773	**89.178.463**

The Pestana Douro project refers to the rehabilitation of a building acquired in 2018 in Oporto which will be 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. This project has been finished in the beginning of 2021 and will open as soon as the pandemic is under control. The Group's total investment was approximately 16.000.000 million Euros.

The Hotel in Rua das Flores project refers to a 4-star 87-key hotel in Oporto's historic city center which will result from the refurbishment of a building in advanced state of disrepair acquired in 2018, for 8.000.000 Euros. Construction is expected to conclude in 2021 and the total investment is expected to be about 15.000.000 Euros.

Pestana Dunas project relates to a new hotel in Porto Santo with a total of 396 beds and a total area of 60.000 m2. Pestana Dunas will be built with innovative and more environmentally sustainable techniques, similarly to Pestana Casino Studios, although it is expected to have lower construction costs. Pestana Dunas will confine with Pestana Porto Santo on the west and the proximity will allow for concentration and optimization between operations. It is still in licensing stage.

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), near Pestana Blue Alvor.

The Pestana Montevideo project (Uruguay) relates to the development of a new 100-key hotel unit with spa, indoor pool and ample meeting 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. This investment is still in licensing stage.

The land North of Gramacho has a total area of approximately 100 ha. A change in the Urbanization Plan was approved in this region of Algarve which granted Pestana Hotel Group a building area of 39.760 m² to develop a new real estate project of 303 villas and apartments (Note 15). Projects for an 18-hole golf course and a club house has already been presented. The real estate project was approved in January 2019 and the licensing process for the golf course and a Club house was concluded in the 4th quarter of 2020, with the issuance of the construction permit. 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. It is also developing a project for a rural touristic real estate project, with a total area of 24.710 m², located north of the Gramacho golf course and Pestana Gramacho Residences.

Pestana Fisherman refers to the construction of a new 4-star hotel to be built in the Torre Bela building, an old vacant municipal building, located in the city center of Câmara de Lobos, in Madeira, with 42 rooms, for which there is a lease agreement for 50 years. The total investment will be approximately 2.400.000 Euros and is expected to open in 2022.

The Golf course project is related to a 20-ha land surrounding the hotels Pestana Alvor Praia 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.

Pousada de Alfama concerns the construction of a new 4-star Pousada on Rua São Tomé, in Alfama, Lisbon, with 39 rooms. This unit has an underlying lease contract for a period of 25 years, starting from the beginning of the hotel's operation, automatically renewable for an equal period, unless waived by either party. As of 31 December 2020, the right of use of this asset is 5.085.000 Euros. In 2020 the project is in its final licensing stage, with an expected investment of 2.700.000 Euros.

The project in Rua Augusta, in Lisbon, relates to the refurbishment and construction of a new 4-star hotel unit with 89 rooms in Rua Augusta, in Lisbon, for which a lease contract had been celebrated, for a period of 27 years. As of 31 December 2020, the right of use of this asset is 11.825.000 Euros. The project is in the final stage of licensing, with an expected investment of 7.000.000 Euros.

Assets which are reversible to the State

Pestana Hotel Group recognizes in its financial statements assets related with gambling activities and with the concession of the Pousadas de Portugal network, 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 2020 is 8.650.000 Euros (2019: 8.288.000 Euros), and their useful life corresponds to their economic life or to the concession term, whichever is lower.

Perimeter exits

Perimeter exits in 2020 refer to the building owned by SDM - Soc. Desenvolvimento da Madeira, S.A., as a consequence of its disposal (Note 39).

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

Foreign currency translation

This caption in 2020 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 22.685.000 Euros and ii) the depreciation of the US Dollar against the Euro decreasing American fixed assets in the total amount of 4.855.000 Euros; iii) the depreciation of the Mozambican metical against the Euro decreasing Mozambican fixed assets in the total amount of 3.051.000 Euros (2019: decreasing the Brazilian fixed assets in the total net amount of 1.459.646 Euros and increasing American fixed assets in the total net amount of 2.406.000 Euros).

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

Impairment

Pestana Hotel Group has historically made very prudent investments, generally having a reduced cost per room in its fixed assets. Additionally, a significant part of these same assets have been revalued under IFRS 1 in 2010, with reference to the respective fair value as of 31 December 2008, but using real cash flows from 2009 and 2010 and with budgets for 2011, in full economic and financial crisis. All of these assets have depreciated since then.

Despite the impact of the pandemic on Pestana Hotel Group's activity in 2020, significant improvements are expected after the entry into force of vaccination plans in Portugal and in countries with greater purchasing power worldwide, since the Group interacts with very mature markets, such as the United Kingdom, Germany, the United States, France and Spain, which have historically recovered quicker from economic crises.

In 2020, from a prudent perspective and given the pandemic context, all Group tangible fixed assets were analyzed for impairment, taking into account external and internal indicators, namely, variations in discount rates, analysis of market transactions, cost per room ratios in the regions where the Group holds assets, temporary reduction of activity of some units and, in the specific case of right of use assets, variations in market yields and rents per room.

Pestana Hotel Group assessed the recoverability of these assets based on the following hierarchy: market indicators, external evaluations and internal evaluations. However, external valuations were only used occasionally, given how difficult they are to prepare in a pandemic context. Thus, when appropriate, internal valuations were carried out in accordance with the discounted cash flow method, which reflects the best expectation on the evolution of the activity for the next 5 years, using a discount rate that reflects the risk and the expected return by stakeholders. Extraordinarily in 2020, with the projections subject to several external variables due to the COVID-19 pandemic, the current value of the assets was determined by weighting three scenarios according to the expectation in which year the cash flows would return to those registered before the crisis: expected scenario (2024) - 50%; optimistic scenario (2023) - 30%; pessimistic scenario (2025) - 20%.

Based on this approach, in 2020 the impairments registered are mainly related to the land where Pestana Dunas will be constructed in the amount of 2.769.600 Euros and the right of use asset of Pestana Colombos Resort hotel in the amount of 440.700 Euros, whose contract ends in 2021 and which the Group has no intention of renewing.

For all other Group assets no impairments were identified.

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.

Sensitivity analyses 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 2020 would have increased by 390.000 Euros.

There are no onerous contracts.

7. Intangible assets

During the year ended as at 31 December 2020 the movements occurred in Intangible assets are as follows:

	Website and software
1 January 2020	
Acquisition cost	5.461.245
Accumulated amortization	(3.172.238)
Accumulated impairment	–
Net book value	**2.289.007**
Changes in 2020	
Additions	216.174
Disposals - acquisition cost	(885)
Disposals - accumulated amortization	393
Write-offs - acquisition cost	(3.468)
Write-offs - accumulated amortization	3.468
Perimeter exits - acquisition cost	(19.897)
Perimeter exits - accumulated amortization	19.897
Foreign currency translation - acquisition cost	(113.010)
Foreign currency translation - accumulated amortization	105.025
Amortization	(573.885)
	(366.188)
31 December 2020	
Acquisition cost	5.540.159
Accumulated amortization	(3.617.340)
Accumulated impairment	–
Net book value	**1.922.819**

PTB.

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**

8. Investment properties

During the year ended as at 2020 and 2019, the movements occurred in Investment properties are as follows:

	2020	2019
1 January		
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**
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)
	(92.454)	**(1.332.404)**
31 December		
Acquisition cost	9.966.593	9.966.593
Accumulated depreciation	(3.008.831)	(2.916.377)
Accumulated impairment	(54.369)	(54.369)
Net book value	**6.903.393**	**6.995.847**

In 2020, from a prudent perspective and given the pandemic context, the possible existence of impairment was analyzed for all of the Group's investment properties, either by analysis of external or internal indicators. Pestana Hotel Group assessed the recoverability of these assets based on the best market information available at the time, and no impairments were recognized.

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 2020 and 2019 Investment properties are mainly leased or intended to be leased and are detailed as follows:

	2020	2019
Commercial properties leased to third parties, Algarve	2.774.396	2.847.602
Funchal land, Madeira	1.269.455	1.269.455
Angra dos Reis land, Brazil	962.902	962.902
S. Gonçalo houses, Madeira	678.427	695.310
Others	1.218.213	1.220.578
	6.903.393	**6.995.847**

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

	2020	2019
Rents obtained	191.674	284.333
Operating expenses	(58.002)	(49.450)
Depreciation	(92.454)	(92.454)
	41.218	**142.429**

9. Investments in joint ventures

The movements occurred in Investments in joint ventures during 2020 and 2019 are as follows:

	2020	2019
1 January	19.301.862	20.319.031
Share capital constitution	1	250.000
Accessory capital contributions granted	250.000	2.750.000
(Losses) / gains from equity accounting (Note 33)	(690.820)	185.904
Foreign currency translation	(717.226)	168.499
Loss of control (Note 21)	(1.036.376)	–
Transfers (Note 10)	(1.554.564)	–
Reimbursements of accessory capital contributions	–	(500.000)
Dividends	–	(3.871.572)
31 December	**15.552.877**	**19.301.862**

In 2020, Pestana CR7 Manchester, Ltd. was incorporated with a share capital of 1 GBP corresponding to 50% of this company's share capital.

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. Accessory contributions were granted to Pestana CR7 Madrid, S.L. in the amount of 2.750.000 Euros in 2019 and 250.000 Euros in 2020. This company expects to conclude the construction of Pestana CR7 Madrid, a 168-key hotel, in 2021.

On June 22, 2020, due to the change that has occurred in the structure of the share capital of URP – Urban Renew Promoção Imobiliária, S.A., since Mr. Dionísio Pestana acquired 50% of the shares owned by the remaining shareholders, becoming the majority shareholder of the company, Pestana Hotel Group transferred this investment to an Associate (Note 10) and the impact of the loss of control amounted to 1.036.376 Euros (Note 21). In 2019, U.R.P. – Urban Renew, Promoção Imobiliária, S.A. distributed dividends in the amount of 3.555.000 Euros.

On December 2015, a Joint Venture Framework 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, S.A. was incorporated and in the following month Pestana CR7 – Lisboa, S.A. was incorporated as well. Also, in 2016 Pestana CR7 Manhattan 39, LLC was incorporated, in 2019, Pestana CR7 Madrid, S.L. and later Pestana Manchester, Ltd was equally incorporated. All five companies are jointly owned by Pestana Hotel Group promoting the partnership "Pestana CR7" in Madeira, Lisbon, New York and Madrid as well as in Marrakech, Manchester and Paris.

A set of decisions over the relevant activities that require the consent of both parties were defined, namely: approval of the business plan, the strategic plan and the annual budget; appointment of entity's representative to participate in general meetings of its subsidiaries and determination of the entity's vote; acquisition, disposal and charge of assets and contracting of bank financing of an amount higher than the predefined amount and not made within the ordinary course of business and not provided for in the annual budget; delegation of powers within the ordinary course of business to one or more directors or to an executive committee; incorporation of subsidiaries, creation of branches and creation of, or participation in, other forms of representation or corporate cooperation; subscription, acquisition and disposal of shareholdings or membership interests in other companies; approval and modification of any reward schemes, profit participation; the extension of the entity's business purpose to other activities other than the operation of the project; and advance of profits, among others.

In 2019 Pestana CR7 – Lisboa, S.A. distributed dividends in the amount of 316.572 Euros and reimbursed accessory contributions in the amount of 500.000 Euros.

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

Entity	% owned	Equity method			Accessory capital contributions			
		Investment amount	Impairment loss	Total	Investment amount	Impairment loss	Total	Total investment
Pestana Manhattan 39 LLC	51,00%	7.937.931	–	7.937.931	–	–	–	7.937.931
Pestana CR7 Madrid, S.L.	50,00%	79.833	–	79.833	3.000.000	–	3.000.000	3.079.833
Solpor – Soc. de Turismo do Porto Santo Lda.	50,00%	2.238.870	–	2.238.870	430.000	–	430.000	2.668.870
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	50,00%	–	–	–	1.375.000	–	1.375.000	1.375.000
Pestana CR7 - Madeira Invest. Turísticos, S.A.	50,00%	53.742	–	53.742	437.500	–	437.500	491.242
Pestana CR7 Manchester, Ltd.	50,00%	1	–	1	–	–	–	1
		10.310.377	–	10.310.377	5.242.500	–	5.242.500	15.552.877

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

Entity	% owned	Equity method			Accessory capital contributions			
		Investment amount	Impairment loss	Total	Investment amount	Impairment loss	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 of 31 December 2020, despite the COVID-19 pandemic, there are no indications of impairment that affect the value of investments in joint ventures.

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

10. Investments in associates

The movements occurred in Investments in associates during 2020 and 2019 are as follows:

	2020	2019
1 January	12.590.287	11.737.962
Transfers from Investments in joint ventures (Note 9)	1.554.564	–
(Losses) / gains from equity accounting (Note 33)	(226.321)	287.440
Share capital reduction	(300.000)	–
Repayment of loans granted	(343.000)	–
Accessory capital contributions granted	–	64.885
Transfers from Equity instruments at fair value through profit and loss (Note 11)	–	500.000
31 December	**13.275.530**	**12.590.287**

Transfers from Investments in joint ventures (Note 9) refer to U.R.P. – Urban Renew, Promoção Imobiliária, S.A.. In 2020, U.R.P. – Urban Renew, Promoção Imobiliária, S.A. made a share capital reduction in the total amount of 1.000.000 Euros and Pestana Hotel Group received 300.000 Euros corresponding to the percentage it owned.

The 2020 and 2019 results from equity accounting mainly refer to Enatur – Empresa Nacional de Turismo, S.A. (Note 33).

Transfers from Equity instruments at fair value through profit and loss (Note 11) refer to Lean Company Ventures II, S.A. when Pestana Hotel Group increased its voting rights to 20% and started to consider this company an Associate from May 2019 onward.

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

		Equity method			Acessory capital 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%	10.365.403	–	10.365.403	–	–	–	847.593	–	847.593	11.212.996	3.837.382
URP - Urban Renew Promoção Imobiliária, S.A.	30,00%	1.214.991	–	1.214.991	–	–	–	–	–	–	1.214.991	–
Lean Company Ventures II, S.A.	10,00%	–	–	–	495.000	–	495.000	–	–	–	495.000	–
Albar - Sociedade Imobiliária do Barlavento, S.A.	49,81%	287.658	–	287.658	64.885	–	64.885	–	–	–	352.543	–
Soehotur, S.A.	25,00%	596.403	(596.403)	–	–	–	–	172.521	(172.521)	–	–	–
Fantasy Land, Ltd.	33,33%	150.068	(150.068)	–	–	–	–	–	–	–	–	–
		12.614.523	(746.471)	11.868.052	559.885	–	559.885	1.020.114	(172.521)	847.593	13.275.530	3.837.382

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

		Equity method			Acessory capital 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 of 31 December 2020, despite the COVID-19 pandemic, there are no indications of impairment that affect the value of investments in associates.

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 2020 and 2019 are as follows:

	2020	2019
1 January	6.278.551	1.020.543
Changes in fair value	(331.123)	–
Perimeter exits	(5.589)	–
Foreign currency translation	(2.967)	7.801
Acquisitions	7.270	6.010.930
Loans granted	–	247.500
Transfers (Note 10)	–	(500.000)
Disposals	–	(508.223)
31 December	**5.946.142**	**6.278.551**

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. In 2020 changes in fair value refer to the investment held in this fund in the amount of 331.123 Euros, as a result of the devaluation of participation units based on the fund's quote.

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 started to consider this company 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 of 284.787 Euros (Note 33).

As at 31 December 2020 the Equity instruments at fair value through profit and loss have the following detail:

Entity	% owned	Fair value	Loans granted	Total investment
Iberis Bluetech Fund, FCR, EuVECA	n.a.	5.669.807	-	5.669.807
Others	n.a.	265.861	10.474	276.335
		5.935.668	**10.474**	**5.946.142**

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

Entity	% owned	Fair value	Loans granted	Total investment
Iberis Bluetech Fund, FCR, EuVECA	n.a.	6.000.930	-	6.000.930
Others	n.a.	267.147	10.474	277.621
		6.270.577	**10.474**	**6.278.551**

DTB.

12. Deferred tax assets and liabilities

As at 31 December 2020 and 2019, the balance recognized as Deferred taxes is presented in Consolidated statement of financial position at net value.

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

	2020	2019
Impact on income statement		
Deferred tax assets	12.742.261	(509.076)
Deferred tax liabilities	(1.644.354)	2.312.453
	11.097.907	1.803.377
Impact on perimeter changes (Note 39)		
Deferred tax assets	-	(24.138)
Deferred tax liabilities	987	434.589
	987	410.451

The outbreak of the COVID-19 pandemic over Pestana Hotel Group results led to tax losses in 2020 and the recognition of deferred tax assets in the amount of 10.498.493 Euros. These deferred taxes result mainly from Portugal in the amount of 6.637.431 Euros, Brazil in the amount of 1.375.795 Euros, United States of America in the amount of 1.024.709 Euros, Spain in the amount of 550.772 Euros and Netherlands in the amount of 509.307 Euros.

Carry forward tax losses in Portugal can be offset in next 12 years, in Brazil tax losses do not expire and in Luxembourg tax losses incurred until 31 December 2016 also do not expire and tax losses generated from 1 January 2017 onwards can be carried forward for 17 years. Tourism is expected to gradually recover to pre-crisis levels within 3 to 5 years and consequently Pestana Hotel Group does not foresee any restriction on the recoverability of these assets.

In the 2019 tax period, the context of the uncertainty regarding the fiscal treatment to be given in Portugal for 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 correspondent amounts registered had no fiscal relevance; and that ii) the simultaneous recognition of the Right of use asset and Lease liability did not fit into the initial recognition exemption foreseen in IAS 12 and, therefore, registered deferred tax assets and liabilities at the commencement date and submitted the tax returns for 2019 in accordance with this tax treatment.

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

i. The right of use asset is an asset subject to depreciation for tax purposes (straight-line method and considering the depreciation rates applicable to the underlying assets), since all expectations or provisions included in the lease payments are excluded for tax purposes (namely an estimate of costs to be incurred in dismantling and removing an asset, an expected amount to be paid under residual value guarantees, penalties for terminating the lease and the exercise price of a purchase option);

ii. The positive or negative adjustments made on the transition date related to leases for assets which were improved with constructions, are deductible in the taxable income, since the depreciation amounts of the underlying assets were the same than in previous years and which were not considered in the taxable income previously;

iii. Interest on operating lease liabilities (as on finance leases) are relevant for the maximum deductible net financing expenses as defined in the Portuguese corporate income tax rules.

In this context, Pestana Hotel Group has decided to present a gracious complaint regarding the 2019 income tax submitted in Portugal. As of 31 December 2019, the tax effect of this transition implies the decrease in the tax payable of that year in the amount of 7.118.044 Euros and, consequently, a decrease in tax benefits then considered and deducted in the amount of 4.585.457 Euros, resulting in an tax receivable of 2.532.587 Euros (Note 16).

Consequently, tax benefits deducted in 2019 for investment support tax ("RFAI") and System of tax incentives for research and development of businesses ("SIFIDE") in the amount of 4.585.457 Euros will be corrected once the new tax result is not sufficient to deduct them. However, these benefits may be deductible in subsequent years, SIFIDE for eight years and RFAI for ten years, reason for which a deferred tax asset was recorded in the same amount which is expected to be recovered in 3 years.

Deferred tax assets recognized on the transition date for IFRS 16 were reversed in amount of 5.018.023 Euros. When the useful life of the underlying assets for tax purposes is less than the period of the lease, the Group recognized a deferred tax liability in the amount of 2.962.501 Euros. The tax estimate for Portuguese companies in 2020 has already been calculated in accordance with the clarification issued by the local tax authorities.

As at 31 December 2020, once the Portuguese tax benefit related to investments made in fixed assets ("RFAI") was not deductible in the year, deferred tax assets were recorded in amount of 2.111.532 Euros. This tax benefit can be deductible up to the 10th subsequent tax period however the Group expects to recover it in 4 years.

In Portugal, due to the change of the Tax benefit code concerning the share capital's conventional remuneration introduced by the Portuguese state budget of 2017 and 2018, increases of share capital made in 2020 and 2019 grant companies a benefit of 7% of increases made in cash for the period in which it is made and the following five tax periods, limited to share capital increases of 2.000.000 Euros per company. In 2020 and 2019 a deferred tax asset was registered, corresponding to the benefits for the following years in the amount of 1.029.760 Euros and 266.350 Euros, respectively.

As at 31 December 2020, considering that part of the net financial expenses for the period are not tax deductible in Portugal because of the reduction verified in EBITDA calculated for tax purposes, deferred tax assets were recorded in amount of 720.730 Euros. These net financial expenses can be deductible up to the 5th subsequent tax period and the Group's expectation is that they will be recoverable within that timeframe.

PTB.

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

	Carry forward tax losses	Tax benefits	Leases	Share capital's conventional remuneration	Litigations in progress	Deemed cost (IFRS 1) on tangible assets	Net financing charges	Loyalty program (PPG)	Changes in fair value	Hedging reserves	Others	Total
1 January 2020	17.701.641	–	8.154.593	1.111.586	1.932.889	2.442.660	–	538.682	1.241.082	126.082	3.622.039	36.871.254
Constitution through income statement:												
Impact of transition to IFRS 16	–	4.585.457	–	–	–	–	–	–	–	–	–	4.585.457
Others	10.498.493	2.111.532	172.543	1.029.706	114.856	–	720.730	150.330	–	106.774	377.187	15.282.151
Reversal through income statement:												
Impact of transition to IFRS 16	–	–	(5.018.023)	–	–	–	–	–	–	–	–	(5.018.023)
Others	(779.909)	–	–	(394.355)	–	(241.066)	–	–	(691.994)	–	–	(2.107.324)
Foreign currency translation	(2.251.698)	–	–	–	(501.329)	(596.570)	–	–	–	–	(229.224)	(3.578.821)
Changes on period	**7.466.886**	**6.696.989**	**(4.845.480)**	**635.351**	**(386.473)**	**(837.636)**	**720.730**	**150.330**	**(691.994)**	**106.774**	**147.963**	**9.163.440**
	25.168.527	6.696.989	3.309.113	1.746.937	1.546.416	1.605.024	720.730	689.012	549.088	232.856	3.770.002	46.034.694
Offset of Deferred tax liabilities	(13.411.087)	(6.696.989)	(3.309.113)	(1.629.337)	(1.546.416)	(1.326.797)	(720.730)	(689.012)	(549.088)	(59.262)	(3.575.449)	(33.513.280)
31 December 2020	**11.757.440**	–	–	**117.600**	–	**278.227**	–	–	–	**173.594**	**194.553**	**12.521.414**

Foreign currency translation in 2020 mainly refer to the significant depreciation of the Brazilian Real against the Euro, decreasing the Brazilian Deferred tax assets in the total net amount of 3.346.342 Euros (2019: decreasing the Brazilian Deferred tax assets by 220.430 Euros) (Note 3.2. iv).

	Carry forward tax losses	Leases	Share capital's conventional remuneration	Provisions Litigations in progress	Deemed cost (IFRS 1) on tangible assets	Loyalty program (PPG)	Changes in fair value	Hedging reserves	Others	Total
1 January 2019	19.554.051	7.447.617	1.093.413	1.684.575	2.761.996	522.653	446.197	129.087	3.938.071	37.577.660
Constitution through income statement	501.849	706.976	266.350	280.584	–	16.029	794.885	–	263.990	2.830.663
Reversal through income statement	(2.241.556)	–	(248.177)	–	(271.576)	–	–	(3.005)	(575.426)	(3.374.395)
Foreign currency translation	(112.703)	–	–	(32.270)	(23.619)	–	–	–	(4.599)	(173.191)
Perimeter exits (Note 39)	–	–	–	–	(24.141)	–	–	–	3	(24.138)
Changes on period	**(1.852.410)**	**706.976**	**18.173**	**248.314**	**(319.336)**	**16.029**	**794.885**	**(3.005)**	**(316.032)**	**(741.061)**
	17.701.641	8.154.593	1.111.586	1.932.889	2.442.660	538.682	1.241.082	126.082	3.622.039	36.871.254
Offset of Deferred tax liabilities	(8.121.922)	(7.213.987)	(986.986)	(1.932.889)	(2.325.642)	(538.682)	(1.241.082)	(63.031)	(3.003.257)	(25.427.478)
31 December 2019	**9.579.719**	**940.606**	**124.600**	**–**	**117.018**	**–**	**–**	**63.051**	**618.782**	**11.443.776**

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

	Deemed cost (IFRS 1) on tangible assets	Differences in Depreciation rate	Others	Total
1 January 2020	50.488.793	492.733	2.048.530	53.030.056
Constitution through income statement:				
Impact of transition to IFRS 16	–	2.962.501	–	2.962.501
Others	–	120.508	–	120.508
Reversal through income statement	(1.410.580)	(15.307)	(12.768)	(1.438.655)
Foreign currency translation	(5.959.082)	(12.908)	(113.069)	(6.085.059)
Perimeter exits (Note 39)	–	–	(987)	(987)
Changes on period	**(7.369.662)**	**3.054.794**	**(126.824)**	**(4.441.692)**
	43.119.131	3.547.527	1.921.706	48.588.364
Offset of Deferred tax assets	(33.171.747)	(341.533)	–	(33.513.280)
31 December 2020	**9.947.384**	**3.205.994**	**1.921.706**	**15.075.084**

	Deemed cost (IFRS 1) on tangible assets	Differences in depreciation rate	Others	Total
1 January 2019	52.999.267	562.765	2.649.501	56.211.533
Constitution through income statement	–	21.596	–	21.596
Reversal through income statement	(1.650.072)	(37.449)	(646.528)	(2.334.049)
Foreign currency translation	(425.813)	701	(9.322)	(434.434)
Perimeter exits (Note 39)	(434.589)	–	–	(434.589)
Changes on period	**(2.510.474)**	**(15.152)**	**(655.850)**	**(3.181.476)**
	50.488.793	492.733	2.048.530	53.030.056
Offset of Deferred tax assets	(24.760.690)	(61.630)	(605.158)	(25.427.478)
31 December 2019	**25.728.103**	**431.103**	**1.443.372**	**27.602.578**

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

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 5.404.068 Euros (2019: decreasing the Brazilian Deferred tax liabilities in the total net amount of 347.023 Euros) (Note 3.2 iii).

13. Financial assets and liabilities

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

31 December 2020	Amortized cost	Fair value through profit and loss	Fair value through comprehensive income	Other non financial assets and liabilities	Total
Financial assets					
Cash and cash equivalents	67.019.191	–	–	–	67.019.191
Trade and other receivables	48.662.656	–	–	27.288.854	75.951.510
Equity instruments at fair value through profit and loss	–	5.946.142	–	–	5.946.142
	115.681.847	**5.946.142**	**–**	**27.288.854**	**148.916.843**
Financial liabilities					
Borrowings	421.096.804	–	–	–	421.096.804
Derivatives	–	–	1.176.734	–	1.176.734
Advances from customers	22.345.088	–	–	–	22.345.088
Trade and other payables	19.809.542	–	–	23.993.725	43.803.267
	463.251.434	**–**	**1.176.734**	**23.993.725**	**488.421.893**

31 December 2019	Amortized cost	Fair value through profit and loss	Fair value through comprehensive income	Other non financial assets and liabilities	Total
Financial assets					
Cash and cash equivalents	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
Advances from customers	24.448.122	–	–	–	24.448.122
Trade and other payables	38.456.231	–	–	35.174.195	73.630.426
	510.456.978	**–**	**847.359**	**35.174.195**	**546.478.532**

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:

	31-12-2020			31-12-2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Equity instruments at fair value through profit and loss	–	–	5.946.142	–	–	6.278.551
	–	**–**	**5.946.142**	**–**	**–**	**6.278.551**
Financial liabilities						
Derivatives	–	1.176.734	–	–	847.359	–
	–	**1.176.734**	**–**	**–**	**847.359**	**–**

14. Trade and other receivables and Advances from customers

As at 31 December 2020 and 2019 Trade and other receivables and Advances from customers are detailed as follows:

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Trade and other receivables						
Trade receivables (i)	16.288.425	–	16.288.425	26.152.588	–	26.152.588
Other receivables (ii)	7.839.229	8.776.415	16.615.644	10.174.314	2.280.631	12.454.945
Prepayments (iii)	3.664.117	11.612.594	15.276.711	6.678.749	11.505.744	18.184.493
Accrued income (iv)	12.011.056	1.087	12.012.143	11.706.369	5.027	11.711.396
Taxes receivable (v)	15.758.588	–	15.758.588	10.353.070	–	10.353.070
	55.561.415	**20.390.096**	**75.951.511**	**65.065.090**	**13.791.402**	**78.856.492**
Advances from customers (vi)	**(21.713.588)**	**(631.500)**	**(22.345.088)**	**(24.448.122)**	**-**	**(24.448.122)**

Trade and other receivables as well as Advances from customers have no significant difference between their carrying amount and fair value.

i) Trade receivables

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables - group (Note 40)	3.116.099	-	3.116.099	2.105.458	-	2.105.458
Trade receivables - other	13.172.326	-	13.172.326	24.047.130	-	24.047.130
Doubtful debtors	8.842.868	-	8.842.868	14.097.315	-	14.097.315
	25.131.293	-	25.131.293	40.249.903	-	40.249.903
Impairment of trade receivables	(8.842.868)	-	(8.842.868)	(14.097.315)	-	(14.097.315)
	16.288.425	**-**	**16.288.425**	**26.152.588**	**-**	**26.152.588**

Impairment of Trade receivables – movements of the year:

	2020	2019
1 January	14.097.315	14.763.028
Increases	855.639	324.339
Utilizations	(157.373)	(931.651)
Transfers - Other receivables	(47.321)	156.534
Foreign currency translation	(231.646)	(7.208)
Perimeter exits	(5.673.746)	(207.727)
31 December	**8.842.868**	**14.097.315**

ii) Other receivables

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Other debtors - group (Note 40)	52.439	1.887.947	1.940.386	18.138	1.916.189	1.934.327
Other debtors	7.965.341	6.888.468	14.853.809	10.195.686	411.244	10.606.930
Personnel	14.685	-	14.685	-	-	-
Impairment	(193.236)	-	(193.236)	(39.510)	(46.802)	(86.312)
	7.839.229	**8.776.415**	**16.615.644**	**10.174.314**	**2.280.631**	**12.454.945**

Trade and other receivables balances, as of 31 December 2019, referring to subsidiaries that exited the consolidation perimeter were 3.031.011 Euros (Note 39).

As at 31 December 2020 and 2019, the caption Other debtors – group includes the receivable amount of 1.887.947 Euros and 1.916.189 Euros, respectively, from the sub-lease resulting from the derecognition of the Right of use asset concerning the sub concession agreement signed in 2016 for the private use of Pestana CR7 Funchal hotel until 2044, with Pestana CR7 – Madeira, S.A. (Note 3.17).

Other debtors, non-current, mainly refers to the amount receivable from the Autonomous Region of Madeira for the sale in 2020 of SDM - Sociedade de Desenvolvimento da Madeira, S.A., for the amount of 6.813.058 Euros, that will be received in two tranches of the same amount, until 30 June 2022 and 30 June 2023 (Note 39).

Impairment of Other receivables - movements of the year:

	2020	2019
1 January	86.312	249.551
Increases	65.980	–
Transfers - Trade receivables	47.321	(156.534)
Foreign currency translation	(6.377)	140
Perimeter exits	–	(6.845)
31 December	**193.236**	**86.312**

The ageing of balances without impairment is as follows:

	2020	2019
0 to 6 months	21.187.001	25.537.934
6 to 12 months	2.096.536	2.614.452
12 to 18 months	2.938.426	3.874.837
18 to 24 months	1.165.823	1.263.573
more than 24 months	5.516.283	5.316.737
	32.904.069	**38.607.533**

The ageing balances without impairment for more than 24 months include the receivable amount from the sub-lease of Pestana CR7 Funchal as already mentioned, as well as judicial deposits made for provisioned lawsuits in the current balance in the total amount of 2.328.791 Euros (Note 22).

The ageing of overdue balances with impairment is as follows:

	2020	2019
0 to 6 months	347.261	487.586
6 to 12 months	534.531	304.953
12 to 18 months	849.194	217.647
18 to 24 months	487.973	117.370
more than 24 months	6.817.145	13.056.071
	9.036.104	**14.183.627**

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

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

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iii) Prepayments

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Commissions	630.840	11.541.574	12.172.414	2.107.873	11.460.509	13.568.382
Rentals	12.134	–	12.134	211.363	–	211.363
Insurance	353.886	–	353.886	364.932	–	364.932
Maintenance services	1.056.013	–	1.056.013	1.207.554	–	1.207.554
Other services	1.611.244	71.020	1.682.264	2.787.027	45.235	2.832.262
	3.664.117	**11.612.594**	**15.276.711**	**6.678.749**	**11.505.744**	**18.184.493**

As at 31 December 2020 and 2019 the balance of Commissions relates exclusively to commissions paid related to sales of Pestana Vacations Club – Options contracts (Note 3.21 ii).

iv) Accrued income

As of 31 December 2020 and 2019, this caption essentially refers to the amounts that will be received upon the completion of the deeds of the housing units already delivered to owners, in the amount of 11.329.415 Euros and 9.885.291 Euros, respectively.

v) Taxes receivable

As at 31 December 2020 and 2019 this caption is mainly related to VAT receivable.

vi) Advances from customers

Refers, mainly, to the amounts received along the construction works, amounting in total to 13.550.188 Euros (31 December 2019: 12.971.871 Euros) and maintenance fees charged in advance under timeshare contracts amounting to 4.767.348 Euros (31 December 2019: 5.679.121 Euros).

The residual amount in 31 December 2020 and 2019 are mainly related to reservations of events for companies, groups and individual customers who have not requested a refund, keeping reservations for future dates when conditions apply.

15. Inventories

As at 31 December 2020 and 2019 Inventories are detailed as follows:

	2020	2019
Goods	847.889	805.679
Raw and subsidiary materials	2.360.580	2.762.838
Finished goods	771.379	1.044.566
Work in progress	51.307.148	64.019.873
	55.286.996	68.632.956
Impairment of inventories	(423.982)	(381.669)
	54.863.014	**68.251.287**

Finished goods and Work in progress are as follows:

	2020	2019
Silves Golf Resort project (Algarve, Portugal)	11.766.359	13.650.941
Tróia Eco-Resort project (Tróia, Portugal)	8.789.866	25.219.670
North of Gramacho land (Algarve, Portugal)	7.933.597	7.886.584
Abrunheira project (Portalegre, Portugal)	6.349.235	6.345.335
Coliseu project (Azores, Portugal)	4.885.233	1.249.709
Fábrica, Apartamentos & Lofts (Madeira, Portugal)	4.040.034	3.992.295
Pestana Comporta Village Residences (Tróia, Portugal)	3.577.776	3.576.673
D. Fernando project (Algarve, Portugal) (Note 6)	2.285.653	-
Bazaruto Villas (Mozambique)	879.975	1.153.146
Beverages and packaging	859.182	774.079
Porto Santo land	-	443.360
Others	711.617	772.647
	52.078.527	**65.064.439**

The Silves Golf Resort 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 is already licensed and in 2020 4 apartments and 1 villa were finished and the construction of more 4 villas was started and will be completed in 2021.

The Tróia project is related to the construction of houses and the infrastructures of a touristic village. The number of house deliveries increased in 2020 since the pandemic context caused an increase in the demand for properties in quieter and safer areas, with less propensity for virus transmission. The variation occurred in 2020 essentially respects to the development and completion of the construction of Lot 1 apartments, with 54 delivered units, with 13 units still to be delivered.

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

On a land with an area of about 450 ha, the Abrunheira project is formed by 13 touristic undertakings, divided in 10 tourist villages, 2 touristic apartments with houses and 1 hotel or apart-hotel, with an additional 32 plots of equipment, infrastructures and leisure spaces, including a golf course, a Club House and an equestrian centre. This project is intended to be undertaken through phases, with the first one having been submitted for approval in November 2019, corresponding to an area of 63 ha and is composed of 1 tourist village with 13 lodging units, two tourist apartments and 1 apart-hotel. In 2020, the application to the Rural Development Program (PDR 2020) has been approved to start an intensive olive grove project with an extension of 100 ha which grants a non-refundable subsidy about 20% of the investment and implies the construction of dams which will enhance the attractiveness of the real estate component.

In 2019, the land where the Coliseu project is located, began being used to build a real estate project in the Azores, with the amount of 1.239.950 Euros transferred from Investment properties (Note 8). This undertaking refers to a real estate project in Ponta Delgada's city centre, in the Azores, near the Micaelense Coliseum with 56 apartments and which represents a total expected investment of 8.500.000 Euros. As at 31 December 2020 46 promissory contracts had already been signed with the completion of the works and delivery of the apartments to customers expected for 2021.

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

The Pestana Comporta Village Residences project is located 200 meters from Vila da Comporta and 2 km from the beach, where 75 units of type T1 and T2 with swimming pool will be developed. The real estate project is in the licensing process and the construction will start in the end of 2021. In October 2020 the sales process started due to the high demand for this type of real estate project and 56 reservations have already been made with advances of 631.500 Euros.

In 2020, the D. Fernando land, located in south of Gramacho, started to be used in the construction of a real estate project with 77 independent units intended for sale, with a total estimated construction value of 16.000.000 Euros, thus 1.926.288 Euros were transferred from Tangible fixed assets to Inventories.

Bazaruto Villas comprises the construction of luxury villas in a rustic setting located near the beach of the island of Bazaruto in Mozambique. The variation of the year refers to the currency translation adjustment.

The Porto Santo land was transferred to Tangible fixed assets in 2020 as it became part of the Pestana Dunas project (Note 6).

In 2020, the Cost of goods sold and materials consumed amounted to 41.263.204 Euros (31 December 2019: 57.204.670 Euros). Due to the impact of the pandemic COVID-19 on the hotel activity in 2020, and more specifically on the activity of Food & Beverage, there was a decrease of 23.912.089 Euros in the Cost of goods sold and of materials consumed compared to the previous period. Conversely, the real estate activity continued to grow, with its cost of sales amounting to 26.731.249 Euros in 2020 and 18.760.626 Euros in 2019.

Impairment of Inventories – movements of the year:

	2020	2019
1 January	381.669	327.068
Increases	133.264	160.336
Utilizations	(90.573)	(104.814)
Foreign currency translation	(378)	(242)
Perimeter exits	–	(679)
31 December	**423.982**	**381.669**

As of 31 December 2020, despite the COVID-19 pandemic, there are no additional signs of impairment.

16. Corporate income tax

The balances of Corporate income tax for the years ended 31 December 2020 and 2019 are as follows:

	31-12-2020		31-12-2019	
	Assets	Liabilities	Assets	Liabilities
Current income tax	3.506.701	601.458	14.288.888	769.800
	3.506.701	**601.458**	**14.288.888**	**769.800**

The balance of Current income tax is detailed as follows:

	2020	2019
Advance payments	1.544.813	18.925.667
Withholding taxes	578.358	594.038
Current income tax estimate	(1.750.515)	(6.000.617)
Impact of transition to IFRS 16 (Notes 12 and 35)	2.532.587	-
	2.905.243	**13.519.088**

In 2020, the Portuguese government has exempted companies from paying the first two advance payments due to the context of the pandemic, whenever the amounts invoiced had decreased more than 40% compared to the previous year. Furthermore, the third advance payment was also not paid since at the due date the existence of a tax loss for the year 2020 was already expected. The advances payments made in Portugal in 2019 were in the amount of 16.623.812 Euros. This exemption was not applied to the "Additional advance payments" and consequently in 2020 the Group paid 1.255.278 Euros in Portugal (2019: 2.227.973 Euros).

17. Cash and cash equivalents

As at 31 December 2020 and 2019 Cash and cash equivalents are detailed as follows:

	31-12-2020	31-12-2019
Cash	835.761	1.951.245
Bank deposits	66.183.430	135.982.777
	67.019.191	**137.934.022**

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 2020 and 2019 is as follows:

	31-12-2020	31-12-2019
Cash	835.761	1.951.245
Bank overdrafts	(1.720.674)	(2.395.468)
Bank deposits	66.183.430	135.982.777
	65.298.517	**135.538.554**

Cash and cash equivalents balances referring to the subsidiaries that left the consolidation perimeter in 2020 amounted to 10.624.313 Euros as at 31 December 2019 (Note 39).

Balances in foreign currency are included in Bank deposits and are mainly composed by 2.247.655 USD and 559.463 GBP (31 December 2019: 4.179.525 USD and 2.083.757 GBP).

18. Capital

As at 31 December 2020 and 2019 Capital is as follows:

	2020	2019
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 2020 and 2019, 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 2020 and 2019 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 2020 and 2019, basic earnings per share are negative in 24,36 Euros and positive in 61,01 Euros, respectively, and net earnings per share are negative in 24,36 Euros and positive in 61,01 Euros, respectively.

(ii) Other equity instruments

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

19. Other reserves

As at 31 December 2020 and 2019 Other reserves had the following movements were as follows:

	Legal reserve (i)	Free reserves	Fair value reserve C.F.H. (ii)	Cumulative translation adjustments (iii)	Total
1 January 2019	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
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 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**
Profit for the period application	4.832.380	–	–	–	4.832.380
Change in fair value reserve - hedging derivatives (net of tax)	–	–	65.886	–	65.886
Transfer from and to Retained earnings (Note 20)	105.811	(29.153)	–	–	76.658
Transfer to Non-controlling interests (Note 21)	(578.311)	–	–	–	(578.311)
Foreign currency translation	–	–	–	(24.558.161)	(24.558.161)
31 December 2020	**44.898.940**	**–**	**1.107.503**	**(60.716.127)**	**(14.709.684)**

(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 2020 and 2019:

	2020	2019
BRL - Brazilian Real	(38.142.830)	(20.073.055)
MZN - Mozambican Metical	(9.567.842)	(7.222.156)
ARS - Argentinian Peso	(8.865.694)	(8.517.922)
UYU - Uruguayan Peso	(2.535.277)	(1.474.654)
USD - US Dollar	(2.061.402)	487.979
ZAR - South African Rand	517.521	715.536
GBP - Pound sterling	2.615	5.831
Others	(79.557)	(79.525)
	(60.732.466)	**(36.157.966)**

20. Retained earnings

As at 31 December 2020 and 2019 Retained earnings movements were as follows:

	Total
1 January 2019	**78.274.175**
Profit for the period application	63.842.197
Transfers to and from Other reserves (Note 19)	4.349.686
Transfers from Non-controling interest (Note 21)	(167.016)
Foreign currency translation	(53.240)
Others	23.573
31 December 2019	**146.269.375**
Profit for the period application	69.800.455
Foreign currency translation	424.990
Transfers to and from Other reserves (Note 19)	(76.658)
Others	72.751
31 December 2020	**216.490.913**

21. Non–controlling interests

As at 31 December 2020 and 2019, Non-controlling interests' movements were as follows:

	2020	2019
1 January	**18.388.220**	**19.431.540**
Reimbursement of equity instruments	(3.400.728)	–
Changes in the perimeter (Note 39)	(2.479.296)	7.047
Dividends (Note 36)	(2.431.067)	(5.989.140)
Change in financial interest	(1.036.376)	
Change in fair value reserve - hedging derivatives (net of tax)	666	(456)
Transfers from Other reserves (Note 19)	578.311	–
Profit for the period	674.723	4.740.357
Transfers from Retained earnings of the shares acquired (Note 20)	–	167.016
Shareholders contributions	–	30.000
Foreign currency translation	(59.332)	1.856
31 December	**10.235.121**	**18.388.220**

Reimbursement of equity instruments in 2020 was made by SDM – Sociedade de Desenvolvimento da Madeira, S.A. through a share capital reduction in the amount of 6.505.738 Euros, of which 3.400.728 Euros were paid to non-controlling interests according to the respective proportion of voting rights (Note 39).

Changes in the perimeter in 2020 result from the disposal of the subsidiary SDM – Sociedade de Desenvolvimento da Madeira, S.A., and the consequent participation that the last held in SDEM - Sociedade de Madeira Business Development, Sociedade Unipessoal, S.A. (Note 39).

In 2020 Dividends were paid by SDM – Sociedade de Desenvolvimento da Madeira, S.A. in the amount of 2.431.067 Euros (2019: distributed by SDM – Sociedade de Desenvolvimento da Madeira, S.A., Porto Carlton, S.A. and Ponta da Cruz, S.A.).

On June 22, 2020, due to the change that has occurred in the structure of the share capital of URP – Urban Renew Promoção Imobiliária, S.A., since Mr. Dionísio Pestana acquired 50% of the shares owned by the remaining shareholders, becoming the majority shareholder of the company, Pestana Hotel Group transferred this investment to an Associate (Note 10) which means the non-controlling interests existing at the effective date were written off in the amount of 1.036.376 Euros (Note 9).

Non-controlling interests relate to the following investments:

	31/12/2020		31/12/2019	
	% Held	Value	% Held	Value
Pestana S.G.P.S. Sub-group (Portugal) (i)	n.a.	10.306.724	n.a.	11.112.180
Hotéis do Atlântico Sub-group (Europe and North America) (i)	n.a.	206.307	n.a.	329.157
Pestana Inversiones Sub-group (Latin America) (i)	n.a.	14	n.a.	22
Salvintur Sub-group (Africa) (i)	n.a.	(300.278)	n.a.	(204.133)
SDM - Sociedade de Desenvolvimento da Madeira, S.A. (ii)	n.a.	–	52,27%	6.537.357
URP - Urban Renew Promoção Imobiliária, S.A.	n.a.	–	40,00%	613.637
		10.212.767		18.388.220

(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 is presented in Note 39.

22. Provisions

As at 31 December 2020 and 2019 the movements in Provisions were as follows:

	Litigations and claims in progress (i)	Customer guarantees (ii)	Other provisions (iii)	Total
1 January 2020	9.909.708	271.010	2.272.019	12.452.737
Increases	79.059	19.444	840.374	938.877
Decreases	(542.207)	–	–	(542.207)
Utilizations	(2.654)	–	(111.076)	(113.730)
Interest charges (Note 34)	444.011	–	–	444.011
Foreign currency translation (iv)	(441.883)	–	(1.495.454)	(1.937.337)
Changes on period	(463.674)	19.444	(766.156)	(1.210.386)
31 December 2020	**9.446.034**	**290.454**	**1.505.863**	**11.242.351**
Current balance	2.755.963	100.752	1.062.141	3.918.856
Non-current balance	6.690.071	189.702	443.722	7.323.495
	9.446.034	**290.454**	**1.505.863**	**11.242.351**

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	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**

Judicial deposits were made for provisioned lawsuits in the current balance in the total amount of 2.328.791 Euros (Note 14). 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 2020, the Brazilian subsidiary Brasturinvest, S.A. is an involved party in several processes in the total amount of 4.245.506 Euros (31 December 2019: 5.417.090 Euros), mainly related with labour processes, which essentially correspond to claims from past employees of greater compensation than paid by the subsidiary at the time they were laid off. 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. The lawsuit is currently under judicial review, and there are no further developments that imply changes to the balance of the provision, which was classified as a current liability. According to the external lawyer in charge of the process, the process is not expected to be concluded and paid within one year, so this provision was reclassified to a non-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 and apartments.

(iii) Other provisions

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

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

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

In 2020, there is no evolution regarding this process, the bank guarantee remains active and this provision continues to prudently be presented in current liabilities.

As at 31 December 2020 and 2019, 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:

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	13.533.632	279.963.167	293.496.799	31.829.855	221.697.032	253.526.887
Bond loans	27.500.000	75.000.000	102.500.000	65.000.000	102.500.000	167.500.000
Commercial paper	2.944.444	22.222.223	25.166.667	1.444.444	23.944.445	25.388.889
Bank overdrafts	1.720.674	-	1.720.674	2.395.468	-	2.395.468
	45.698.750	377.185.390	422.884.140	100.669.767	348.141.477	448.811.244
Interests payable - accrual	1.513.337	-	1.513.337	2.444.193	-	2.444.193
Interests paid - deferral	(544.978)	(2.755.695)	(3.300.673)	(608.117)	(3.094.695)	(3.702.812)
	46.667.109	**374.429.695**	**421.096.804**	**102.505.843**	**345.046.782**	**447.552.625**

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

The future payments of the outstanding bank loans, bond loans and commercial paper, by currency of denomination as at 31 December 2020 and 2019 are as follows:

	2021	2022	2023	2024	2025	Following years	Total
Bank loans							
Euro	11.819.361	48.711.176	24.548.142	24.202.287	35.018.087	106.025.214	250.324.267
American dollar	743.472	1.201.075	1.298.130	1.433.001	1.570.418	20.207.112	26.453.208
British pound	970.799	1.294.399	1.294.399	1.294.400	11.865.327	–	16.719.324
	13.533.632	**51.206.650**	**27.140.671**	**26.929.688**	**48.453.832**	**126.232.326**	**293.496.799**
Bond loans							
Euro	27.500.000	15.000.000	–	–	60.000.000	–	102.500.000
	27.500.000	**15.000.000**	**–**	**–**	**60.000.000**	**–**	**102.500.000**
Commercial paper							
Euro	2.944.444	444.444	20.444.444	444.444	444.444	444.447	25.166.667
	2.944.444	**444.444**	**20.444.444**	**444.444**	**444.444**	**444.447**	**25.166.667**
	43.978.076	**66.651.094**	**47.585.115**	**27.374.132**	**108.898.276**	**126.676.773**	**421.163.466**

	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
American dollar	998.028	1.151.902	1.303.437	1.458.089	1.612.407	21.528.574	28.052.437
British pound	1.365.719	1.365.719	1.365.719	1.365.719	12.519.091	–	17.981.967
	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**

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

In January 2020, the subsidiary Pestana New York East LLC. received funds in the amount of 944.341 US Dollars provided in a bank loan contracted in 2017.

On 28 February 2020 Pestana Hotel Group paid 65.000.000 Euros of the bond loan (at the maturity date).

Also in February 2020, the Group received the funds for the loan contracted at the end of 2019, in the amount of 45.000.000 Euros, for a 15-year period, with a fixed interest rate and payable in 60 quarterly instalments. The first instalment was paid in March.

In February and April 2020, the Business Development Institute of the Autonomous Region of Madeira announced the completion of the assessment of two reimbursable grants attributed in 2018 under the Valorizar 2020 program, having awarded a degree of compliance of 0,90 and 1,01, respectively, which resulted in an exemption of reimbursement in the amount of 540.530 Euros and 396.600 Euros, respectively (Notes 26 and 31).

In October 2020, the Group used a loan already contracted in 2018 in the amount of 5.000.000 Euros.

Also in 2020, the subsidiaries Global Mandalay S.L.U. and Pestana Miami L.L.C. obtained new bank loans in the amount of 237.500 Euros and 198.135 US Dollars, respectively.

The COVID-19 pandemic led governments from various countries to adopt several measures to mitigate its financial impact on companies, including the provision of subsidized credit lines with State guarantees of capital and deferred loan repayments. The Group adopted debt moratoriums postponing capital reimbursements in the total amount of 24.415.934 Euros and obtained subsidized credit lines with State guarantee in the amount of 2.000.000 Euros, and decided to proceed with interest payments for most borrowings.

Borrowings engaged by Group companies include, in some cases, clauses that require specific covenants to be accomplished such as: i) the maintenance of the subsidiaries share capital inside the group; and ii) the maintenance of ratios related to the capital structure and others. Due to the impact of this pandemic crisis on the results of Pestana Hotel Group and although there are no difficulties in fulfilling its financial responsibilities, considering its strong financial structure, the Group agreed to suspend the covenants provided in the loan agreements for 2020. Regarding the green bond loan issued in September 2019 in the amount of 60 million Euros the exemption from monitoring these covenants was obtained with great success for the years 2020 and 2021, with the presence and votes in favor of about 80% of the investors. Regarding the 15 million Euros bond loan, the exemption from monitoring these covenants was also obtained for the same two year period.

In 2019 four bank loans were contracted in the amount of 12.500.000 Euros, 9.500.000 Euros, 9.000.000 Euros and 4.900.000 Euros by subsidiaries Salvor, S.A., Global Mandalay, S.L., M.&J. Pestana, S.A. and Ponta da Cruz, S.A., respectively. 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.

As of 31 December 2020, the Group has contracted 3 commercial paper programs with underwriting value of 20.000.000 Euros, 10.000.000 Euros and 2.888.889 Euros, respectively, of which 25.166.667 Euros are used, and classified 24.722.223 Euros in non-current and 444.444 Euros in current. These programs are remunerated at the Euribor rate for the respective issue term plus spread.

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 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 2020, a set of unused contracted credit lines in Financial Institutions, with a total amount of 121.300.000 Euros related to authorized credit lines and overdrafts.

24. Lease liabilities

As at 31 December 2020 and 2019 Lease liabilities refer to:

	31-12-2020	31-12-2019
Current	11.792.572	12.811.708
Non-current:		
1 to 5 years	43.666.086	47.111.222
More than 5 years	124.590.453	134.829.816
	180.049.111	**194.752.746**

As at 31 December 2020 and 2019 Lease liabilities mainly refer to:

- Alto Golf - Pestana Golf & Resort
- Beloura - Pestana Golf & Resort
- Casino da Madeira
- Madeira Magic
- Pestana Amsterdam Riverside
- Pestana Atlantic Gardens
- Pestana Carlton Madeira
- Pestana Casablanca
- Pestana Cascais
- Pestana Churchill Bay
- Pestana Cidadela Cascais
- Pestana Colombos
- Pestana CR7 Funchal
- Pestana Delfim
- Pestana Fisherman
- Pestana Ilha Dourada
- Pestana Lisboa Vintage
- Pestana Miramar São Tomé
- Pestana Palácio do Freixo
- Pestana Park Avenue
- Pestana Plaza Mayor
- Pestana Quinta do Arco
- Pestana Royal
- Pestana Rua Augusta
- Pestana Sintra Golf
- Pestana Viking
- Pestana Vila Sol
- Pousada de Alfama
- Pousada de Lisboa
- Pousada Vila Real de Santo António
- Pousadas de Portugal (Network)
- Vila Sol - Pestana Golf & Resort

Following the COVID-19 pandemic, some lease agreements were renegotiated in order to obtain reductions in the value of fixed or deferred rent payments, in order to minimize the impact registered by the temporary reduction of activity of the units. The impact of this renegotiation on the decrease in liabilities was 5.391.527 Euros (Note 31).

25. Derivatives

As at 31 December 2020 and 2019 Pestana Hotel Group had interest rate swaps (hedging derivatives) as follows:

	31-12-2020		31-12-2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate swaps – non-current	–	1.176.734	–	847.359
Interest rate swaps – current	–	–	–	–
	–	**1.176.734**	**–**	**847.359**

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 31-12-2020	Fair value at 31-12-2019	Variation
Pestana International Holdings S.A.	Trading	17.921.875	28-05-2024	Quarterly	GBP Libor 3M / 1,20%	(696.046)	(252.810)	(443.236)
Hotel Rauchstrasse 22, S.à.r.l. (i)	Trading	11.500.000	16-06-2025	Semiannual	Eur 6M / 2,10%	(395.089)	(420.214)	25.126
ITI Soc.Inves. Tur. Ilha Madeira, S.A. (ii)	Proportion hedge	7.000.000	26-09-2022	Semiannual	Eur 6M / 4,82%	(85.600)	(174.335)	88.735
						(1.176.734)	(847.359)	(329.375)

(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 2020 and 2019 were as follows:

	2020	2019
1 January	847.359	1.023.292
Liquidation (Note 34)	–	43.154
Hedging derivatives - fair value changes	(66.552)	(84.174)
Trading derivatives - fair value changes (Note 34)	395.927	(134.913)
31 December	**1.176.734**	**847.359**

The changes in the fair value reserve related to cash flow hedges in 2020 and 2019 were as follows:

	2020	2019
1 January	1.041.617	4.709.268
Hedging derivatives - fair value changes	65.886	83.333
Liquidation (net of tax)	–	(4.349.685)
Perimeter exits (Nota 39)	–	598.701
31 December	**1.107.503**	**1.041.617**

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 2020 and 2019, the detail of Deferred revenue is as follows:

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Pestana Vacations Club (i)	13.503.849	90.266.447	103.770.296	16.463.530	95.929.516	112.393.046
Pestana Vacations Club – Options (ii)	971.753	32.195.747	33.167.500	3.422.927	30.443.900	33.866.827
Government grants (iii)	726.846	7.211.227	7.938.073	488.924	6.824.466	7.313.390
Customer loyalty program ("PPG") (iv)	2.565.739	399.986	2.965.725	2.249.607	–	2.249.607
Other deferred income	1.656.867	2.830.666	4.487.533	4.736.148	3.468.114	8.204.262
	19.425.054	**132.904.073**	**152.329.127**	**27.361.136**	**136.665.996**	**164.027.132**

Deferred revenue balances, as of 31 December 2019 referring to the subsidiaries that exited the consolidation perimeter, amounted to 2.741.255 Euros (Note 39), which essentially related to the deferred annual fees of S.D.M. - Sociedade de Desenvolvimento da Madeira, S.A.

(i) Pestana Vacation Club

This balance refers to the sale of Pestana Vacations Club rights, which are deferred over the period of the award of temporary right of use of hotels and apartments at the Pestana Hotel Group (Note 3.21 ii)), which will end between 2020 and 2039.

The temporary reduction in the activity of the units due to the pandemic as well as the existing limitations in air transportation has impacted the possibility of use of the right contracted and the negotiation of new contracts. Thus, for accommodation units for which use was made impossible by the pandemic and whose maintenance fees were paid, Pestana Hotel Group decided to allow that right of use during the remaining period of the contract, with an impact of 5.363.064 Euros.

(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 (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 2020 and 2019, the detail of Trade and other payables is as follows:

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Trade payables						
Suppliers (i)	14.453.500	-	14.453.500	26.187.453	-	26.187.453
Other payables						
Other payables	835.000	-	835.000	1.998.913	-	1.998.913
Other payables - group (Note 40)	70.497	-	70.497	24.738	-	24.738
Suppliers of property, plant and equipment	1.360.272	-	1.360.272	5.459.758	-	5.459.758
Taxes payable (iii)	3.090.272	-	3.090.272	4.785.369	-	4.785.369
Accrued expenses						
Personnel	10.079.376	-	10.079.376	16.148.132	-	16.148.132
Others	13.860.413	53.937	13.914.350	19.009.820	16.243	19.026.063
	43.749.330	**53.937**	**43.803.267**	**73.614.183**	**16.243**	**73.630.426**

Trade and other payables balances, as of 31 December 2019, referring to subsidiaries that exited the consolidation perimeter were 1.197.722 Euros (Note 39).

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

(i) Suppliers

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Suppliers - group (Note 40)	16.703	-	16.703	61.993	-	61.993
Other suppliers	14.436.797	-	14.436.797	26.125.460	-	26.125.460
	14.453.500	-	**14.453.500**	**26.187.453**	-	**26.187.453**

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(ii) Taxes payable

	31-12-2020			31-12-2019		
	Current	Non-current	Total	Current	Non-current	Total
Personnel income tax withheld	925.514	–	925.514	923.861	–	923.861
Value added tax	901.511	–	901.511	2.338.789	–	2.338.789
Social security contributions	1.140.822	–	1.140.822	1.414.223	–	1.414.223
Others	122.425	–	122.425	108.496	–	108.496
	3.090.272	**–**	**3.090.272**	**4.785.369**	**–**	**4.785.369**

The variation in Social security Contributions is due to mechanisms created by the governments in response to the pandemic COVID-19, which partially exempted social security contributions from the employer in relation to workers who were receiving compensation.

28. Revenue

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

	2020	2019
Hospitality business (i)	68.377.540	274.878.125
Real estate (ii)	54.807.265	48.967.955
Vacation club (iii)	19.974.042	33.111.638
Beverages (industry)	19.206.089	25.869.738
Golf	6.018.320	11.264.331
Entertainment	5.239.240	11.371.333
Others	8.037.133	13.316.548
	181.659.629	**418.779.668**

Revenue in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 7.910.797 Euros and it is included in the caption 'Others'. Revenue in 2019 of these same subsidiaries amounted to 10.938.711 Euros (Note 39).

(i) Hospitality business

The hospitality business was strongly affected by the COVID-19 pandemic declared by the World Health Organization on 11 March 2020. Due to the restrictions imposed by law in this context, in the various countries where Pestana Hotel Group is present, most of its units were prevented from receiving guests between April and June. After implementing internal protocols and procedures with the objective of offering the best safety and hygiene conditions to guests and employees, almost all of the units were gradually reopened in the summer, with the principle of maintaining the average price per room, whenever possible. However, the strong restrictions and mandatory quarantines in the return to origin countries, namely in the United Kingdom, led the Group to be almost fully dependent on the reaction of domestic tourism in each country. With the arrival of autumn, the pandemic situation got worse around the world and new restrictions were established, namely travelling restrictions. Thus, in November, the Group anticipated the temporary suspension of the activity of some units that already usually did not operate in the winter and decided to also temporarily close almost all of them until the second quarter of 2021, when the gradual recovery of tourism is expected to begin. This situation was not changed by the states of emergency or lockdowns declared in early of 2021 in some countries where the Group operates.

The quality and reliability of the service provided to Pestana Hotel Group's guests suggests that demand will return as soon as the pandemic is minimized or overcome, as was verified during the period when there were no travel restrictions between Portugal and the United Kingdom.

In Portugal and in other countries of Europe, traffic restrictions and quarantines unilaterally imposed by some countries since the beginning of the pandemic and without common epidemiological criteria have had a direct impact on this business. The European consumers' confidence and trust to travel during the summer were largely impacted with many European holidaymakers preferring to stay at home this year with many airlines having remained closed. Therefore, Portugal was limited to the reaction of domestic and border tourism, which in 2019 represented less than 40% of revenue which explains the decrease of 78% in revenue compared to the previous year. The main feeder markets remained almost the same, namely, the UK, Germany and France while the United States of America which had been growing more relevant in recent years dropped in 2020.

The hospitality business in Spain had a decrease in revenue of 67%. However, this decrease was not equal in both units, Pestana Arena Barcelona's revenue decreased 85% while Pestana Plaza Mayor's decreased 48%. This happened because the Catalonia region was one of the most affected in this country by the pandemic which resulted in Pestana Arena Barcelona's activity being suspended for a greater amount of time.

In the Netherlands, in the third year of activity of Pestana Amsterdam Riverside, 2020 started with an increase in revenue of 12% in January and February. However, the pandemic outbreak resulted in a decrease in occupancy which generated a decrease of 71% in revenue.

Business in United Kingdom was also affected with Pestana Chelsea Bridge being prevented from receiving clients in several months as well as a result of the instability in travel measures and the constant changes to England's COVID-19 travel red list. The emergence of new variants of the virus which are more contagious also pushed tourism away from the country. All these factors contributed to a revenue drop of 79%.

America was the continent most affected by the COVID-19 pandemic worldwide, both in terms of number of cases and deaths, mainly in the United States of America and Brazil. Therefore, all American hotels had low occupancy rates and reductions in revenue per available room in 2020. In the United Stated of America, Americans gave up on their vacations to stay home and the activity was also impacted by uncertainty until the end of the presidential elections which delayed the reopening of the economy in a healthy and safe way. On the other hand, the political position in Brazil with a pandemic situation has caused fear and insecurity as well as the depreciation of the Real which in turn impacted revenue in 2020.

In Africa, the Group's hotels are mainly located in developing countries with fewer resources to control the pandemic crisis and also presented a decrease of 65% in revenue as a consequence of the COVID-19 pandemic. Revenue from Mozambique was also impacted by the depreciation of the Metical. It is noteworthy that Pestana São Tomé and Pestana Casablanca were always open during the year and Pestana Trópico celebrated a quarantine program with the Cape Verdean government that allowed to smooth the impact of tourism in the country.

The 2020 and 2019 detail of sales and services rendered in Hospitality business by country of origin are as follows:

Country	Hospitality business 2020	Hospitality business 2019
Portugal	40,7%	27,4%
United Kingdom	12,8%	18,4%
Germany	9,5%	9,4%
Brazil	5,9%	6,6%
France	4,7%	4,9%
Spain	4,4%	3,3%
United States	2,9%	5,9%
Netherlands	2,8%	2,5%
Switzerland	1,1%	1,5%
Italy	1,1%	1,2%
Belgium	1,0%	1,1%
Sweden	1,0%	1,1%
Denmark	0,8%	1,0%
South Africa	0,7%	0,7%
Sao Tome and Principe	0,7%	0,3%
Cape Verde	0,7%	0,2%
Others	9,2%	14,5%
	100%	**100%**

(ii) Real estate

The diversification strategy already followed by Pestana Hotel Group, such as the investment in the tourist and residential real estate sector, which has shown and confirmed an enormous resilience to this year's crisis, allowed the Group to minimize the impact of the drop in revenue registered in the hospitality business.

In 2020 Real estate sales and management business continued to grow and present good results since the pandemic context caused an increase in the demand for properties in quieter and safer areas, with ample spaces and outdoor areas, with less propensity for virus transmission. Thus, Pestana Tróia Eco-Resort continued to be even more an excellent alternative for real estate investments, with 8 villas from Lots 3 and 4 being delivered for 7.267.350 Euros (2019: 4.089.000 Euros) and 54 accommodation units ("a.u.") from Lot 1 for 31.211.498 Euros (2019: 47.75 a.u. in the amount of 24.672.150 Euros). In the new Silves Golf Resort the first 5,3 accommodation units were delivered, in the amount of 4.423.560 Euros.

As at 31 December 2020 and 2019, 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 120.942 Euros (2019: 819.405 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 11% 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 2020, this business had a decrease of 40% in sales both in terms of new contracts as well as management fees. As in the hospitality business, the reduction of activity and the restrictions on the air transportation has impacted the possibility to use the right contracted and the negotiation of new contracts. Thus, for accommodation units for which use was made impossible by the pandemic and whose maintenance fees were paid, Pestana Hotel Group decided to allow the use of the accommodation unit during the remaining period of the contract.

The 2020 and 2019 detail of sales and services rendered in Vacation Club by country of origin related to the number of customers are as follows:

Country	Vacation club 2020	Vacation club 2019
United Kingdom	51,9%	52,9%
Germany	11,9%	11,0%
Portugal	8,8%	10,0%
Finland	6,8%	6,9%
Brazil	5,1%	5,2%
Sweden	3,0%	2,8%
Others	12,6%	11,2%
	100%	**100%**

29. External services and supplies

The detail of External services and supplies is as follow:

	2020	2019
Professional fees	14.225.762	23.906.001
Energy	8.515.011	15.644.242
Cleaning	7.971.282	20.205.198
Maintenance	5.761.711	8.818.021
Advertising	5.601.566	9.174.011
Commissions	4.631.843	13.848.269
Property management exploration counterpart	2.981.353	3.092.438
Subcontracts	2.981.233	4.565.719
Insurance	1.832.155	1.962.449
Rents	1.799.995	3.974.238
Travelling and transport expenses	1.314.190	2.735.917
Others	5.215.325	7.691.831
	62.831.426	**115.618.334**

External services and supplies in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 1.837.626 Euros. External services and supplies in 2019 of these same subsidiaries amounted to 3.164.071 Euros (Note 39).

Pestana Hotel Group has a high weight of variable expenses in its cost structure which provides a robust resilience to downturns, which was decisive in obtaining positive operating results despite the impact caused by the COVID-19 pandemic. In this context, measures were immediately implemented to control and reduce costs, with the impact on External services and supplies mainly at a variable expenses level, highlighting the decrease in costs of cleaning, laundry, energy, licenses, temporary work, commissions and rents. In addition, the decrease in activity and the restrictions imposed also led to the reduction of advertising expenses and the renegotiation of contracts with multiple suppliers of professional fee services and subcontracts.

The 2020 Group auditor's consolidated audit fees for all subsidiaries amounted to 192.328 Euros. Audit services performed on the remaining companies included in the consolidation perimeter by different auditors amounted to 78.953 Euros. There were no other service fees charged by any of these auditors.

30. Personnel expenses

The detail of Personnel expenses is as follows:

	2020	2019
Board of Directors (including subsidiaries)		
Wages and salaries	1.458.004	2.464.253
Social security contributions	576.618	620.776
	2.034.622	**3.085.029**
Staff		
Wages and salaries	41.224.551	71.854.731
Social security contributions	8.278.563	14.950.643
Others	3.341.555	5.014.947
	52.844.669	**91.820.321**
	54.879.291	**94.905.350**

Personnel expenses in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 1.344.282 Euro. Personnel Expenses in 2019 relating to these same subsidiaries amounted to 1.900.298 Euros (Note 39).

The average number of employees of Pestana Hotel Group in 2020 was 3.667 (2019: 4.475). The average number of Board directors of Pestana Hotel Group's subsidiaries in 2020 was 44 (2019: 46).

In 2020, fixed-term employment contracts were not renewed and there were no temporary contracts for the summer season. The reduction verified in Personnel expenses is also due to the job maintenance programs granted by governments and the partial exemption from social security contributions borne by the employer, measures created by the governments in response to the pandemic COVID-19 and which allowed to reduce personnel expenses by approximately 12.065.000 Euros.

In 2019 Personnel Expenses included 2.584.423 Euros of profit sharing expenses.

31. Other income

The detail of Other income is presented as follows:

	2020	2019
Supplementary income	6.395.552	6.570.086
Rent concessions	5.391.527	–
Foreign currency exchange gains	1.371.474	2.212.342
Gains on disposal of tangible fixed assets (Note 6)	738.673	1.132.185
Government grants (Note 26)	600.229	504.678
Lease write-offs (Note 6)	418.028	–
Others	2.270.500	4.070.460
	17.185.983	**14.489.751**

Other income in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 67.009 Euros. Other income in 2019 relating to these same subsidiaries amounted to 37.734 Euros (Note 39).

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 2020, Rent concessions refers to total or partial reductions in the value of fixed rents during a given period.

In 2020 and 2019, 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 532.600 Euros and 650.000 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. In this action, the subsidiary asked 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:

	2020	2019
Taxes	6.597.654	9.877.002
Foreign currency exchange losses	1.361.221	1.320.381
Donations	605.709	284.762
Credit card commissions	579.215	2.381.973
Losses on inventories	260.651	258.098
Others	1.717.402	2.502.705
	11.121.852	**16.624.921**

Other expenses in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 1.653.293 Euros. Other expenses in 2019 related to these same subsidiaries amounted to 1.689.755 Euros (Note 39).

Taxes refers to expenses incurred with property taxes, with solid waste and sewage conservation rates as well as annual installation fees due to the Autonomous Region of Madeira by companies installed at the International Business Center of Madeira.

Donations include the acquisition of 20 ventilators to the Health Service of the Autonomous Region of Madeira which are intended to support hospitals in the treatment of patients infected with COVID-19 in the amount of 428.883 Euros.

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:

	2020	2019
Disposal of subsidiaries S.D.M., S.A. and S.D.E.M., S.A. (Note 39)	6.246.025	–
Liquidation of subsidiary Imóveis Brisa F.I.I.F. (Note 39)	(17.919)	–
Gains/(losses) from equity method in Joint ventures (Note 9):		
Pestana CR7 - Madeira Hotel Investimentos Turísticos, S.A.	(256.887)	(52.096)
Pestana CR7 - Lisboa Hotel Investimentos Turísticos, S.A.	(164.154)	308.273
Pestana CR7 Madrid, S.L.	(141.628)	(28.539)
Pestana CR7 Manhattan 39 LLC	(125.110)	(45.710)
Solpor, Lda.	(3.041)	1.314
URP - Urban Renew Promoção Imobiliária, S.A.	–	2.662
Gains/(losses) from equity method in Associates (Note 10):		
Enatur - Empresa Nacional de Turismo, S.A.	(182.383)	294.187
URP - Urban Renew Promoção Imobiliária, S.A.	(39.573)	–
Albar - Sociedade Imobiliária do Barlavento, S.A.	(4.365)	(1.747)
Lean Company Ventures II, S.A.	–	(5.000)
Impairment losses in Equity instruments at fair value through profit and loss	(331.123)	–
Disposal of subsidiary Beloura, S.A. (Note 39)	–	10.965.373
Losses in disposal of Equity instruments at fair value through profit and loss	–	(284.787)
	4.979.842	**11.153.930**

PTB.

34. Financial expenses and income

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

	2020	2019
Finance expenses		
Interest expenses	10.716.935	11.358.878
Lease liabilities' interest	8.733.187	9.310.952
Commissions and guarantee fees	1.541.591	1.729.249
Provisions interest charges (Note 22)	444.011	212.553
Interest rate swaps	443.537	719.300
Derivatives fair value (Note 25)	443.236	–
Foreign currency exchange losses	93.875	1.181.923
	22.416.372	**24.512.855**
Finance income		
Foreign currency exchange gains	1.000.027	641.184
Guarantee fees	294.306	194.540
Interest income	65.483	545.213
Interest rate swaps	64.398	149.346
Derivatives fair value (Note 25)	47.309	91.759
Dividends	36.560	–
Others	423.184	312.872
	1.931.267	**1.934.914**

The financial income net of financial expenses in 2020 related to the subsidiaries excluded from the consolidation perimeter amounted to 2.322 Euros. The financial income net of financial expenses in 2019 relating to these same subsidiaries amounted to 403.965 Euros (Note 39).

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

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

PTB.

35. Income tax

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

	2020	2019
Current income tax:		
Current period income tax	(1.750.515)	(6.000.617)
Adjustments in respect of prior year estimates	(123.565)	185.900
Impact of transition to IFRS 16 (Note 12)	2.532.587	–
	658.507	**(5.814.717)**
Deferred income tax (Note 12):		
Origin and reversal of temporary differences	14.492.974	1.803.377
Impact of transition to IFRS 16 (Note 12)	(3.395.067)	–
	11.097.907	**1.803.377**
	11.756.414	**(4.011.340)**

Excluding Impact of transition to IFRS 16, 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:

	2020	2019
Profit before tax	**(43.989.368)**	**83.384.532**
Tax calculated at domestic tax rates applicable to profits in the respective countries	10.060.185	(17.731.833)
Tax effects of:		
Differences of taxes rates on income and deferred taxes	88.821	(774.329)
Income not subject to tax	3.970.556	8.194.426
Expenses not deductible for tax purposes	(2.862.333)	(1.017.886)
Utilization of tax losses	779.909	655.592
Adjustments in respect of prior year estimates	(123.565)	185.900
Perimeter exits	(163.226)	(13.956)
SIFIDE (tax benefit in Portugal)	–	4.950.302
RFAI (tax benefit in Portugal)	2.111.532	3.805.239
Other taxation	(1.242.985)	(2.264.795)
	12.618.894	**(4.011.340)**

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 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. On 5 May 2020, the Group submitted the respective applications to obtain this eligibility, having been approved by the National Innovation Agency, S.A. on 13 November 2020 and on 2 December 2020, confirming the attribution of the tax credit of 4.950.302 Euros considered in the 2019 income statement.

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

PTB.

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

	2020	2019
Argentina	30%	30%
Brazil	34%	34%
Cape Verde	22%	22%
Germany	30%	30%
Luxembourg	24,94%	24,94%
Morocco	31%	31%
Mozambique	32%	32%
Netherlands	25%	25%
Portugal	20% - 31,5%	20% - 31,5%
São Tomé and Principe	25%	25%
South Africa	28%	28%
Spain	25%	25%
United Kingdom	19%	19%
United States	21% - 34%	21% - 34%
Uruguay	25%	25%

36. Dividends per share

During 2020 and 2019, Dividends were only paid to Non-controlling interests, in the amount of 2.431.067 Euros and 5.989.140 Euros, respectively (Note 21).

37. Contingencies

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

	2020	2019
Mortgages over lands and buildings	262.356.849	223.629.786
Bank guarantees	65.281.888	61.250.014

The value of mortgages over lands and buildings increased in 2020 mainly as a result of the 45.000.000 Euro bank loan contracted in February (Note 23).

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 2020, Pestana Hotel Group has ongoing claims, assessed as contingent liabilities of, approximately, 6.420.623 Euros (local currency: approximately 300.000 Euros and 39.000.000 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 2020 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Afrotours, S.A.	São Tomé	Hospitality	31-12-2020	13.761.443	14.283.399	521.956	1.726.190	(726.073)	100,00%	100,00%
Amesteldijk Hotel Ontwkkeling B.V.	Netherlands	Hospitality	31-12-2020	15.691.707	44.125.039	28.433.332	2.469.260	(2.083.822)	100,00%	100,00%
Amoreira - Aldeamentos Turísticos, Lda.	Portugal	Real Estate	31-12-2020	4.900.591	6.360.453	1.459.862	-	(27.474)	99,00%	100,00%
Argentur Inversiones Turisticas S.A.	Argentina	Hospitality	31-12-2020	548.895	779.339	230.444	445.681	(85.859)	100,00%	100,00%
Bazaruto, Lda.	Mozambique	Hospitality	31-12-2020	3.418.211	4.858.425	1.440.214	75.193	(70.466)	96,97%	100,00%
Brasturinvest Investimentos Turísticos, S.A.	Brazil	Hospitality	31-12-2020	36.163.671	47.842.541	11.679.070	4.981.488	(2.872.061)	100,00%	100,00%
Carlton Palácio - Soc. de Const. Exploração Hoteleiras, S.A.	Portugal	Hospitality	31-12-2020	46.820.716	137.136.130	90.315.414	5.408.272	(4.608.915)	99,00%	100,00%
Carolgud, S.A.	Uruguay	Hospitality	31-12-2020	468.585	481.422	12.836	-	(27.777	100,00%	100,00%
Carvoeiro Golfe – Soc. de Mediação Imobiliária, Unip. Lda.	Portugal	Real Estate	31-12-2020	303.832	510.169	206.337	1.202.575	296.332	99,00%	100,00%
Carvoeiro Golfe, S.A.	Portugal	Golf and Real Estate	31-12-2020	63.793.778	105.531.397	41.737.619	61.864.590	12.613.687	99,00%	100,00%
Cota Quarenta - Gestão e Adm. de Centros Comercias, S.A.	Portugal	Real Estate	31-12-2020	21.194.458	21.397.837	203.379	496.236	(87.126)	99,00%	100,00%
Desarollos Hoteleros Barcelona 2004 S.A.	Spain	Hospitality	31-12-2020	10.387.113	17.314.704	6.927.591	535.113	(548.378)	100,00%	100,00%
Djebel, S.A.	Portugal	Sub-Holding	31-12-2020	40.520.352	67.880.321	27.359.969	224.000	(29.346.385)	100,00%	100,00%
ECM - Empresa Cervejas da Madeira, Soc. Unip. Lda.	Portugal	Beverages	31-12-2020	7.307.926	28.563.501	21.255.575	19.354.143	(1.229.691)	99,00%	100,00%
Empreendimentos Turísticos, Lda.	Cape Verde	Hospitality	31-12-2020	2.409.677	2.735.864	326.187	1.123.040	(31.121)	100,00%	100,00%
Eurogolfe, S.A.	Portugal	Golf and Real Estate	31-12-2020	15.817.631	18.168.698	2.351.067	5.100.381	674.304	99,00%	100,00%
ESGAP - Empresa Serv. de Gestão e Adm Partilhados, S.A.	Portugal	Sub-Holding	31-12-2020	9.631.848	26.641.124	17.009.276	140.000	(395.743)	100,00%	100,00%
Global Mandalay, S.L.U.	Spain	Hospitality	31-12-2020	639.756	10.712.740	10.072.984	1.632.349	(770.814)	100,00%	100,00%
Grupo Pestana - S.G.P.S., S.A.	Portugal	Sub-Holding	31-12-2020	255.591.756	427.251.847	171.660.091	4.000.000	5.426.114	99,00%	99,00%
Grupo Pestana Pousadas - Investimentos Turísticos, S.A.	Portugal	Hospitality	31-12-2020	47.031.362	59.846.539	12.815.177	12.020.128	(4.333.505)	99,00%	100,00%
Herdade da Abrunheira – Proj. Desenv. Turístico e Imob. S.A.	Portugal	Real Estate	31-12-2020	6.590.351	6.710.599	120.248	-	(35.255)	99,00%	100,00%
Hoteis do Atlântico – Soc. Imob. e Gestão de Hotéis, S.A.	Portugal	Sub-Holding	31-12-2020	68.250.106	124.824.210	56.574.104	251.272	(2.171.382)	100,00%	100,00%
Hotel Rauchstrasse 22, S.A.R.L.	Luxembourg	Hospitality	31-12-2020	8.803.702	17.813.995	9.010.293	9.938	(836.228)	96,04%	100,00%
Indústria Açoreana Turístico-Hoteleira (I.A.T.H.), S.A.	Portugal	Hospitality / Real Estate	31-12-2020	3.916.080	11.090.210	7.174.130	514.692	(628.844)	99,00%	100,00%
Intervisa Viagens e Turismo, Unipessoal Lda.	Portugal	Distribution	31-12-2020	958.159	1.228.259	270.100	977.575	82.532	100,00%	100,00%
ITI - Soc. de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hospitality / Entertainment	31-12-2020	55.053.341	68.489.334	13.435.993	8.603.076	(2.971.280)	99,00%	100,00%
M. & J. Pestana - Sociedade de Turismo da Madeira, S.A.	Portugal	Hospitality / Timeshare	31-12-2020	147.930.334	357.717.552	209.787.218	25.060.079	(16.685.907)	99,00%	100,00%
Mundo da Imaginação – Proj. de Animação Turística, S.A.	Portugal	Entertainment	31-12-2020	1.445.145	4.041.562	2.596.417	181.642	(901.654)	99,00%	100,00%
Natura XXI, Lda.	Portugal	Real Estate	31-12-2020	1.491.422	1.513.608	22.186	98.927	28.462	99,00%	100,00%
Pestana Berlim S.A.R.L.	Luxembourg	Hospitality	31-12-2020	1.161.872	1.574.218	412.346	1.987.303	(181.746)	100,00%	100,00%
Pestana Cidadela - Investimentos Turisticos, S.A.	Portugal	Hospitality	31-12-2020	11.337.561	17.172.019	5.834.458	666.259	(1.237.104)	99,00%	100,00%
Pestana International Holdings S.A.	Luxembourg	Administration	31-12-2020	387.389.605	498.557.030	111.167.425	209.885	(14.110.110)	100,00%	100,00%
Pestana Inversiones Unipessoal, Lda.	Portugal	Services	31-12-2020	10.948.229	13.290.188	2.341.959	-	(5.638.261)	100,00%	100,00%

Name	Headquarter	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Pestana Management - Serviços de Gestão, S.A.	Portugal	Services	31-12-2020	4.875.124	14.834.691	9.959.567	16.797.422	(7.597.675)	100,00%	100,00%
Pestana Management UK, Limited	United Kingdor	Hospitality	31-12-2020	474.860	936.365	461.505	2.584.653	(552.216)	75,00%	75,00%
Pestana Marrocos, s.a.r.l.	Morocco	Hospitality	31-12-2020	331.108	1.536.120	1.205.012	1.130.609	(157.769)	100,00%	100,00%
Pestana Miami LLC	United States	Hospitality	31-12-2020	2.891.044	14.371.637	11.480.593	1.362.546	(1.065.828)	100,00%	100,00%
Pestana Newark LLC	United States	Hospitality	31-12-2020	212.972	315.703	102.731	-	3.234	100,00%	100,00%
Pestana NY East Side 39 LLC	United States	Hospitality	31-12-2020	14.885.301	40.177.177	25.291.876	250.608	(2.982.893)	100,00%	100,00%
Pestana Segurança – Serv. de Seg. e Vigilância, Unip. Lda.	Portugal	Services	31-12-2020	300.257	733.638	433.381	1.293.898	42.479	100,00%	100,00%
Pestana USA Inc	United States	Hospitality	31-12-2020	29.738.496	30.513.002	774.506	-	347.769	100,00%	100,00%
Ponta da Cruz – Soc. Imobiliária e de Gestão de Hotéis, S.A.	Portugal	Hospitality / Timeshare	31-12-2020	10.790.853	23.575.600	12.784.747	1.977.455	(541.812)	51,48%	52,00%
Porto Carlton – Soc. de Constr. e Exploração Hoteleira, S.A.	Portugal	Hospitality	31-12-2020	6.967.510	13.606.319	6.638.809	1.000.018	(660.648)	59,40%	60,00%
Rotas de África - Investimentos Turísticos e imobiliários, S.A.	Portugal	Services	31-12-2020	2.229.183	2.231.013	1.830	6.674	26	100,00%	100,00%
Rotas de África, Lda.	São Tomé	Hospitality	31-12-2020	1.304.074	1.369.625	65.551	329.913	(366.472)	100,00%	100,00%
Salvintur - Sociedade de Investimentos Turísticos, S.A.	Portugal	Sub-Holding	31-12-2020	20.187.253	40.924.800	20.737.547	245.000	(2.203.980)	100,00%	100,00%
Salvor - Sociedade de Investimento Hoteleiro, S.A.	Portugal	Hospitality / Timeshare	31-12-2020	93.247.042	235.015.773	141.768.731	16.663.078	(6.850.428)	99,00%	100,00%
Salvorhotéis Moçambique - Investimentos Turísticos, S.A.	Mozambique	Hospitality	31-12-2020	6.396.287	9.355.166	2.958.879	897.824	(826.350)	96,97%	96,97%
São Tomé Invest S.A.	São Tomé	Hospitality	31-12-2020	610.201	962.661	352.460	626.238	(117.125)	100,00%	100,00%
Sociedade de Investimentos Hoteleiros D. João II, S.A.	Portugal	Hospitality / Timeshare	31-12-2020	1.331.956	3.826.799	2.494.843	323.929	(105.072)	99,00%	100,00%
Surinor, S.A.	Uruguay	Hospitality	31-12-2020	4.016.673	4.025.721	9.048	-	(85.335)	100,00%	100,00%
Wild Break 29 (PTY), Ltd	South Africa	Hospitality	31-12-2020	1.860.113	2.307.022	446.909	582.197	(356.499)	100,00%	100,00%

The Joint ventures of Pestana Hotel Group as at 31 December 2020 are as follows:

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	Portugal	Hospitality	31-12-2020	6.506.185	13.471.777	6.965.592	471.444	(673.959)	49,50%	50,00%
Pestana CR7 - Madeira Hotel Invest. Turísticos, S.A.	Portugal	Hospitality	31-12-2020	982.484	4.593.059	3.610.575	338.851	(513.773)	49,50%	50,00%
Pestana CR7 Manhattan 39 LLC	USA	Hospitality	31-12-2020	15.474.816	68.865.399	53.390.583	-	(250.219)	51,00%	50,00%
Pestana CR7 Madrid, S.L.	Spain	Hospitality	31-12-2020	6.159.666	10.596.470	4.436.804	-	(283.255)	50,00%	50,00%
Pestana CR7 Manchester, Ltd.	United Kingdom	Hospitality	31-12-2020	2	2	-	-	-	50,00%	50,00%
Solpor - Sociedade Turismo do Porto Santo, Lda.	Portugal	Multi-segment	31-12-2020	935.708	937.717	2.009	-	(2.183)	49,50%	50,00%

The Associates of Pestana Hotel Group as at 31 December 2020 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	31-12-2020	1.191.102	1.195.397	4.295	-	(8.764)	49,50%	49,81%
Enatur - Empresa Nacional de Turismo, S.A.	Portugal	Real Estate	31-12-2020	57.500.706	80.317.322	22.816.616	1.348.008	(372.211)	46,43%	49,00%
Lean Company Ventures II, S.A.	Portugal	Tech innovation	31-12-2020	981.918	984.086	2.168	-	38.082	10,00%	20,00%
URP - Urban Review Promoção Imobiliária, S.A.	Portugal	Real Estate	31-12-2020	4.939.783	22.417.525	17.477.742	-	(2.921.410)	30,00%	30,00%
Soheotur, S.A.	Angola	Construction	31-12-2020	3.929.597	973.900	(2.955.697)	-	3.034.630	25,00%	25,00%

The Subsidiaries of Pestana Hotel Group as at 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 Const. 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 – Soc. de Mediação Imobiliária, Unip. 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 Adm. 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, Soc. Unip. 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 Serv. 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 – Proj. 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. Imob. e Gestão de Hotéis, S.A.	Portugal	Sub-Holding	31-12-2019	58.361.287	117.232.709	58.871.422	4.597.756	614.166	100,00%	100,00%
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 Estat	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 - Soc. de Investimentos Turísticos na Ilha da Madeira, S.A.	Portugal	Hospitality / Entertainm	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 – Proj. 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	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%

Name	Headquarters	Activity	Reference date	Equity	Assets	Liabilities	Sales	Profit/ (Loss)	% Owned	% Control
Pestana Segurança – Serv. de Seg. 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 – Soc. 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 – Soc. de Constr. 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%
SDM – Soc. 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%

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 Invest. 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 Invest. 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 Manhattan 39 LLC	USA	Hospitality	31-12-2019	17.159.487	64.679.553	47.520.066	-	(92.074)	51,00%	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%
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%

39. Changes in the perimeter

In 31 December 2020 Pestana Hotel Group sold the shares representing 47,73% of the capital of SDM - Sociedade de Desenvolvimento da Madeira, S.A. 's share capital, for 6.813.058 Euros which generated a gain in the amount of 6.246.025 Euros. The sales price was determined by an external entity accredited for this purpose and will be received in two tranches of equal amount until 30 June 2022 and 30 June 2023. As a result of this transaction, the Group also ceased to own any participation in SDEM - Sociedade de Desenvolvimento Empresarial da Madeira, Sociedade Unipessoal, S.A.

Pestana Hotel Group decided to proceed with the liquidation of Fundo Imóveis Brisa – Fundo de Investimento Imobiliário Fechado which occurred on 6 November 2020 due to its high maintenance costs. The impact on the Group's consolidated results was negative in the amount of 17.919 Euros.

The financial position of the former subsidiaries that exited the consolidation perimeter with reference to the exit date is presented as follows:

	SDM - Soc. Desenvolvimento da Madeira, S.A.	SDEM - Soc. Desenvolvimento Empresarial da Madeira, Unip. S.A.	Imóveis Brisa - Fundo de Investimento Imobiliário Fechado	Total
Sales price	**6.813.058**	**-**	**-**	**6.813.058**
Assets				
Tangible fixed assets	1.485.044	-	-	1.485.044
Equity instruments at fair value through profit and loss	5.589	-	-	5.589
Trade and other receivables	3.663.548	2.405	-	3.665.953
Income tax receivable	92.987	4.313	-	97.300
Cash and cash equivalents	5.238.314	167.136	30.985	5.436.435
Total Assets at fair value	**10.485.482**	**173.854**	**30.985**	**10.690.321**
Liabilities				
Deferred tax liabilities	-	-	987	987
Deferred revenue	3.397.400	-	2.500	3.399.900
Trade and other payables	3.735.143	319.663	9.579	4.064.385
Income tax liabilities	160.800	-	-	160.800
Total Liabilities at fair value	**7.293.343**	**319.663**	**13.066**	**7.626.072**
Pestana Hotel Group interests	**784.804**	**(217.770)**	**17.919**	**584.953**
Non-controlling interests	**2.407.335**	**71.961**	**-**	**2.479.296**
Net assets	**3.192.139**	**(145.809)**	**17.919**	**3.064.249**
% sold	**47,73%**	**47,73%**	**100,00%**	
Gains / (losses) on disposal (Note 33)	**6.028.254**	**217.771**	**(17.919)**	**6.228.106**

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

	SDM - Soc. Desenvolvimento da Madeira, S.A.	SDEM - Soc. Desenvolvimento Empresarial da Madeira, Unip. S.A.	Imóveis Brisa - Fundo de Investimento Imobiliário Fechado	Total
Revenue	7.910.297	-	500	7.910.797
External services and supplies	(1.821.930)	(15.696)	-	(1.837.626)
Personnel expenses	(1.198.835)	(78.074)	(67.374)	(1.344.283)
Charges of depreciation and amortizatior	(77.206)	-	-	(77.206)
Impairment losses of tangible assets	-	-	(2.767.000)	(2.767.000)
Impairment of receivables	(2.322)	-	500	(1.822)
Impairment of inventories	-	-	(950)	(950)
Other income	61.937	4.627	445	67.009
Other expenses	(1.646.864)	(2.098)	(4.331)	(1.653.293)
Operating profit	**3.225.077**	**(91.241)**	**(2.838.210)**	**295.626**
Financial expenses	(83)	-	(330)	(413)
Financial income	2.671	64	-	2.735
Profit before tax	**3.227.665**	**(91.177)**	**(2.838.540)**	**297.948**
Income tax	(163.226)	-	-	(163.226)
Profit for the period	**3.064.439**	**(91.177)**	**(2.838.540)**	**134.722**
Profit for the period attributable to:				
Shareholders of the group	1.460.178	(30.850)	(2.838.540)	(1.409.212)
Non-controlling interests	1.604.261	(60.327)	-	1.543.934
	3.064.439	**(91.177)**	**(2.838.540)**	**134.722**
EBITDA	3.279.097	(91.241)	(71.210)	3.116.646

The financial position of the former subsidiaries that have exited the consolidation perimeter in 2020 with reference to the date of 31 December 2019 is presented as follows:

	SDM - Soc. Desenvolvimento da Madeira, S.A.	SDEM - Soc. Desenvolvimento Empresarial da Madeira, Unip. S.A.	Imóveis Brisa - Fundo de Investimento Imobiliário Fechado	Total
Assets				
Tangible fixed assets	1.527.132	10.229	9.834.602	11.371.963
Trade and other receivables	2.978.707	-	52.304	3.031.011
Income tax receivable	17.187	24.251	-	41.438
Inventories	-	-	359.750	359.750
Cash and cash equivalents	9.800.454	347.785	476.074	10.624.313
Total Assets at fair value	**14.323.480**	**382.265**	**10.722.730**	**25.428.475**
Liabilities				
Deferred tax liabilities	-	-	1.342	1.342
Deferred revenue	2.738.255	-	3.000	2.741.255
Trade and other payables	1.151.253	33.293	13.176	1.197.722
Total Liabilities at fair value	**3.889.508**	**33.293**	**17.518**	**3.940.319**
Pestana Hotel Group interests	**4.016.672**	**228.915**	**10.705.212**	**14.950.799**
Non-controlling interests	**6.417.300**	**120.057**	-	**6.537.357**
Net assets	**10.433.972**	**348.972**	**10.705.212**	**21.488.156**

PBTB.

The Income Statement of the former subsidiaries that exited the consolidation perimeter in 2020 corresponding to the period from 1 January 2019 to 31 December 2019 is presented as follows:

	SDM - Soc. Desenvolvimento da Madeira, S.A.	SDEM - Soc. Desenvolvimento Empresarial da Madeira, Unip. S.A.	Imóveis Brisa - Fundo de Investimento Imobiliário Fechado	Total
Revenue	10.923.671	9.540	5.500	10.938.711
External services and supplies	(3.006.264)	(56.331)	(101.476)	(3.164.071)
Personnel expenses	(1.714.124)	(186.174)	-	(1.900.298)
Charges of depreciation and amortization	(122.227)	(5.114)	-	(127.341)
Impairment losses of tangible assets	-	-	(627.343)	(627.343)
Impairment of receivables	4.610	100.420	-	105.030
Other income	30.311	30	7.393	37.734
Other expenses	(1.672.871)	(7.756)	(9.128)	(1.689.755)
Operating profit	**4.443.106**	**(145.385)**	**(725.054)**	**3.572.667**
Financial expenses	(23.113)	(842)	(380)	(24.335)
Financial income	358.126	70.174	-	428.300
Losses on investments in associates	-	(282.875)	-	(282.875)
Profit before tax	**4.778.119**	**(358.928)**	**(725.434)**	**3.693.757**
Income tax	(249.659)	(4.788)	-	(254.447)
Profit for the period	**4.528.460**	**(363.716)**	**(725.434)**	**3.439.310**
Profit for the period attributable to:				
Shareholders of the group	2.161.434	(126.837)	(725.434)	1.309.163
Non-controlling interests	2.367.026	(236.879)	-	2.130.147
	4.528.460	**(363.716)**	**(725.434)**	**3.439.310**
EBITDA	4.594.775	(423.146)	(97.711)	4.073.918

Additionally, on 27 November 2020 Pestana Hotel Group made a capital contribution of 1 GBP for the creation of the company Pestana CR7 Manchester Limited, which corresponds to 50% of the share capital of this company (Note 9).

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

The Statement of financial position of the company which exited 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	432.306
Trade and other payable current	647.699
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 on disposal (Note 33)	**10.965.373**

The Income statement of the company which exited 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.

40. Related parties

As at 31 December 2020 and 2019 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 2020 Pestana Hotel Group carried out the following transactions with those entities:

	Services obtained	Dividends obtained	Services rendered	Interest earned
Joint ventures	**137.501**	**–**	**848.496**	**172.093**
Pestana CR7 - Madeira Invest. Turísticos, S.A.	66.308	–	259.030	105.248
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	64.667	–	208.347	–
Pestana CR7 Manhattan 39 LLC	6.526	–	381.119	66.845
Associates	**31.473**	**–**	**1.681.065**	**14.947**
Albar - Sociedade Imobiliária do Barlavento, S.A.	–	–	4.500	–
Enatur - Empresa Nacional de Turismo, S.A.	31.473	–	28.576	14.947
URP - Urban Renew Promoção Imobiliária, S.A.	–	–	1.647.989	–
Key management personnel (a)	**–**	**–**	**–**	**–**
	158.974	**–**	**2.529.561**	**187.040**

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

	Services obtained	Dividends obtained	Services rendered	Interest earned	Disposals of financial investments
Joint ventures	**294.416**	**316.572**	**1.409.138**	**301.720**	**–**
Pestana CR7 - Madeira Invest. Turísticos, S.A.	12.322	–	519.849	107.250	–
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	157.477	316.572	775.363	–	–
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 a company owned by Mr. Tomáz Metello and a member of that subsidiary's Board of Administration. As at 31 December 2020 and 2019, Mr. Tomáz Metello is not a member of Pestana Hotel Group's key management personnel and has no function in any entity included in the consolidation perimeter.

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

	Trade receivables current	Trade receivables non current	Impairment of trade receivables	Net trade receivables	Trade payables current
Joint ventures	**803.387**	**1.887.947**	**–**	**2.691.334**	**87.200**
Pestana CR7 - Madeira Invest. Turísticos, S.A.	104.431	1.887.947	–	1.992.378	3.241
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	101.883	–	–	101.883	11.049
Pestana CR7 Manhattan 39 LLC	372.869	–	–	372.869	35.025
Pestana CR7 Madrid, S.L.	223.119	–	–	223.119	37.885
Solpor – Soc. de Turismo do Porto Santo Lda.	1.085	–	–	1.085	–
Associates	**2.365.151**	**–**	**1.178.108**	**1.187.043**	**–**
Albar - Sociedade Imobiliária do Barlavento, S.A.	103	–	–	103	–
Enatur - Empresa Nacional de Turismo, S.A.	79.836	–	–	79.836	–
URP - Urban Renew Promoção Imobiliária, S.A.	1.107.104	–	–	1.107.104	–
Soehotur, S.A.	1.178.108	–	1.178.108	–	–
Key management personnel	–	–	–	–	–
	3.168.538	**1.887.947**	**1.178.108**	**3.878.377**	**87.200**

The balances arising from transactions with related parties as at 31 December 2019 were 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 - Madeira Invest. Turísticos, S.A.	144.087	1.916.189	–	2.060.276	2.602
Pestana CR7 - Lisboa Hotel Invest. Turísticos, S.A.	133.872	–	–	133.872	34.810
Pestana CR7 Manhattan 39 LLC	135.860	–	–	135.860	–
Pestana CR7 Madrid, S.L.	476.164	–	–	476.164	–
Solpor – Soc. 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**
Enatur - Empresa Nacional de Turismo, S.A.	55.343	–	–	55.343	49.319
Albar - Sociedade Imobiliária do Barlavento, S.A.	5.297	–	–	5.297	–
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**

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					
	2019	Cash flows	Acquisitions/ Disposals	Transfers	Rent Concessions	Effects of Exchange rate	Accrual / Deferral	2020
Bank loans	253.016.175	44.106.954	–	(829.910)	–	(3.307.132)	347.249	**293.333.336**
Lease liabilities	194.752.746	(8.076.196)	(133.199)	–	(5.391.527)	(1.102.713)	–	**180.049.111**
Bond loans	166.701.192	(65.000.000)	–	–	–	–	(1.015.703)	**100.685.489**
Commercial paper	25.439.790	(222.222)	–	–	–	–	139.737	**25.357.305**
Cash flow from financing activities	**639.909.903**	**(29.191.464)**	**(133.199)**	**(829.910)**	**(5.391.527)**	**(4.409.845)**	**(528.717)**	**599.425.241**

42. Other informations

EBITDA refers to the net income for the year excluding financial results, income taxes, depreciation, amortization, impairment losses of tangible/intangible assets, including other low value items.

43. Subsequent events

Last February 1st, an urban plot in Brejos da Carregueira de Baixo, parish of Comporta, Municipality of Alcácer do Sal, was acquired by public auction, with the purpose of selling plots with an already approved architectural project. The base value of the sale procedure was 6.870.000 Euros and Pestana Hotel Group bid the amount of 6.952.500 Euros. The respective adjudication has been already obtained by the referred Municipality and has already been paid the amount of 3.451.000 Euros. The remaining will be paid in the coming weeks on the date of the deed. As a result of the acquisition, Pestana Hotel Group commits to perform the urbanization and infrastructure works of the building within 3 to 5 years, estimated to be invested an amount between 1,75 million Euros and 2 million Euros.

On 5 March 2021, the Court of Auditors ("Tribunal de Contas") approved the disposal of the subsidiary SDM – Sociedade de Desenvolvimento da Madeira, S.A. agreed between Pestana Hotel Group and the Autonomous Region of Madeira on December 31, 2020 with effects on that date. This decision was already expected by the Group at the date the contract was signed based on the information provided by its external lawyers who accompanied the transaction.

Luxembourg, 28 April 2021

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

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To the Shareholders of
Pestana International Holdings S.A.
58, rue Charles Martel
L-2134 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

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 2020, 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 2020 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 as adopted for Luxembourg by the CSSF 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 Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for 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

We draw attention to Note 2 and 4iii of the consolidated financial statements, which describes the impact of the pandemic Covid 19 on the liquidity and activities of the Group. Our opinion is not modified in respect of this matter.

T.V.A. LU 27351518
R.C.S. Luxembourg B 149133

Other information

The Board of Managers 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 the “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 Managers for the consolidated financial statements

The Board of Managers 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 Managers 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 Managers 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 Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the “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 Managers.

— Conclude on the appropriateness of the Board of Managers' 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, 21 May 2021

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Fabien Hedouin