The Resort Group plc

Issuer	Issuer Rating	Outlook
The Resort Group plc	BBB- Medium and Long Term	Stable

RATING RATIONALE

ARC Ratings, S.A. (ARC Ratings) has assigned the final public "BBB-" issuer medium and long-term rating, with a Stable outlook, to The Resort Group plc (TRG), based on its strong business model, strong international hotel brands, guaranteed occupancy by an international tour operator and low leverage, despite its investing and developing phase and exposure to Cabo Verde.

ISSUER PROFILE

TRG, established in Gibraltar and United Kingdom (UK), in 2007, is the holding company of a group (TRG Group) that develops and operates touristic hotels and resorts, having presently two touristic hotels and resorts in operation in Cabo Verde and a further eight touristic hotels and resorts in various stages of planning and development also in Cabo Verde. The Group is also planning for investing in other locations (especially in Southern Europe).

TRG GROUP'S KEY RATING DRIVERS ARE THE FOLLOWING:

- Strong business model – TRG Group has implemented a business model with several partners that allows the Group to reduce its risks, sharing part of potential profitability with its partners: accommodation units' investors; construction contractor; hotels and resorts' operators; and international tour operators.
- Strong international hotel brands – TRG Group has been able to attract strong international hotel brands operators to its hotels and resorts: presently the Meliá, Sensimar (TUI Group) and Hilton brands.
- Guaranteed occupancy by an international tour operator – for hotels and resorts operated by Meliá and TUI groups, TRG Group has obtained minimum occupancy agreements with TUI Group for at least the first three years of operation with a potential two-year extension to these.
- Low leverage – Despite being in an investing and developing phase, with few operations and a very significant investing plan, the financing model mainly through the pre-sale of accommodation units allowed the Group to develop its resorts with low leverage. At the end of June of 2016 the net loan to assets ratio (considering the market value of assets at the end of 2015) was 15.5%.

RATING DATE
9 November 2016

RATING VALIDITY
9 November 2017

NEXT REVIEW DATE
9 November 2017

PERIOD OF ANALYSIS
Historic: 2013 to 1H 2016
Forecast: 2016 to 2021

INFORMATION ANALYSED
TRG Reports and Audited Accounts
TRG Interim Unaudited Accounts
TRG Info Memo
TRG Main Contracts
TRG Forecasts
Peers and Partners Annual Reports

METHODOLOGY APPLIED
ARC Ratings Non Financial Corporations' Rating Methodology available at www.arcratings.com

ARC CONTACT DETAILS

Carlos Leitão
Lead Analyst
carlos.leitao@arcratings.com

Emma-Jane Fulcher
Chief Ratings Officer & Panel Chairperson
emma.fulcher@arcratings.com

Unit 1324 Baltimore Wharf Building
Canary Wharf E149EY
UNITED KINGDOM
Tel: +44 (0)7481 592289
Website: www.arcratings.com

THE KEY CONSTRAINTS ON TRG GROUP'S CREDIT RATING ARE:

- Operations are located in one only country: Cabo Verde – Despite being a competitive destination (competing destinations with similar flying times from the UK and North Europe to Cabo Verde are either in Europe, and therefore do not benefit from reliable weather like Cabo Verde, or are in the Middle East & North Africa where the security situation is challenging) and its history of political and social stability, concentration in only one small country poses an important risk, however it is becoming an increasingly important tourist destination particularly for the UK and North European holiday markets. In the long term, the Group plans to diversify investing in other locations (especially in Southern Europe).

SHAREHOLDERS AND GOVERNANCE

TRG is 100% owned and controlled by its founder and CEO, Mr. Robert Jarrett. A management share scheme was established in 2015, whereupon an exit event certain members of management will receive economic benefits totalling up to 12.9% of TRG's share capital.

Before founding the TRG Group in 2007, Mr. Robert Jarrett had a background of more than 15 years in the financial sector. The other two executive directors (Chief Financial Officer (CFO) and the Chief Operating Officer (COO)) and key management members have significant background in each relevant area.

TRG's Board of Directors also comprises three non-executive and independent members. Audit and Risk Committee and Remuneration and Nomination Committee comprise two of the three non-executive directors and are also attended by the CFO and COO. We highlight the quality of non-executive directors:

- Sir Peter Middleton GCB (also TRG's Non-Executive Chairman), who has experience in both the public and the private sectors. He is a former Permanent Secretary to Her Majesty's Treasury, former Chief Executive and Chairman of Barclays Bank PLC, a former Senior Advisor to Fenchurch Advisory Partners LLP and retired as UK Chairman of Marsh and MacLennan Companies Inc. Sir Peter is currently Chairman of Burford Capital LLC, and former Chancellor of the University of Sheffield.
- Keith Bayliss, who, following previous experience in investment banking and asset management (Paribas, Credit Suisse, Dresdner Kleinwort Wasserstein and Morgan Stanley), including acting as a main board director and Chief Executive, founded Communities and Provident International. With risk management experience, Keith was personal advisor to the Chair of the Standards and Ethics Committee of the International Accounting Standards Committee.
- Philip Johnston, with experience in the property industry and being a former Head of Savills Hotels. Philip is a Director of Harris Johnston Limited providing consultancy services to corporate clients in the hotels sector, having been involved in hotel and leisure property deals throughout UK, Europe and internationally.

On 25th October 2016 and 1st November 2016 ARC Ratings met with senior management of TRG to carry out an onsite review as part of the analytical process.

OPERATIONS

TRG Group has presently two touristic 5-star hotels and resorts in operation in the Sal island in Cabo Verde, with a total of 1,623 accommodation units (hotel rooms, apartments and villas), one that opened in May 2011 (with 372 units) and another that opened in November 2014 (with 1,251 units), a further four with full planning and operators signed, with a total of 2,037 units, one that will open in December 2016 also in the Sal island in Cabo Verde (with 602 units – this resort has been split into two complementary brands) and three planned to open late 2018 and during 2019 (two of them are already in construction), one in Praia city (capital of Cabo Verde in Santiago island) and two in Boa Vista island in Cabo Verde, and a further four being planned also for the Boa Vista island in Cabo Verde. The Group is also planning for investing in other locations (especially in Southern Europe).

TRG GROUP EXISTING AND PLANNED HOTELS AND RESORTS

	Location	*Tourist Segment*	*Construction Start*	*Opening*	*Total Units*	*Units in Resort Op.*	*Units Tui Allocated*	*Investment (€ million)*	*Pre-Sales Revenue* (€ million)*	*Anual Rev. Granted by Tui (€ million)*
OPERATING			-	-	**1,623.0**	**1,440.0**	**989.0**	**218.0**	**340.9**	**33.7**
Meliá Tortuga	**Cabo Verde - Sal Island**	**Beach Resort and Hotel**	Apr 2009	May 2011	372.0	286.0	119.0	59.0	66.7	4.1
Meliá Dunas	**Cabo Verde - Sal Island**	**Beach Resort and Hotel**	Apr 2010	Nov 2014	1,251.0	1,154.0	870.0	159.0	274.2	29.6
FULL PLANNING AND OPERATOR SIGNED			-	-	**2,037.0**	**602.0**	**502.0**	**287.0**	**124.2**	**22.1**
Meliá Llana	**Cabo Verde - Sal Island**	**Beach Resort and Hotel**	Oct 2014	Dec 2016	300.0	300.0	200.0	83.0	90.7	8.3
Sensimar Llana	**Cabo Verde - Sal Island**	**Beach Resort and Hotel**	Oct 2014	Dec 2016	302.0	302.0	302.0	a)	a)	13.8
Meliá White Sands	**Cabo Verde - Boa Vista Island**	**Beach Resort and Hotel**	Jan 2016	Late 2018	835.0	-	-	98.0	33.5	-
Hilton Praia	**C. Verde - Praia City (Santiago Island)**	**City Hotel**	Jun 2016	Jan 2019	200.0	-	-	38.0	-	-
Hilton Boa Vista	**Cabo Verde - Boa Vista Island**	**Beach Resort and Hotel**	Jul 2017	Sep 2019	400.0	-	-	68.0	-	-
IN-PLANNING			-	-	**2,572.0**	**-**	**-**	**340.0**	**-**	**-**
Boa Vista 3	**Cabo Verde - Boa Vista Island**	**Beach Resort and Hotel**	2017	2019	490.0	-	-	65.0	-	-
Boa Vista 4	**Cabo Verde - Boa Vista Island**	**Beach Resort and Hotel**	2018	2020	482.0	-	-	65.0	-	-
Boa Vista 5	**Cabo Verde - Boa Vista Island**	**Beach Resort and Hotel**	2019	2022	800.0	-	-	105.0	-	-
Boa Vista 6	**Cabo Verde - Boa Vista Island**	**Beach Resort and Hotel**	2021	2023	800.0	-	-	105.0	-	-
TOTAL CABO VERDE			-	-	**6,232.0**	**-**	**-**	**-**	**-**	**-**

Notes:
*** Until 10 December 2015**
a) Investment costs and pre-sales revenue of Sensimar Llana is included in Meliá Llana, since the two are only one property that has been split into two complementary premium brands.

Sources:
TRG.

In 2015 TRG Group had an average number of 1,079 employees (up from 500 in 2014), mainly in the hotels and resorts in Cabo Verde, but also in the Gibraltar and UK offices.

TRG Group has implemented a business model with several partners that allows the Group to reduce its risks, sharing part of potential profitability with its partners:

- Financing risk – TRG Group has sold a significant part of accommodation units in its hotels and resorts before the start of construction with cash receipts (minimum 45%) agreed and received up front (pre-sales model), reducing the Group's reliance on external financing. Cash receipts advanced bear interest (at fixed rate) until the effective acquisition. Acquisitions may be cash funded or through customers' pension schemes. While cash funded customers may opt to participate in the resort rental scheme or not, pension funded customers need to participate. TRG Group offers a resort rental agreement for an initial period of 15 years, extendable for successive periods of 5 years, paying to the owners a proportion of the operating profit from the rental of their property at the discretion of TRG Group (currently the Group is paying at least 50%), i.e. with no guarantee of lease payments under these contracts. However, occupancy at the properties is around 89%-98% consistently, which indirectly guarantees rental payments. After 5 years TRG Group will market and sell the property for any clients wishing to exit their rental agreements. All owners must pay a monthly management fee to TRG Group. TRG Group has presently around 4,500 customers that own accommodation units in its hotels and resorts in operation or in construction. However, to further diversify its financing, TRG Group is preparing the sale of accommodation units to structured vehicles that will benefit from an operating rental contract with minimum rents guaranteed. On the other hand, the two planned hotels and resorts that will be operated by Hilton Group will not be subject to pre-selling model, but totally retained by the Group.

- Construction risk – TRG Group has negotiated construction contracts which are fixed price, turnkey contracts, passing risks of cost overruns and delays to the construction contractor. The contracts include customary performance tests and liquidated damages in the event of non-performance. Until now the construction partner has been Grupo SanJose, a Spanish-based international construction group with a strong connection to Cabo Verde through its strong presence in Portugal. Grupo SanJose has no ratings assigned (in 2015 revenue achieved EUR 536 million, with 8.2% EBITDA margin, and at the end of 2015 net financial debt amounted to EUR 162 million, with a net financial debt / EBITDA ratio of 3.7 times; Spanish market still represented 42% of revenues in 2015).
- Operating risk – TRG Group has negotiated operating contracts with strong international touristic operators, both with hotels and resorts operators and tour operators:
  - Hotels and resorts operators – Under management and operating agreements, hotel and resort operators post their brand and oversee the day to day running of the resort, receiving a management fee, which may include a percentage of total revenue and/or a percentage of gross operating profits. TRG Group presently has management agreements with Meliá Group for the two resorts in operation and for two others in construction and with Hilton Group for one city hotel in construction and one resort planned, and has also letters of interest signed from Movenpick Hotels & Resorts, Radisson Blu Hotels & Resorts, Steigenberger Hotels & Resorts and Four Seasons Hotels Limited to operate planning resorts. Agreements with Meliá Group are for 15 years with 5 years' possible extension, and agreements with Hilton Group are for 20 years. Meliá Group is a Spanish-based hotel group that operates around 370 hotels and resorts worldwide (around 80 in Spain) and has no ratings assigned (in 2015 revenue achieved EUR 1.7 billion, with 16.8% EBITDA margin, and at the end of 2015 net financial debt amounted to EUR 0.8 billion, with a net financial debt / EBITDA ratio of 2.6 times). Hilton Group is a US-based hotel group that operates around 4,700 hotels and resorts worldwide (around 3,800 in the US) and has the following credit ratings assigned: BB+ / Positive from Standard and Poor's; and Ba2 / Stable from Moody's.
  - Tour operators – TRG has negotiated occupancy contracts with the world's largest tour operator, the German-based TUI Group (also operating around 300 hotels worldwide), presently in force a 3-year period contract expiring in 31 October 2019 with a potential two-year extension for Meliá Tortuga, Meliá Dunas, Meliá Llana and Sensimar Llana (the last two to be open in December 2016, with guaranteed occupancy of, respectively, 52% and 85%). TUI AG has the following credit ratings assigned: BB- / Positive from Standard and Poor's; and Ba2 / Stable from Moody's.

Cabo Verde is a competitive destination for beach tourism, with competing destinations with similar flying times from the UK to Cabo Verde being either in Europe and therefore do not benefit from reliable weather like Cabo Verde (high temperatures all year round and no likelihood of extreme weather events like hurricanes), or in the Middle East & North Africa where the security situation is challenging. Also, Cabo Verde has no malaria and few infectious diseases. Cabo Verde's government offered investors in the tourism sector a 5-year tax holiday, exemption from import duties and free expatriation of profits.

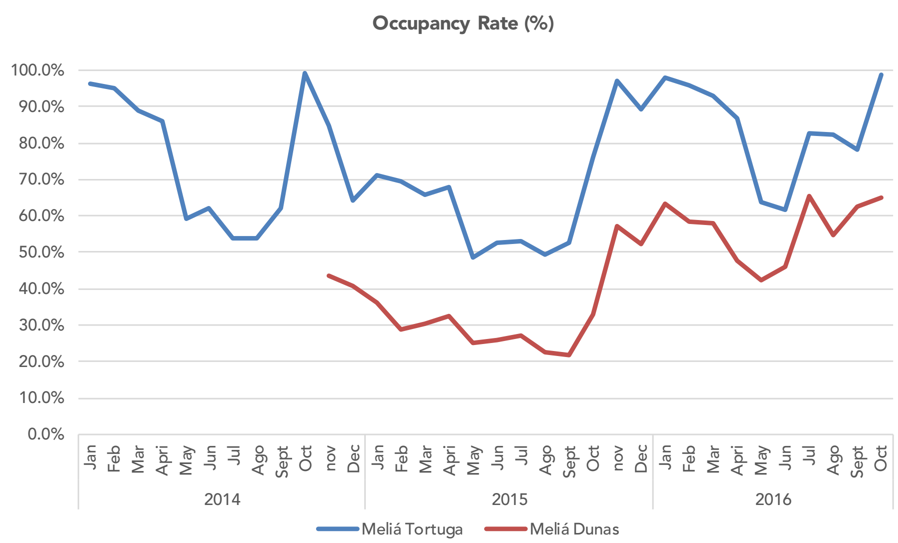
Cabo Verde is an emerging touristic site, with strong arrivals growth over the last few years and successive new openings of hotels and resorts. Presently, besides the two TRG Group's hotels and resorts, there are in Cabo Verde other five 5-star hotels and resorts (with 2,513 accommodation units), six 4-star hotels and resorts and five 3-star hotels and resorts. Total accommodation units (including the two TRG Group's hotels and resorts) are 6,214. Most relevant player is Riu Group (a Spanish-based hotel group that is partly owned by TUI Group) with five hotels and resorts in operation (two 5-star, two 4-star, and one 3-star), totalling 2,650 units.

Cabo Verde has a history of political and social stability and tourism is crucial for employment and economic development. On the other side, fiscal deficits led to a public debt higher than 100% of GDP, mainly as a consequence of public investment programme, but it poses some vulnerability to the country, despite the long-term maturity and low fixed interest rates of debt and measures being taken to revert the fiscal situation.

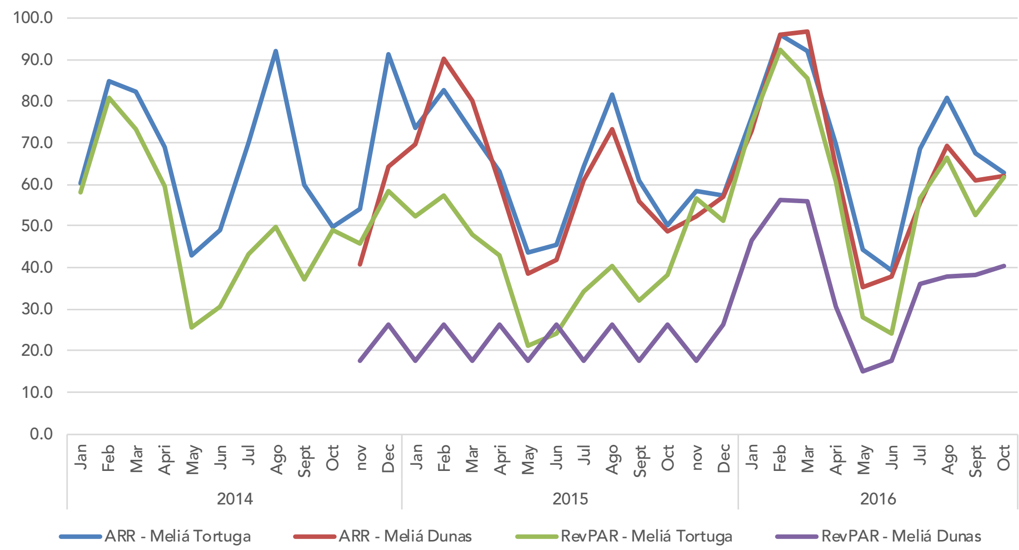
CASH FLOW GENERATION CAPACITY

TRG Group's revenues have two main sources: real estate sales; and resorts and hotels operations. Besides these, the Group also has some ancillary activities (food and beverage, on-site boutiques, transport and security, etc.). Pre-sales of real estate are registered as liabilities in the balance sheet during the construction phase (the Group pays interest for the cash advanced), only being recognized as revenue as the construction of apartments and villas is completed.

Since opening, in May 2011, the first TRG Group's touristic resort, the Meliá Tortuga, has registered high occupancy rates, with annual averages higher than 70% in the first years (and with significant repeat costumers), while the second resort, Meliá Dunas, being much bigger, started operation in November 2014 with much lower occupancy rates and affected occupancy at the Meliá Tortuga in 2015. Also, occupancy of both resorts in 2015 was negatively affected by the construction works in the third Group's resort (Meliá Llana and Sensimar Llana) that is now being concluded between the two. Since the last months of 2015, occupancies have been resuming to higher levels, especially in Meliá Tortuga but also in Meliá Dunas, both achieving presently occupancy rates between 89%-98%. Contract with TUI Group is a guarantee to maintain and further increase these occupancy levels.



Average Room Rates (ARR) and Revenue Per Available Room (RevPAR) (€)



TRG Group's turnover increased from EUR 44.8 million in 2013 to EUR 139.4 million in 2015, with the major annual turnover increasing in 2014 due to the opening of Meliá Dunas in November 2014 and the recognition of pre-sales revenue. In 2014 the Group also achieved the break-even in net profit, having achieved in 2014 an EBITDA margin of 25.2% and a net return on turnover of 21.0%. In 2015 EBITDA margin and net return of turnover decreased to, respectively, 23.4% and 10.6%, reflecting one complete year of activity of Meliá Dunas with low occupancy rate and also a relatively low occupancy rate of Meliá Tortuga, both impacted by the construction works of the two Llana resorts (this has now increased to between 89%-98%), and increased interest costs and non-current costs.

In the first half of 2016 the Group's turnover increased 7.5% year-on-year, with a 67.6% increase in the hotels and resorts operation (to EUR 25.3 million), while real estate revenue decreased 24.0% (to EUR 30.5 million). EBITDA margin and net return on turnover decreased to 11.2% and -2.3% mainly due to higher central costs and financing costs. The conclusion of construction of the two Llana resorts and their opening by the end of the year will allow it to recognize the accrued revenue with pre-sales of these resorts and thus resume profitability in the complete year of 2016.

The coverage of net interest (including capitalized interest) by EBITDA increased from almost nil in 2013 to 14.3 times in 2014, but decreased to 2.8 times in 2015 and 1.3 times in the first half of 2016.

FINANCIAL POLICY

The pre-sales model has been the main source of TRG Group's financing. Even so, reflecting the investing and developing phase, TRG Group still has a relatively weak financial structure. Equity / assets ratio was -15.0% at the end of June 2016 (having improved from -47.6% at the end of 2013), with total assets of EUR 131.5 million. However, an independent valuation from Gerard Eve LLP calculated the market value of the Group properties at EUR 372.2 million at the end of 2015, comparing with a book value of EUR 74.4 million. Applying this market value for the end of June 2016, equity / assets ratio was 64.6% and net gearing was 0.2 times.

TRG - CONSOLIDATED FINANCIALS AND RATIOS (THOUSAND EUROS)

	2013	*2014*	*2015*	*2015 Jan to Jun*	*2016 Jan to Jun*	*2016 (F)*	*2017 (F)*	*2018 (F)*	*2019 (F)*	*2020 (F)*	*2021 (F)*
TURNOVER	44,757	112,397	139,438	56,909	61,160	153,205	211,636	237,960	294,564	352,497	380,709
EBITDA	380	28,315	32,679	8,463	6,836	34,643	40,593	44,805	55,081	64,789	69,902
EBIT	20	27,670	30,004	7,485	5,512	33,774	38,860	42,229	51,095	59,821	63,657
FINANCIAL RESULT	(3,269)	(1,980)	(11,801)	(2,394)	(5,067)	(10,935)	(13,960)	(17,039)	(15,728)	(15,026)	(16,006)
NON-CURRENT RESULTS	0	(2,006)	(2,928)	(2,355)	(1,589)	(2,000)	(1,000)	0	0	0	0
NET PROFIT	(3,798)	23,615	14,801	2,628	(1,394)	19,652	22,608	23,725	33,122	42,229	44,758
OPERATING CASH FLOW (OCF)	(9,898)	10,835	3,931	n.av.	n.av.	(5,925)	35,023	44,875	84,589	81,371	72,989
CASH FLOW	(11,447)	10,148	(453)	n.av.	n.av.	(10,913)	25,423	33,262	72,537	70,946	65,287
FREE CASH FLOW	(18,624)	(6,915)	(12,138)	n.av.	n.av.	(38,866)	(23,691)	(8,929)	30,006	17,494	16,737
TOTAL ASSETS	123,585	125,945	118,432	n.av.	131,535	180,785	235,031	267,499	328,419	367,488	409,452
FINANCIAL DEBT	32,732	37,013	53,553	n.av.	82,943	122,260	148,684	162,628	153,315	122,305	104,437
NET FINANCIAL DEBT	20,024	27,008	39,089	n.av.	57,692	78,169	102,415	111,918	82,390	65,236	48,696
Contribution Margin (%)	34.7%	48.9%	59.5%	49.2%	60.3%	61.7%	56.0%	55.8%	56.1%	56.5%	56.6%
EBITDA Margin (%)	0.8%	25.2%	23.4%	14.9%	11.2%	22.6%	19.2%	18.8%	18.7%	18.4%	18.4%
Operating Return on Turnover (%)	0.0%	24.6%	21.5%	13.2%	9.0%	22.0%	18.4%	17.7%	17.3%	17.0%	16.7%
Operating Return on Assets (%)	0.0%	22.0%	25.3%	n.av.	8.4%	18.7%	16.5%	15.8%	15.6%	16.3%	15.5%
Gross Cost of Borrowed Funds (%)	1.9%	1.3%	8.5%	n.av.	6.7%	6.0%	6.7%	7.9%	6.6%	6.4%	6.9%
Net Return on Turnover (%)	(8.5%)	21.0%	10.6%	4.6%	(2.3%)	12.8%	10.7%	10.0%	11.2%	12.0%	11.8%
Payout Ratio (%)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Coverage of Interest Costs by EBITDA (x)	0.1	13.3	2.8	3.5	1.3	3.1	2.8	2.5	3.3	4.0	4.1
Coverage of Net Interest Costs by EBITDA (x)	0.1	14.3	2.8	3.5	1.3	3.2	2.9	2.6	3.5	4.3	4.4
Financial Debt / EBITDA (x)	86.1	1.3	1.6	n.av.	6.1	3.5	3.7	3.6	2.8	1.9	1.5
Net Financial Debt / EBITDA (x)	52.7	1.0	1.2	n.av.	4.2	2.3	2.5	2.5	1.5	1.0	0.7
Cash Flow Coverage of Net Financial Debt (%)	(57.2%)	37.6%	(1.2%)	n.av.	n.av.	(14.0%)	24.8%	29.7%	88.0%	108.8%	134.1%
Equity / Assets (%)	(47.6%)	(28.0%)	(17.2%)	n.av.	(15.0%)	(1.7%)	8.3%	16.2%	23.3%	32.3%	39.9%
Net Gearing (Net Debt to Equity) (x)	(0.3)	(0.8)	(1.9)	n.av.	(2.9)	(26.1)	5.2	2.6	1.1	0.5	0.3
Financial Debt Struc. (S.T. Fin. Debt as a % of Total Fin. Debt)	37.2%	2.0%	0.1%	n.av.	0.0%	0.9%	4.8%	12.2%	25.3%	34.5%	9.6%
Short-Term Debt Coverage by Cash and Undrawn Facilities (%)	104.5%	1,383.8%	51,657.1%	-	-	4,008.2%	648.9%	256.2%	183.1%	135.4%	554.5%
Current Assets Ratio	83.6%	65.1%	67.7%	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.
Acid Test Ratio	28.7%	29.5%	53.4%	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.
Loan To Assets (at Market Value) (%)	n.av.	21.6%	14.4%	n.av.	22.3%	n.av.	13.5%	15.1%	15.5%	13.8%	14.0%
Net Loan To Assets (at Market Value) (%)	n.av.	15.8%	10.5%	n.av.	15.5%	n.av.	9.3%	10.4%	8.4%	7.4%	6.5%

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
2013 to 2015 annual accounts audited by Deloitte Limited.
n.av. = non-available.

Sources:
TRG.

Total financial debt has increased from EUR 14.8 million at the end of 2012 to EUR 53.6 million at the end of 2015 and to EUR 82.9 million at the end of June 2016. Net financial debt increased from EUR 3.0 million at the end of 2012 to EUR 39.0 million at the end of 2015 and to EUR 57.7 million at the end of June 2016. The Group has maintained a high amount in cash and deposits (at least EUR 8 million) to maintain a low liquidity risk. At the end of June 2016 all financial debt had medium and long term maturity, with a mix of bank loans (with interest rate indexed to Euribor), bonds issued (at fixed interest rates), a mezzanine loan (with fixed interest rate) and a EUR 12 million shareholder loan (with interest indexed to Bank of England base rate).

Net financial debt / EBITDA ratio increased to 4.2 times at the end of June 2016 from 1.2 times at the end of 2015, due to the debt increase for investing while EBITDA decreased in this period.

Loan to value ratio at the end of June 2016 (applying the properties' market value calculated for the end of 2015) was 22.3% (15.5% considering the net financial debt).

Insurance coverage for hotels and resorts in operation are contracted with the local insurance company Garantia Seguros, which is indirectly controlled by the Chinese group Fosun (BB / Negative by Standard and Ba3 / Stable by Moody's).

FORECASTS

As presented above, TRG Group has a challenging investment plan, having presently three hotels and resorts in construction (one almost complete), another one has full planning to start construction in 2017, other four hotels and resorts are in planning for Cabo Verde and the Group also plans to invest outside Cabo Verde (in Southern Europe). The pre-sales model will continue to be a strategic source of funding, but the Group also forecasts to increase its financial debt to retain a higher part of hotels and resorts (including the full ownership of the two planned hotels and resorts that will be operated by Hilton Group).

For the complete year of 2016, TRG Group forecasts to achieve EUR 153.2 million of turnover, a year-on-year increase of 9.9%, and to resume profitability (22.6% of EBITDA margin and 12.8% of net return on turnover), reflecting the conclusion of construction of the two Llana resorts and the recognition of pre-sales revenue.

For the next five years, TRG Group forecasts a consecutive increase in turnover, to EUR 380.7 million in 2021, maintain an EBITDA margin higher than 18% and a net return on turnover higher than 10%. The coverage of net interest costs by EBITDA is forecasted to have a minimum of 2.6 times at the end of 2018 and consecutively increase to 4.4 times at the end of 2021, and net financial debt / EBITDA ratio is forecasted to have a maximum of 2.5 times at the end of 2017 and 2018 and decrease in the following years to 0.7 times at the end of 2021. Equity / assets ratio is forecasted to turn positive in 2017 and consecutively increase to almost 40% at the end of 2021.

DISCLAIMER

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ARC Ratings, S.A.

Rua Luciano Cordeiro, 123 – R/C Esq.

1050-139 Lisbon

PORTUGAL

Phone: +351 213 041 110

Fax: +351 213 041 111

E-mail: arcratings@arcratings.com

Site: www.arcratings.com

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Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner.

The rating assigned by ARC Ratings in this report was sought by the entity whose financial commitments are being rated.

Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed (the Preliminary Rating Report). This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC Ratings in the assignment of the rating.

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Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer's performance on a constant basis, and may even bring forward the date of the review unless stated as point in time. Hence, prior to an investor using a rating, ARC Ratings recommends that it be confirmed, namely by consulting the list of public ratings available at the web site www.arcratings.com.

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