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 affirmed the final public "BBB-" issuer medium and long-term rating, with a Stable outlook, to The Resort Group plc (TRG), based on the expected capacity of the Group to develop its activity, taking advantage of Cape Verde as a secure, political and socially stable emerging touristic site, and to generate funds with an increasing contribution from recurring revenues. The strategy of the Group to strengthen assets, particularly with a further two hotels and resorts, will lead to a temporary decline in its debt coverage ratios expected until 2020, however whilst still maintaining compliance with the debt service covenants. The prospects point to the strengthening of the Group's financial structure in the medium term, which will depend on its capacity to achieve the defined objectives.

ISSUER PROFILE

TRG, established in Gibraltar a decade ago, is the holding company of TRG Group, that develops, manages and operates touristic hotels and resorts, and currently has three in operation in Cape Verde (with over 2,200 accommodation units in Sal Island). Currently focused in Cape Verde, the Group has a further seven touristic hotels and resorts in various stages of planning and development (six in Boa Vista and one in Santiago Island) totalling over 3,200 accommodation units. Long term, the Group intends to continue building or redeveloping resorts, namely in Boa Vista Island and in Southern Europe in order to obtain geographical diversification.

At present most of the accommodation units of the hotels and resorts in operation are held by investors (more than 5,000 individual investors). The Group retained on balance sheet the communal areas of the three resorts in operation and a low percentage of the total accommodation units under management. Strategically, in the future it intends to retain a higher proportion of hotels and resorts assets (including the full ownership of two planned hotels, with a total of 604 units), whose implementation will have an impact on its financial structure.

TRG GROUP'S KEY RATING DRIVERS ARE THE FOLLOWING:

- Strong business model – TRG 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 brand operators to its hotels and resorts, including the Meliá Hotels

RATING DATE
9 November 2017

RATING VALIDITY
9 November 2018

INITIAL RATING
9 November 2016

NEXT REVIEW DATE
9 November 2018

PERIOD OF ANALYSIS
Historic: 2013 to August 2017
Forecast: 2017 to 2022

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

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

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International, Sensimar (TUI Group), Hilton Worldwide and Steigenberger 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.
- Experienced management board - TRG Group is controlled by an experienced management board.
- Moderate leverage – The Group's financing model, mainly through the pre-sale of accommodation units and through a diversified sales structure, has allowed it to develop its resorts with moderate leverage. At the end of August 2017, the net loan to assets ratio, considering the market value at the end of 2016 of the assets retained and the three hotels and resorts under development, was 21.4%.

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

- Operations are located currently in only one country: Cape Verde – Despite being a competitive destination (competing destinations with similar flying times from the United Kingdom (UK) to Cape Verde are either in Europe and therefore do not benefit from reliable weather all year round like Cape 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. Cape Verde's competitiveness is demonstrated in its emerging tourist destination status, particularly for the UK holiday market. After analysing potential opportunities to develop outside Cape Verde, TRG Group took the decision that, for the foreseeable future, it will only be focused on this country. However, in the long term, the Group maintains the objective of geographic diversification in Europe, particularly in the Balearics and the Canaries.

SHAREHOLDERS AND GOVERNANCE

Since its incorporation, TRG is 100% owned and controlled by its founder and CEO, Mr. Robert Jarrett. Before founding the TRG Group in 2007, Mr. Robert Jarrett had a background of more than 15 years in the financial sector. In 2013 he granted a shareholder loan of EUR 12 million to TRG, which is expected to remain in the horizon of analysis (5 years).

Key elements of the executive board and operational board possess extensive experience and have collaborated for a long period with the Group. A management share scheme was established in 2015, to ensure stability of the team, whereupon an exit event, certain key members of management will receive economic benefits totalling up to 12.9% of TRG's share capital.

On 11th October 2017 ARC Ratings met with senior management of TRG to carry out an onsite review as part of the analytical process.

OPERATIONS

TRG has implemented a business model with several partners that allows the Group to reduce its risks, sharing part of potential profitability with its partners, as mentioned in the rating report dated on 9 November 2016.

The Llana Beach Hotel started operations in December 2016, under the TUI Sensimar (adults-only) and Meliá brands, with 601 luxurious hotel suites. This third touristic 5-star resort in Sal Island is located close to the Meliá Tortuga, a boutique hotel which opened in May 2011, with 372 units, and the Meliá Dunas, the Group's biggest hotel opened in November 2014, with 1,249 units, in Ponta Preta. In 2016 the Group split this resort between the Sol and Meliá brands to good effect. Since December 2016, the Group's touristic offer was also more complete with the opening of its first Bikini Beach Club on the beach in front of Llana Beach Hotel (composed of bars, restaurant and pool terraces). The completion of these infrastructures in 2016 stabilized the Group's touristic offer in Sal Island and may enhance the operating conditions of its adjacent resorts, already in cruise speed, whose occupancy rates were temporarily affected, in some way, by the construction works. The opening of the Llana Beach Hotel led to an increase on TRG Group's average number of employees, by 38% in 2016, to 1,491 employees.

The Group has a construction pipeline of over 3,600 accommodation units, as shown in the table below, mostly in Boa Vista Island.

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)	Minimum Annual Rev. Guaranteed by Tui (€ million)
OPERATING			-	-	**2,222.0**	**2,047.0**	**1,491.0**	**290.5**	**376.2**	**55.8**
Meliá Tortuga	**Cape Verde - Sal Island**	**Beach Resort and Hotel**	Apr 2009	May 2011	372.0	286.0	119.0	54.5	67.2	4.1
Meliá Dunas	**Cape Verde - Sal Island**	**Beach Resort and Hotel**	Apr 2010	Nov 2014	1,249.0	1,156.0	870.0	155.3	197.0	29.6
Meliá Llana and Sensimar Llana	**Cape Verde - Sal Island**	**Beach Resort and Hotel**	Oct 2014	Dec 2016	601.0	605.0	502.0	80.6	112.0	22.1
FULL PLANNING AND OPERATOR SIGNED			-	-	**1,929.0**	**0.0**	**0.0**	**263.7**	**63.4**	**0.0**
Meliá White Sands	**Cape Verde - Boa Vista Island**	**Beach Resort and Hotel**	Jan 2016	May 2019	835.0	-	-	117.6	63.4	-
Hilton Praia	**C. Verde - Praia City (Santiago Island)**	**City Hotel**	2017	Jul 2019	201.0	-	-	44,1	n.a.	-
Steigenberger / Jaz	**Cape Verde - Boa Vista Island**	**Beach Resort and Hotel**	2020	Nov 2021	490.0	-	-	78.1		
Hilton Boa Vista	**Cape Verde - Boa Vista Island**	**Beach Resort and Hotel**	2020	Out 2022	403.0	-	-	68.0	n.a.	-
IN-PLANNING			-	-	**1,350.0**	**-**	**-**	**196.0**	**-**	**-**
Boa Vista (TUI)	**Cape Verde - Boa Vista Island**	**Beach Resort and Hotel**	2019	Jul 2022	650.0	-	-	101.8		
Boa Vista 4	**Cape Verde - Boa Vista Island**	**Beach Resort and Hotel**	2021	Jan 2023	700.0	-	-	94.2	-	-
REDEVELOPMENTS	**Cape Verde - Boa Vista Island**	**Beach Resort and Hotel**	**2021**	**From 2022**	**400.0**			**80.0**		
TOTAL CAPE VERDE			-	-	**5,901.0**	**-**	**-**	**830.2**	**-**	**-**

Notes:
*** Until 31 August 2017**
(n.a) None applicable.

Sources:
TRG.

The first of the six resort plots planned to be developed in Boa Vista Island, is the Meliá White Sands Hotel & Spa, which is currently under construction. This hotel and resort will be composed of 835 units divided between the main building (hotel with 188 rooms / suites), 7 blocks (602 rooms) and buildings of commercial mixed use / bedrooms (with 30 rooms) and 15 villas. The construction started in early 2016 and will be completed in phases. The Group expects to finance the investment in this resort (estimated at EUR 117.6 million, of which about 23% has already been realised) through the usual pre-sales model (which allowed cash collections of EUR 63.4 million until August 2017). The opening date of this resort is expected in May 2019, which will be managed by the Meliá hotel operator, which already manages the existing resorts in operation.

In a conservative approach, the Group expects to develop the second resort in Boa Vista Island, close to Meliá White Sands Hotel & Spa, from 2020, in an investment estimated at approximately EUR 78.1 million to be financed by the pre-sales model. This resort with 490 units (rooms and suites) will be split into two hotels, the Steigenberger Hotel and the Jaz on the Beach' concept. The opening date of this resort is expected to be in late 2021. Thanks to the growth and scope of TRG's hotel operators, an agreement was made in November 2016 where the second resort in Boa Vista Island will be managed by Steigenberger Hotels AG, with an initial term of 20 years.

TRG is also planning to develop two hotels and resorts that will be managed by the Hilton hotel operator, under two 20-year management agreements signed with Hilton Worldwide, which the Group strategically intends to retain on balance sheet. The first of these hotels is the Hilton Praia Hotel, a city hotel with 201 rooms and suites across 15 floors along with extensive meeting and event facilities, with an estimated investment of EUR 44 million. This hotel will be in Praia city, the capital of Cape Verde, on Santiago Island, near the city's diplomatic quarter, governmental institutions, commercial, finance and residential areas, and six kilometers from Nelson Mandela International Airport and the Port of Praia. Full planning is complete and the site clearance and mobilisation works already commenced in 2017 and completion is planned for mid-2019. The second of these hotels is the Hilton Boa Vista Resort, the third development for TRG Group on that island, close to the previous two resorts on the Santa Monica beach. With 403 units, the estimated investment in this resort amounts to EUR 68 million. Its opening date is expected to be late 2022 as currently no construction has commenced.

A further two resorts are being planned also for Boa Vista Island in Cape Verde, with 1,350 accommodation units with an estimated investment of EUR 196 million.

The Group's forecast is to continue building, or redeveloping resorts, both in Cape Verde, namely in Boa Vista Island, and in Southern Europe, in order to obtain geographical diversification.

The pre-sales model followed by TRG has been a determining factor for its development. It should be noted its great adaptability to the constant developments in its target market of sales. TRG Group is focused on channel diversification and product diversification. Regarding the first, channels are differentiated between equity and debt, pension and cash routes and further segmented between UK, European, Middle East and Far Eastern distribution. It is expected that the approach to new geographic markets will have, in the medium and long term, also a positive impact at the operational level, in so far as it helps to divulgate the Cape Verde tourist destination. The Group also presents flexibility to offer a product that would fit that target's requirements. Compared to the competitors, the Group considers that it has developed its operations to a much higher degree of sophistication and efficiency.

All the owners of the accommodation units pay to the Group a resort management fee. TRG offers a resort rental agreement to these owners, under which their property becomes part of the hotel room inventory and in return they receive a rental income. The majority of owners have entered into a rental agreement with the Group. Currently there are a mix of resort rental agreements in force, including some where the Group pays variable remuneration (in proportion of the operating profit from the rental of their property at the discretion of TRG, currently the Group is paying at least 50%) and others with minimum rents guaranteed (in the latter case, of the contracts in force at the end of August 2017 resulted in an annual payment of EUR 4.4 million).

From an operational point of view, in order to ensure the necessary generation of funds, the TRG Group had signed long-term management agreements with strong diversified international brands of hotel operators to its hotels and resorts, as mentioned above. TRG shares the risk and the potential profitability with these operators, having guaranteed effective occupancy rates for the hotels and resorts managed under the Meliá brand (29% for the Meliá Tortuga, 58% for the Meliá Dunas and 68% for the Llana Beach Hotel) through a 3-year period contract signed with the world's largest tour operator, the German-based TUI Group, which also operates around 300 hotels worldwide. TUI AG has the following credit ratings assigned: BB / Stable from Standard and Poor's (S&P); and Ba2 / Stable from Moody's Investors Service (Moody's). The agreement presently in force will expire on 31 October 2019 with a potential two-year extension. TRG Group also works with other recognized tour operators without guaranteed occupancy rates and travel agencies to other source markets not covered by TUI, in addition to the hotels operators' reservation center. TRG Group is aware of the importance of customer satisfaction, which is monitored regularly.

In the three resorts in operation, around 28% of the customers are from the UK, being followed by the customers from Germany, Netherlands and Italy, among others.

It should be highlighted that, besides the Meliá Group, TUI Group, Hilton Worldwide and Steigenberger, the Group also has letters of interest signed from Movenpick Hotels & Resorts, Radisson Blu Hotels & Resorts and Hard Rock Hotels to operate planned resorts.

Meliá Group is a Spanish-based hotel group that operates around 375 hotels and resorts worldwide (around 140 in Spain) and has no ratings assigned (in 2016 revenue achieved EUR 1.8 billion, with 15.8% EBITDA margin, and at the end of 2016 net financial debt amounted to EUR 0.5 billion, with a net financial debt / EBITDA ratio of 1.9 times). Hilton Group is a US-based hotel group that operates around 5,000 hotels and resorts worldwide and has the following credit ratings assigned: BB+ / Positive from S&P; and Ba2 / Stable from Moody's. Steigenberger Hotels AG (rebrand to Deutsche Hospitality) initially a German company is currently part of the Travco Group International Holding (founded in Egypt), which expanded its operations to the fully integrated tourism conglomerate areas. Travco Group's hospitality companies own and manage a portfolio in the Middle East exceeding 70 hotels and cruise properties in prime destinations in Egypt, the UAE, Jordan and Tunisia.

Concerning construction risk, with potential impact on the final profitability of the tourist project, TRG Group has negotiated construction contracts which are fixed price, turn-key contracts, passing risks of cost overruns and delays to the construction contractor. Until now the construction partner has been Grupo SanJose, a Spanish-based international construction group with a strong connection to Cape Verde through its strong presence in Portugal. Grupo SanJose has no ratings assigned (in 2016 revenue achieved EUR 613 million, with 7.5% EBITDA margin, and at the end of 2016 net financial debt amounted to EUR 97 million, with a net financial debt / EBITDA ratio of 2.1 times).

Regarding the risk of geographical concentration in Cape Verde, it should be noted that the country is a secure, political and socially stable emerging touristic site. In effect, Cape Verde is a competitive destination for beach tourism, with competing destinations with similar flying times from the UK to Cape Verde being either in Europe and therefore do not benefit from reliable weather like this country (high temperatures all the year and no frequency of extreme weather events like hurricanes), or in the Middle East & North Africa where the security situation is challenging. Also, Cape Verde has no malaria and few infectious diseases. Cape Verde's government offered investors in the tourism sector a 5-year tax holiday, exemption from import duties and free expatriation of profits. The Travel and Tourism industry GDP represents 17.1% of total Cape Verde GDP, thus tourism is crucial for employment and economic development of the country.

According to the Travel & Tourism Competitiveness Report 2017, published by the World Economic Forum, Cape Verde has improved its score to 3.6 from 3.5 in 2015 and reached an overall ranking of 83rd, positioned on a base of 136 countries. Highlighting the best rankings achieved namely in air transport infrastructure (43rd), in environmental sustainability (44th), in price competitiveness (49th) and in tourist service infrastructure (52nd). Tourism statistics from Cape Verde's National Statistics Institute point to a year-on-year increase of 13% of the number of guests in 2016. The UK continued to be the first market source (20.5% of total entries), followed by Germany (11.1%), Portugal and France (10.1% each one) and Netherlands (9.7%). Sal Island attracted 45.6% of 2016 tourists, while Boa Vista Island has received 31.6% and Santiago Island 11.2%. The number of overnight stays increased 10.3% year-on-year, to 4,092,551, of which 50.4% in Sal Island and 40.7% in Boa Vista Island.

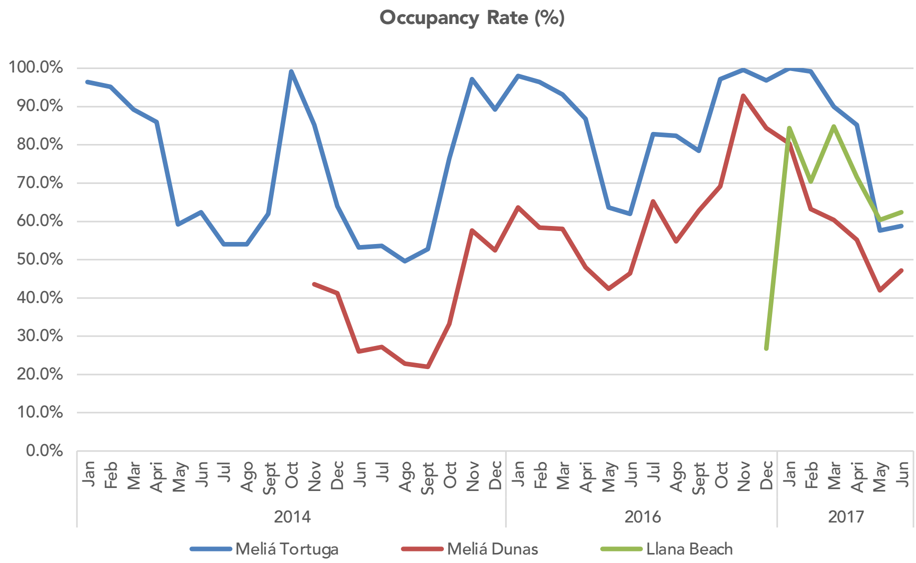
Cape Verde is an emerging touristic site, with strong arrivals growth over the last few years and successive new openings of hotels and resorts. TRG Group's main competitors in the country are:

- Riu Group (a Spanish-based hotel group that is partly owned by TUI Group) since 2005, with four 4-star or 5-star resorts with a total of approximately 2,700 units, two of which are in Sal Island (in Ponta do Sinó) and two in Boa Vista Island (Lacacão Beach - Santa Monica and Salines Beach). Riu Group is in the process of remodelling resorts (already completed in the Sal units) to offer a higher quality product and announced the construction of a new hotel on the Boa Vista Island in the luxury segment; and
- Oásis Atlântico Group (a Portuguese economic group founded in the early 90's), one of the longest-standing tourism investors in Cape Verde, with 6 resorts and hotels in operation with 1,210 accommodation units, four of these hotels units in Cape Verde. The 4-star Oásis Belorizonte Resort, with 433 units, and the 5-star Oásis Salinas Sea Resort, with 337 units, both on Santa Maria beach in Sal Island, and two 4-star city hotels, in Praia city (with 123 units) and in Mindelo city (with 50 units). The Group owns plots of land in Cape Verde approved for tourist projects, which is the basis for its development pipeline in the short, medium and long term in Sal, in Boa Vista and in Santiago islands.

On the other side, Cape Verde fiscal deficits led to a public debt higher than 100% of GDP, mainly as a consequence of a public investment programme (necessary for the development of tourism support infrastructures, namely at airports), 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

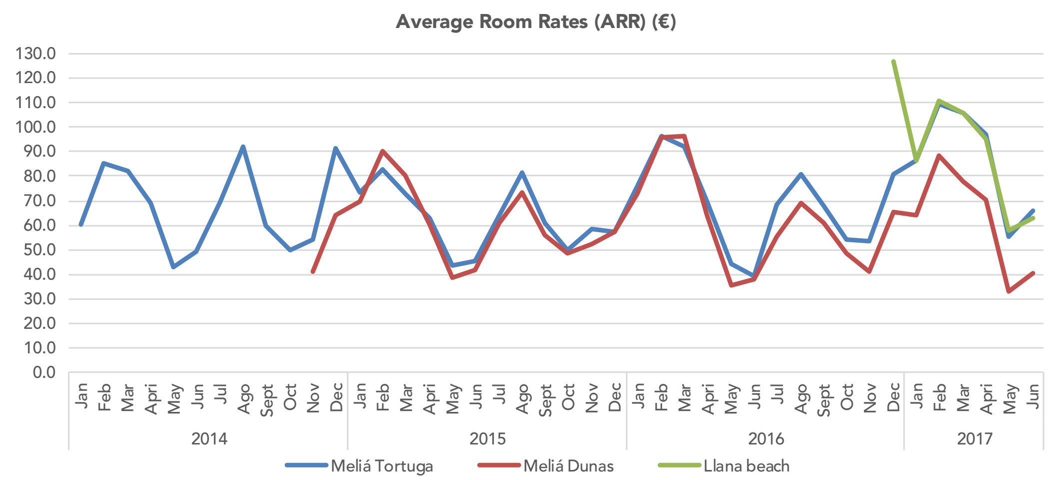
TRG Group's revenues have two main sources: real estate sales (development); and resorts and hotels operations (hospitality). Besides these, the Group also has some ancillary activities (food and beverage, on-site boutiques, transport and security, etc.). Pre-sales of real estate are registered as liabilities 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.



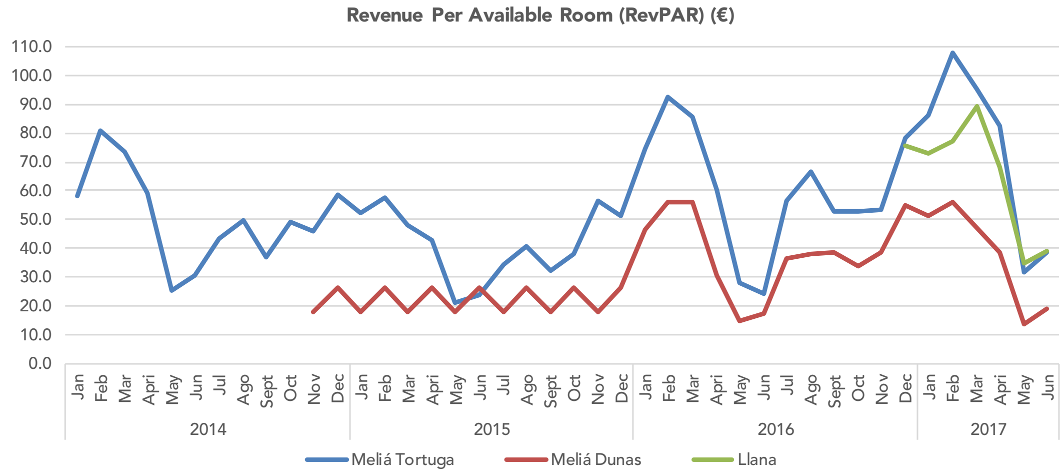
Since opening, in May 2011, the first TRG's touristic resort, the Meliá Tortuga, has registered high occupancy rates, with annual averages higher than 70% in the first years (and with significant repeat customers), while the second resort, the Meliá Dunas, being much bigger, started operation in November 2014 with much lower occupancy rates and affected occupancy at the Meliá Tortuga in 2015. Also, occupancy of both resorts in 2015 and 2016 was negatively affected by the construction works in the third Group's resort Llana Beach, located between them, that entered into operation in late 2016. Highlighted, even with this negative impact, the recovery of the 2016 average occupancy rate in the Meliá Tortuga, by 20.1 percentage points (pp), to the 86% level, and in the Meliá Dunas, by 29.3 pp, to 62% (in the second full year of activity). On the other hand, in the first half of 2017, the Llana Beach has registered high rates, between 60% and 84%, while the average occupancy rate in the Meliá Dunas recovered to 58% (despite being below the Group's expectations) and in the Meliá Tortuga almost remained at over 80%.

TRG Group's turnover stood at EUR 136.4 million in 2016 (compared to EUR 139.4 million in 2015). Given the Group's development stage, in 2016 the largest contribution to turnover still comes from the development area (by 58%, compared to three quarters in 2015), which by its nature is not regular, with the timing of revenue recognition depending on the stage of completion and sale of the accommodation units. In 2016 the development revenues were originated mainly by sales of units from Llana Beach resort and EUR 20 million from the Meliá White Sands Hotel & Spa (already part completed). On the other hand, the turnover from hospitality tends to increase due to the greater number of accommodation units and the improvement of its operating conditions. In effect, in 2016 the revenues from hospitality increased 66% year-on-year, to EUR 54 million.

It should be noted that, without considering the central costs, all the three Group's revenues sources generate positive EBITDA margin. That margin is higher in the development area, remaining above 30%, i.e. twice the EBITDA margin achieved in 2016 in the hospitality area (which improved 7.3 pp year-on-year). Thus, in 2016 the Group reached around EUR 32 million of EBITDA (maintaining the level of the previous year's fund generation).



It should be noted that the operational indicators of the resorts in operation, the Revenue Per Available Room (RevPAR) and the Average Room Rates (ARR) showed improvement in 2016 and in the first semester of 2017, except for the ARR indicator of the Meliá Dunas in the last period. The Llana Beach has presented good operational indicators, near to those of the Meliá Tortuga indicators (particularly the ARR).



In the first eight months of 2017 the Group's turnover amounted to EUR 69.7 million (compared to EUR 79.6 million in the same period of 2016), of which EUR 53 million came from the hospitality area (more than 55% year-on-year in line with the Group's expectations). In the January to August 2017 period, turnover from development area stood at EUR 13.2 million mainly related to sales of Meliá White Sands Hotel & Spa units, while in the same period of 2016 reached EUR 37.7 million regarding particularly to sales of Llana Beach units (which was in an advanced phase of completion). Despite some seasonality due to the summer season, without considering the central costs, the three resorts in operation made a positive contribution to the Group's generation of funds. However, given the sales structure costs, in the context of lower values recognised as sales in the development area, the Group's EBITDA assumed a negative value of EUR 7.4 million in the first eight months of 2017. On the other hand, at the end of August 2017 the deferred income amounted to EUR 25.4 million (more EUR 9.4 million compared to the end of 2016), which the Group expects to be able to recognise in part this year (allowing it to reach the target for 2017) and the remainder in the further years.

The depreciation costs amounted to EUR 2.7 million in 2016 (close to the 2015 figure) and increased to EUR 3.2 million in the first eight months of 2017, as a result of the strengthening of the assets retained on balance sheet and the entry into operation of the Llana Beach in late 2016.

The 2015 restated statutory accounts consider the recognition of the bond issue costs over 5 years instead of the totality in 2015. TRG Group's interest costs (including capitalized interest), regarding bank debt and loans (including the shareholder loan) and interest on client deposits (over the development phase of the accommodations units sold), increased year-on-year by nearly 11% in 2016, to EUR 11.2 million, and 14% in the first eight months of 2017, to EUR 8.4 million. Thus, the coverage of net interest by EBITDA stood at 2.9 times in 2016 (below the 2015 figure, but in line with the 2014 figure) and assumed a negative value in the first eight months of 2017 (-0.9 times), due to the negative value of EBITDA above mentioned.

The Group has recorded negative non-current results, mainly related to written off Initial Public Offer (IPO) costs (a process that would allow it to reduce leverage and/or accelerate the investment, but that is currently in standby). It should be highlighted that the Group, as well as other investors in the tourism area, have benefited from tax incentives regarding the results generated by its resorts. Thus, the Group's net profit, which turned positive in 2014 (by EUR 23.7 million), achieved EUR 17.7 million in 2016 (5.9% above the 2015 restated figure). In the first eight months of 2017 the negative net profit assumed EUR -22.3 million (compared to EUR -3.5 million in the same period of the previous year, which as mentioned was reversed in the remaining months of 2016).

TRG - CONSOLIDATED FINANCIALS AND RATIOS (THOUSAND EUROS)

	2013	*2014*	*2015*	*2015 (re)*	*2016*	*2016 Jan to Aug*	*2017 Jan to Aug*	*2017 (F)*	*2018 (F)*	*2019 (F)*	*2020 (F)*	*2021 (F)*	*2022 (F)*
TURNOVER	44,757	112,397	139,438	139,438	136,388	79,564	69,696	176,594	200,996	255,464	286,180	313,546	380,521
EBITDA	380	28,370	32,834	32,830	32,806	8,525	(7,402)	16,522	34,289	38,488	50,831	56,104	59,586
EBIT	20	27,725	30,159	30,155	30,078	6,739	(10,576)	14,779	32,154	35,334	46,910	50,991	52,601
FINANCIAL RESULT	(3,269)	(1,980)	(11,801)	(10,027)	(11,189)	(7,399)	(8,403)	(12,002)	(21,439)	(15,724)	(18,741)	(15,887)	(16,179)
NON-CURRENT RESULTS	0	(2,006)	(2,928)	(2,928)	(554)	(2,183)	(2,734)	(2,000)	0	0	0	0	0
NET PROFIT (AFTER MINORITY INTERESTS)	(3,798)	23,670	14,956	16,726	17,687	(3,492)	(22,260)	(9)	9,840	18,238	25,908	32,602	33,411
OPERATING CASH FLOW (OCF)	(9,898)	10,835	3,931	6,267	7,971	n.av.	n.av.	7,783	30,529	41,298	48,279	53,893	32,251
CASH FLOW	(11,447)	10,148	(453)	3,653	(3,218)	n.av.	n.av.	875	22,303	30,171	36,201	40,339	18,298
FREE CASH FLOW	(18,624)	(6,915)	(12,138)	(8,021)	(33,001)	n.av.	n.av.	(12,679)	(13,060)	(9,246)	5,764	(26,394)	(53,188)
TOTAL ASSETS	123,585	125,945	118,432	118,432	154,640	n.av.	174,649	150,588	225,026	267,790	324,224	375,143	415,898
FINANCIAL DEBT	20,732	25,013	41,553	39,783	76,317	n.av.	85,955	82,395	136,326	147,639	171,124	185,669	206,232
NET FINANCIAL DEBT	8,024	15,008	27,089	25,319	55,974	n.av.	78,596	68,934	82,606	92,365	86,972	113,589	166,830
Contribution Margin (%)	34.7%	48.9%	59.5%	59.5%	63.3%	61.1%	64.1%	9.4%	17.1%	15.1%	17.8%	17.9%	15.7%
EBITDA Margin (%)	0.8%	25.2%	23.5%	23.5%	24.1%	10.7%	(10.6%)	9.4%	17.1%	15.1%	17.8%	17.9%	15.7%
Operating Return on Turnover (%)	0.0%	24.7%	21.6%	21.6%	22.1%	8.5%	(15.2%)	8.4%	16.0%	13.8%	16.4%	16.3%	13.8%
Operating Return on Assets (%)	0.0%	22.0%	25.5%	25.5%	19.5%	n.av.	(12.1%)	9.8%	14.3%	13.2%	14.5%	13.6%	12.6%
Gross Cost of Borrowed Funds (%)	1.9%	1.3%	8.5%	7.3%	7.2%	n.av.	8.4%	8.0%	10.1%	6.9%	7.3%	6.0%	5.8%
Net Return on Turnover (%)	(8.5%)	21.1%	10.7%	12.0%	13.0%	(4.4%)	(31.9%)	(0.0%)	4.9%	7.1%	9.1%	10.4%	8.8%
Payout Ratio (%)	0%	0%	0%	0%	0%	n.av.	0%	0%	0%	0%	0%	0%	0%
Coverage of Interest Costs by EBITDA (x)	0.1	13.3	2.8	3.3	2.9	1.2	(0.9)	1.4	1.6	2.3	2.6	3.3	3.5
Coverage of Net Interest Costs by EBITDA (x)	0.1	14.3	2.8	3.3	2.9	1.2	(0.9)	1.4	1.6	2.4	2.7	3.5	3.7
Financial Debt / EBITDA (x)	54.6	0.9	1.3	1.2	2.3	n.av.	-	5.0	4.0	3.8	3.4	3.3	3.5
Net Financial Debt / EBITDA (x)	21.1	0.5	0.8	0.8	1.7	n.av.	-	4.2	2.4	2.4	1.7	2.0	2.8
Cash Flow Coverage of Net Financial Debt (%)	(142.7%)	67.6%	(1.7%)	14.4%	(5.7%)	n.av.	n.av.	1.3%	27.0%	32.7%	41.6%	35.5%	11.0%
Equity / Assets (%)	(47.6%)	(28.0%)	(17.2%)	(15.6%)	(0.6%)	n.av.	(14.8%)	(0.3%)	4.2%	10.3%	16.5%	23.0%	28.8%
Net Gearing (Net Debt to Equity) (x)	(0.1)	(0.4)	(1.3)	(1.4)	(64.5)	n.av.	(3.0)	(168.0)	8.8	3.3	1.6	1.3	1.4
Financial Debt Struc. (S.T. Fin. Debt as a % of Total Fin. Debt)	58.7%	2.9%	0.1%	0.1%	5.6%	n.av.	7.3%	4.1%	4.1%	8.9%	15.0%	5.1%	2.6%
Short-Term Debt Coverage by Cash and Undrawn Facilities (%)	104.5%	1,383.8%	51,657.1%	51,657.1%	478.3%	n.av.	117.1%	401.8%	959.3%	421.9%	327.7%	759.5%	746.6%
Current Assets Ratio	83.6%	65.1%	67.7%	67.7%	92.8%	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%	53.4%	77.1%	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.	n.av.
Loan To Assets (at Market Value) (%)	n.av.	14.6%	11.2%	10.7%	20.8%	n.av.	23.4%	n.av.	12.4%	13.7%	17.4%	21.0%	27.6%
Net Loan To Assets (at Market Value) (%)	n.av.	8.8%	7.3%	6.8%	15.2%	n.av.	21.4%	n.av.	7.5%	8.6%	8.8%	12.8%	22.3%

Notes:
Figures rounded.
Accounts adjusted by ARC Ratings for analisys purposes.
2013 to 2016 annual accounts audited by Deloitte Limited.
n.av. = non-available.

Sources:
TRG.

FINANCIAL POLICY

TRG Group's assets, reflecting the development of the Group and the strengthening of its own portfolio of resort assets, increased by 30.6% in 2016, to EUR 154.6 million, and nearly 13% in the first eight months of 2017, to EUR 174.6 million at the end of August 2017. Property, plant and equipment (properties) are the main Group's assets totalling EUR 97.1 million at the latest date, compared to EUR 64.8 million at the end of 2015, relating to the assets retained on the completed three resorts and assets in course of construction (namely the Meliá White Sands Hotel & Spa and the Hilton Praia). Deposits for land purchases have amounted to EUR 3.1 million since 2015.

In fact, the amount of investment performed by the Group in properties was more significant in 2016, nearly to EUR 30 million, compared to EUR 11.2 million in 2015 and EUR 17.2 million in 2014.

The Group's inventories are mainly related to the development activity, including costs incurred relate to the accommodation units for sale or with sales agreements in place, but, for which revenue is yet to be recognised (work in progress or completed units). Thus, the inventories stood at EUR 8.8 million at the end of 2016 (slightly below the 2015 figure) and increased to EUR 11.7 million at the end of August 2017.

Pre-sales model has been the main source of TRG Group's financing. The payment received in advance from investors for the purchase of accommodation units is recorded as a deferred revenue until the conditions are met to be recognised as turnover and the margin of sale is determined. With the completion of the Meliá Llana Beach resort, and the first phase of the Meliá White Sands Hotel & Spa, the Group's deferred revenue decreased by EUR 24.4 million in 2016, to EUR 16.0 million at the end of 2016. In the first eight months of 2017 the sales of units mainly from the Meliá White Sands Hotel & Spa, still in construction, determined an increase of the Group's deferred revenue to EUR 25.4 million (most of which is due to be released to the income statement in the year ended 31 December 2017 and 2018).

The Group's total financial debt, without considering the shareholder loan (with interest indexed to Bank of England base rate), has increased from EUR 39.8 million at the end of 2015 restated to EUR 76.3 million at the end of 2016 and to approximately EUR 86 million at the end of August 2017. In turn, net financial debt increased from EUR 25.3 million at the end of 2015 restated to EUR 56 million in 2016 and to EUR 78.6 million at the end of August 2017. In effect, cash and deposits increased in 2016, by EUR 5.9 million, and dropped in the first eight months of 2017, by EUR 13 million, to EUR 7.4 million at the end of August 2017 (while maintaining above the minimum of EUR 7.0 million established by the Group to ensure capacity to pay its short-term commitments).

At the end of August 2017 (as occurred at the end of the previous years) most of the financial debt had medium and long-term maturity, only 7.3% (equivalent to EUR 6.3 million) was due in the short term. It is worth highlighting beyond the great maturity the diversification of the Group's funding sources, including bonds issued (at fixed interest rate, including 5% loyalty bonus for full 10-year term), a mezzanine loan (with fixed interest rate) and bank loans (mostly at fixed interest rate).

The TRG's bonds introduced in 2015, have been a flexible debt instrument, and were issued in British Pound (GBP) with an initial 5-year maturity (with an option for additional 5 year). At the end of August 2017 there are eight tranches in force, with a global amount equivalent to EUR 44.9 million. The Group can redeem the bonds anytime but pay interest regularly. At the end of June 2017, the unused amount of these tranches amounted to GBP 8.5 million. On the other hand, the mezzanine loan is denominated in United States Dollars (USD) and used an amount equivalent to EUR 14.9 million at the end of August 2017. It's first instalment will be due in August 2018 and the last instalment due in 2021 (although the possibility of voluntary prepayment exists). On the other hand, mandatory repayment of this loan upon a possible IPO is required. The Group has benefited from the support of local and international banks for loans, including short facilities for treasury support in a total amount of EUR 2.5 million, denominated in EUR or related to this currency.

To the extent that the Group's revenues are denominated in EUR, it incurs in exchange rate risk regarding the debt service denominated in GBP and USD above mentioned. No hedging operations are contracted, assuming the Group an acceptable fluctuation band of these currencies against the EUR.

At the end of 2016, EUR 27.7 million of the amount of properties are subject to restraints on ownership or pledged as security of loans granted to the Group. In addition, a pledge was made on the shares held by the Group on its holding, which, indirectly, holds the resorts in Cape Verde.

Net financial debt / EBITDA ratio increased to 1.7 times at the end of 2016 from 0.8 times at the end of 2015, due to the debt increase for investing while EBITDA almost stabilized in 2016. In the first eight months of 2017, as above mentioned, the EBITDA was negative, thus this indicator has no meaning.

Due to the investing and developing phase, TRG Group still has a relatively weak financial structure. Equity / assets ratio was -14.8% at the end of August 2017, after being almost nil at the end of 2016 (having improved compared to -15.6% at the end of 2015).

An independent valuation from Gerard Eve LLP calculated the market value of the Group's properties at EUR 367.6 million at the end of 2016, comparing with a book value of EUR 91.9 million. It should be noted that most of the surplus derives from the Meliá White Sands Hotel & Spa, the Hilton Boa Vista resort and the Hilton Praia hotel. Applying this market value for the end of August 2017, the equity / assets ratio would be 55.5% and net gearing would be 0.3 times.

Loan to value ratio at the end of August 2017 (applying the properties' market value calculated for the end of 2016) was 23.4% (21.4% considering the net financial debt).

Insurance coverages for resorts in operation are contracted with the local insurance company Garantia Seguros, which is indirectly controlled by the Chinese group Fosun (BB / Stable by S&P and Ba3 / Positive by Moody's). The insurance coverage including namely multi risk policies, regarding the assets retained on balance sheet and under management agreements with hotel operators regarding the three resorts in operation (with an insured capital sum of EUR 203 million), and public liability policies concerning mainly to the Meliá White Sands Hotel & Spa.

FORECASTS

TRG Group updated its business plan considering the existing and planned hotels and resorts mentioned above. The implementation of this plan will increase the number of accommodation units in operation to more than 5,000 in 2022 (from around 2,000 at the end of 2016), in nine hotels and resorts (three in Sal Island, five in Boa Vista Island and one city hotel in Santiago Island).

Pre-sales model will continue to be a strategic source of funding. To some extent the Group has the capacity to manage the pace of construction of the resorts depending on the pre-sales evolution. Strategically, the Group intends to strengthen its portfolio of assets by approximately EUR 257 million in the 2017-2022 period, including the two hotels and resorts under the Hilton brand forecasted to open, with the first in mid-2019 and the other in 2022, in addition to the common parts of other hotels to be financed through pre-sales. Thus, Group forecasts to gradually increase its financial debt to EUR 206.2 million at the end of 2022. The most significant increases are planned for 2018 (by EUR 53.9 million) and 2020 and 2022 (by more than EUR 20 million annually). In the context of investment that takes time to be profitable, it is also expected an increase of the Group's net financial debt, except in 2020, to reach EUR 166.8 million in 2022 (almost tripling compared to the end of 2016).

The Group forecasts to maintain a large debt maturity, the most appropriate to the nature of their investments, having considered that approximately 54% of the bondholders would keep them for 10 years, benefiting from the loyalty bonus) and a new senior credit facility with drawdown from 2018 to 2022. Thus, it is expected that the short-term debt will not exceed 15% of the total (equivalent to EUR 25.7 million at the end of 2020).

The Group's business plan for the 2017-2022 period points to an expansion of its turnover at annual rates of two digits, more expressive in 2017, 2019 and 2022, to a level higher than EUR 380 million in 2022 (compared to EUR 136.4 million in 2016 and to EUR 176.6 million forecasted to 2017). The enlargement of the base of hotels and resorts in operation, will allow to change the mix of Group's revenues towards a greater contribution of the hospitality area (recurring revenues) to 59% of the total in 2022 (and consequently of the ancillary activities) and subsequent decrease of the contribution of the development area to 24% of the total in 2022 (compared respectively with 48% and 39% forecasted to 2017).

In the hospitality area the Group assumes stability in the occupancy rate of the Meliá Tortuga, some improvement in the occupancy rate of the Meliá Dunas and an increasing occupancy rate of the Meliá Llana. Concerning the new hotels and resorts expected to enter in operation until the middle 2019, the average occupancy rate assumed by the Group is slightly higher than 60%. Regarding the assumption of the package rates, it was assumed a modest annual increase of 3%. The fulfilment of these assumptions will lead to a comfortable situation for the Group in which EBITDA generated annually by each of the hotels in operation will be sufficient to pay pre-sales model net fees to investors. In effect, the Group forecasts an EBITDA margin improvement in the hospitality area (except in 2019 due to the entry of operations of the Meliá White Sands Hotel & Spa and the Hilton Praia) that, coupled with the activity expansion, will increase the generation of the more stable funds (reaching EUR 40 million in 2022). A positive and increasing contribution from the ancillary activities for the Group's EBITDA is also expected.

The Group expects increases in the development revenues to reach EUR 110 million in 2021. In 2017 and in 2022, given they are not recurring revenues (depending on the stage of completion and sale of the accommodation unit) decreases are estimated. Higher EBITDA margins in this activity than in the hospitality area is expected. Thus, in the 2017-2022 period, the greater contribution for the Group's EBITDA will be derived from development activity. In accumulated terms, the Group forecasts point to achieve close to EUR 256 million of EBITDA in the period under review (after deducting the amount of net rent payable to investors during the hotel's operating phase). Increasing values of EBITDA are expected, with the minimum of EUR 16.5 million in 2017 (approximately half of the previous year's) due to a lower contribution from the development area). It is estimated a recovery to EUR 34.3 million of EBITDA in 2018, more than EUR 50 million in 2020 and close to EUR 60 million in 2022 (i.e. almost doubling the 2016 figure).

In the context of investment, and gradual transition to more stable source of funds, the Group's expectations point to an increase of the net debt / EBITDA indicator to the maximum of 4.2 times at the end of 2017 (compared with 1.7 times at the end of 2016) and progressive recovery until 2020 (1.7 times). The expected increase of the net debt will lead to an increase again this indicator to 2.8 times at the end of 2022.

The Group's business plan points to an increase in interest costs related to the financial debt and to the pre-sales model (within the construction phase) until 2018, to EUR 21.4 million. In the further years, there will be a decrease to between EUR 16 million and EUR 19 million. Therefore, the Group forecasts a decrease of the net interest cost coverage ratio by EBITDA to 1.4 times in 2017 (from 2.9 times in 2016) and a gradual improvement to 3.7 times in 2022.

It should be mentioned that in the 2017-2019 period, the Group expects to reach EUR 349 million of generation of funds before the net rent payable to investors (during the hotel's operating phase). These funds provide 1.8 times coverage to the net rent payable to investors and to the net interest cost estimated by the Group (in the total amount of EUR 193 million).

The verification of assumptions considered by TRG Group in their business plan (base case scenario) will allow it to generate positive and increasing net profit values (surpassing EUR 33 million in 2022), compared with almost nil estimated in 2017 and EUR 17.1 million reached in 2016). Assuming no dividend distribution, as occurred in the past, this will allow it to strengthen the Group's financial structure. The equity / assets ratio, even without considering the market value of properties, will progressively improve to 28.8% at the end of 2022. Likewise, the net gearing ratio will assume decreasing values, to 1.4 times at that date. ARC Ratings deems the base case scenario somewhat optimistic, namely in the development area, recognising, however, some Group's capacity to manage its growth rate in less favourable conditions.

SENSITIVITY ANALYSIS

TRG Group's ability to generate funds is sensitive to various factors associated with its activity level and its return, so to assess the impact on the Group of a smaller generation of funds, ARC Ratings has outlined a stress scenario taking into account the base scenario.

Starting from this base scenario, despite considering that Cape Verde is an increasing tourism destination, ARC Ratings has haircut by 20% the EBITDA expected, as a consequence of possibly less favourable conditions to develop the business or potential impact from the entry in operation of the Group's new resorts. Even in this scenario the Group's EBITDA would reach EUR 13.2 million in 2017 (besides less 60% compared to 2016) and increasing values in the following years, to EUR 47.7 million in 2022. At the same time, ARC Ratings has considered an increase of 10% in the debt interest costs, despite currently the debt is contracted mostly at fixed interest rates. All things kept constant, in these circumstances, the coverage of interest costs by EBITDA would still be 1.0 times in 2017 and would improve to 1.2 times in 2018, 1.7 times in 2019 and 2.5 times in 2022. On the other hand, the debt / EBITDA would assume 6.2 times in 2017 and would improve to 5.0 times in 2018 and 4.3 times in 2022.

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