

**Grupo Posadas,  
S. A. B. de C. V. and  
Subsidiaries**

Consolidated Financial Statements  
for the Years Ended December 31,  
2018, 2017 and 2016, and  
Independent Auditors' Report  
Dated March 4, 2019

# **Grupo Posadas, S. A. B. de C. V. and Subsidiaries**

## **Independent Auditors' Report and Consolidated Financial Statements for 2018, 2017 and 2016**

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# **Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Posadas, S.A.B. de C.V.**

## ***Opinion***

We have audited the accompanying consolidated financial statements of Grupo Posadas, S.A.B. de C.V. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016, the consolidated statements of comprehensive income (loss), the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Posadas, S.A.B. de C.V and Subsidiaries (the Entity) as of December 31 2018, 2017 and 2016, and their consolidated financial performance and their consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

## ***Basis for Opinion***

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## ***Key Audit Matters***

Key Audit Matters are those matters that, in our professional judgment, have been of most significance in our audit of the consolidated financial statements for the year 2018. These matters were selected from those communicated with the Entity's Management and the Audit Committee, but do not pretend to represent all the matters discussed with them. Our audit procedures related to these matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Our opinion on the consolidated financial statements is not modified with respect to any of the Key Audit Matters described below.

<i>Key Audit Matter</i>	<i>Audit procedures performed</i>
<b>Vacation Club Revenues</b>	
<p>Revenues generated from Vacation Club operations represent approximately one third of the Entity's consolidated revenues.</p> <p>Under International Accounting Standard the Entity recognizes the revenues from the Vacation Club operation as follows:</p> <p>i) are Memberships recognized at the time the contract is signed, because the Entity believes that when it becomes effective, a use right is granted to the member, and the performance obligation is fulfilled, when transferring a right that may be enforced before third parties, and when the control over the real properties is transferred to the buyers of memberships.</p> <p>ii) Kívac points are recognized once the hospitality service is rendered, plus an estimate of those points that will not be used by the program's members at maturity.</p>	<p>The audit tests applied to revenues generated from these services were significant for our audit because the business processes are complex and highly dependent on system generated reports, which should be reconciled to the accounting records. As a result, our audit procedures included, among others:</p> <p>i) review of the design and implementation and operating effectiveness tests of the internal controls and substantive tests of the report issued by the system and supports the recording of income of the operation of Vacation Club;</p> <p>ii) documentation review, based on random sampling, of the integrity of the contracts signed with customers;</p> <p>iii) analysis and review of the assumptions and methodologies used by the Entity to receive the minimum payments which guarantee that the collection is reasonably assured;</p> <p>iv) review of hotel operation reports which support the amount of the services contracted and collected, recognized as revenues when rendered to the customers, with their respective costs and expenses; and</p> <p>v) review and evaluation of historical information on the amount of services contracted and collected, which have not been used before their expiration.</p> <p>Our work also included reviewing the adequacy of the Entity's disclosures on the accounting assumptions and policies for revenue recognition of the Vacation Club business, which are included in Note 4t to the accompanying consolidated financial statements.</p>

<i>Key Audit Matter</i>	<i>Audit procedures performed</i>
<b>Vacation Club Reserve for returns</b>	
<p>The amount of this reserve represents approximately 5% of the total current and long-term Vacation Club notes receivable, which are presented in the consolidated statement of financial position.</p>	<p>We analyzed with the Entity's Management the methodology used to determine the amount of the reserve, its consistent application with previous years and the support for the variables used in the calculation model, we discussed it with the Audit Committee members and found that the use of the model is appropriate.</p>

<i>Key Audit Matter</i>	<i>Audit procedures performed</i>
<b>Vacation Club Reserve for returns</b>	
<p>Given the specific nature of the operation of the Vacation Club business, the Entity has implemented a process for the analysis and calculation of the reserve to evaluate and determine the amount of this reserve. Therefore, the evaluation of its sufficiency was significant for our audit.</p> <p>As a supplement to this key audit matter, the Entity analyzes transactions to identify revenues, which recoverability is uncertain. This implies that the amounts shown as Notes Receivable from Vacation Club on the consolidated statement of financial position might not be recoverable.</p> <p>The amount recognized as the reserve is the best estimate on the Vacation Club inventory returns of the members who would not meet their contractual payment obligations, for which, the probability of default for all notes receivable is considered, regardless of their aging.</p> <p>In addition to probability, recent collection efforts, communications with the members, and experiences of default are taken into account.</p>	<p>Our audit procedures also included, among others:</p> <ul style="list-style-type: none"> <li>i) tests of the Entity's controls related to the information used within the model, and used to determine the balance of the reserve;</li> <li>ii) analysis of balances related to the sufficiency of the reserve in previous years;</li> <li>iii) review of the classification of the portfolio aging based on payment defaults, and the recalculation of the amounts to be reserved based on probability default;</li> <li>iv) evidence of new operating strategies and those communicated to members in order to support the restructuring and recovery of overdue portfolio or about to expire; and</li> <li>v) confirmation that the assumptions used by Management in the calculation and determination of the reserve reflect the business strategies aimed to recover the Vacation Club inventory due to defaults which have occurred or are expected to be incurred by members to pay their debts.</li> </ul>

<i>Key Audit Matter</i>	<i>Audit procedures performed</i>
<b>Deferred income taxes</b>	
<p>As explained in Notes 4q to the consolidated financial statements, the Entity recognizes deferred income taxes for all the differences between the carrying values and the tax bases of its assets and liabilities, and the benefits of tax loss carryforwards are taken into account.</p> <p>As of December, 31, 2018 the amount of tax loss carryforwards is \$5,189,666,000, which represents a deferred income tax benefit of \$1,556,900,000 and may be applied as long as the individual entities which incurred them, generate in the future sufficient taxable income before the aforementioned tax losses expire.</p>	<p>A change in assumptions and conditions on the recovery of tax losses might originate a material effect in the amount of the deferred income tax benefit recorded in the consolidated financial statements. Therefore, the test of the estimate was significant for our audit because the evaluation process is complex and is based on assumptions which are affected by future expectations from hotel operation results and from proper execution of the corporate restructuring.</p> <p>Our audit procedures included involvement of our tax experts to assess the recognition of benefits from tax loss carryforwards, including:</p>

<i>Key Audit Matter</i>	<i>Audit procedures performed</i>
<b><i>Deferred income taxes</i></b>	
International Accounting Standard 12 <i>Taxes on Income</i> , requires that the carrying value of a deferred tax asset be subjected to review and must be reduced when it is considered likely that there will not be sufficient taxable income to enable all or part of the asset to be recovered. Therefore, as of December 31, 2018, the Entity has not recognized a benefit of \$43,787,000 for the uncertainty related to the realization of this asset.	<ul style="list-style-type: none"> <li>i) evaluate and challenge the assumptions and methodologies used by the Entity;</li> <li>ii) analysis of individual entities' trend of their tax results from previous years;</li> <li>iii) review the financial and tax projections to determine if the generation of taxable income in the future will enable the tax losses to be recovered before they expire, and</li> <li>iv) review the progress achieved in the corporate restructuring process.</li> </ul> <p>We believe that the Entity's disclosures in relation to the main captions originating the deferred income tax balances are appropriate in Note 16 to the consolidated financial statements.</p>

***Other information included in the document containing the consolidated financial statements***

Management is responsible for the other information. The other information shall include the information that will be incorporated in the Annual Report that the Entity is obliged to prepare pursuant to Article 33 Fraction I, subsection b) of Title Four, First Chapter of the General Provisions Applicable to Issuers and other Participants of the Securities Market in Mexico and the Instruction accompanying those provisions (the Provisions). The Annual Report is expected to be available for our reading after the date of this audit report.

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

In connection with our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to be materially misstated. When we read the Annual Report we will issue the legend stating that we have read the annual report, required in Article 33 Fraction I, subsection b) numeral 1.2. of the Provisions.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for such internal control as Management 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, Management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to the Entity's going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

The Entity's Audit Committee is responsible for overseeing the Entity's financial reporting process.

## ***Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives 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 an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA 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 ISA, we exercise our professional judgment and maintain an attitude of professional skepticism throughout the audit. We also:

- Identify and assess the risks 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 because of fraud is higher than for one resulting from material misstatement because of an error, as fraud may involve collusion, forgery, intentional omissions, Intentional misstatements, 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies applied and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the global 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.
- We obtain sufficient and appropriate audit evidence about the Entity's financial information and its business activities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We continue to be solely responsible for our audit opinion.

We communicate with Entity's Management and the Audit Committee 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.

We also provide Entity's Management and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Other Matter**

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S. C.  
Member of Deloitte Touche Tohmatsu Limited

C.P.C. Fernando Loera Aguilar  
March 4, 2019



**Grupo Posadas, S. A. B. de C. V. and Subsidiaries**

**Consolidated Statements of Financial Position**

As of December 31, 2018, 2017 and 2016  
(In thousands of Mexican pesos)

<b>Assets</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>Liabilities and stockholders' equity</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents	6	\$ 2,733,898	\$ 1,383,584	\$ 1,320,097	Current portion of long-term debt	15	\$ 23,531	\$ 11,232	\$ 472
Investments in securities	7	-	-	450,000	Trade accounts payable	14	427,790	436,100	497,753
Accounts and notes receivable - Net	8	2,693,663	2,645,367	2,661,627	Other liabilities and accrued expenses		1,171,638	1,188,671	988,238
Inventories		23,188	24,480	24,507	Income tax payable	16	329,286	321,684	362,454
Prepaid expenses		142,918	83,196	51,808	Other tax payable		368,332	294,303	-
Vacation Club inventory	9	144,782	264,979	153,277	Deferred income from Vacation Club		649,622	508,910	435,627
Other current assets		107,566	112,998	63,692	Current portion of long-term value-added tax		109,779	111,899	134,955
Assets classified as held for sale	2	-	1,481,530	64,531	Liabilities directly associated with assets classified as held for sale	2	-	-	7,200
<b>Total current assets</b>		<b>5,846,015</b>	<b>5,996,134</b>	<b>4,789,539</b>	<b>Total current liabilities</b>		<b>3,079,978</b>	<b>2,872,799</b>	<b>2,426,699</b>
<b>Non-current assets:</b>					<b>Long-term liabilities:</b>				
Property and equipment committed for sale	10	223,117	307,714	-	Debt	15	7,785,839	7,768,483	7,871,765
Long-term notes receivable	11	3,219,164	2,649,388	2,121,497	Accrued liabilities	17	359,058	360,539	349,898
Vacation Club inventory in construction		-	104,112	151,480	Value-added tax payable		481,816	394,074	318,954
Property and equipment – Net	12	4,936,245	4,601,178	6,483,129	Deferred income from Vacation Club		932,928	918,687	840,307
Prepaid expenses		24,095	119,561	40,521	Liabilities directly associated with property and equipment committed for sale	10	-	6,330	-
Investment in associates		1,054,631	226,129	1,129	Income tax payable	16	1,342,863	1,601,193	151,097
Intangible assets and other assets	13	721,459	725,370	641,184	<b>Total long-term liabilities</b>		<b>10,902,504</b>	<b>11,049,306</b>	<b>9,532,021</b>
Deferred tax assets	16	1,145,555	1,615,471	658,518	<b>Total liabilities</b>		<b>13,982,482</b>	<b>13,922,105</b>	<b>11,958,720</b>
<b>Total non-current assets</b>		<b>11,324,266</b>	<b>10,348,923</b>	<b>10,097,458</b>	<b>Stockholders' equity:</b>				
<b>Total assets</b>		<b>\$ 17,170,281</b>	<b>\$ 16,345,057</b>	<b>\$ 14,886,997</b>	<b>Contributed capital:</b>				
					Capital stock	21	495,881	495,881	495,881
					Contributions for future capital increases		-	-	704
					Share repurchase reserve		16,856	16,856	16,856
					Additional paid-in capital		157,429	157,429	157,429
							670,166	670,166	670,870
					<b>Earned capital:</b>				
					Share repurchase reserve		535,000	535,000	535,000
					Retained earnings		1,713,982	983,611	1,467,516
					Accumulated comprehensive earnings		83,520	51,581	62,945
							2,332,502	1,570,192	2,065,461
					<b>Total controlling interest</b>		<b>3,002,668</b>	<b>2,240,358</b>	<b>2,736,331</b>
					Non-controlling interest		185,131	182,594	191,946
					<b>Total stockholders' equity</b>		<b>3,187,799</b>	<b>2,422,952</b>	<b>2,928,277</b>
					<b>Total liabilities and stockholders' equity</b>		<b>\$ 17,170,281</b>	<b>\$ 16,345,057</b>	<b>\$ 14,886,997</b>

See accompanying notes to consolidated financial statements.

## Grupo Posadas, S. A. B. de C. V. and Subsidiaries

# Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2018, 2017 and 2016  
(In thousands of Mexican pesos, except earnings (loss) per share)

	Notes	2018	2017	2016
Continuing operations				
Revenue	22	\$ 7,910,374	\$ 8,471,990	\$ 7,734,349
Cost of sales	22	<u>4,977,675</u>	<u>5,014,507</u>	<u>4,402,320</u>
Gross profit		2,932,699	3,457,483	3,332,029
Administrative expenses	22	1,151,869	1,105,068	982,304
Sale and development expenses	22	211,992	272,308	252,243
Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets		937,073	906,225	1,040,475
Other (revenue) expenses, net	22	(1,391,474)	(47,756)	2,548
Interest expense		653,537	641,173	643,592
Interest income		(172,765)	(60,399)	(46,802)
Commissions and financial expenses		83,516	147,657	93,474
Exchange (gain) loss, net		(81,335)	(296,806)	1,234,444
Equity in associate		<u>(15,000)</u>	<u>-</u>	<u>-</u>
		<u>1,377,413</u>	<u>2,667,470</u>	<u>4,202,278</u>
Income (loss) before income taxes		1,555,286	790,013	(870,249)
Income tax expense (benefit)	16	<u>591,985</u>	<u>1,262,607</u>	<u>(174,349)</u>
Income (loss) from continuing operations		963,301	(472,594)	(695,900)
Discontinued operations				
Loss from discontinued operations	26b	<u>(31,202)</u>	<u>-</u>	<u>(1,279)</u>
Consolidated income (loss) for the year		<u>932,099</u>	<u>(472,594)</u>	<u>(697,179)</u>
Other comprehensive income (loss)				
(Loss) income on exchange differences from translating foreign operations, which will be reclassified subsequently to profit or loss		(2,478)	(3,195)	32,195
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss		49,167	(11,670)	(23,820)
Income taxes		<u>(14,750)</u>	<u>3,501</u>	<u>7,146</u>
		<u>31,939</u>	<u>(11,364)</u>	<u>15,521</u>
Consolidated comprehensive income (loss) for the year		<u>\$ 964,038</u>	<u>\$ (483,958)</u>	<u>\$ (681,658)</u>

(Continued)

	2018	2017	2016
Consolidated income (loss) for the year attributable to:			
Controlling interest	\$ 928,724	\$ (483,905)	\$ (705,819)
Non-controlling interest	<u>3,375</u>	<u>11,311</u>	<u>8,640</u>
Consolidated income (loss) for the year	<u>\$ 932,099</u>	<u>\$ (472,594)</u>	<u>\$ (697,179)</u>
Consolidated comprehensive income (loss) for the year attributable to:			
Controlling interest	\$ 960,663	\$ (495,269)	\$ (690,298)
Non-controlling interest	<u>3,375</u>	<u>11,311</u>	<u>8,640</u>
Consolidated comprehensive income (loss) for the year	<u>\$ 964,038</u>	<u>\$ (483,958)</u>	<u>\$ (681,658)</u>
Earnings (loss) per share:			
From continuing and discontinued operations -			
Basic and diluted earnings (loss) per common share (in pesos)	<u>\$ 1.87</u>	<u>\$ (0.98)</u>	<u>\$ (1.42)</u>
From continuing operations -			
Basic and diluted earnings (loss) per common share (in pesos)	<u>\$ 1.94</u>	<u>\$ (0.98)</u>	<u>\$ (1.42)</u>
Weighted average number of shares	<u>\$ 495,881,988</u>	<u>\$ 495,881,988</u>	<u>\$ 495,881,988</u>

(Concluded)

See accompanying notes to consolidated financial statements.

Grupo Posadas, S. A. B. de C. V. and Subsidiaries

## Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018, 2017 and 2016

(In thousands of Mexican pesos)

	Contributed capital				Earned capital			Non-controlling interest	Total stockholders' equity
	Capital stock	Contributions for future capital increases	Shares repurchase reserve	Additional paid-in capital	Shares repurchase reserve	Retained earnings	Accumulated comprehensive earnings		
Beginning balance January 1, 2016	\$ 495,881	\$ 4,828	\$ 16,856	\$ 157,429	\$ 535,556	\$ 2,172,779	\$ 47,424	\$ 196,750	\$ 3,627,503
Repurchase of shares	-	-	-	-	(556)	556	-	-	-
Partial payment of convertible debt	-	(4,124)	-	-	-	-	-	-	(4,124)
Change in the value of non-controlling interest	-	-	-	-	-	-	-	(13,444)	(13,444)
Consolidated comprehensive loss	-	-	-	-	-	(705,819)	15,521	8,640	(681,658)
Balance as of December 31, 2016	495,881	704	16,856	157,429	535,000	1,467,516	62,945	191,946	2,928,277
Declared dividends to non-controlling interest	-	-	-	-	-	-	-	(19,188)	(19,188)
Partial payment of convertible debt	-	(704)	-	-	-	-	-	-	(704)
Change in the value of non-controlling interest	-	-	-	-	-	-	-	(1,475)	(1,475)
Consolidated comprehensive loss	-	-	-	-	-	(483,905)	(11,364)	11,311	(483,958)
Balance as of December 31, 2017	495,881	-	16,856	157,429	535,000	983,611	51,581	182,594	2,422,952
Declared dividends	-	-	-	-	-	(198,353)	-	-	(198,353)
Change in the value of non-controlling interest	-	-	-	-	-	-	-	(838)	(838)
Consolidated comprehensive income	-	-	-	-	-	928,724	31,939	3,375	964,038
Balance as of December 31, 2018	<u>\$ 495,881</u>	<u>\$ -</u>	<u>\$ 16,856</u>	<u>\$ 157,429</u>	<u>\$ 535,000</u>	<u>\$ 1,713,982</u>	<u>\$ 83,520</u>	<u>\$ 185,131</u>	<u>\$ 3,187,799</u>

See accompanying notes to consolidated financial statements.

## Grupo Posadas, S. A. B. de C. V. and Subsidiaries

# Consolidated Statements of Cash Flows

For the years ended December 31, 2018, 2017 and 2016

(In thousands of Mexican pesos)

	2018	2017	2016
Cash flows from operating activities:			
Consolidated income (loss) for the year	\$ 932,099	\$ (472,594)	\$ (697,179)
Adjustments for:			
Income tax expense (benefit)	591,985	1,262,607	(174,349)
Depreciation, amortization, cost of disposal and asset impairment	402,097	430,635	595,350
Amortization of debt issue expenses	71,616	72,097	72,642
Equity in associates	(15,000)	-	-
Income on sale of strategic fixed assets	(1,345,750)	(103,017)	(108,374)
(Income) loss on sale of fixed assets	1,351	(2,439)	(11,754)
Interest expense	653,537	641,173	643,592
Interest income	(172,765)	(60,399)	(46,802)
Unrealized foreign exchange (income) loss	(21,000)	(371,912)	1,439,926
	<u>1,098,170</u>	<u>1,396,151</u>	<u>1,713,052</u>
Transactions in working capital:			
Accounts and notes receivable – Net	(638,661)	(533,807)	(189,819)
Inventories	1,292	339	9,243
Prepaid expenses	23,352	(57,439)	52,980
Vacation Club inventory	120,957	(138,737)	45,208
Trade accounts payable	(8,310)	(61,653)	59,321
Other liabilities and accrued expenses	114,260	440,160	(46,543)
Vacation Club deferred income	154,953	151,663	318,757
Payment of income taxes	(325,382)	(816,208)	(218,829)
Net cash generated by operating activities	<u>540,631</u>	<u>380,469</u>	<u>1,743,370</u>
Cash flows from investing activities:			
Purchase of property and equipment	(490,838)	(400,535)	(573,995)
Vacation Club inventory in construction	(147,392)	(67,818)	(128,734)
Intangible assets and other assets	(32,502)	(131,634)	(202,893)
Investments in securities	-	450,000	-
Contributions of investment in associates	(746,502)	(225,000)	-
Interest collected	172,765	60,399	46,802
Sale of property and equipment	4,918	6,983	15,632
Cash flows from sales of non-strategic properties	<u>2,941,159</u>	<u>435,000</u>	<u>245,000</u>
Net cash generated by (used in) investing activities	<u>1,701,608</u>	<u>127,395</u>	<u>(598,188)</u>

(Continued)

	2018	2017	2016
Cash flows from financing activities:			
Cash received from debt issuance	-	-	922,635
Cash received from debt contracting	-	210,000	-
Loan payments	(21,232)	-	(793,667)
Interest paid	(672,340)	(631,779)	(687,315)
Debt issuance costs	-	(2,706)	(26,424)
Partial payment of convertible debt	-	(704)	(4,124)
Payment of dividends	(198,353)	-	-
Payment of dividends to non-controlling interest	-	(19,188)	-
Net cash used in financing activities	<u>(891,925)</u>	<u>(444,377)</u>	<u>(588,895)</u>
Net increase in cash and cash equivalents	1,350,314	63,487	556,287
Cash and cash equivalents at the beginning of the year	<u>1,383,584</u>	<u>1,320,097</u>	<u>763,810</u>
Cash and cash equivalents at the end of the year	<u>\$ 2,733,898</u>	<u>\$ 1,383,584</u>	<u>\$ 1,320,097</u>

(Concluded)

See accompanying notes to consolidated financial statements.

## Grupo Posadas, S. A. B. de C. V. and Subsidiaries

# Notes to the Consolidated Financial Statements

For the years ended December 31, 2018, 2017 and 2016  
(In thousands of Mexican pesos)

### 1. Activities

Grupo Posadas, S. A. B. de C. V. (Posadas) and Subsidiaries (the Entity) are primarily engaged in the operation and management of hotels, the granting of hotel franchises, as well as to the purchase and sale of real estate within the hospitality industry. The Entity mainly operates hotels under Live Aqua, Grand Fiesta Americana, Fiesta Americana, The Exploreat, Fiesta Inn, Fiesta Inn Loft, One Hotels and Gamma brands.

The Entity enters into long-term management contracts with all the hotels that it operates, which for purposes of these consolidated financial statements, these hotels are referred to owned, leased and managed hotels. The number of hotels and rooms operated by the Entity at December, 31 are:

Hotels	2018	2017	2016
Owned	12	14	15
Leased	15	14	13
Managed (including lofts)	<u>148</u>	<u>134</u>	<u>124</u>
Operated hotels	<u>175</u>	<u>162</u>	<u>152</u>
Operated rooms	<u>27,491</u>	<u>25,608</u>	<u>24,324</u>

Posadas receives fees pursuant to the long-term management contracts it has with all of the hotels it operates. Certain fees, including management, brand use fee, reservation services and technology usage, among others, are based on hotel revenues. Posadas also receives an incentive fee based on the hotels' operating income.

Additionally, the Entity operates a Vacation Club business called Fiesta Americana Vacation Club (FAVC), as well as a product called Live Aqua Residence Club (previously, The Front Door), focused on the high-income sector, through which members purchase a "40-year-right-to-use" evidenced by an annual allocation of FAVC points. FAVC points can be redeemed to stay at the Entity's seven FAVC resorts in Los Cabos (villas and resort), Acapulco, Cancun, Cozumel, Chetumal and Puerto Vallarta, as well as any of the hotels in its portfolio. In addition, members of FAVC can also redeem their FAVC points to stay at any Resorts Condominium International (RCI), affiliated resort or Hilton Grand Vacation Club resorts throughout the world. At the same time, the Entity markets a product called "Kívac" consisting in sales of points, with a maturity of up to 5 years that can be redeemed for stays at any of the hotels in the Entity's portfolio, as well in some properties operated by third parties.

In 2012, the Entity began restructuring its business with a focus towards ownership of strategic assets and the growth of its hotel management business and FAVC. As part of this strategy, the Entity has sold several hotels and other non-strategic assets (see Note 2, subsections b, c, d, and j), and at the date of these consolidated financial statements, the Entity continues with the organizational restructuring to reduce the number of legal entities of which it is composed.

The hotel industry is seasonal and particularly sensitive to macroeconomic and social changes, leading to volatility in revenues and the related costs during periods of twelve months. The Entity seeks to reduce the impact of seasonality on its results through marketing strategies such as agreements with institutions, competitive prices and intensive promotion.

The Entity's corporate offices are located in Prolongación Paseo de la Reforma 1015 Piso 9, Torre A, Col. Santa Fe, Mexico City.

## 2. Significant events

### a. *Issuance of “Senior Notes 2022” and prepayment of “Senior Notes 2017”*

On June 2015 the Entity completed a debt issuance for US\$350 million in notes known as “Senior Notes 2022” through the Luxembourg Stock Exchange. On May 16, 2016 an additional issuance was made for US\$50 million as part of the “Senior Notes 2022” program, accruing interest at an annual rate of 7.875%, maturing in 2022. The proceeds from this additional issuance of “Senior Notes 2022” were used to pay the balance of US\$38.3 million of the debt known as “Senior Notes 2017”, with maturity in 2017, in November 2016.

With the additional issuance, the “Senior Notes 2022” program reached the total amount of US\$400 million.

The Senior Notes 2022 generate 7.875% interest annually with principal maturing on June 30, 2022. The interest is paid semiannually in June and December each year, beginning on December 30, 2015.

The amount of issuance expenses was \$339,508, and is being amortized over the life of the new issue using the effective interest rate method, which includes US\$16.1 million of premium for prepayment of the previous issue.

### b. **Sale of non-strategic assets**

***Hotel Ramada Laredo*** – In April 2018 the Entity entered into a purchase and sale agreement with an individual for the hotel “Ramada Plaza” located in Laredo, Texas, USA. The price agreed for the transaction was US\$2.5 million, and was received between April and June 2018.

Given that the hotel did not represent a significant business line, as established in International Financial Reporting Standards, the transaction was not treated as a discontinued operation in the consolidated statements of comprehensive income (loss).

***Fiesta Americana Condesa Cancún*** - In August 2017, the Entity executed a purchase-sale contract subject to certain precedent conditions for the sale of the Fiesta Americana Condesa Cancún hotel to FibraHotel. These precedent conditions were: (i) the approval of the transaction by the Entity’s Stockholders Meeting and of the Holders of FibraHotel; (ii) the successful issuance of the FibraHotel’s Real Estate Fiduciary Securitization Certificates; and (iii) a favorable ruling of the Federal Economic Competition Commission regarding the transaction. Such conditions occurred at the beginning of 2018. The hotel was sold for \$2,892,000 in February with retroactive effects to January 2018. The net effect from the sale is \$1,345,750, which is presented in the consolidated statement of comprehensive income (loss), under other (revenue) expenses, net, and generated interest income of \$90,181. The Entity and FibraHotel agreed each to invest approximately \$60,000 to renovate public areas during 2017 and 2018, a commitment which, if the necessary corporate approvals are obtained, will be increased to \$75,000 for the Entity. At the same time the long-term lease agreement for such hotel went into effect, and both parties agreed the lease to have economic effects as of January 1, 2018.

***Fiesta Inn Aeropuerto*** - In April 2017, the Entity executed a purchase-sale contract (subject to achieving the precedent condition of the merger agreed by the Stockholders’ Extraordinary Meeting dated October 31, 2017), through which land, buildings and equipment from the “Fiesta Inn Aeropuerto” located in Mexico City, were sold to an Administrative Trust of which Banca Mifel, S.A., Institución de Banca Múltiple (Banca Mifel) is trustee, for the amount of \$435,000. Likewise, and subject to the same precedent condition, Banca Mifel, in its capacity as the hotel trustee and owner, executed a lease contract on that same date with the Entity for a 15-year period, whereby the latter would continue to operate the hotel. The precedent condition was fulfilled in July 2017 and in August, the Entity received the agreed price. Since that date, the Entity operates this hotel as “Leased Hotel”.



***Fiesta Inn Monterrey Valle*** - As part of the asset's sales strategy, the hotel was sold on August 1, 2016 to Deutsche Bank México, S. A. Institución de Banca Múltiple, fiduciary division, trustee of the Trust F/1596 (FibraHotel), hotel which was operated under the commercial brand "Fiesta Inn Monterrey Valle" for the amount of \$245,000. The Entity continues operating the hotel as "Managed Hotel".

c. **Property and equipment committed for sale**

***Fiesta Americana Hacienda Galindo*** - In June 2017, the Entity leased the Fiesta Americana Hacienda Galindo hotel located in the State of Queretaro to FibraHotel. The hotel has 168 rooms and was remodeled in different stages during 2017 with an investment made by FibraHotel of \$155,000. The Entity simultaneously agreed to sell this hotel and its contents, subject to the deadline and other conditions that must be fulfilled in early 2020 at the latest, when, the transaction price will be determined based on an amount equal to 10.06 times earnings before interest, taxes, depreciation and amortization (EBITDA) generated by the hotel during 2019 and after deducting the investment made by FibraHotel. The value of the hotel and its contents are therefore presented as long-term as "property and equipment committed for sale" in the consolidated statements of financial position. During the lease period and following the closing of the purchase-sale, the Entity will continue to operate the hotel under the terms of a hotel and brand licensing agreement executed for a 22.5-year term.

***Fiesta Americana Hermosillo*** - On April 29, 2016 a purchase and sale agreement was signed subject to term, precedent conditions and a purchase option with FibraHotel for the sale of the hotel "Fiesta Americana Hermosillo" in accordance with the following clauses: i) the respective term will expire on January 31, 2020, ii) the consideration will be that resulting from multiplying 10.06 times the average of the hotel's EBITDA for the last three years, less the investment made in leasehold improvements and disbursements, subject to a floor price of \$80,500. At the same time as the signing of the sales contract, the Entity signed a lease agreement with FibraHotel for a non-cancellable term maturing in 2020 for \$10,000, which the Entity must invest in property improvements; also, FibraHotel agrees under the same terms to invest \$75,000 in such property. The sale of the property will be recognized once the aforementioned clauses are duly fulfilled.

As a result of signing the purchase-sale contract, the Entity conducted an impairment study for the Fiesta Americana Hermosillo hotel, and determined in 2016 an effect of \$57,064, presented under the caption "Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets", in the consolidated statement of comprehensive income (loss). During 2018 the Entity updated the impairment study and determined an additional effect of \$19,498, recorded in the same caption of the consolidated statement of comprehensive income (loss).

According to the contracts with precedent conditions executed by the Entity with third parties, Management classified as long-term the real property and equipment committed for sale in the consolidated statement of financial position. Once the conditions detailed in IFRS 5, *Non-current assets held for sale and discontinued operations*, are fulfilled, these items will be presented as "assets classified as held for sale".

d. **Renewal of hotel operation contracts**

On February 2017, the Entity executed an amendatory agreements to the hotel operation and brand licensing contracts for the Fiesta Americana Grand Coral Beach, Fiesta Americana Grand Guadalajara, Fiesta Americana Puerto Vallarta and One Guadalajara Periferico Norte hotels, through which it obtained a contract extension until December 2027 in exchange for the payment of a premium of US\$6 million. Of this amount, the Entity paid US\$3 million on February 2017; the remainder was paid in January 2018, accruing interest at a 12% rate. The total amount is presented as "intangible assets and other assets" in the consolidated statements of financial position.

e. ***Execution of a contract in the Dominican Republic***

During September 2017, the Entity executed a contract to operate the Grand Fiesta Americana hotel in Punta Cana, Dominican Republic, with 554 rooms, for 15 years. The contract establishes restrictions regarding the operation of another hotel under the same brand in a nearby area for a certain period of time. The estimated start date of operation is the second semester of 2021.

f. ***Execution of a contract in Cuba***

In February 2018, the Entity signed operating contracts for two Fiesta Americana All Inclusive hotels in Cuba. The first will be a hotel with 633 rooms in Playa Varadero, while the second will have 749 rooms, more than 10 restaurants and approximately 36,000 m<sup>2</sup> of gardens, located in Playa Pesquero, Provincia de Holguín, on the eastern coast of Cuba. Both hotels have local investment and the Entity expects they will be in operation during the first quarter of 2019.

g. ***Mayan Riviera Trust***

During April, 2017, the Entity formalized its participation in a hotel project on the Mayan Riviera through the execution, together with other beneficiaries, to create a Business Activity Administration and Warranty Trust, with the contribution of land and cash. The amount of \$225,000 in cash was contributed by the Entity in April 2017 (Trust incorporation date). On August 16, 2018 the Entity contributed additional \$225,000 to begin the construction phase.

In March 2018, the Entity also acquired a participation from one of the beneficiaries at \$535,100, for which it applied a deposit of \$67,000 that was originally recorded in “long-term prepaid expenses” in March 2017, and disbursed the remainder of \$468,100 on March 9, 2018. With this purchase, the Entity increased its Trust holding from 6% to 12.5%. Also, during 2018 the Entity contributed \$46,000 in kind to the Trust for the expanded construction licenses required to complete the project with the anticipated density. This investment is presented under “Investment in associates” in the consolidated statements of financial position.

The project considers two hotels, a Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms, which will be operated by the Entity. Similarly, to guarantee the operation of the hotels during a 20-year period, the Entity will pay US\$10 million to the Trust as a lease assignment fee. The operating contract establishes a guaranteed annual gross operating profit of US\$12 million.

h. ***Agreements reached with the Tax Administration Service (SAT) regarding tax liabilities***

In April 2017, the Entity reached a series of agreements with the SAT to resolve differences of criteria regarding trademark amortization, the deduction of interest derived from the acquisition of those trademarks, the tax treatment given to real estate infrastructure companies (SIBRAs), the amortization of usufruct rights and, more specifically, the effects generated by the termination of the tax consolidation regime. These agreements generated the following effects for the Entity:

- i. For the year 2013, a loss derived from a sale of shares was eliminated from the calculation of the termination of the tax consolidation regime, thus resulting in the recognition of an additional payment obligation in different years for the total amount of \$2,376,000. Of this amount, the Entity settled \$524,000 in April 2017; the remaining will be settled through annual payments from 2018 through 2023, for the approximate amount of \$308,600 each, subject to inflation indexing. As part of the agreements reached with SAT, \$72,600 of 2007 tax was included in the calculation and the payment period determined for the termination of the tax consolidation regime.

For the first three annual payments, the Entity requested authorization to apply the terms of article 70-A of the Federal Tax Code (surcharges calculated at rollover rate and the elimination of fines), which was accepted and confirmed by Decentralized Tax Collection Office of the Federal District “1”, through the issuance of a favorable ruling. Based on this agreement, the right of Posadas to carry-forward tax losses at December 31, 2013, for the amount of \$7,751,000, was confirmed.

- ii. With regard to 2008, 2009 and 2010, the tax authorities accepted that the Entity would only settle the ancillary charges resulting from the observed items, for the amount of \$15,800. The Entity filed an authorization request to obtain a favorable ruling from the SAT to enable it to apply the benefits detailed in the aforementioned article 70-A of the Federal Tax Code.
- iii. The Entity obtained close documents for 2010 and 2013 audits with the same conclusion as those mentioned in the preceding numerals i) and ii). For 2007, 2008 and 2009, the Entity received notification documents through which the authorities resolved to revoke the rulings that determined the respective tax liabilities. It is important to mention that the agreements reached for 2007, 2008 and 2009 were ratified in August 2017 when the Entity obtained conclusive agreements issued by the Taxpayer’s Defense Office.
- iv. In the case of the subsidiaries Gran Inmobiliaria Posadas, S.A. de C.V. and Inversora Inmobiliaria Club, S.A. de C.V. (both considered as SIBRAs), the tax authorities determined that the amortization rate used for the usufruct rights contributed by Posadas be modified beginning 2013, thus resulting in additional payments of \$56,400 and \$13,300, respectively.

i. ***Credit granted to the Fiesta Americana Mérida Hotel***

In June 2017, a subsidiary of the Entity, 51% owner of the shares of the Fiesta Americana Mérida hotel, contracted a credit for a seven-year period for the amount of \$210,000, at an annual 9.175% interest rate with a fiduciary warranty with Banco Nacional de México, S. A. (Banamex). Proceeds were used to pay taxes, improve the hotel’s public areas and for other corporate purposes. This amount is presented as “long-term debt” in the consolidated statements of financial position, except for the amount payable in 2019, which is presented as short-term. On January 23, 2018, a \$10,000 principal prepayment was made. From July 2018 the Entity has paid monthly principal installments of \$1,872, and the outstanding balance as of December 31, 2018 is \$188,768.

j. ***Corporate Restructuring Process***

On May 2018, the Entity merged its subsidiary Servicios Gerenciales Posadas, S.A. de C.V. This merger did not generate any effects in the accompanying consolidated financial statements.

In October 2018, after the sale of the Ramada Laredo hotel referred to in Note 2 b., the Entity dissolved its indirect subsidiary BIA Acquisition, LLC, which was incorporated in Texas, USA. The dissolution did not have any effect on the accompanying consolidated financial statements.

On September 2017, Posadas merged its subsidiaries Administración Digital Conectum, S.A. de C.V., Posadas de Latinoamérica, S.A. de C.V., Desarrollos Inmobiliarios Posadas, S.A. de C.V., Servicios Administrativos Posadas, S.A. de C.V., Porto Ixtapa, S.A. de C.V. and Solosol Tours, S.A. de C.V. This merger did not generate any effects in the accompanying consolidated financial statements. Posadas absorbed under general title all the assets and liabilities, obligations and warranties of the merged entities.

k. ***Earthquake in Mexico City, hurricanes and other events***

September, 2017 was significantly affected by the following events:

- i. *Meteorological phenomena:* Hurricane “Harvey” in the Caribbean affected the cities of Houston and Miami, while diverting the flow of US tourists to Mexico. Hurricane and tropical storms Irma, Katia and Lidia primarily affected Cancun, Los Cabos and Veracruz.

- ii. The travel alerts issued by the United States of America government for North American travelers affected several cities; in the case of Cancun and Los Cabos, these alerts were withdrawn on January 10, 2018.
- iii. The September 7 and 19 earthquakes affected the states of Chiapas, Oaxaca, Morelos, Puebla and Mexico City, which significantly affected the second half of the month's occupation percentages and the system's average rate.

These events reduced 2017 third quarter's earnings before taxes, interest, depreciation and amortization by approximately \$50,000. Although the facilities of certain hotels owned by the Entity suffered non-structural damages, they have insurance policies to cover real property damage and the business consequential losses.

### 3. Application of new and revised International Financial Reporting Standards

#### a. *Application of new and revised International Financial Reporting Standards (IFRS or IAS) mandatorily effective for the current year*

In the current year, the Entity applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective on January 1, 2018, which did not have important effects on the Entity's consolidated financial statements.

#### **IFRS 9 Financial Instruments**

- IFRS 9 requires that all recognized financial assets that are within the scope of IAS 9 *Financial Instruments* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. After evaluating the impact of IFRS 9, the Entity did not have a material effect from the adoption of the standard because it has applied similar criteria in previous years. However, the following reclassification was originated to show the Vacation Club returns' reserve net of notes receivable, as follows:

	December 31, 2017		December 31, 2017
<b>Assets</b>	(reclassified)	Reclassification	(previously reported)
Current assets:			
Accounts and notes receivable – Net	\$ 2,645,367	\$ (58,917)	\$ 2,704,284
Total current assets	<u>\$ 5,996,134</u>	<u>\$ (58,917)</u>	<u>\$ 6,055,051</u>
Non-current assets:			
Notes receivable	\$ 2,649,388	\$ (129,617)	\$ 2,779,005
Total non-current assets	<u>\$ 10,348,923</u>	<u>\$ (129,617)</u>	<u>\$ 10,478,540</u>
<b>Liabilities</b>			
Current liabilities:			
Other liabilities and accrued expenses	\$ 1,188,671	\$ (58,917)	\$ 1,247,588
Total current liabilities	<u>\$ 2,872,799</u>	<u>\$ (58,917)</u>	<u>\$ 2,931,716</u>
Long-term liabilities:			
Accrued liabilities	\$ 360,539	\$ (129,617)	\$ 490,156
Total long-term liabilities	<u>\$ 11,049,306</u>	<u>\$ 129,617</u>	<u>\$ 11,178,923</u>
	<b>December 31, 2016</b>		<b>December 31, 2016</b>
<b>Assets</b>	(reclassified)	Reclassification	(previously reported)
Current assets:			
Accounts and notes receivable – Net	\$ 2,661,627	\$ (73,595)	\$ 2,735,222
Total current assets	<u>\$ 4,789,539</u>	<u>\$ (73,595)</u>	<u>\$ 4,863,134</u>
Non-current assets:			
Notes receivable	\$ 2,121,497	\$ (109,778)	\$ 2,231,275
Total non-current assets	<u>\$ 10,097,458</u>	<u>\$ (109,778)</u>	<u>\$ 10,207,236</u>
<b>Liabilities</b>			
Current liabilities:			
Other liabilities and accrued expenses	\$ 988,238	\$ (73,595)	\$ 1,061,833
Total current liabilities:	<u>\$ 2,426,699</u>	<u>\$ (73,595)</u>	<u>\$ 2,500,294</u>
Long-term liabilities:			
Accrued liabilities	\$ 349,898	\$ (109,778)	\$ 459,676
Total long-term liabilities	<u>\$ 9,532,021</u>	<u>\$ (109,778)</u>	<u>\$ 9,641,799</u>

- Hedge accounting requirements have three mechanisms for accounting of hedges currently available in IAS 39. In accordance with IFRS 9, greater flexibility has been introduced for the types of instruments to be classified in hedge accounting, by specifically expanding the types of qualifying instruments and the types of risk components of non-financial items which are eligible for hedge accounting. Furthermore, the effectiveness tests have been revised and replaced with the concept “economic relationship”. Hereinafter the retrospective evaluation of the effectiveness will not be required, and improved disclosure requirements have been introduced to manage the Entity’s risks.

### IFRS 15 Revenue from Contracts with Customers

The core principle is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, a 5-step approach is introduced to revenue recognition:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

Therefore, income should be recognized when a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added to deal with specific scenarios, and extensive disclosures are required. When IFRS 15 becomes effective, it will supersede the revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations.

The process of analyzing the effects of IFRS 15 includes reviewing current accounting policies and practices to identify potential differences, that could result from the application of the new standard. Most revenues are generated through providing services that will continue to be recognized when hotel services are provided to guests, while also considering: i) the estimation of those points which, at maturity, will not be used from the sale of Kivac points; ii) revenues generated by administrative and trademark fees which are currently recognized as accrued; iii) revenues resulting from the loyalty program and the related evaluation of agent and/or principal, which are currently recognized when administrative services are provided or when prices are redeemed in accordance with executed contracts; and iv) the valuation of identified performance obligations.

Furthermore, the Entity, despite operating the real properties sold under this modality, may be removed by vote of the membership buyers under certain normal business conditions, for which reason the Entity concluded that there is a transfer of control of the real properties to the buyers.

After evaluating the impact of IFRS 15, the Entity did not have any material effects from adopting the standard. However, the following reclassification was originated in the consolidated statement of comprehensive income (loss), to show the gain from the sale of strategic assets in other (revenues) expenses, net, as follows:

	December 31, 2017	Reclassification		December 31, 2017
	(reclassified)	Debit	Credit	(previously reported)
Revenue	\$ 8,471,990	\$ 435,000	\$ -	\$ 8,906,990
Costs	5,014,507	-	331,982	5,346,489
Gross profit	<u>3,457,483</u>	<u>-</u>	<u>-</u>	<u>3,560,501</u>
Other expenses				
(revenue), net	<u>\$ (47,756)</u>	<u>\$ -</u>	<u>\$ 103,018</u>	<u>\$ 55,262</u>

	December 31, 2016 (reclassified)	Reclassification		December 31, 2016 (reclassified)
		Debit	Credit	
Revenue	\$ 7,734,349	\$ 245,000	\$ -	\$ 7,979,349
Costs	4,402,320	-	136,627	4,538,947
Gross profit	<u>3,332,029</u>	<u>-</u>	<u>-</u>	<u>3,440,402</u>
Other expenses (revenue), net	<u>\$ 2,548</u>	<u>\$ -</u>	<u>\$ 108,373</u>	<u>\$ 110,921</u>

b. ***New and revised IFRS issued but not yet effective***

The following new and revised IFRS have been issued to date but are not yet effective. These IFRS allow earlier application, option that in the consolidated financial statement as of December, 31, 2018 the Entity did not elect.

***Effective for annual periods beginning on or after 1 January 2019***, for which it is not practicable to provide a reasonably estimate of their effects on the consolidated financial statements until having performed a detailed analysis and review.

**IFRS 16, Leases**

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. “Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of –use asset and a corresponding liability have to recognized for all leases by lessees on the statement of financial position except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payment as well as the impact of lease modifications, among the others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (election made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (election can be made on a lease-by-lease basis).

The Entity as lessor - After evaluating the impact of IFRS 16 in the *Fiesta Americana Vacation Club* and *Live Aqua Residence Club*, businesses, the Entity believes that from the time of the sale it has fulfilled its performance obligation, because the sale represents a transfer of “right-to-use” to the membership buyers, evidenced by an encumbrance on the properties sold under these brands filed with the Public Records Office, which grants the buyers enforceable rights before third parties.

The Entity as lessee - The Entity decided to adopt the standard under the modified retrospective method for leases of hotels and automobiles, which at the close of 2018 are presented as operating leases, waiving the comparability with prior periods as described in further detail in the section Significant accounting policies, and will have an impact on financing leverage and interest coverage ratios.

The Entity is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements.

#### 4. Significant accounting policies

##### a. *Statement of compliance*

The consolidated financial statements of the Entity have been prepared in accordance with IFRS, as issued by the IASB.

##### b. *Basis of preparation*

The consolidated financial statements have been prepared on the historical cost basis except for certain hotel properties that were recognized at fair value at the date of transition to IFRS.

##### i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

##### ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

##### c. *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of Posadas and entities controlled by the Entity and its subsidiaries. Control is achieved when Posadas:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When Posadas has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. Posadas considers all relevant facts and circumstances in assessing whether or not the Posadas' voting rights in an investee are sufficient to give it power, including:

- The percentage of Posadas' holding of voting rights relative to the percentage and dispersion of voting rights of the other vote holders;



- Potential voting rights held by Posadas, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that Posadas has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when Posadas loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income (loss) from the date Posadas gains control until the date when it ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (loss) are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Posadas' accounting policies.

The percentage in the share capital of the subsidiaries is as follows:

Entity	Participation (%) 2018, 2017 and 2016
Inmobiliaria del Sudeste, S.A. de C.V.	51%
Inversora Inmobiliaria Club, S.A. de C.V.	100%
Konexo Centro de Soluciones, S.A. de C.V.	100%
Operadora del Golfo de México, S.A. de C.V.	100%
Posadas USA, Inc.	100%
Promoción y Publicidad Fiesta, S.A. de C.V.	100%
Soluciones de Lealtad, S.A. de C.V.	100%
Bia Acquisition, Ltd. (1)	100%
Servicios Gerenciales Posadas, S.A. de C.V. (2)	100%
Administración Digital Conectum, S.A. de C.V., and subsidiaries (3)	100%
Promotora Inmobiliaria Hotelera, S.A. de C.V., and subsidiaries (4)	100%
Controladora de Acciones Posadas, S.A. de C.V., and subsidiaries (4)	100%
Hoteles y Villas Posadas, S.A. de C.V. (4)	100%
Gran Operadora Posadas, S.A. de C.V. (4)	100%

(1) Dissolved entity during 2018.

(2) Subsidiary entities merged into Posadas during 2018.

(3) Subsidiary entities merged into Posadas during 2017.

(4) Subsidiary entities merged into Posadas during 2016.

All intragroup balances, transactions and cash flows between members of the Entity are eliminated on consolidation.

### Changes in the Entity's ownership interests in existing subsidiaries

Changes in the Entity's ownership interests in subsidiaries that do not result in the Entity losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Entity's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Entity.

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### d. ***Financial instruments***

Financial assets and financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### e. ***Financial assets***

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

#### *Classification of financial assets*

Debt instruments that meet the following conditions are measured subsequently at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*i) Amortized cost and effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included as "interest income".

ii) *Impairment of financial assets*

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime expected credit losses (ECL) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event (see (ii) above);
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

iv) *Derecognition of financial assets*

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss

f. ***Cash, cash equivalents and investments in securities***

Cash consists of cash on hand and demand deposits. Cash equivalents are maintained to meet cash commitments rather than short term for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and subject to insignificant risk of changes in value.

Therefore, an investment normally qualifies as a cash equivalent when it has a short maturity of generally three months or less from the date of acquisition. Investments in securities are not included in cash equivalents unless they are, in substance, cash equivalents. Otherwise, they are presented as investments in securities. Cash is stated at nominal value and cash equivalents are measured at fair value, the changes in value are recognized in profit or loss.

g. ***Inventories***

Inventories are stated at average cost, which does not exceed their net realizable value.

h. ***Vacation Club inventory***

Vacation Club inventories are recorded at cost of construction. Cost of sales is recorded at the time of sales.

The long-term Vacation Club inventories correspond to the cost of reconstruction of hotel buildings, which are remodeled to provide Vacation Club services. Short-term Vacation Club units represent hotel buildings approved for sale by Management that are expected to be sold within one year, therefore, they are classified as current assets even though their business cycle could be longer.

i. ***Property and equipment***

Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of improvements, renovations and replacements to hotel rooms are capitalized within the property and equipment caption and are amortized over a period of 3 to 5 years. The costs of minor repairs and maintenance are expensed as they are incurred.

Properties in the course of construction for exploitation, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Entity's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The average percentage rate of depreciation of the components of property and equipment are:

	(%)
Buildings - Construction	2 to 5
Buildings - Installation, finishing and improvements	5 to 10
Furniture and equipment	10
Vehicles	25
Computer	30
Operating equipment	33

Land is not depreciated.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, which is 24% for buildings, as determined by the independent valuation agents, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Property and equipment committed for sale refers to properties for which purchase-sale contracts have been executed and which will take effect within a period exceeding 12 months as of the date of the consolidated statements of financial position.

j. ***Intangible assets and other assets***

This item includes all direct costs, primarily commissions on Kívac sales, which are recognized in the consolidated statements of comprehensive income (loss), once the service is rendered and accordingly revenue is recognized. An estimate of amounts expected to be utilized over the following 12 months is determined and classified within current assets.

1. **Internally-generated intangible assets - research and development expenditure**

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## 2. Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss when the asset is derecognized.

### k. *Impairment of tangible and intangible assets*

At the end of each reporting period, the Entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

l. ***Assets classified as held for sale***

Non-current assets and groups of assets for disposal are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification, or a longer period as long as the criteria continue to be met.

When the Entity is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Entity will retain a non-controlling interest in its former subsidiary after the sale.

After the disposal takes place, the Entity accounts for any retained interest in the associate or joint venture in accordance with IAS 39 unless the retained interest continues to be an associate or a joint venture, in which case the Entity uses the equity method (see the accounting policy regarding investments in associates).

Non-current assets (and groups of assets for disposal) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

m. ***Investments in associates***

An associate is an entity over which the Entity has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Usually these entities are those in which a shareholding between 20% and 50% of the voting rights are held. The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

n. ***Leasing***

Until 2018, leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1. **The Entity as lessee-** Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

As of January 1, 2019, the Entity assesses whether the lease agreements allow it to determine the use of an identified asset, and whether the terms of each lease give it the right to substantially obtain all the economic benefits from the use of such identified assets.

Based on this assessment, the Entity concludes that the leases of real properties, automobiles and certain hotel equipment will be recognized as use right assets, with the respective payment obligation, discounting the value of the remaining future payments of the leases. The Entity will use the modified retrospective adoption method, thus waiving the comparability with previous periods.



The discount rate is made up of the US T-bill rate, increased by a margin according to the Entity's credit rating in effect at the beginning of each lease, adjusting for the mortgage security in the case of real property.

For leases of real properties which contain options to renew, the Entity considers case-by-case whether it will exercise the option to renew at the end of the initial mandatory term, based on the economic benefits it expects to obtain.

The Entity will take the exemption for computer leases because it considers them low unit value, as permitted by IFRS 16. Consequently, these leases will continue to be recorded as an operating expense.

**o. Foreign currencies transactions**

In preparing the financial statements of each entity, transactions in currencies other than the Entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

The recording and functional currencies of the foreign operation are as follows:

Country	Recording and functional currencies
United States of America	US dollar

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period.

**p. Employee benefits**

Retirement benefits costs from termination benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).

- Net interest expense or income.
- Remeasurement.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the Entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

#### Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Entity in respect of services provided by employees up to the reporting date.

#### Statutory employee profit sharing (PTU)

The PTU is recorded in the results of the year in which it is incurred and is presented in administration expenses line item in the consolidated statements of comprehensive income (loss).

As result of the 2014, Income Tax Law, PTU is determined based on taxable income, according to Section I of Article 9 of such Law.

#### q. ***Income taxes***

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### 1. Current tax

Current income tax (ISR) is recognized in the results of the year in which is incurred.

Current tax is payable on the taxable basis for the year. Taxable profit differs from the net income as it is reported in profit or loss because it excludes components of revenues or expenses that are accruable or deductible in other years and excludes components which have never been accruable or deductible. The Entity's liabilities for current taxes are calculated using the tax rates that were established at the end of the reporting period.

A provision is recognized accordingly where the determination of the tax is uncertain, but it is considered likely to result in a future outlay of funds for a tax authority. Provisions are valued at the best amount that is expected to be payable. The evaluation is based on the judgment of tax experts supported by the Entity's previous experiences in this type of activity, and in certain cases, the opinion of an independent tax specialist.

2. Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination the tax effect is included in that recognition.

r. ***Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

s. ***Financial liabilities***

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

t. ***Revenue recognition***

The Entity recognizes its revenues as follows:

- i. Revenues from the hotel operation, which includes the operation of owned and leased hotels, are recognized as the hotel services are rendered to guests, which include the rental of guestrooms and rooms for events, sale of food and beverages, etc.; in the case of leased hotels, the Entity determines whether it is acting as agent or principal by assessing whether it provides hospitality services on its own account or for a third party, whether it assumes the risk of the available rooms inventory, whether it assumes the credit risk for the amounts collected from customers, and whether the consideration for its services is equivalent to a fee for hotel operation and management contract. Based on this determination, the Entity concluded that for leased hotels it can recognize the revenues from hotel services for the gross amount it expects to collect for such services, except for the hotels Fiesta Americana Condesa Cancún and Live Aqua Playa del Carmen, where the Entity concluded that it is acting as an agent of the lessor.
- ii. Revenues from the Vacation Club business are recognized as revenue at the time of the sale, because the Entity believes that, when it sells the use right, it has fulfilled its performance obligation, by transferring a right before third parties, and by transferring the control of the real properties to the buyers of memberships, who may then remove the Entity from the operation under certain normal business conditions.
- iii. Revenues from the sale of Kívac points are recognized once the hospitality service is rendered, including an estimate of those points which will not be used by the program members at their expiration date. The amount of the unused services contracted is presented under the heading “Deferred income from Vacation Club”, as short-term and long-term in the consolidated statements of financial position;
- iv. Revenues from management and brand fees are recognized as they are accrued based on a percentage of the revenues and the profit from hotel operation, as established in the respective contracts; and
- v. Revenues derived from loyalty programs with third parties, are recognized when the management service of the programs is rendered or due to the redemption of prizes in conformity with the contracts signed.

- vi. Revenues (expenses) from the sale of strategic assets are recognized once the risks and rewards are transferred to the buyer and/or the precedent conditions of the purchase-sale contracts are fulfilled.
- u. ***Classification of costs and expenses***

Costs and expenses presented in the consolidated statements of comprehensive income (loss) were classified according to their function.
- v. ***Statements of cash flows***

The Entity reports cash flows from operating activities using the indirect method, whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Interest paid is usually classified as financing activities and interest and dividends received are usually classified as investing activities.
- w. ***Loyalty programs***

The fair value of the awards is recognized as a reduction to revenues and recognized as deferred income until the benefits are delivered to the client. The liability is presented under the heading of “other liabilities and accrued expenses” in the consolidated statements of financial position.
- x. ***Earnings (loss) per share of the controlling interest***

Basic earnings (loss) per share are calculated by dividing the net income (loss) attributable to the controlling interest by the weighted average number of shares outstanding during the period. As of December 31, 2018, 2017 and 2016, the Entity does not have ordinary shares with potential dilution effects.

## **5. Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Entity’s accounting policies, which are described in Note 4, the Entity’s Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and important sources of uncertainty which the Entity’s Management has determined an estimate at the date of the consolidated financial statements that could have a significant impact on the carrying amounts of assets and liabilities during the subsequent financial periods:

- i. The evaluation of the Entity’s role as agent or principal in the real property leases.

Complex situations are assessed regarding property leases where both lessor and lessee may take decisions about an identified asset, and the way in which each party benefits from such assets, in order to determine whether we are acting as an agent or principal, which affects the recognition of revenues, operating costs and expenses, and the decision to record assets from use rights and their respective payment obligation for the lease term.

ii. Vacation Club revenue recognition

Management makes judgments to decide when the performance obligations in the membership contracts of Vacation Club are fulfilled, which impact the recognition of revenues.

iii. The allowance for doubtful accounts and returns related with Vacation Club.

Estimates are used to determine the allowances for doubtful accounts, mainly considering collection arrears according to the financing plans established. The allowance for Vacation Club returns is determined based on a percentage of probability that memberships will be canceled.

iv. The presentation of deferred revenues and other Kívac assets, current and long-term

Kívac points that are expected to be utilized during the following 12 months from the date of the consolidated statement of financial position are classified as current, considering the expected Kívac collection, which is the trigger that entitles the purchasers to use the hospitality service of this product.

v. Financial projections for asset impairment

If there is evidence of impairment, the Entity conducts a review to determine whether the carrying amount exceeds its recoverable value of its assets. During this analysis, it is necessary to make estimates regarding the value in use assigned to the buildings. Value-in-use calculations require the Entity to determine the future cash flows that should arise from the cash-generating units and an appropriate discount rate to calculate the present value. The Entity uses projections of cash flows, estimating the historical performance, the related market conditions, and determination of occupancy levels and rates.

vi. The future benefit of tax losses

In order to determine whether these losses can be carried forward, the Entity projects earnings and taxable income that will be generated individually in the following years through a detailed business plan at the Business Unit level, which includes the sale of non-strategic assets, new investment projects, and the reorganization of entities within the group, among others, which would generate sufficient profits and provide possibilities to utilize tax losses before they expire.

vii. The effects of the contingencies faced by the Entity

The Entity is subject to legal proceedings in the ordinary course of business, for which it assesses the likelihood of an unfavorable outcome, considering the status of the legal process at the date of the estimate and the opinion of legal advisers; said evaluations are periodically reviewed.

viii. The useful life and residual value of properties

The Entity uses independent appraisers to estimate the useful life and the residual value of its assets, which considers the useful life according to engineering studies and construction costs and components (foundations, electrical, hydro sanitary and air conditioning installations).

ix. Classification criteria of the Entity's operating segments

The Entity classifies its businesses into four operating segments, based on internal reports prepared under a managerial approach.

- x. The estimated amount of investments in securities other than cash equivalents

At the date of preparation of the consolidated statement of financial position, the Entity estimates the amount of its cash needs in the short term considering its operating cycle, the debt service of the following year, and the budget authorized by the Investment Committee for capital investments. The surplus is presented as Investments in securities, other than cash equivalents.

## 6. Cash, cash equivalents and restricted cash

	2018	2017	2016
Cash	\$ 89,808	\$ 74,594	\$ 65,171
Cash equivalents:			
Overnight investments and restricted cash	2,630,259	1,299,221	1,254,926
Other	<u>13,831</u>	<u>9,769</u>	<u>-</u>
Total	<u>\$ 2,733,898</u>	<u>\$ 1,383,584</u>	<u>\$ 1,320,097</u>

As of December 31, 2018 the amount of cash equivalents includes \$739,000 in restricted cash related to the net proceeds obtained from the sale of the hotel Fiesta Americana Condesa Cancún.

## 7. Investments in securities

	2018	2017	2016
Trading:			
Overnight investments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450,000</u>

## 8. Accounts and notes receivable

	2018	2017	2016
Notes receivable from Vacation Club (a)	\$ 1,972,000	\$ 1,758,342	\$ 1,846,740
Other receivables from Vacation Club	138,065	155,686	170,462
Clients and agencies (b)	737,774	824,303	732,451
Officers and employees	30,332	62,729	60,485
Others	<u>39,354</u>	<u>71,668</u>	<u>79,428</u>
	2,917,525	2,872,728	2,889,566
Less - Allowance for doubtful accounts	<u>(223,862)</u>	<u>(227,361)</u>	<u>(227,939)</u>
	<u>\$ 2,693,663</u>	<u>\$ 2,645,367</u>	<u>\$ 2,661,627</u>

- (a). Notes receivable from Vacation Club

The Vacation Club membership sales are normally recognized when at least a 10% deposit is received and five-year financing is granted for the remaining portion, with interest charged at market rates. The Entity anticipates that, after the implementation of certain business strategies, those accounts that are at most 11 months old may be reactivated; accounts aged greater than 11 months are normally cancelled. However, estimates of the reserve for doubtful accounts are recorded based on the entire portfolio.

Composition of the trading portfolio:

	2018	2017	2016
Maturity of notes receivable from Vacation Club-			
Less than 90 days	\$ 435,567	\$ 386,786	\$ 422,463
Between 91 and 330 days	681,450	603,833	657,243
Between 331 and 365 days	<u>854,983</u>	<u>767,723</u>	<u>767,034</u>
	<u>\$ 1,972,000</u>	<u>\$ 1,758,342</u>	<u>\$ 1,846,740</u>

(b). Accounts receivable from clients and agencies

The average credit term related to amounts owed for hotel services is 19 days. The Entity does not charge interest on outstanding amounts. Normally, amounts owed within this portfolio are not aged significantly. During 2018, 2017 and 2016 the Entity identified and wrote-off \$3,981, \$10,390 and \$88,719 respectively, of the reserve for doubtful accounts, since it was determined that such amounts did not have possibility of being recovered.

	2018	2017	2016
Clients and agencies-			
Less than 90 days	\$ 658,569	\$ 742,920	\$ 650,710
Over 90 days	<u>79,205</u>	<u>81,383</u>	<u>81,741</u>
	<u>\$ 737,774</u>	<u>\$ 824,303</u>	<u>\$ 732,451</u>
	2018	2017	2016
Allowance for doubtful accounts-			
Clients and agencies	\$ (32,560)	\$ (33,075)	\$ (34,183)
Notes receivable from Vacation Club	<u>(191,302)</u>	<u>(194,286)</u>	<u>(193,756)</u>
	<u>\$ (223,862)</u>	<u>\$ (227,361)</u>	<u>\$ (227,939)</u>

9. Vacation Club inventory

	2018	2017	2016
Vacation Club inventory	\$ 120,981	\$ 241,176	\$ 128,477
Villas and residential lots	<u>23,801</u>	<u>23,803</u>	<u>24,800</u>
	<u>\$ 144,782</u>	<u>\$ 264,979</u>	<u>\$ 153,277</u>

Vacation Club inventories recognized in cost of membership sales during the period in respect of continuing operations was \$145,467, \$133,641 and \$48,919 at December 31, 2018, 2017 and 2016, respectively.

10. Property and equipment committed for sale

	2018	2017
Long-term:		
Property and equipment – Net		
<i>Hotel Fiesta Americana Hacienda Galindo</i>	\$ 113,671	\$ 129,797
<i>Hotel Fiesta Americana Hermosillo</i>	109,446	125,638
<i>Hotel Ramada Plaza</i>	<u>-</u>	<u>52,279</u>
Total long-term property and equipment committed for sale	<u>\$ 223,117</u>	<u>\$ 307,714</u>
Liabilities directly associated with property and equipment committed for sale	<u>\$ -</u>	<u>\$ (6,330)</u>



## 11. Long-term notes receivable

The balance of the long-term portion of accounts receivable from sales of Vacation Club memberships is as follows

	2018	2017	2016
Long-term notes receivable:			
Vacation Club memberships	\$ 3,003,919	\$ 2,508,342	\$ 1,945,498
Kivac	<u>425,882</u>	<u>348,694</u>	<u>366,920</u>
	3,429,801	2,857,036	2,312,418
Less:			
Vacation Club returns' reserve	(134,572)	(129,617)	(109,778)
Allowance for Kivac's doubtful accounts	<u>(76,065)</u>	<u>(78,031)</u>	<u>(81,143)</u>
Total	<u>\$ 3,219,164</u>	<u>\$ 2,649,388</u>	<u>\$ 2,121,497</u>

The maturities of the long-term Vacation Club memberships at December 31, 2018 are as follows:

To collect during	Amount
2020	\$ 1,045,133
2021	889,886
2022	601,763
2023 onwards	<u>467,137</u>
Total long-term notes receivable	<u>\$ 3,003,919</u>

The Entity performs an analysis of the sales of Vacation Club memberships to identify revenues whose transactional status is associated with an element of uncertainty about uncollected memberships. In accordance with IFRS 9, an allowance for returns is recorded based on the Entity's experience, calculated according to the expected impact of the future flows associated with the transaction.

## 12. Property and equipment

	2018	2017	2016
Buildings	\$ 5,182,053	\$ 5,010,933	\$ 6,431,458
Furniture and equipment	1,336,721	1,439,118	1,479,002
Computers	290,196	385,027	422,053
Vehicles	<u>26,891</u>	<u>31,937</u>	<u>37,093</u>
	6,835,861	6,867,015	8,369,606
Less - Accumulated depreciation	<u>(3,320,459)</u>	<u>(3,699,960)</u>	<u>(4,469,963)</u>
	3,515,401	3,167,055	3,899,643
Land	1,250,778	1,251,599	2,184,719
Construction in progress	<u>170,065</u>	<u>182,524</u>	<u>398,767</u>
	<u>\$ 4,936,245</u>	<u>\$ 4,601,178</u>	<u>\$ 6,483,129</u>

	Land	Buildings	Furniture and equipment	Computers	Vehicles	Construction in progress	Total
<b>Cost:</b>							
Beginning balance as of January 1, 2016	\$ 2,218,114	\$ 6,603,406	\$ 1,227,058	\$ 417,977	\$ 30,132	\$ 544,876	\$ 11,041,563
Additions and improvements	821	44,080	129,640	6,252	4,806	325,008	510,607
Transfers of prepayments and other assets	824	20,814	28,945	274	784	(32,749)	18,892
Transfers from construction in progress	-	289,854	144,864	-	3,650	(438,368)	-
Disposals from improvements	-	(376,607)	-	-	-	-	(376,607)
Disposals	<u>(35,040)</u>	<u>(150,089)</u>	<u>(51,505)</u>	<u>(2,450)</u>	<u>(2,279)</u>	<u>-</u>	<u>(241,363)</u>
Balance as of December 31, 2016	2,184,719	6,431,458	1,479,002	422,053	37,093	398,767	10,953,092
Additions and improvements	-	69,953	54,296	2,409	2,019	204,982	333,659
Transfers of prepayments and other assets	-	132,286	74,399	1,453	-	520	208,658
Transfers to assets classified as held for sale	(800,570)	(1,400,770)	(173,795)	(746)	(799)	-	(2,376,680)
Transfers from construction in progress	-	305,968	105,497	807	-	(421,745)	(9,473)
Disposals from improvements	-	(1,142)	(51,034)	(1,146)	-	-	(53,322)
Disposals	<u>(132,550)</u>	<u>(526,820)</u>	<u>(49,247)</u>	<u>(39,803)</u>	<u>(6,376)</u>	<u>-</u>	<u>(754,796)</u>
Balance as of December 31, 2017	1,251,599	5,010,933	1,439,118	385,027	31,937	182,524	8,301,138
Additions and improvements	-	82,490	136,932	615	3,384	356,704	580,125
Transfers of prepayments and other assets	-	(1,195)	(39,163)	(14,024)	(2,120)	84,924	28,422
Transfers from construction in progress	-	223,830	183,078	1,472	-	(454,087)	(45,707)
Disposals	<u>(821)</u>	<u>(134,005)</u>	<u>(383,244)</u>	<u>(82,894)</u>	<u>(6,310)</u>	<u>-</u>	<u>(607,274)</u>
Balance as of December 31, 2018	<u>\$ 1,250,778</u>	<u>\$ 5,182,053</u>	<u>\$ 1,336,721</u>	<u>\$ 290,196</u>	<u>\$ 26,891</u>	<u>\$ 170,065</u>	<u>\$ 8,256,704</u>
<b>Accumulated depreciation and impairment</b>							
Beginning balance as of January 1, 2016	\$ -	\$ (3,197,979)	\$ (753,794)	\$ (400,809)	\$ (22,502)	\$ -	\$ (4,375,084)
Depreciation expense	-	(216,631)	(158,143)	(9,268)	(3,649)	-	(387,691)
Disposals of assets	-	77,130	21,230	1,756	741	-	100,857
Remodeling derecognition	-	249,019	-	-	-	-	249,019
Asset impairment	-	(57,064)	-	-	-	-	(57,064)
Balance as of December 31, 2016	-	(3,145,525)	(890,707)	(408,321)	(25,410)	-	(4,469,963)
Depreciation expense	-	(178,955)	(184,735)	(7,717)	(3,765)	-	(375,172)
Disposals of assets	-	374,187	50,895	39,282	5,083	-	469,447
Transfers to assets classified as held for sale	-	615,378	36,097	464	450	-	652,389
Remodeling derecognition	-	186	22,486	667	-	-	23,339
Balance as of December 31, 2017	-	(2,334,729)	(965,964)	(375,625)	(23,642)	-	(3,699,960)
Depreciation expense	-	(161,260)	(168,337)	(7,101)	(3,242)	-	(339,940)
Disposals	-	102,640	511,065	98,185	7,551	-	719,441
Balance as of December 31, 2018	<u>-</u>	<u>(2,393,349)</u>	<u>(623,236)</u>	<u>(284,541)</u>	<u>(19,333)</u>	<u>-</u>	<u>(3,320,459)</u>
<b>Total net investment at December 31, 2018</b>	<u>\$ 1,250,778</u>	<u>\$ 2,788,704</u>	<u>\$ 713,485</u>	<u>\$ 5,655</u>	<u>\$ 7,558</u>	<u>\$ 170,065</u>	<u>\$ 4,936,245</u>

As of December, 31, 2018 certain real estate property has been granted as guarantee of tax credits mentioned in

Note 26 a, whose approximate amount is \$289,902.

### 13. Intangible assets and other assets

	2018	2017	2016
Kívac's sales commissions	\$ 350,161	\$ 367,845	\$ 382,388
Expenditures for technology projects	188,722	160,497	153,882
Guarantee deposits	48,610	45,037	42,995
Development expenses and other	28,216	33,785	61,919
Other assets	<u>105,750</u>	<u>118,206</u>	<u>-</u>
	<u>\$ 721,459</u>	<u>\$ 725,370</u>	<u>\$ 641,184</u>

### 14. Suppliers

The Entity has lines of credit contracted with Banco Santander (México), S.A., BBVA Bancomer, S.A., Banco Monex, S.A. and until 2016 with Banco Actinver, S.A. up to the amount of \$100,000, \$100,000, \$70,000, and \$35,000, respectively. The purpose of these credit lines is to provide financial factoring for the Entity's suppliers over a maximum payment term of 90 days. For each financial factoring transaction, interest is accrued at a fixed rate agreed between the suppliers and the financial institutions.

As of December 31, the amount of suppliers' invoices which agreed to financial factoring is as follows:

	2018	2017	2016
Banco Santander (México), S.A.	\$ 89,651	\$ 18,710	\$ 43,141
BBVA Bancomer, S.A.	22,103	40,900	72,173
Banco Monex, S.A.	38,739	9,730	17,490
Banco Actinver, S.A.	<u>2,450</u>	<u>-</u>	<u>13,841</u>
	<u>\$ 152,943</u>	<u>\$ 69,340</u>	<u>\$ 146,645</u>

### 15. Long-term debt

a. Long-term debt is as follows:

	2018	2017	2016
US dollar-denominated:			
"Senior Notes 2022", 7.875% fixed rate	\$ 7,620,602	\$ 7,569,715	\$ 7,871,765
Mexican pesos:			
Loan, 9.175% annual rate	188,768	210,000	-
Other loans, at variable rates average of 3.32%	<u>-</u>	<u>-</u>	<u>472</u>
	7,809,370	7,779,715	7,872,237
Less - Current portion	<u>(23,531)</u>	<u>(11,232)</u>	<u>(472)</u>
Long-term debt	<u>\$ 7,785,839</u>	<u>\$ 7,768,483</u>	<u>\$ 7,871,765</u>

The maturities of long-term debt at December 31, 2018, are as follows:

Payable during	Thousands of US dollars	Thousands of Mexican pesos
2020	-	\$ 25,766
2021	-	28,214
2022	-	30,895
2023 and therefore	<u>US\$ 400,000</u>	<u>80,362</u>
		165,237
Equivalent in thousands of Mexican pesos		8,038,397
Less - debt issuance costs		<u>(252,558)</u>
		<u>\$ 7,785,839</u>

- b. On June 22, 2017, a subsidiary of the Entity contracted a fiduciary warranty loan (based on the hotel's collection through credit cards) with Banamex for the amount of \$210,000 at an annual 9.175% interest rate, and maturity in 2024.
- c. On May 16, 2016 an additional issuance was made for US\$50 million as part of the "Senior Notes 2022" program, accruing interest at an annual rate of 7.875%, maturing in 2022. With this additional issuance of "Senior Notes 2022", in November 2016 the balance of US\$38.3 million of the debt known as "Senior Notes 2017", with maturity in 2017, was paid in advance. With the additional issuance, the "Senior Notes 2022" program achieved the total amount of US\$400 million.
- d. On June 30, 2015 the Entity completed a debt issuance for US\$350 million in notes known as "Senior Notes 2022" through the Luxembourg Stock Exchange. The intention was to substitute the issuance of US\$310 million known as "Senior Notes 2017" held by the Entity as of December 31, 2014, for which US\$1,060 was offered for each \$1,000 of the previous issuance. As a result of the offering it was possible to tender US\$271.7 million of the "Senior Notes 2017", equivalent to 87.63% of principal. The "Senior Notes 2022" accrue interest at the annual rate of 7.875%, with principal maturing on June 30, 2022. The interest is payable semiannually, beginning on December 30, 2015.
- e. The most significant restrictions and obligations contained in debt agreements as of December 31, 2018, prohibit the Entity from:
- Incurring additional indebtedness
  - Granting guarantees
  - Making payments or restricted investments
  - Selling assets over US\$5 million
  - Declaring dividends
  - Making certain intercompany transactions
  - Merging with other companies

As of December 31, 2018, restrictions and covenants have been complied with.

As discussed in Note 2b, the Entity sold the Fiesta Americana Condesa Cancún hotel. This transaction generates an obligation under "Senior Notes 2022", which consists of investing the net surplus resources from the cash consideration received for the sale, within a term of 365 days after the sale. At the close of 2018 the Entity has invested \$1,265,000 of the aforementioned surplus and presents a remainder of \$739,000 in restricted cash as part of the cash equivalents balance, as mentioned in Note 6.

- f. As of December 31, 2018, restrictions and covenants have been complied with. Below is detail of key financial items of the Entity and the subsidiary guarantors of the “Senior Notes 2022”:

	2018		2017		2016	
	Guarantors	Total consolidated	Guarantors	Total consolidated	Guarantors	Total consolidated
Total revenues	\$ 7,461,479	\$ 7,910,374	\$ 7,976,647	\$ 8,471,990	\$ 7,240,156	\$ 7,734,349
Depreciation, amortization and impairment	<u>357,350</u>	<u>402,097</u>	<u>379,944</u>	<u>430,635</u>	<u>536,923</u>	<u>595,350</u>
Lease expense	<u>534,976</u>	<u>534,976</u>	<u>475,590</u>	<u>475,590</u>	<u>445,590</u>	<u>445,125</u>
Consolidated (loss) income	<u>936,551</u>	<u>932,099</u>	<u>(483,778)</u>	<u>(472,594)</u>	<u>(749,612)</u>	<u>(697,179)</u>
Total assets	<u>16,226,043</u>	<u>17,170,281</u>	<u>15,225,169</u>	<u>16,345,057</u>	<u>13,448,531</u>	<u>14,886,997</u>
Total liabilities	<u>\$ 13,629,730</u>	<u>\$ 13,982,482</u>	<u>\$ 13,405,981</u>	<u>\$ 13,922,105</u>	<u>\$ 11,251,967</u>	<u>\$ 11,958,720</u>

## 16. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2018, 2017 and 2016 was 30% and will continue at 30% thereafter. Due to the abrogation of the ISR Law effective until December 31, 2013, the tax consolidation regime was eliminated, therefore, the Entity and its subsidiaries are required to pay the deferred tax determined at that date during the following five fiscal years starting from 2014, as shown below.

While the ISR Law repealed the tax consolidation regime, an option was established, which allows groups of entities to determine a joint calculation of ISR (tax integration regime). The new regime allows groups of consolidated entities that share common direct or indirect ownership of more than 80%, certain benefits in the tax payment (when both profit and loss entities are included within the Entity in the same period), which can be deferred over three years and paid, plus interest and inflation, at the filing date of the tax return corresponding to the tax year following the completion of the aforementioned three-year period.

The Entity and its subsidiaries elected to join the new scheme, for which reason income taxes were calculated based on the aforementioned regime in 2018, 2017 and 2016.

Pursuant to Transitory Article 9, section XV, subsection d) of the 2014 Tax Law, given that as of December 31, 2013, the Entity was considered to be a tax holding company and was subject to the payment scheme contained in Article 4, Section VI of the transitory provisions of the ISR Law published in the Federal Official Gazette on December 7, 2009, or Article 70-A of the 2014 ISR Law which was repealed, it must continue to pay the tax that it deferred under the tax consolidation scheme in 2007 and previous years based on the aforementioned provisions, until such payment is concluded.

Taxation in the United States of America - The subsidiary that operated in that country was subject to income taxes at a rate of 35% until December 31, 2017, and beginning 2018 the corporate rate was reduced to 21%.

Taxable income in Mexico - The main differences affecting the taxable income of the Entity were the recognition of the effects of inflation, equity in earnings of associates, amortization of deferred credits and benefit of prior year tax losses.

- a. Income tax expense (benefit) recognized in profit or loss:

	2018	2017	2016
Current tax -			
Current ISR	\$ 14,244	\$ 49,726	\$ 212,713
ISR previous years	<u>97,874</u>	<u>2,169,834</u>	<u>97,902</u>
	112,118	2,219,560	310,615
Deferred ISR benefit	<u>479,867</u>	<u>(956,953)</u>	<u>(484,964)</u>
Total income tax (benefit)	<u>\$ 591,985</u>	<u>\$ 1,262,607</u>	<u>\$ (174,349)</u>

- b. Income taxes and the reconciliation of the statutory and effective ISR rates, expressed as a percentage of income (loss) before income tax, is:

	2018	2017	2016
Statutory rate	30%	30%	30%
Less:			
Effects of permanent differences and tax effects of inflation	8%	(18)%	(2)%
Effect of tax loss carryforward benefit	-	(137)%	1%
Reserve of individual tax loss carryforward benefit	-	10%	(9)%
ISR, previous years	-	275%	-
	<u>38%</u>	<u>160%</u>	<u>20%</u>

- c. The main items originating the balance of the deferred ISR asset (liability) at December 31, are:

	2018	2017	2016
Notes receivable	\$ (1,092,966)	\$ (947,686)	\$ (825,990)
Allowance for doubtful accounts	127,614	128,996	120,533
Real estate inventory	5,491	(28,589)	(45,735)
Property and equipment	50,489	(158,635)	(220,183)
Intangible assets and other assets	(118,115)	(49,367)	(19,346)
Reserves and deferred income	794,070	768,714	640,859
Tax loss carryforwards	1,556,900	2,077,692	2,611,588
Tax loss carryforwards reserve	(43,787)	(49,685)	(1,101,718)
Tax benefits (Conacyt)	-	8,172	21,932
Unrealized exchange rate fluctuation	(134,141)	(134,141)	(134,141)
SIBRA's tax effect	-	-	(389,281)
Deferred ISR asset	<u>\$ 1,145,555</u>	<u>\$ 1,615,471</u>	<u>\$ 658,518</u>

- d. The benefit of restated tax loss carryforwards for which the deferred ISR asset has been partially recognized, can be recovered subject to certain conditions. At December 31, 2018, 2017 and 2016, the tax loss carryforwards amounted to \$5,189,666, \$6,925,639 and \$8,705,291, respectively.

- e. Tax loss carryforwards

Expiration dates and restated amounts of tax loss carryforwards as of December 31, 2018 are:

Year	Amount
2019	\$ 4,887
2020	7,797
2021	1,410,057
2022	1,873
2023	606,983
2024	1,086,513
2025	1,961,213
2026	46,820
2027	40,510
2028	23,013
	<u>\$ 5,189,666</u>

f. Tax credits

As a result of several agreements reached with SAT in April 2017, the Entity recognized an ISR liability that is being paid according to the following maturities:

Year	Amount
2019	\$ 335,716
2020	335,716
2021	335,716
2022	335,716
2023	<u>335,716</u>
	1,678,580
Less - current portion of income tax payable	<u>(335,717)</u>
	<u>\$ 1,342,863</u>

**17. Long-term accrued liabilities**

	2018	2017	2016
Employee benefits	\$ 146,613	\$ 148,094	\$ 137,453
Other accrued liabilities	<u>212,445</u>	<u>212,445</u>	<u>212,445</u>
	<u>\$ 359,058</u>	<u>\$ 360,539</u>	<u>\$ 349,898</u>

**18. Employee benefits**

The net period cost for obligations under the pension plan and related seniority premiums amounted to \$29,776, \$32,915 and \$6,802 as of December 31, 2018, 2017 and 2016, respectively. Other disclosures required by accounting rules are not considered material.

**19. Financial instruments**

The Entity is exposed to market risks (including interest rate risks and exchange rate risk), credit risk and liquidity risk, which are all managed centrally.

a. *Capital risk management*

The Entity manages its capital to ensure that it will continue as a going concern, while maximizing the return to stockholders through the optimization of debt and equity structure. During 2018 overall strategy of the Entity has not been changed compared to 2017 and 2016.

The Entity's Management reviews its capital structure when it presents its financial projections as part of the business plan to the Entity's Board of Directors and stockholders. As part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital. The Entity analyzes the capital structure for each project independently, in order to minimize the risk for the Entity and optimize stockholder returns.

The Entity's Management, on a monthly basis, reviews the net debt and accrued interest and its relation to the EBITDA. This review is carried out when the Entity's financial projections are presented as part of the business plan to the Board of Directors and stockholders of the Entity.

The Entity is incorporated as a S.A.B. de C.V. in accordance with the Mexican Securities Law and the General Corporate Law.

#### Debt index

The debt index at the end of the reporting period was as follows:

	2018	2017	2016
Debt (i)	\$ 7,809,370	\$ 7,779,715	\$ 7,872,237
Cash, banks and investments in securities	<u>2,733,898</u>	<u>1,383,584</u>	<u>1,770,097</u>
Net debt	<u>5,075,472</u>	<u>6,396,131</u>	<u>6,102,140</u>
Stockholders' equity (ii)	<u>\$ 3,187,799</u>	<u>\$ 2,422,952</u>	<u>\$ 2,928,277</u>
Net debt to equity index	<u>1.59</u>	<u>2.64</u>	<u>2.08</u>

(i) Debt is defined as short and long-term borrowings in national and foreign currency, as described in Note 15.

(ii) Stockholders' equity includes all capital stock and reserves that are managed as capital.

#### b. *Categories of financial instruments*

	2018	2017	2016
<b><i>Financial assets</i></b>			
Cash	\$ 89,808	\$ 74,594	\$ 65,171
Cash equivalents	2,644,090	1,308,990	1,704,926
Account and notes receivable	5,912,827	5,294,755	4,783,124
Financial assets held for sale	-	4,312	6,814
<b><i>Financial liabilities</i></b>			
Amortized cost	8,945,739	8,882,349	9,049,365

#### c. *Market risk*

The activities performed by the Entity expose it mainly to financial risks due to variations in the exchange rates. Periodically, depending on prevailing market conditions, the Entity subscribes financial derivatives to handle its exposure to exchange risk, including foreign currency forward contracts to cover the exchange risk derived from liabilities in foreign currency with short-term maturities.

There were no changes in the Entity's exposure to market risks or in the way that these risks are managed and valued.



d. **Foreign currency risk management**

The Entity believes that the risk is material because as of December 31, 2018, 97% of its debt is denominated in US dollars. Considering the net monetary position in US dollars as of December 31, 2018, a 10% appreciation (or appreciation) of the Mexican peso against the US dollar would cause an exchange loss or (gain) in results and in the stockholders' equity of the Entity of approximately \$497,442.

The current exchange rates in Mexican pesos are as follows:

	2018	December 31, 2017	2016	March 4 2019
Mexican pesos per US dollar	\$ <u>19.6829</u>	\$ <u>19.7354</u>	\$ <u>20.6640</u>	\$ <u>19.2607</u>

e. **Interest rate risk management**

The Entity is exposed to low market risks related to fluctuations in interest rates, because its debt at December 31, 2018 accrue interest at a fixed rates. Therefore, an increase in interest rates does not result in a significant risk to the Entity. As of December 31, 2018, the "Senior Notes 2022" issued in US dollars represent practically 100% of the debt of the Entity, and accrue interest at a fixed rate.

f. **Credit risk management**

Credit risk refers to the risk that the counterparties will default on their contractual obligations, resulting in a loss for the Entity. The Entity's principal credit risk stems from cash and cash equivalents, investments in securities and accounts and notes receivable.

The Entity has a policy of maintaining cash and cash equivalents only with recognized, prestigious institutions with a high credit rating. Additionally, investments are limited to instruments with high credit quality. In the case of accounts and notes receivable, the credit risk mainly stems from the Vacation Club portfolio; otherwise, the respective guarantees are obtained in accordance with established credit policies.

The maximum exposure to credit risk is represented by the amounts shown in the consolidated statement of financial position.

g. **Liquidity risk management**

The Entity does not have liquidity risk with respect to its current debt. In 2016 the Entity liquidated debt maturing in the short term with the resources obtained through the program known as "Senior Notes 2022".

The principal sources of liquidity of the Entity have been cash flows from operating activities generated primarily from operating income from its owned and leased hotels, management revenues, the sale and financing of Vacation Club memberships and proceeds from asset sales

The Entity's Management is responsible for liquidity, and has established appropriate policies to mitigate this risk through the monitoring of working capital, which allows Management to manage funding requirements in the short, medium and long-terms, maintaining sufficient cash reserves, available credit lines, continuously monitoring cash flows, both projected and actual and reconciling the maturity profiles of financial assets and liabilities.

The following tables detail the Entity's contractual maturities for its financial liabilities, considering the payment periods agreed. The table was designed based on the undiscounted nominal cash flows of the financial liabilities according to the date that the Entity must make the payments. The contractual maturity is based on the minimum date on which the Entity must make the payments.

As of December 31, 2018	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	7.875%	\$ 14,571	\$ 666,513	\$ 692,640	\$ 1,383,993	\$ 8,327,342	\$ 11,085,059
Suppliers		427,790	-	-	-	-	427,790
Other liabilities and accrued expenses		<u>718,815</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>718,815</u>
Total		<u>\$ 1,161,176</u>	<u>\$ 666,513</u>	<u>\$ 692,640</u>	<u>\$ 1,383,993</u>	<u>\$ 8,327,342</u>	<u>\$ 12,231,663</u>

  

As of December 31, 2017	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	7.875%	\$ 4,817	\$ 331,772	\$ 347,656	\$ 1,389,429	\$ 9,056,176	\$ 11,129,850
Suppliers		436,100	-	-	-	-	436,100
Other liabilities and accrued expenses		<u>794,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>794,630</u>
Total		<u>\$ 1,235,547</u>	<u>\$ 331,772</u>	<u>\$ 347,656</u>	<u>\$ 1,389,429</u>	<u>\$ 9,056,176</u>	<u>\$ 12,360,580</u>

  

As of December 31, 2016	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	7.875 %	\$ -	\$ 325,458	\$ 325,930	\$ 1,301,832	\$ 10,543,806	\$ 12,497,026
Suppliers	-	497,753	-	-	-	-	497,753
Other liabilities and accrued expenses	-	<u>674,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>674,897</u>
Total		<u>\$ 1,172,650</u>	<u>\$ 325,458</u>	<u>\$ 325,930</u>	<u>\$ 1,301,832</u>	<u>\$ 10,543,806</u>	<u>\$ 13,669,676</u>

The amounts included as Debt are fixed interest rate debt.

The Entity expects to fulfill its obligations with the cash flows from operations and any resources received from the maturity of financial assets. As of December 31, 2016 the Entity had access to a committed line of credit of \$200,000, which was not renewed as of December 31, 2017.

h. ***Fair value of financial instruments:***

***Valuation techniques and assumptions applied to determine fair value*** - The fair value of the financial assets and liabilities is determined as follows:

- The fair value of the financial assets and liabilities with standard terms and conditions, and negotiated in active liquid markets, are determined based on the prices quoted in the market.
- The fair value of the other assets and liabilities is determined in accordance with generally accepted price determination models, which are based on the analysis of discounted cash flows.

**Fair value of the financial assets and liabilities** - The Entity's Management consider that the carrying amounts of the current financial assets (including investments in securities) and financial liabilities recognized at amortized cost in the consolidated statement of financial position, approximate their fair values since they are short-term.

As of December 31, 2018 and 2017, the fair value of the Vacation Club long-term receivables is \$3,400,067 and \$2,966,140, which is greater than its carrying amount. As of December 31, 2016 the fair value of those receivables is greater than their carrying amount since they generate interest at higher than market rates.

The fair value of long-term debt is as follows:

	2018	2017	2016
Thousands of US dollars:			
Senior Notes 2022	US\$ 330,960	US\$ 344,743	US\$ 354,581
Thousands of Mexican pesos			
Banamex	\$ 151,728	\$ 167,885	\$ -

At December 31, 2018, a portion of the Entity's revenues, generally around 27%, has been directly or indirectly denominated in US dollars. This is due to the fact that room rates at beach hotels (primarily Cancun and Los Cabos) maintain rates in US dollars. Furthermore, a portion of the sales and financing of Vacation Club memberships have been historically denominated in US dollars.

Given that part of the Entity's revenues is directly or indirectly denominated in US dollars and to minimize its exposure to interest rates denominated in Mexican pesos, the Entity's policy has been to maintain a significant portion of its debt in US dollars. This has been achieved through contracting debt in US dollars when allowed by market conditions.

## 20. Stockholders' equity

- a. As of December 31, stockholders' equity is comprised of the following shares without par value:

	Number of shares 2018, 2017 and 2016
Authorized capital	512,737,588
Less - Repurchase of shares	<u>(16,855,600)</u>
	<u>495,881,988</u>

- b. As of December 31, 2018, 2017 and 2016, the share capital is composed solely of Series "A" free subscription shares.
- c. A Stockholders' Special Meeting held on April 12, 2018, approved the merger by absorption of the subsidiary Servicios Gerenciales Posadas, S.A. de C.V.
- d. A Stockholders' Ordinary General Meeting also held on April 12, 2018 declared a dividend of \$0.40 Mexican cents per share, for a total of \$198,353, from the 2013 Net Tax Income account, and was paid on April 24, 2018.

- e. The Stockholders' Ordinary General Meeting held on April 12, 2018 also adopted a resolution to keep the maximum amount of resources for the share repurchase reserve at \$535,000.
- f. The Stockholders' Ordinary General Meeting of a subsidiary held on August 14, 2017 approved a payment of dividends for \$19,188, paid in the same year to the non-controlling interest.
- g. At the Extraordinary General Stockholders' Meeting held on March 22, 2017, the stockholders approved \$535,000 as the maximum amount of resources that may be allocated to the purchase of own shares, with the limitations established by the Securities' Market Law.
- h. As of December 31, 2018, 2017 and 2016, the legal reserve fund, presented within retained earnings, amounts to \$99,187 (nominal value) and represents 20% of the nominal capital. This reserve fund may not be distributed to stockholders except in the form of dividends.
- i. Stockholders' equity, except for restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

Dividends paid from profits generated from January 1, 2014 to residents in Mexico and residents abroad, could be excisable of an additional profit income (ISR) of to 10%, which must be retained by the Entity.

The following are the accumulated earnings that could be subject to withholding up to 10% ISR on distributed dividends:

Year	Amount that could be subject to withholding	Amount not subject to withholding
Retained earnings through December 31, 2013	\$ -	\$ 3,726,899
Profit for the year up to 2018	\$ 999,842	\$ -

## 21. Balances and transactions in foreign currency

Significant monetary position in foreign currencies as of December 31, is:

	2018	2017	2016
Thousands of US dollars:			
Current:			
Monetary assets	99,738	53,692	46,071
Monetary liabilities	<u>(3,646)</u>	<u>(7,859)</u>	<u>(6,051)</u>
	<u>96,092</u>	<u>45,833</u>	<u>40,020</u>
Long-term:			
Monetary assets	51,180	44,851	42,422
Monetary liabilities	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,023)</u>
	<u>(348,820)</u>	<u>(355,149)</u>	<u>(357,601)</u>
Net liability position	<u>(252,728)</u>	<u>(309,316)</u>	<u>(317,581)</u>
Equivalent in thousands of Mexican pesos	<u>\$ (4,974,423)</u>	<u>\$ (6,104,475)</u>	<u>\$ (6,562,494)</u>

Foreign currency transactions entered by entities located in Mexico are mainly income from hotel operations, certain sales of Vacation Club memberships and interest expense.

**22. Revenue, cost of sales and operating expenses**

a. **Revenue:**

	2018	2017	2016
Hotel operation	\$ 3,403,837	\$ 4,347,086	\$ 4,063,087
Vacation Club	3,148,692	2,982,385	2,605,078
Management fee, brand and other expenses	<u>1,357,845</u>	<u>1,142,519</u>	<u>1,066,184</u>
	<u>\$ 7,910,374</u>	<u>\$ 8,471,990</u>	<u>\$ 7,734,349</u>

b. **Cost of sales:**

	2018	2017	2016
Hotel operation	\$ 1,585,444	\$ 1,959,700	\$ 1,807,240
Vacation Club	2,219,158	2,101,521	1,748,656
Management fee, brand and other expenses	<u>1,173,073</u>	<u>953,286</u>	<u>846,424</u>
	<u>\$ 4,977,675</u>	<u>\$ 5,014,507</u>	<u>\$ 4,402,320</u>

c. **Administrative expenses:**

	2018	2017	2016
Salaries, employee benefits and other	\$ 444,409	\$ 453,755	\$ 441,519
PTU	194,000	86,052	-
Electricity	181,443	198,418	180,259
Maintenance	94,527	112,459	110,375
Professional fees	39,976	66,743	73,478
Credit card commissions	50,855	47,207	48,336
Property taxes and duties	29,379	41,511	38,396
Office rentals	30,233	27,273	26,570
Services and supplies	20,689	17,919	15,787
Insurance and bonds	13,736	12,868	16,438
Equipment leasing	14,792	8,759	9,483
Doubtful accounts	8,378	12,466	6,800
Others	<u>29,452</u>	<u>19,638</u>	<u>14,863</u>
	<u>\$ 1,151,869</u>	<u>\$ 1,105,068</u>	<u>\$ 982,304</u>

d. **Sale and development expenses:**

	2018	2017	2016
Marketing and publicity	\$ 142,335	\$ 185,373	\$ 162,862
Salaries, employee benefits and other	63,899	74,318	75,363
Travel expenses	1,953	7,363	7,157
Subscription fees	83	146	2,234
Others	<u>3,722</u>	<u>5,108</u>	<u>4,627</u>
	<u>\$ 211,992</u>	<u>\$ 272,308</u>	<u>\$ 252,243</u>

- e. **Other (revenues) expenses, net** - As discussed in Note 1, the Entity has focused its activity on holding strategic assets. As part of this strategy, the Entity has sold and is currently selling hotel properties and other non-strategic assets. The caption Other (revenues) expenses, net, includes \$1,345,750, \$103,017 and \$108,374, in 2018, 2017 and 2016, respectively, for such item.

### 23. Related party transactions

Employee benefits granted to key Management personnel (and/or directors) of the Entity, were as follows:

	2018	2017	2016
Direct, short and long-term benefits	\$ <u>113,297</u>	\$ <u>108,965</u>	\$ <u>132,759</u>
Termination benefits	\$ <u>-</u>	\$ <u>-</u>	\$ <u>40,002</u>

### 24. Information by business segments

Information condensed by operating segments is presented according to Management's criteria. Given that Management evaluates the performance of each segment based on the EBITDA, the Entity does not segregate the amount of depreciation and amortization between different segments. Also, as the Entity centrally manages the segments' cash flows to cover investment and financing needs, therefore it does not separately report cash flows by segment. The main long-term assets and related investment cash flows made by the Hotel operation and Vacation Club are those presented in the consolidated statements of financial position and consolidated statements of cash flows.

- a. **Hotel operation** - Revenues generated by this segment are represented by the rental of hotel rooms, the sale of food, beverages and related services (laundry, telephones, spa, etc.) to guests. The expenses incurred by the segment are related to the payroll of the personnel that attend guests in hotels, the cost of food and beverages and hotel operating expenses, including sales and administrative personnel, office expenses, electricity, insurance and property taxes. In the case of leased hotels, an additional rent expense is generated.
- b. **Vacation Club** - Revenues generated by this segment include the sale of memberships, interest income generated by financed sales, annual membership fees and income from the effective use of the "Kivac" program. Costs and expenses include the value of real property sold under this regime, marketing expenses incurred for prospective clients, collection expenses, payroll of personnel located at the sites where Vacation Club operates, including electricity and insurance, the payroll and office expenses of sales and administrative personnel, together with the cost of hotel exchanges.
- c. **Hotel management, brand and other** - Revenues generated by this segment include fees billed to hotels under the terms of hotel operating contracts; brand use and franchises, as well as billing of different centralized services. The costs and expenses incurred by this segment primarily involve payroll of the personnel that supervise hotel operations, the cost of the reservation service, centralized accounting, purchasing and technology service expenses and the recovery of Global Distribution System costs.

2018							
	Hotel operation	Vacation Club	Hotel management, brand and other	Total	Other corporate expenses	Eliminations	Total consolidated
<b>Statement of comprehensive income (loss):</b>							
Total revenues	\$ 3,431,078	\$ 3,148,692	\$ 1,568,240	\$ 8,148,010	\$ -	\$ (237,636)	\$ 7,910,374
Cost and general expenses	2,634,209	2,271,927	1,627,205	6,533,341	-	(237,636)	6,295,705
Corporate expenses	-	-	-	-	379,439	-	379,439
Depreciation, and amortization	-	-	-	-	402,097	-	402,097
Other expenses	-	-	-	-	1,190,106	-	1,190,106
Operating income (loss)	<u>\$ 796,869</u>	<u>\$ 876,765</u>	<u>\$ (58,965)</u>	<u>\$ 1,614,669</u>	<u>\$ (1,971,642)</u>	<u>\$ -</u>	2,023,239
						Financial expenses, net	(482,953)
						Equity in associate	<u>15,000</u>
						Income before income taxes	<u>\$ 1,555,286</u>
2017							
	Hotel operation	Vacation Club	Hotel management, brand and other	Sale of non-strategic properties	Total	Other corporate expenses	Eliminations
<b>Statement of comprehensive income (loss):</b>							
Total revenues	\$ 4,374,035	\$ 2,982,385	\$ 1,441,910	\$ 8,798,330	\$ -	\$ (326,340)	\$ 8,471,990
Cost and general expenses	3,129,415	2,201,065	1,398,096	6,728,576	-	(313,604)	6,414,972
Corporate expenses	-	-	-	-	452,682	(12,648)	440,034
Depreciation, and amortization	-	-	-	-	430,635	-	430,635
Other expenses	-	-	-	-	35,201	88	35,289
Operating income (loss)	<u>\$ 1,244,620</u>	<u>\$ 781,320</u>	<u>\$ 43,814</u>	<u>\$ 2,069,754</u>	<u>\$ (848,116)</u>	<u>\$ -</u>	1,221,638
						Financial expenses, net	<u>(431,625)</u>
						Income before income taxes	<u>\$ 790,013</u>
2016							
	Hotel operation	Vacation Club	Hotel management, brand and other	Sale of non-strategic properties	Total	Other corporate expenses	Eliminations
<b>Statement of comprehensive income (loss):</b>							
Total revenues	\$ 4,092,983	\$ 2,605,078	\$ 1,616,772	\$ 8,314,833	\$ -	\$ (580,484)	\$ 7,734,349
Cost and general expenses	3,169,313	1,841,633	1,306,787	6,317,733	-	(561,611)	5,756,122
Corporate expenses	-	-	-	-	338,166	(18,744)	319,422
Depreciation, and amortization	-	-	-	-	528,196	-	528,196
Asset impairment	-	-	-	-	57,064	-	57,064
Derecognition by remodeling of assets	-	-	-	-	19,215	(129)	19,086
Operating income (loss)	<u>\$ 923,670</u>	<u>\$ 763,445</u>	<u>\$ 309,985</u>	<u>\$ 1,997,100</u>	<u>\$ (942,641)</u>	<u>\$ -</u>	1,054,459
						Financial expenses, net	<u>(1,924,708)</u>
						Loss before income taxes	<u>\$ (870,249)</u>

## 25. Commitments

- a. As of December 31, 2018, 2017 and 2016, the Entity has entered into long-term contracts to lease hotel and corporate properties, which generally have terms of 10 years. Lease payments are calculated based on percentages applied to income generated from hotel operations, varying between 12% and 25%. During the years ended December 31, 2018, 2017 and 2016, lease expense was \$534,976, \$475,590 and \$445,125, respectively. The minimum lease estimated for the following years is shown below:

Years	Amount
2019	\$ 586,382
2020	638,923
2021	649,203
2022	673,643

- b. As of December 31, 2018, 2017 and 2016, the Entity has entered into lease contracts for computer equipment and other, which usually have a term of three years. Lease payments are based on the value of the leased equipment and vary in function with the requirements of the Entity's operational departments. For the years ended December 31, 2018, 2017 and 2016, lease expense amounted to \$104,331, \$105,974 and \$80,594, respectively. The estimated rental payments for the following years is shown below:

Years	Amount
2019	\$ 87,775
2020	63,415
2021	18,298

- c. As explained in Note 4 n, as of January 1, 2019, the Entity adopted the new IFRS 16, Leases.

## 26. Contingencies

- a. The Entity faces a tax lawsuit for the year 2006, for an unpaid liability assessed by the SAT's International Tax Inspection Office in the amount of \$767,248, for which at the date of issuance of the consolidated financial statements, it is not possible to determine a result for the Entity. The tax authorities have alleged non-payment of ISR, for which reason the Entity filed a motion for reconsideration with the SAT, which has yet to be resolved. The Entity has provided a guarantee for the restated tax liability in the amount of \$883,800 that consists of a bond of \$593,898 and a mortgage guarantee of \$289,902. According to the Entity's Management and its external advisors in this matter, there are sufficient legal arguments to obtain a favorable result from such lawsuit.

As of December 31, 2018, 2017 and 2016, the Entity has established a reserve to cover contingencies, which is recorded under the long-term liability heading "Accrued liabilities" in the consolidated statements of financial position.

- b. During 2003 a former subsidiary of the Entity, named Posadas de Argentina, S.A. signed a contract to operate a hotel in the city of Mendoza, Argentina. The counterparty undertook to build a hotel within two years from the contract signing date. However, the counterparty rescinded the contract, for this reason Posadas de Argentina, S.A. filed a provisional claim to safeguard its rights.



At the time of the sale of the South American operation to Accor, S.A. in October 2012, the Entity was uncertain about the success of the current lawsuit, and undertook with Accor, S.A. to assume any costs arising therefrom. Once the lawsuit was over, the Argentinean courts acquitted the defendant and ordered Accor, S.A. to pay costs, which the Entity was obligated to cover. The best estimate of the amount of legal costs is \$44,565 (US\$2.265 million) which the Entity recorded in the consolidated statement of comprehensive income (loss) as a discontinued operation at the close of 2018, net of the deferred ISR effect. The Entity has already paid US\$563,000 and the rest will be disbursed during 2019, and is presented as a liability under Other accounts payable in the consolidated statement of financial position.

- c. The Entity is engaged in a series of legal actions derived from the regular course of its operations. Given their current status and the difficulty of determining a probable contingent amount, no reserves have been established in this regard.

## **27. Subsequent events**

On February 20, 2019 the Entity made a bid to purchase up to \$515,000 of its Senior Notes 2022, at the exchange rate for that day (\$19.25 per one US dollar), amount equivalent to US\$26,750. The bid expires on March 20, 2019, and will be settled two days later, to purchase the Bonds at par value, plus accrued interest not paid at the settlement date, using the surplus of the net cash consideration from the sale on February 20, 2018, of the Fiesta Americana Condesa Cancún hotel.

Under the terms of the Senior Notes 2022, the Entity must make a bid to purchase the Bonds after 365 days of having received the sale price, which was February 21, 2018, for any amount the Entity did not invest or use for the payment of guaranteed liabilities or preferential debt during such period.

## **28. Authorization to issue the financial statements**

The consolidated financial statements as of December 31, 2017 and 2016 were approved in General Stockholders Meetings held on April 12, 2018 and March 23, 2017, respectively. The accompanying consolidated financial statements as of December 31, 2018 were authorized to be issued on February 20, 2019, by Ing. Arturo Martínez del Campo Saucedo, Corporate Chief Financial Officer and the Audit Committee; consequently, they do not reflect events after this date, and are subject to the approval of the Ordinary Stockholders Meeting of the Entity, who may modify them in accordance with the provisions of the Securities Market Law.

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