

# POSADAS

**GRUPO POSADAS, S.A.B. de C.V.**  
**Prolongacion Paseo de la Reforma 1015, Torre A, Piso 9**  
**Col. Santa Fe Cuajimalpa, Delegacion Cuajimalpa**  
**Mexico City, 05348**

Series "A" shares representing the corporate capital of Grupo Posadas, S.A.B. de C.V. quoted on the Mexican Securities Exchange Market, S.A.B. de C.V.

Ticker Code: Posadas A

The shares are registered in the National Securities Registry and quoted on the Mexican Securities Exchange Market, S.A.B. de C.V.

Registration in the National Securities Registry does not imply certification of the merit of the securities, or of the issuer's solvency, of the accuracy or truthfulness of the information contained in this Annual Report, nor does it validate those acts which, if applicable, were in violation of the law

**ANNUAL REPORT PRESENTED IN KEEPING WITH THE GENERALLY  
APPLICABLE PROVISIONS TO SECURITIES ISSUERS AND OTHER MARKET  
PARTICIPANTS FOR THE CORPORATE YEAR ENDING  
DECEMBER 31, 2018**



**INFORMATION RELATED TO DEBT SECURITIES IN EFFECT ISSUED BY  
GRUPO POSADAS S.A.B. DE C.V.**

<b>Debt Instruments</b>	<b>Senior Notes</b>
<b>Ticker symbol</b>	<b>"POSADA"</b>
<b>Amount</b>	<b>US\$392,605,000</b>
<b>Issue Date</b>	<b>June 30, 2015</b>
<b>Maturity Date</b>	<b>June 30, 2022</b>
<b>Issue term</b>	<b>7 years</b>
<b>Interest and calculation procedure</b>	<b>Annual fixed interest rate at 7.875% calculated on the basis of 360 days <i>per annum</i></b>
<b>Interest payment periods</b>	<b>Every 6 months beginning December 30, 2015</b>
<b>Place and method for paying interest and principal</b>	<b>Accrued principal and ordinary interest payable at maturity, by wire transfer, through Citi Agency &amp; Trust, as "Trustee"</b>
<b>Negotiable Instrument subordination</b>	<b>Priority of Payment (<i>Pari Passu</i>)</b>
<b>Amortization and early amortization</b>	<b>Single payment beginning June 30, 2019 at 103.938% and after June 30, 2021 at 100% until maturity date. Issuer entitled to amortize early, fully or partially, as described in the "Make-Whole" clause.</b>
<b>Guarantee</b>	<b>"Senior Notes" are unsecured and 2 subsidiaries act as surety thereof</b>
<b>Trustee</b>	<b>Citi Agency &amp; Trust, as "Trustee"</b>
<b>Rating by rating institution and its meaning*</b>	<b>S&amp;P Global Ratings, "B+", Fitch Mexico S.A. de C.V., "B", Moody's de Mexico S.A. de C.V., "B2" *See websites: <a href="http://www.standardandpoors.com/es">www.standardandpoors.com/es</a>, <a href="http://www.fitchratings.mx">www.fitchratings.mx</a>, <a href="http://www.moodys.com/pages/default_mx.aspx">www.moodys.com/pages/default_mx.aspx</a></b>
<b>Common representative</b>	<b>Citi Agency &amp; Trust, as "Trustee"</b>
<b>Depository</b>	<b>Citi Agency &amp; Trust</b>
<b>Tax rules</b>	<b>Applicable withholding rate on date of this report, regarding interest paid on Senior Notes is subject (i) for Foreign resident individuals and legal entities, for tax purposes, to a 4.9% withholding rate provided that a series of conditions are met, (ii) if any of these conditions, such as in article 7, second paragraph of the LMV<sup>T.N.</sup> is not met, residents abroad may be subject to a 10% withholding rate. In both cases, advisors should be consulted regarding the tax consequences of investing in Senior Notes, including the enforcement of specific rules relating to their particular situations. It is possible that the tax rules in force may be modified during the Program period and during the Issue term.</b>
<b>Calculation Agent</b>	<b>Citi Agency &amp; Trust</b>

The Issuer shall operate in accordance to its applicable corporate by-laws, legal and contractual provisions upon determining the reserves related to a change of control, corporate restructuring, including acquisitions, mergers, split offs, sale or encumbrance of material assets, taking into consideration the participation of the holders of the previously specified securities.

## INDEX

<b>1) GENERAL INFORMATION</b>	<b>2</b>
a) Glossary of Terms and Definitions	4
b) Executive Summary	5
c) Risk Factors	9
d) Other Securities	29
e) Significant Changes to Securities Rights Registered in the National Securities Registry	31
f) Public Documents	32
<b>2) THE COMPANY</b>	<b>33</b>
a) History and Development of the Company	33
b) Business Description	38
i) Principal Activity	38
ii) Distribution Channels	39
iii) Patents, Licenses, Brands and Other Contracts	40
iv) Principal Clients	43
v) Applicable Legislation and Tax Situation	44
vi) Human Resources	45
vii) Environmental Performance	46
viii) Market Information	48
ix) Corporate Structure	50
x) Description of the Company's Principal Assets	52
xi) Judicial, Administrative or Arbitral Proceedings	57
xii) Representative Shares of Corporate Capital	57
xiii) Dividends	58
<b>3) FINANCIAL INFORMATION</b>	<b>60</b>
a) Selected Financial Information	60
b) Financial Information per Business Line, Geographic Zone and Export Sales	61
c) Material Loan Information	61
d) Management Comments and Analysis of the Operating Results and Financial Situation of the Company.	64
i) Operating Results	64
ii) Financial Situation, Liquidity and Capital Markets	84
iii) Internal Control	87
e) Critical Estimates, Accounting Allowances or Reserves	87
<b>4) MANAGEMENT</b>	<b>89</b>
a) External Auditors	89
b) Related Party Transactions and Conflicts of Interest	89
c) Management and Shareholders	90
d) Corporate By-laws and Other Agreements	97
<b>5) CAPITAL MARKETS</b>	<b>100</b>
a) Securities Structure	100
b) Share Performance on the Securities Market	100
c) Market Maker	100
<b>6) PERSONS RESPONSIBLE FOR THE INFORMATION CONTAINED IN THE ANNUAL REPORT</b>	<b>101</b>
<b>7) ATTACHMENTS</b>	<b>102</b>

Opinion of the independent auditors 2018, 2017 and 2016.

## a) Glossary of Terms and Definitions

<b>TERM</b>	<b>DEFINITION</b>
"BMV" or "Securities Exchange"	Shall mean Mexican Securities Exchange Market, S.A.B. de C.V.
"CNBV"	Shall mean National Banking and Securities Commission.
"Company", "Group" or "Posadas"	Shall mean Grupo Posadas, S.A.B. de C.V. and its subsidiaries.
"Issuer"	Grupo Posadas, S.A.B. de C.V.
"Audited Financial Statements"	The financial statements audited by Galaz, Yamazaki, Ruiz Urquiza, S.C. for the corporate years ending December 31, 2018, 2017 and 2016 included in the present Annual Report.
"Fibras"	Mexican trusts principally established to develop, acquire, lease, own and operate hotels.
"Report"	The present Annual Report.
"RNV"	National Securities Registry under the National Banking and Securities Commission.
"\$" or "Pesos" or "M.N."	Currency of legal tender in the United Mexican States.
"US" or "Dollars"	Currency of legal tender in the United States of America.
"M"	Millions.
"NIIF" or "IFRS", due to its initials in English	International Financial Reporting Standards
"Vacation Products"	Segment of the Company made up by Vacation Properties (Time share) and vacation plans.

## b) Executive Summary

This summary is not intended to contain all information which may be material for making investment decisions regarding the securities that are herein mentioned. Therefore, the investing public should read all of the Annual Report, including the audited consolidated financial statements, as well as the corresponding notes complementing and clarifying the information contained in the consolidated financial statements before making an investment decision

Grupo Posadas, S.A.B. de C.V. is the biggest hotel operator in Mexico based on the number of hotels and rooms, (Source: 2018 Posadas Chain Study with Information from Smith Travel Research Census Database to December, 2018).

As of December 31, 2018, there were 175<sup>1</sup> hotels and resorts operating under Posadas' brands, representing a total of 27,491 rooms in 62 Mexican Cities; 84% distributed in urban destinations and the remaining 16% in beach destinations. Consequently, it serves a broad base of tourist and business travelers.

For most of 2018, out of the 175 hotels, the Company was the majority owner of 12 hotels, operated 138, 10 in franchise modality and leased 15.

The Company has expanded through strong brand positioning and development, which ensure service consistency and client recognition. The Company operates its hotels in Mexico principally through the brands Live Aqua (Live Aqua Urban Resort, Live Aqua Beach Resorts, Live Aqua Boutique Resort, Live Aqua Residence Club), Grand Fiesta Americana (GFA), Fiesta Americana (FA), The Exploreal, Fiesta Americana Vacation Villas, Fiesta Inn (Fiesta Inn Express, Fiesta Inn LOFT), Gamma and One Hotels.

**Live Aqua**, is the Urban, Beach and Boutique Resorts brand that offers a wide variety of services and luxury rooms with avant-garde details and designs focused on creating unique experiences, seeking to attract high economic level tourism to beach destinations and executive business travelers to city destinations focused on adults.

**Live Aqua Residence Club (LARC)**, is a vacation membership with a variety of high-level vacation residential real properties.

**Grand Fiesta Americana** is the luxury hotel chain located in the most important cities offering an exclusive and personalized lodging experience with superior service and quality expectations but without losing the warm hospitality that characterizes Mexico. It focuses on persons searching for an exclusive and personalized lodging experience in an amazing and luxurious environment, both traditional and contemporary.

**Fiesta Americana** is the leading 5-star hotel chain in Mexico centered on creating great memories for all the family. It is designed for persons traveling for pleasure and/or business pursuing 5-star hotel complexes with all the services and amenities of large hotels. **Fiesta Americana Vacation Club** is part of this family, which is our traditional family vacation membership with vacation real properties located in the most important beach destinations of our country.

**The Exploreal** is the Resort Brand providing outdoor experiences and activities in natural environments, leaving behind the routine and coming into contact with nature without sacrificing the comfort of a 4-star hotel<sup>2</sup>.

**Fiesta Inn** is the 4-star Business Class chain addressed to business travelers. It has the services necessary for a business trip, an excellent location, multifunctional areas, comfortable rooms and public areas that promote contact and connection, meeting rooms, event halls and restaurants.

Part of the **Fiesta Inn** brand are the variations **Fiesta Inn Express and Fiesta Inn Loft**, likewise addressed to business travelers, providing a comfortable and productive stay through the design, comfort and functionality of each space. The rooms are fully equipped to be adapted when working, eating or resting.

The **Gamma** brand is a collection of 3 and 4-star<sup>2</sup> hotels, under franchise, with each hotel keeping its unique decoration, design style and personality. It is directed to persons that, regardless of their reason for travelling, are looking for local traditional lodging locations and to leave aside hotel chain standardization.

**One** is a practical and affordable brand, with modern design and accelerated development. It is designed for pleasure and/or business travelers searching for hotels with fair-price guarantee and cordial service in a variety of destinations and key locations, but without losing the security, comfort and cleanliness of a chain hotel.

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<sup>1</sup> 175 hotels with 171 operating contracts.

<sup>2</sup> Classification given according to the self-evaluation mechanism regulated by the Ministry of Tourism (SECTUR)

During 2018, company growth continues consolidating and maintaining industry leadership. Tourism is still a strategic sector for Mexico with a continuous growth since 2015 at a greater pace than that of the economy. Mexico occupies the 7<sup>th</sup> place in the international arrival rank of the World Tourism Organization

Our country occupancy level is one of the highest in comparison to that of the principal world destinations. The arrival number continues increasing year after year, receiving 39 million visitors to closing 2017 and 27.7 million in the first eight months of 2018

Despite elimination of the prior year US government travel warnings regarding the Cancun and Los Cabos touristic destinations at the beginning of the year, during all 2018, the international group arrival resort segment was affected.

Since the American market is the most important provider of visitors to country, our international promotion platform, *La Coleccion*, has become our resorts' permanent campaign to the main originating international markets.

Regarding new hotel development, the Company strengthened the hotel portfolio with 16 openings during 2018:

1. Fiesta Inn Ciudad del Carmen Laguna de Terminos
2. Fiesta Inn Morelia Altozano
3. Gamma Tampico
4. Fiesta Inn Tuxtla Fashion Mall
5. Gamma Boca del Rio Oliba
6. One Puebla Angelopolis Periferico
7. Gamma Guadalajara Centro Historico
8. One Monterrey Tecnologico
9. One Ciudad de Mexico La Raza
10. One Acapulco Diamante
11. Fiesta Inn Express Queretaro Constituyentes
12. Fiesta Americana Mexico Satelite
13. Gamma Ciudad Juarez
14. Live Aqua San Miguel de Allende
15. Fiesta Inn Aguascalientes Patio
16. One Tijuana Otay

Likewise, the renewal of 22 long-term hotel operating contracts regarding 3,162 rooms was made. By signing the aforementioned contracts, to this date there are 49 contracts signed with approximately 9,300 rooms representing a 34% increase of current total inventory for opening all hotel Company brands in the following three years under the different operating modalities: leasing, administration and franchise.

Regarding investment issues, consolidation of our position as operators and owners of 12.5% of the "Tukal" hotel project on the Riviera Maya stands out. In this development two hotels are being built: a 515 room Fiesta Americana and a 340 room Live Aqua with opening estimated for the first quarter of 2021. Additionally, one of our main hotels in this same resort segment: the hotel Live Aqua Beach Resort Cancun was fully remodeled (rooms, common areas and restaurants) and concluded at the beginning of 2019.

Regarding the sale of assets, in 2018, the hotel "Ramada Plaza" located in Laredo, Texas, U.S.A. was sold through a sale purchase contract. The amount of said transaction was US\$2.5 million dollars which was received between April and June 2018.

In 2018, we again obtained a record of the amount of reservations processed through our distribution suite:

- Our own channels (including groups) maintain a 69% reservation contribution.
- The web channel grew around 17% in comparison to the previous year.
- The voice channel continued to be the most important contributing to Posadas 20% of reservations.

The promotion *VIAJA por todo Mexico* continues to be the most important of the national tourism sector. It had a 20% sale growth in relation to 2017, resulting in a total of 25,718 night rooms and \$18.2 million pesos.

Our loyalty program, "Fiesta Rewards" contributed 21% of occupancy to the system. During the year, 124,200 new members joined, achieving a total of 270,800 active members. The Santander Fiesta Rewards card raised its income by 35% with 47,552 new credit cards to achieve a total of 145,000 effective cards.

We constantly seek to fulfill our guests' needs and understand the market trends, therefore we are continuously renovating ourselves by generating new brands to cover emerging sectors and consolidate those already existing to make our portfolio more attractive to our investors. In the same manner, innovation and consolidation of strategic alliances are fundamental pieces to continue in the market, and thanks to these, the vacation property industry has maintained a constant growth.

In 2018 we implemented the Net Promoter Score (NPS) system and culture as fundamental indicator to measure hotel performance based on guest evaluation constructed on our customer centric philosophy. Consequently, the redesign and update of physical and operating standards have been oriented by the results of these guidelines, seeking continuous harmony with our clients' real requirements and expectations.

Nowadays, Posadas' portfolio has 9 hotel business brands and 4 Vacation Property business brands; the aforementioned has 24 sale points in Mexican territory where our products are offered, becoming one of the major leaders in the vacation property industry.

The Company operates the following Vacation Products:

- Vacation Products (Time share)
  - Fiesta Americana Vacation Club (FAVC): a vacation club in which members purchase a "40 year right to use" represented by annual points. FAVC points may be exchanged for lodging at any of the complexes located in Los Cabos, Baja California Sur; Acapulco, Guerrero; Cancun, Cozumel (two complexes) and Kohunlich (Chetumal), Quintana Roo, as well as any Company-operated hotel. Additionally, FAVC members may use their points at Resorts Condominium International ("RCI") complexes and Hilton Grand Vacation Clubs, or at any affiliated complex in different parts of the world. The Company has operated FAVC for more than 15 years
  - Live Aqua Residence Club (LARC): is a vacation membership with a high-level residential hotel mosaic in which the members purchase a "40 year right to use" represented by annual points which grant the right to use a specific residential developments. The LARC brand (located in Puerto Vallarta and Los Cabo), or at the FAVC complexes, any of the hotels operated by the Company and The Registry Collection network hotels. It started operations three years ago.
- Vacation Plans:
  - KIVAC: 2018 was the 8-year benchmark of the Company's marketing of this product that consists of a point-denominated pre-sale of lodging services with an up to 5 year validity, exchangeable for accommodations at any of the Company hotels and at about one hundred affiliated real properties not operated under our brands.
  - Re\_SET: in response to the trend of connecting with new customers, lifestyles and technological trends, in 2017, the Company launched "Re\_Set", an exclusive family and friend group discount plan, providing more travel flexibility, at any time, either in Mexico or abroad.

2018 is one of the best years of the Vacation Properties and Plans business, sales increased for the 5<sup>th</sup> consecutive year producing more than 386 thousand room nights for Posadas system with more than 74 thousand members and travelers of which 29,000 are FAVC members, 872 LARC members, 42,700 KIVAC members and 656 Re\_Set members.

This year an EBITDA of \$2,425 million pesos was obtained due to our customary operation and the Fiesta Americana Condesa Cancun hotel sale. This is our main cash source which allows us to:

- Invest more than \$671 million pesos in maintenance and refurbishing of our hotels.
- Invest \$804 million in the Tulkal project (Riviera Maya) and other investment projects.
- Comply with our financial and tax liabilities.
- Keep, to the corporate year closing, a \$2,734 million peso cash balance, of which 57% (US\$78 mm) was in dollars.
- Obtain a consolidated comprehensive result of \$964 million pesos and a consolidated profit (control shareholding) of \$929 million.

The foregoing strengthened our capital structure attaining closing the corporate year with 2.1 times net leverage (Net Debt/EBITDA) and 5.0 times interest hedging. To the closing of the corporate year, our total assets amounted to \$17,170.3 million with a 5.0% growth in comparison to the previous year.

In order to be more efficient regarding transactions, control and group management, the Company continues its internal simplification process (announced in 2014 and 2016 leaflets) reducing the subsidiary number from 136 at

2013 closing to 21 to date. In 2018, the merger of a Grupo Posadas subsidiary corresponding to the hotel committee payroll was carried out, therefore, that corporation's total patrimony and liabilities were undertaken. Likewise, a foreign subsidiary was dissolved after the hotel sale in the city of Laredo, Texas was made. Inversora Inmobiliaria Club, S.A. de C.V. and Operadora del Golfo de Mexico, S.A. de C.V. continued to be the guarantors of the 7.875% Senior Notes with 2022 due date, however, to the date of this report, the General Extraordinary Shareholders Meeting of the corporation has agreed the merger of Inmobiliaria Club, S.A. de C.V. into the issuer. Due to the preceding, Operadora del Golfo de Mexico S.A. de C.V. will continue as the only guarantor of the foresaid debt.

Regarding the 2006 corporate year, there continues a proceeding against a tax liability determined by the Central International Auditing Administration of the Tax Administration Service (SAT) for an amount of \$966.7 million updated to December 31, 2018. The Company constituted a guarantee in order to comply with the tax interest on the tax liability which may be determined. Although the Company has announced that it is constantly and closely communicating with the authority in order to resolve these proceedings, there is no guarantee that the Company will be successful. See section 3) *Financial Information*, c) *Material Loan Information*.

The generation in USD of approximately 27% of the annual consolidated revenues works as a direct hedge for the coupons of our Senior Notes due in 2022.

All hotels operated to December 31, 2018 have the hotel classification system record issued by the Ministry of Tourism.

### **Selected Financial Information**

From January 1, 2012, the Company adopted the International Financial Reporting Standards ("IFRS", due to its initials in English, hereinafter IFRS or IAS), and its adjustments and interpretations issued by the International Standards Accounting Board. ("IASB" due to its initials in English), in force. These consolidated financial statements have been prepared pursuant to the norms and interpretations issued and in force to this date.

This consolidated financial information summary is presented for the years 2018, 2017 and 2016, based on the Company's consolidated financial statements which have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., the Company's external auditors.

The financial information presented should be reviewed jointly with the financial statements indicated in the previous paragraph and their respective notes. Likewise, the financial information summary should be reviewed with all the explanations provided by Posadas management in the "Financial Information" Chapter, specifically in the section "Management Comments and Analysis of Operating Results and Financial Situation of the Company". Some figures may vary due to rounding off.

Audited Financials (million pesos)			
As of December 31 <sup>st</sup> :			
<b>Financial Highlights</b>	<b>2018 - IFRS</b>	<b>2017 - IFRS</b>	<b>2016 - IFRS</b>
Total Revenues	7,910.4	8,472.0	7,734.3
Corporate expenses	379.4	440.0	319.4
Depreciation, amortization and real estate leasing	937.1	906.2	1,040.5
Operating income	2,023.2	1,221.6	1,054.5
Comprehensive financing cost (income)	483.0	431.6	1,924.7
Taxes	592.0	1,262.6	(174.3)
Net Income	932.1	(472.6)	(697.2)
Majority net income	928.7	(483.9)	(705.8)
<b>Balance Sheet Data (End of period)</b>			
Current assets	5,846.0	5,996.1	4,789.5
Property and equipment, net	4,936.2	4,601.2	6,483.1
Total assets	17,170.3	16,345.1	14,887.0
Current liabilities	3,080.0	2,872.8	2,426.7
Long-term debt	7,785.8	7,768.5	7,871.8
Total liabilities	13,982.5	13,922.1	11,958.7

Stockholders' equity	3,187.8	2,423.0	2,928.3
<b>Other Financial Data</b>			
EBIT / Revenues	25.6%	14.4%	13.6%
Net Income/Revenues	11.8%	(5.6%)	(9.0%)
EBITDA	\$2,425.3	\$1,652.3	\$1,649.8
EBITDA to Revenues	30.7%	19.5%	21.3%
Total debt to EBITDA	3.2 X	4.7 X	4.8 X
Current assets / Current liabilities	1.90 X	2.09 X	1.97 X
Total liabilities / Equity	4.39 X	5.75 X	4.08 X

The shares representing the Company's corporate capital are listed on the Mexican Securities Exchange Market, S.A.B. de C.V., where they have traded since 1992. The number of shares in circulation (weighted average) to December 31, 2018, amounts to approximately 496 M.

Series "A" shares have shown low trading according to the BMV's rating. Trading in Series "A" shares has never been suspended by the regulatory authorities.

The following table shows the annual performance of the Series "A" shares during the last five years on the Securities Market:

POSADAS A	2014	2015	2016	2017	2018
Maximum Price	25.50	41.50	46.97	47.60	42.00
Minimum Price	22.50	27.00	41.50	35.00	29.90
Closing Price	25.50	41.50	46.00	38.00	40.00
Daily Average Volume (thousands of shares)	804.33	16.43	7.96	113.40	100.85

Source: 2013 to 2016 Bloomberg, 2017 Reuters. (The daily average volume is based on trading days).

For additional information regarding share performance see section 5) *Capital Market, b) Share Performance on the Securities Exchange.*

### c) Risk Factors

The investing public should consider carefully all the information contained in the Annual Report, and specifically the following risk factors which are detailed below. These risks factors are not the only ones that the Company faces. Additional risks and uncertainties of which the Company is not aware, as well as those currently thought immaterial, may have a material adverse effect on the Company's operations, financial situation, operating results or cash flows.

#### Risks Relating to the Company

**The global economic situation and its effects on financing markets, the economy of the countries in which we operate, as well as the economy of our clients' countries may adversely affect our businesses.**

The global economic crisis and its effects may adversely affect Posadas' businesses, financial situation and operating results. Economic deterioration may decrease our services and products demand; cause our clients to breach the commitments undertaken: It may limit the building capacity of hotel owners, that we have agreed to operate or that are under our franchise, put at risk maintaining ownership of said real property, decrease the investments required or timely investments, and, therefore impact on our results and profitability. Likewise, substantial increases in air and ground travel costs, and decreases in airline capacity arising primarily from reduced or consolidated flights have also contributed to reduced demand for Vacation Product hotel rooms and villas.

The economic situation may also negatively affect financial markets, thereby causing high volatility and increase the cost of available financing resources. Due to the above, and for other reasons, Posadas may face higher financing costs or difficulties in raising financing to fund its operations, investments, acquisitions or debt refinancing.

The Company has recently witnessed a recovery, in comparison to the 2008 levels (denominated in then Mexican pesos). Both our financial results, and our growth, may be significantly affected if this situation occurs again, affecting our general businesses' and liquidity conditions. The effects of the current economic situation are difficult to forecast and mitigate.

The Company seeks to mitigate this risk through its regional diversity, geographic markets, as well as through the participation in leisure and business segments increasing its brand portfolio. Although this strategy has stabilized our results, we cannot guarantee that it will be successful in the future.

**A high percentage of the hotels we manage are luxury hotels or they are in locations which have been particularly impacted by the current economic slowdown or by the perception of violence or the guests come from places affected by said contingencies. The preceding has had and continues to have a significant adverse effect on the operating and financial results of our business.**

Approximately 25% of the rooms that we manage are in hotels classified as luxury hotels. Luxury hotels generally command higher room rates. In an economic downturn, these hotels are susceptible to decreased revenues since hotels in this segment generally target the business and high-end vacation travelers as compared to hotels in economy categories.

Likewise, the national and international perception of violence, as well as the alerts issued by other countries regarding states in the Mexican Republic, may adversely affect travelers' decisions to travel to certain Mexican locations or to keep lodging plans at our hotels.

### **Concentration in one industry**

The Company's operation is principally concentrated in one industry –hotel and tourism service industry- and the current strategy consists of staying focused on this industry and other related business, such as the Vacation Products, and the remaining lodging service sale modalities and contact centers. The Company has also undergone an ownership consolidation process of the hotels under its operation. To December 31, 2018, five investors only own 31 hotels, another investor is the owner of 69 hotels with 9,706 rooms that represents 35% of the total room inventory managed by Posadas. This concentration and dependency risk may affect, among others, the Company's negotiation and operating capabilities pursuant to policies freely established by the Company and sacrifice its operating margins.

This concentration level may have adverse effect on future contract negotiations, renewals and modifications, as may also a systemic termination of current contracts cause a negative impact in the Company's cash flows. In the same manner, it may affect the owners' investment capacity to bear maintenance or investment expenses, thus competitively affecting the properties and eventually the fees the Company receives due to their operation.

### **Competition**

#### *Competition for guests*

The hotel business is highly competitive. Foreign investors, using Mexican corporations, may directly or indirectly purchase a 100% holding in tourism-related businesses, including construction, sale, lease, or operation of non-residential realty in Mexico.

Competition in the hotel sector is represented by a variety of national and international hotel operators, some of these, especially international operators, are substantially bigger than the Company and may have greater marketing and financial resources, as well as a better distribution capacity than the Company. Said operators may operate under recognized international or Mexican brands. In addition to competing for guests with other Mexican resorts, the Company also competes for guests with resorts in other countries.

The Company has mitigated this risk by keeping regional leadership and developing competitive operating, marketing and distribution advantages such as its brand recognition and new brand creation responsive to market trends and technology changes, as well as diversifying and marketing its vacation property segment. Up to now, these measures have been sufficiently successful, but we cannot guarantee that they will be effective in the future within the consolidation framework of international hotel businesses.

#### *Competition for operating agreements*

When the Company seeks to grow through new hotel properties operated by the Company, it competes against other entities seeking the same opportunities. The Company competes with other entities that have greater financial resources or that have better-recognized international brands so as to enter into operating contracts with hotel owners. In addition to competing for new opportunities, the Company also competes against other hotel chains when the existing operating contracts expire. Therefore, the Company cannot ensure that it will continue entering into or renewing successfully its operating contracts or that it will do so under similar or more satisfactory economic terms or characteristics. Competition may generally reduce the number of future growth opportunities, increase the bargaining power of hotel owners and reduce the Company's operating margins. Likewise, said competition has forced the Issuer

to negotiate operation and licensing contracts, where it undertakes contingent obligations to guarantee specific operating results which, should the hotel obtain negative operating results, would make the Issuer sacrifice income and even disburse the deficit amounts in order to comply with such guarantee. Likewise, the Company has been put in the situation of offering leasing contracts with lease amounts aligned to the profits or sales of the hotel business undertaking the obligation of paying minimum rents or for mandatory terms.

#### *Competition for franchise agreements*

The Company has resolved to also grow by granting franchises, based on novelty brands supported by traditional brands. In January 2018, the first franchise contract of the One Hotels brand was signed. This means a foray into a new market that, until now is unknown to Posadas, related to new construction hotel franchises and in which Posadas is not a leader. Therefore, the Company cannot guarantee its success in the execution and operation of franchise contracts and, in general, the competition may decrease the number of future growth opportunities by increasing the hotel owners' negotiating power and decreasing the Company's operating margins.

#### **Geographic Dependence**

To 2018 corporate year closing, the Corporate operations are concentrated in Mexico, with 175 hotels operated in this country and representing 100% of its income. Although the inventory in Mexico is diversified to attend the beach and city destinations as well as the vacation and business travelers, groups or individuals, etc., the Company has an important dependence of its operations in Mexico, market in which it already has a high penetration. If these operations in Mexico do not work according to the plans and strategies designed by the Company, this may have an adverse significant effect on the operations, the financial situations or in the operating results of the Company in general.

During 2018, as part of its Caribbean expansion plan, the Company signed contracts to manage and operate hotels in Cuba and the Dominican Republic. Posadas' ability to operate and grow in these countries may also be affected by present or future commercial barriers, currency fluctuations, currency exchange controls, political situations, inflation, taxes and legislative amendments in said countries. In the case of Cuba, complications related to United States government-imposed restrictions that force operation with new tools or adapting those existing, focus greater commercializing in other markets and adapt to mechanisms provided by the owner and the country's system. This may have a material adverse effect on Company operations, financial situation or its overall operating results. To this report date, Posadas operates two hotels in the Republic of Cuba: Fiesta Americana Punta Varadero and Fiesta Americana Holguin Costa Verde.

Amongst the new operating markets risks are the following:

- US citizens and residents may not lodge, unless expressly allowed, in Company managed hotels in Cuba.
- Citizens, residents and persons subject to US jurisdiction may not facilitate Cuba-related operations or transactions. Applicable legal provisions may contain pertinent rules and exceptions; however, these may be unclear or ambiguous, leaving to the US administration a broad interpretation margin.
- Some suppliers or clients, mainly subject to US legislation, may be barred or, even though not legally barred, decide to not continue their business relationships with Posadas.
- Cash flows whose purpose is to pay off Cuba-related hotel operations may be unnecessarily blocked or frozen by financial institutions, obligating Posadas to temporarily do without such cash flows for an unforeseeable term.
- Use of US companies' provided technology services and software inherent to other services (or US company owned subsidiaries) may be interpreted as incurring penalties established by Cuba or any other US companies' contractual clause. This would possibly subject the Company to investigation, early termination or legal or contractual penalties.
- Risk that the enforceability of agreements and covenants, including Posadas fee payments, with hotel owners may be subject to Dominican and Cuban court resolutions, respectively.
- Posadas may be legally sued before US courts by third parties claiming to have a right regarding the hotel real properties that to date or in the future it operates, because they may be considered objects of seizure or illegitimate expropriation by the government of the Republic of Cuba.

#### **Growth Strategy**

The Company has designed a growth strategy for its hotel, Vacation Product and other service businesses in Mexico, primarily based on the execution of hotel operating or leasing agreements regarding third party realty, the execution of franchise contracts regarding third-party operated hotels, and the construction of new buildings allocated to Vacation Products (under the time-share arrangements: FAVC and LARC) and the sale of prepaid vacation plans or discount club (KIVAC and Re\_SET). The Company's expansion ability depends on a number of global economic factors including, but not limited to, the condition of the United States, Mexican and other Latin American countries' economies, the ability of investors to construct new properties for the Company to operate and/or lease, or to enter into franchise contracts concerning such properties, and the selection and availability of new hotel locations, and the creation and acceptance of new hotel brands or vacation products, the successful operation by Posadas in other jurisdictions and

the availability of financing. There can be no assurance that Company expansion plans will be achieved, or that new hotels or Vacation Product development will meet with consumer acceptance or be operated profitably in all jurisdictions. In this same manner, the Company continues to offer contact center services to third-parties.

As part of its growth strategy, the Company is carrying out and should invest in diverse acquisition, construction and refurbishing of its owned and leased properties. Multiple factors including financing, regulatory, or climatological events may delay the latter's timely completion, which may adversely affect the Company's financial condition. Furthermore, the Company growth plans in new hotel and Vacation Product areas may be affected.

As part of the Caribbean expansion plan, in 2017 and beginning of 2018, the Company signed contracts with third party investment to manage and operate hotels in Cuba and the Dominican Republic; said management and operation depends on global economic, political, commercial, tax factors as well as on market knowledge and acceptance. Likewise, the suppliers that meet our brands' standards may not be able to operate in these countries, therefore the selection of new suppliers may generate additional expenses as well as that the failure to fulfill the same standards may affect Company profitability and brand.

The risks confronting our ability to successfully operate in the current markets also apply to our ability to operate in new markets whose operation and legislation are unknown, or which require that authorities of other countries or that third party countries authorize entry. The Company may not obtain these authorizations due to the discretion of the country's government administrative interpretation of legislation, or our interpretation contrary to that of the authorities, or our suppliers could not obtain the necessary permits, or these may be revoked. Additionally, the Company would not have the same knowledge or familiarity levels regarding the new markets' dynamics and conditions and their regulations, which may affect its growth or operating ability in said markets, thereby affecting its profitability.

### **Management Contracts and Brand Licensing**

As of December 31, 2018, the Company had 138 managed hotels, that the Company carries out by executing hotel operating and brand licensing contracts. The Company management and financial condition may be adversely affected to the extent that hotel management and brand licensing contracts which are about to expire are not renewed or are renewed on less favorable terms, or otherwise, if new managed hotels and brand licensing contracts cannot be executed. Furthermore, under determined management contracts, the Company guarantees a minimum revenue to the owner of the hotel that may cause Posadas to distribute un-budgeted and un-recoverable amounts, otherwise the owner may cancel the contract if certain hotel performance standards are not achieved. However, this does not mean that the Company breached the operating contract. To date, no hotel operating contract has been anticipatorily terminated due to the previous circumstance.

Furthermore, although under our management and lease contracts the owner cannot transfer, convey the hotels or assign the rights over said hotels to a third party, we cannot assure that said transmission or disclosure is not carried out, nor that the third party to whom the property or the rights are transferred will continue to be bound by said contracts. To date, no transmission of rights has significantly adversely affected the Company's contractual relationship with the owners, but we cannot ensure that this situation will continue to be in our favor in the future.

In special cases, Posadas has provided key money to ensure the signing of operating contracts. This key money is amortized during the contractual term; therefore, if the contract terminates beforehand, Posadas may not recover the proportional part of said contribution.

Finally, the economic and financial capacity of the hotel owners may affect preservation of brand standards under which the hotels operate and, in those cases in which hotel owners have taken control of the cash balance, the fees of Posadas and its strategic suppliers may be affected. The Company may need to notify termination of brand licensing contracts due to breach of said standards or of the owners' payment obligations, and this situation may adversely affect the hotel and fee income received.

On June 27, 2018, the Company stopped operating Hotel One Salamanca Oriente and on October 31, 2018, the hotel Fiesta Inn Loft Irapuato. It is foreseen that in 2019 the company will stop operating the hotel One Reynosa.

For additional information regarding main assets see section 2) *The Company*, x) *Description of its Main Assets*.

### **Leasing contracts**

Of the Company operated hotels to December 31, 2018, 15 operated under a leasing arrangement, and it is foreseen that great part of the Company growth will come from said arrangements. In the first 2018 quarter, the lease for the hotel Fiesta Americana Condesa Cancun, and the modification and extension of the hotel Live Aqua Cancun lease contract became effective. The Company's operating and financial conditions may be adversely affected to the

extent that income and operating profits are insufficient to make the minimum lease payments stipulated in the lease agreements.

Likewise, non-compliance of the lessors' obligation under the leasing agreements may adversely affect the operation and, finally, the Company's profitability.

To December 31, 2018, we have complied with all hotel lease payments.

In the 2019 corporate year, the IFRS 16 modifications became effective. According to the aforesaid, lessees must recognize the right to use as an asset and the corresponding liability. The right to use an asset is initially calculated at cost and is later measured at cost (with some exemptions) minus the accumulated depreciation and losses due deterioration, adjusted for any re-valuation of the liability due to leasing. A liability due to leasing is initially measured at present value of the minimum leasing payments, as well as by the impact of the lease modifications, amongst others. The lease payments will be divided into principal and an interest portion that will be represented as financing and operating cash flow respectively.

In this regard, Posadas decided to adopt this norm under the modified retrospective method for hotel (and car) leasing that to the 2018 closing are represented as operational leasing, sacrificing comparability with the previous years. This norm will impact the financial leverage and interest hedging ratios, and therefore, it eventually may mean a limit to this manner in which the Company obtains income through this operating mechanism. The initial asset entry for leased hotels totaled \$5,186 million.

### **Franchising Contracts**

The Company has also resolved to grow through Gamma brand-based franchising. As well as to expand the hotel segment franchised under the One Hotels brand designed for newly built hotels and The Explorean. This means a foray into a new market that until now was unknown to Posadas and in which Posadas is not a leader. Therefore, the Company cannot guarantee its success in the execution and operation of franchise contracts. Furthermore, this new operating method implies that the owner or a third party other than the Company will manage the hotel's operation, and in this operating format we have less experience. This new product means that Posadas must invest in the creation of a franchise system supporting the services intended to be rendered to this system's users. Moreover, it implies that third parties' hotels outside of Posadas' control will operate under its brands and distribution platforms. We cannot guarantee that Posadas will succeed in its franchising business, or that it will be successful soon, nor can we guarantee that its franchisees under this new segment will succeed, or that their operating format does not negatively impact Posadas and its brands.

Finally, the economic and financial capacity of the hotel owners may affect preservation of the brand standards under which the hotels operate, or the conservation of the hotels owned. The Company may need to notify termination of franchise contracts for breach of said standards or of the franchisees' payment obligations, and this situation may adversely affect Posadas' possibilities to receive the consideration stipulated in said franchise contracts. To December 31, 2018, 10 hotels were operated under franchise.

On November 30, 2018, the Company stopped operating the Hotel Gamma Chapala under the franchise model.

For further information regarding the main assets, see section: 2) *The Company*, x) *Description of the Company's Principal Assets*

### **Fibra Hotel and other fibras**

To December 31, 2018, 37% of the rooms operated by the Company are the property of one of the Fibras quoting in the BMV which at some moment may face liquidity problems to keep maintaining its hotels in optimum conditions that could affect the brands operated by Posadas and its results. To this date, 40% of our hotels are the property of Fibras.

### **Our service businesses may not be successful and affect our hotel business**

The operation of certain services businesses, such as Konexo and Conectum, represent less than 10% on a consolidated basis, of the Company's total revenues to December 31, 2018, 2017 and 2016. These businesses have developed from our hotel business and have had a varying degree of independence from the hotel business, but there are no assurances that said businesses will perform in accordance with their established expectations. Furthermore, the implementation and development of these businesses may imply the distraction of our executive officer team and the detouring of funds, or the anticipated benefits may be less or none; the decision to cease operations of some of these businesses due to third party obligations and limit them to service units, may bring about expenses. However, we

depend on these businesses to operate various services, such as the Fiesta Rewards loyalty program, the contact center (call center), accounting processes, payroll payments, and technology services, amongst others. If any of these businesses cease to provide their respective services to us, or if they provide them less effectively, the Company results, operations and financial condition may be adversely affected.

### **Holding Company Structure**

Based on the corporate restructuring information leaflets made public in 2014, 2016 and 2017, management has transformed the Issuer into an operating corporation as well as holding corporation for the shares of a limited group of subsidiaries. The foregoing transferring, at the pace and to the extent permitted and possible, the management of the hotel operation business, licensing of brands, granting of franchises, realty holder, vacation product marketer, and other hotel service marketing systems, payroll, amongst others, intending that the issuer undertake the greatest number of possible activities and responsibilities.

The Issuer nowadays may be defined as a holding company which principal assets consist of the shares of its subsidiaries, entitlement to the right to use and full ownership of various real properties, ownership of the Company's main brands, operating and franchising hotel contracts, employer of the employees of owned and managed hotels, and of the executive committees of managed hotels. By virtue of the foregoing, the revenues of the Issuer primarily depend on the collection of dividends and fees arising from hotel operating, brand licensing, and franchising contracts. Beginning on June 1, 2016, the Issuer assumed the direct operation of the owned and leased contracts, the personnel rendering service in said hotels, as well as the operation of the FAVC's and LARC's exchange program club. Most of the real properties will be owned by the Issuers' subsidiary companies. This regrouping of assets and operations also encompasses the consolidation of contingent liabilities and obligations and considers as well economic capacity and repetition of penalties, especially administrative, taking into account a larger capital group.

In 2018, the company Servicios Gerenciales Posadas, S.A. of C. V. merged into Grupo Posadas. The former company disappeared, and the latter universally assumed, the assets, liabilities and obligations of the merged company, with accounting and tax effects as of May 1, 2018. Likewise, a foreign subsidiary was dissolved upon the sale of the Laredo, Texas hotel. On this date and following the same organizational simplification strategy, the shareholders' meeting of Grupo Posadas approved the merger of Konexo Centro de Soluciones, S.A. of C.V. and Inversora Inmobiliaria Club, S.A. of C.V. as merging into Grupo Posadas. This merger will become effective during the 2019 corporate year.

Even though at present almost all the subsidiaries are not contractually limited in paying dividends to the Issuer, any financing or other agreement that may restrict the subsidiaries' ability to pay dividends, to directly exploit owned or leased hotels or to make other payments to the Issuer may adversely affect the latter's liquidity, financial situation and operating results. Generally, Mexican corporations may pay dividends to their shareholders if dividend payments and the financial statements reflecting distributable net profits have been approved by the shareholders, after establishing the legal reserves, and only if all losses have been absorbed or paid. Likewise, the Issuer is the principal creditor of Posadas' financial liabilities and may act as guarantor for the obligations undertaken by its subsidiaries or its subsidiaries may be the guarantors of the Issuer's liabilities. Joint liabilities as between the group corporations to third parties are not limited to financial liabilities, and these may extend to other liability types, such as those resulting from real property sale agreements or leasing agreements amongst others.

Since the Company is a holding company, the possibility that the Issuer may satisfy the demands of its creditors ultimately firstly depends on its ability to participate in its subsidiaries' dividends, and subsequently on the distribution of the assets of its subsidiaries upon liquidation. The Issuer's right, and, therefore, its creditors' right to participate in said dividend or asset distribution, is effectively subordinated to the subsidiaries' creditors' payment claims (including claims having legal preference and the Company's creditors' claims which are guaranteed by said subsidiaries).

### **Corporate restructuring**

The corporate movements detailed by the Company in the informational leaflets made public by the Issuer on April 10, 2014, February 29, 2016 and August 2017, as well as the resolutions of the shareholders meeting on March 29, 2019, are inherently internal in nature but have their own associated risks. Said risks are described hereinbelow but are not the only factors that may affect completion of the corporate restructuring or the Company performance. Any additional risks currently unknown to the Company or those which at this time may be deemed insignificant may adversely affect the outlined restructuring plan, the price of the shares representing Grupo Posadas, S.A.B. de C.V.'s corporate capital or its operations.

#### **i) Creditors' Opposition**

To the extent that the Company's corporate restructuring has been conducted by executing various mergers and do not contemplate any agreement to pay prior to the due date all debts of the to be merged corporations, or to

establish a deposit of the above amount or to obtain all of their creditors' consent, the General Law of Business Corporations grants to any creditor of the corporations, subject to merger or split off, the right to oppose the conclusion of any such merger or split off. In this context, the different types of creditors (or those which may be deemed to be creditors) of the Company, including its clients, suppliers, financial creditors, employees or tax authorities, may oppose the merger or split off of any Subsidiaries from other Subsidiaries or from the Issuer. The creditor's opposition may suspend the effects of the various mergers, provided that no final judicial decision is issued, payment is made to those creditors which judicially and timely opposed the merger or split off or an agreement is reached with the creditors. Due to the above, the Issuer may not guarantee that the Company's various corporate movements may be completed, within the deadline foreseen or that they will not result in a disbursement of funds to pay creditors, all of which may adversely affect Posadas' financial situation or operating results, or the attainment of efficiencies sought. To this date we have not been notified of timely presented oppositions to the aforementioned mergers, considering that the term to present opposition, in the case of the 2017 approved mergers and prior, has concluded.

ii) Governmental authority authorizations

The corporate movements of some of the Issuer's Subsidiaries need, in the preliminary stage, authorization of some governmental agencies, including the tax authorities, amongst others. Likewise, and in order to comply with the various applicable norms, such as consumers' rights protection regulations, specific governmental authorization may be required to conduct our usual operations, as adjusted to the new corporate format resulting from the restructuring. The Issuer cannot ensure that in the authorization obtainment process, there will be no delays nor impediments that make it unable to obtain authorizations relevant to complete the corporate restructuring or normally operate or, if applicable, attain the efficiencies expected.

iii) Changes to the proposed corporate movement plan and different effects

Posadas continues to study and analyze certain aspects of the explained corporate restructuring projects which may affect the restructuring proposed or produce effects other than those set forth in the informational leaflet or the corporate acts authorizing the same. Therefore, Grupo Posadas cannot guarantee that such restructuring takes place in the manner planned, nor can it guarantee that it will not have effects of any nature other than those foreseen, such as additional costs or expenses, or any other expenditure, that the Company would have to disburse or bear.

iv) Foreign legal provisions

Although Posadas has sought advice from foreign legal counsel regarding corporate movements in other jurisdictions, the Company cannot ensure that in jurisdictions other than Mexico no obstacles or additional requirements delaying or preventing the planned completion of the corporate restructuring may not occur.

v) Share price fluctuation

The corporate restructuring detailed in the informational leaflet may generate price fluctuations in the Company shares. It cannot be guaranteed that such fluctuations will be positive.

vi) Tax implications

In spite of the fact that efficiency is one of the objectives sought by this restructuring, we cannot guarantee that an unforeseen tax may not be incurred thus causing a material adverse effect or that the tax authorities may have a different tax interpretation regarding such restructuring.

vii) Opportunity

Due to the complexity and number of corporate operations contemplated by restructuring, Posadas cannot guarantee that the Company's different corporate movements may be completed, within the deadline foreseen, or that they will not result in a disbursement of additional funds, all of which may adversely affect Posadas' financial situation or operating results, or the attainment of the efficiencies sought.

### **Dependence on our key employees**

Several of the Company's executives have vast operating experience, industry knowledge and these qualifications are recognized by the market. The Company depends on its executive staff to define strategy and manage its business, and it considers that their intervention is relevant to its operations. Consequently, the Company's inability to keep its executive officers or attract new ones may have an adverse effect on its operations and ultimately on its profitability. For additional information see section 4) *Management*, c) *Management and Shareholders*.

**The Company may incur additional debt which may affect its financial situation and ability to generate sufficient cash to meet its payment obligations.**

In the future, the Company may incur additional debt which may have or worsen the following effects: (i) limit its ability to pay its debts; (ii) increase, generally, its vulnerability to economic conditions and to industry conditions; (iii) require that the Company allocate a significant amount of its cash flow to debt payment; (iv) limit its flexibility to plan or react to changes in its business; (v) limit its ability to obtain additional financing, and (vi) increase the cost or make more expensive additional financing conditions.

The Company's ability to generate sufficient cash or foreign currency to pay its debt will depend on its operating performance and refinancing ability, which may be affected by prevailing economic conditions, performance, financial, reputation and other factors, many of which are beyond the Company's control. Posadas may be forced to adopt alternative strategies to comply with its obligations, including cancelling, decreasing or delaying investments, selling assets, restructuring or refinancing its debt or requiring additional capital. Perhaps said activities may not occur on favorable terms.

Posadas' financing terms contain determined financial, operating and corporate restrictions, which may negatively affect the Company's ability to react to market changes, take advantage of business opportunities, obtain financing, make investments, improve its operating costs or face business difficulties. It may also affect its ability to pay dividends to its shareholders and to execute certain corporate transactions or could result in the need to invest cash for specific assets or purposes, such as prepayment of indebtedness.

**We have significant amounts of indebtedness which are due in the next several years, and we cannot ensure their refinancing or whether it will be on fully favorable terms.**

Historically, we have addressed our liquidity needs (including funds required to make scheduled principal and interest payments, refinance indebtedness, and fund working capital and planned capital expenditures) with operating cash flow, borrowings under credit facilities, and proceeds from debt offerings and asset sales. The prevailing situation may negatively impact our ability to access additional short-term and long-term refinancing or financing, or to do so on favorable terms, which would negatively impact our liquidity and financial condition.

**Credit risk**

If our financial situation deteriorates, it may negatively affect financing costs and the granting of new financing. A possible downgrade by the rating agencies may increase the cost and/or limit our financing availability which would make difficult, if necessary, a capital increase.

**Taxes**

Often tax legislation is amended by the competent authorities. These amendments or interpretations by the authority of applicable provisions may significantly adversely affect the Company's tax liabilities and the compliance costs derived therefrom. Likewise, the authority may have application and interpretation criteria, regarding the applicable norms, that differ from those of the Issuer.

The Company is frequently subject to tax audit proceedings by tax authorities and subject to possible tax liabilities determined by said authorities, which may adversely impact the businesses' financial situation and cash flows.

In this regard and monitoring the 2006 tax claim, reported in the 2015 consolidated financial statements and pursuant to its current procedural stage, to December 31, 2018, and to this date, a guarantee of \$966.7 million was established. For additional information see section 3) *Financial Information*, c) *Material Loan Information*

For tax years 2010 and 2013, official audit closing letters were obtained from the Tax Administration Service (SAT). As to tax years 2007, 2008 and 2009, the Company was notified of SAT official letters ruling revocation of the determined tax liabilities and ordered issuance of new official letters which instructed payment of the surcharges derived from the Company-made corrections to these tax years. The Company may continue with the contingency or a fortuitous event could impact the previous agreements, such as a change in administration. For additional information see section 3) *Financial Information*, c) *Material Loan Information*.

Posadas suppliers may be considered taxpayers by the SAT which implies the material inexistence of these operations, therefore also of the goods or services supplies that may be provided to Posadas. The elements proving the existence of the supply relationship that Posadas has, may be, at the discretion of the SAT, insufficient to prove the existence and performance of the supply, affirmative, negative covenants of each supplier. Therefore, the corresponding expenses may be considered non-deductible for the purposes of determining Income Tax, as well as the impossibility of proving the transferred Value Added Tax, and potentially altering the tax basis of the corresponding tax determined

and paid during the last 5 (five) years to the date of the income tax statement. Thus, taxpayers are obligated to recalculate and pay the corresponding taxes, in addition, if they do not prove the material existence of the operations covered in the tax receipts, they will be considered for the purpose of tax crimes as simulated acts or contracts.

### **Proceedings and claims**

The Company faces a series of legal proceedings other than tax proceedings, arising from the normal course of its operations. Except for the contingency reserve derived due to litigation in Argentina in which a final ruling unfavorable to Posadas was issued, and ordered to pay legal costs and expenses, in other instances due to the incipient nature of the proceedings, their lack of relevance, or the impossibility of determining a probable contingency amount, there have not been established in all cases the related reserves. However, in the opinion of Company management and its legal advisors, the outcome of litigation contingencies to December 31, 2016, will not significantly affect its consolidated financial situation nor its operating results in the short term.

As we have referred in other information, in 2017, Posadas, and other relevant defendants were the subject of an employment proceeding by two *Compañía Mexicana de Aviación* unions. The company has presented its defense and, procedurally, these proceedings have not progressed significantly

Some subsidiaries are facing claims other than tax claims, arising from their customary operations or the ordinary course of business. Of these claims, only some principal amounts are covered by contingency reserves included in the consolidated financial position statement under long-term accumulated liabilities. The Company considers that said contingencies uncovered by reserves will not significantly affect the Company's consolidated financial situation.

The Company and its executives may be subject to proceedings of various types which would cause the Company to allocate resources to respond to said proceedings and, if applicable, to comply with the outcome of said proceedings.

On the other hand, the Company has initiated several proceedings challenging the applicability or constitutionality of several norms. Although, the Company believes that it has all the legal elements to obtain a favorable ruling, a contrary interpretation may result in the implementation of determined controls and procedures that may imply considerable costs to the Company or change the Company's current operational structure.

### **We are exposed to currency and exchange rate risk on our debt, and we have entered into derivatives contracts**

Historically, the majority of our indebtedness had been denominated in U.S. dollars. As of December 31, 2018, 98% of our total indebtedness was denominated in U.S. dollars and at fixed rates. As a result, we were slightly exposed to risks from fluctuations in interest rates.

To help minimize our exposure to high volatility in peso interest rates, we have sought to maintain a significant percentage of our indebtedness in U.S. dollars. Generally, when non-U.S. dollar markets are available to issue debt, we enter into derivative financial instruments with financial institutions so as to balance and align our debt with our revenues. Currently, we have not contracted financial derivative instruments to cover currency volatility or interest rate risks but this does not mean that we may not contract derivatives in the future for hedging purposes.

Likewise, the night/room rates of certain Mexican hotels are typically quoted in U.S. dollars, as well as is the sale and financing of Vacation Product memberships, nevertheless we have seen a greater tendency to set most of these debts at a fixed currency exchange or rate agreed upon at the moment the operation is executed. As such, these operations are denominated in Mexican currency. However, our holdings in derivatives or our decision to not invest in derivatives may be insufficient to mitigate our risks.

We may determine that such risks are acceptable or that the protection available through derivative instruments is insufficient or too costly. These determinations depend on many factors, including market conditions, the specific risks in question and our expectations concerning future market developments. We review our derivative positions regularly, and our valuation policies change from time to time. However, our derivative positions or our decision to not cover with derivatives may be insufficient to lessen our risks.

We do not usually enter into derivative financial instruments for any purpose other than those already stated; however, these are limited in amount and frequency, and we may so enter in the future. The types of derivative instruments that we have recently executed encompass, principally, cross-currency swaps, in which we generally pay United States dollar amounts based on fixed interest rates and receive Mexican peso amounts at floating interest rates and dollar sales on terms less than three months.

If financial markets experience periods of heightened volatility, as they have recently, our operating results may be substantially affected by variations in exchange rates.

Although we attempt to match the cash flows of our derivative transactions with the flows on our indebtedness, the net effects on our reported results in any period are difficult to predict and depend on market conditions and our specific derivatives positions. Although we seek to enter into derivatives that are not significantly affected by volatility, in the event of volatile market conditions, our exposure under derivative instruments may increase to a level that impacts our financial condition and operating results. In addition, volatile market conditions may require us to post collateral to counterparties in our derivative instrument transactions, which would affect our cash flow position, the availability of cash for our operations, as well as our financial condition and operating results.

Our derivative instrument transactions may also be subject to the risk that our counterparties will seek commercial insolvency protection. Instability and uncertainty in financial markets have made it more difficult to assess the counterparty risk in derivatives contracts. Moreover, in light of the greater volatility in the derivatives and securities exchange markets, there may be fewer financial entities available with which we could continue entering into derivative financial instruments to protect the Company against currency exchange risks, and the financial conditions of our counterparties may be adversely affected under stressful conditions.

To 2018 closing, approximately 55% of our cash was in dollars.

**Costs of compliance with employment laws, agreements, and regulations which could adversely affect operating results.**

Collective bargaining agreements for hotel employees and some corporate offices have been signed and are reviewed and renewed periodically. Although under management contracts terms, collective bargaining agreements or individual contracts, as well as the performance of certain service contracts executed with third parties that render recurring or temporary services in our facilities, as applicable, the employees at our managed hotels or of third party hotels are employed by the hotel owners or third parties, nevertheless these employees may file their claims against us. In such circumstances, if we are not successful in defending our position before an employment court, we may be held liable for those employee claims. A similar situation would occur in the case of franchised hotels.

We also have a large number of outsourcing, construction work, security, promotion or intermediation services suppliers, among other service providers, whose employees or auditing authorities such as the IMSS or INFONAVIT<sup>T.N.</sup> may, despite all precautions, file lawsuits against us or make us jointly and/or alternatively responsible. Under such circumstances, if our defense is not successful, employment or labor-administrative obligations may be imposed on us.

In addition, we have a significant number of employees working at our own hotels. Although we have not experienced significant labor stoppages or disruptions to this date, the failure to timely renegotiate the expiring contracts may result in labor strikes or disruptions which could adversely affect our revenues and profitability or harm our client relationships.

Employment costs, generally, including those related to indemnity and payments under employment and tax laws are significant, and may escalate beyond our expectations which could have an adverse effect on our operating margins. Recently, amendments were made to the employment justice and union membership system, and new amendment are being negotiated by the Mexican Congress. However, and notwithstanding the result, the application criteria of said amendment by the administrative and judicial authorities are still unknown, and may have an adverse effect on the Company or its subsidiaries. Likewise, new worker and central unions have appeared which may have disputes with the present worker unions regarding collective bargaining contracts at our work centers and potentially cause that work conflicts transcend to the operation and profitability of our business and the third party businesses that we manage.

**Contractors may breach obligations to develop real properties.**

The Company contracts from third parties: the rendering of design, construction work, coordination, supervision and equipment services for owned and leased hotels. Even though the Company signs agreements regarding the quality standards, price and services and compliance with the regulatory provisions of the finished products, and the performance of said services, the Company cannot ensure that the professionals and service providers hired will comply with said obligations or do so timely. This may cause risk related circumstances adverse to the Company's economy, legal position and reputation.

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<sup>T.N.</sup> The first set of initials corresponds "Instituto Mexicano del Seguro Social" and the second to "Instituto del Fondo Nacional de la Vivienda para los Trabajadores"

### **Our insurance coverage may be insufficient to cover potential losses.**

We carry insurance coverage for general civil liability, damage to property, business interruption, terrorism and other contingencies with respect to our owned and leased hotels; likewise, the owners of managed, leased and franchised hotels are contractually bound to have the same coverage for the same risks. However, the owners may fail to contract and maintain such insurance.

The policies contracted by the Company offer coverage terms and conditions that we believe are usual and customary for our industry. Generally, our “all-risk” policies provide that coverage is available on a per-occurrence basis and that each occurrence has a limit as well as various sub-limits on the amount of insurance proceeds that we will receive in excess of applicable deductibles. In addition, there may be overall indemnification limits under policy terms. Sub-limits exist for certain types of claims such as service interruption, debris removal, immediate costs or landscaping vegetation replacement, and other landscaping elements; however, the amounts covered by these sub-limits are significantly lower than the amounts covered under the overall coverage limit. Our policies also provide that, for coverage of earthquakes, hurricanes and floods, all claims from any hotel resulting from a covered event must be combined for purposes of the annual aggregate coverage limits and sub-limits. In addition, any such claims will be combined with the claims made by the owners of managed and franchised hotels that participate in our insurance program. Therefore, if covered events occur affecting more than one of our owned hotels and/or managed and/or franchised hotels that participate in our insurance program, the claims from each affected hotel will be added together to determine whether, depending on the claim type, the per-occurrence limit, annual aggregate limit or sub-limits have been reached. If the limits or sub-limits are exceeded, then each affected hotel would only receive a proportional share of the insurance payout amount provided for under the policy. In addition, under those circumstances, claims by third-party owners would reduce the coverage available for our owned and leased hotels.

There are also other risks including, but not limited to, armed conflicts or guerilla warfare, certain forms of nuclear, biological or chemical terrorism, certain forms of political risks, some environmental hazards and/or certain events or acts of God that may be deemed or considered outside of the general coverage limits of our policies, uninsurable (such as unlawful conduct) or for which carrying insurance coverage is cost-prohibitive.

Obtaining indemnity payments from insurance providers for a particular claim that we believe to be covered under our policy may also be considered a risk. Should an uninsured loss or a loss in excess of our insured limits occur, we could lose all or a portion of the capital that we have invested in a hotel owned, managed, franchised or leased by us, as well as the anticipated future income from any such hotel. In that event, we might nevertheless remain bound to any lease payments or any other financial obligations related to the hotel, or a third party considers that the corporation is liable for criminal negligence or negligence or of our personnel and decides to hold us responsible for the actual or consequential losses.

When we contract third parties for certain services such as construction services, we usually require that they contract determined insurance policies or bonds in benefit of the Company. It may occur that third parties are affected by situations for which the insurance or bond retained is ineffective or that events arise that may be deemed or considered to fall outside coverage of the insurance or bond policies, or that are uninsurable.

Usually, damage incurred by our guests and their property and interests are covered by our insurance policies for civil liability. However, not all risks to which our installations are exposed, such as torts committed by third parties and our guests, or hotel employees are covered by civil liability insurance. Service standards or the determinations of governmental authorities may impose hotel responsibility, or perhaps, even though the hotel is not liable, it may decide to redress the actual or consequential losses of the guest. These circumstances may affect the performance and results of the hotels, regardless of whether the measures taken to mitigate are enough or effective.

### **Violations to applicable anticorruption, money laundering, and other applicable unlawful activities laws**

Our business operations in Mexico and abroad are subject to anticorruption laws which generally prohibit that enterprises and their intermediaries make inappropriate payments to government officers or to any other person in order to obtain or hold onto business, obtain government authorizations, non-application of the law; or to carry out operations with persons or with unlawful proceeds, and to periodically report operations denominated “vulnerable” as well compile files thereof.

The Company has implemented policies and procedures to identify vulnerable activities and comply with the policies provided for in the Federal Law for the Prevention and Identification of Operations with the Proceeds of Unlawful Activities (LFPIORI, due to its initials in Spanish). However, we cannot guarantee that our interpretation of vulnerable activities coincides with that of the authority or that the reporting format limitations may result in a situation contrary to the provisions. Likewise, we are subject to the delivery of information and final beneficiary information by our counterparties and beneficiaries, therefore it is possible that our files are in the compliance process, or that the

information received is incomplete or inaccurate, or we should not carry out operations with third parties because we lack information. This would affect operating results.

The Company has policies applicable to our employees, managers and directors regarding compliance with anticorruption and money laundering laws, and we consider that we comply with said national provisions related to identification and prevention of operations with unlawful proceeds. However, we cannot ensure that none of our employees or executives contravene our internal or the authority's regulation and violate these provisions.

Likewise, the Company provides services to the general public and it is legally prohibited from discriminating due to any reason or refuse to provide service to the public, unless a judicial order exists to the contrary. However, it is possible that persons charged as probably responsible for committing unlawful activities by Mexican or foreign authorities, are unidentified users of our services.

The Company makes reasonable efforts within a legal and preventive framework to deter criminal conduct in its installations and its operated hotels, but it cannot ensure success. However, employees, guests or clients using the installations may furtively, unperceivably or threateningly carry out other unlawful or violent conduct that may represent an all-around risk to the Company, its employees and guests, or hotel owners.

In case of contravention of the applicable normativity, the corresponding administrative, civil and criminal penalties would be applicable which would affect the operating results, financial conditions and cash flow, as well as the Company's image.

### **Vacation Product Sales**

We develop and operate Vacation Product resorts by marketing memberships granting the right to use said resorts. Most of the time, to pay the price of the memberships, interest-accruing monthly payments are granted. The applicable provisions in this regard grant the purchaser the right to rescind the purchase contract without justification in a term of five business days counted from the signing of the contract. The operation and sale of said memberships is subject to Mexican legal provisions, which we believe fulfill or are in the process of complying. Changes to these legal requirements or an applicable determination by an authority may adversely affect our business and the manner in which we operate our Vacation Products.

At present, we bear the risks derived from purchase contracts for Vacation Product memberships. Members of our Vacation Products buy a 40 year time-share right, evidenced by a yearly assignation of Vacation Product points. We typically charge an initial payment of between 10% and 30% of the total price of the membership and offer monthly installment payment plans that comprise both payments of capital and interest on the unpaid balance of the purchase price. We recognize as income the entire value of a purchase contract when 10% of the purchase price is paid. Our policy is to cancel, against the corporate year's profits, those memberships that unsuccessfully passed through all recovery collection proceedings. When a purchaser executes a Vacation Product installment purchase contract, the possible default on said sale is covered by a reserve. However, our reserve could be insufficient to offset breaches and negatively affect our financial statements.

Also, historically, our Vacation Product sales had been substantially denominated in U.S. dollars. Due to the financial crises, a significant portion of our Vacation Product revenues have been recalculated at the request of members facing liquidity difficulties, to Mexican pesos, albeit at a higher interest rate. The great majority of Mexican members that wanted to convert or agree at the onset their installment payment obligations from U.S. dollars to Mexican pesos have been able to do so. We expect to continue to offer peso-denominated payment plans to Mexican residents.

Notwithstanding our currency redenomination of a significant portion of our Vacation Product receivables portfolio, many installment Vacation Product sales remain denominated in U.S. dollars. Accordingly, our results will still be affected by U.S. dollar-peso exchange rate fluctuations.

While membership payments are made in U.S. dollars throughout the payment period in force, and sales revenues are registered in U.S. dollars at the time the contract is signed, the value of the memberships may ultimately be discounted in the same currency offering natural currency coverage. We do not completely hedge our exposure to exchange rate fluctuation risk. Traditionally, we have not executed hedging transactions for this exposure.

Nowadays, our Vacation Products have signed exchange agreements with RCI, Hilton, The Registry Collection and the selfsame hotels of Posadas. However, said agreements may terminate or not be renewed, which would decrease the sale quality of Vacation Product memberships, thereby affecting sale and consequently affecting profits.

Vacation Product members pay annual maintenance fees that are allocated to operate and maintain time-share resorts. Failure to pay maintenance fees by the members results in the cancellation of the pertinent contract, thus freeing inventory for a new sale. With respect to our members who liquidated 100% (one hundred percent) of their membership,

failure to pay maintenance fees entitles the member to terminate the time-share contract, after paying a residual value to the company, or, the company may rescind the time-share contract. However, the preceding breaches of obligation may cause the Company to allocate funds to cover said expenditures.

Considerable amounts must be invested by the Company to maintain and obtain inventory allocations and this investment requires lengthy time periods to complete its implementation and availability. Lack of inventory to sell time-share arrangements could negatively impact sale possibilities of Vacation Product memberships.

**Any failure in the creation and protection of our brands could have a negative impact on the value of our brand names and adversely affect our business.**

We believe our brands and trade names are an important component of our business and of the hotel business in general. We rely on laws that protect intellectual and industrial property rights to protect our registered proprietary rights. The success of our business depends in part upon our continued ability to use our industrial property rights to increase brand awareness and further develop our brands on both the Mexican and international markets. Monitoring and restricting the unauthorized use of our intellectual property is difficult, expensive and burdensome. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the intellectual proprietary rights of third parties. Litigation of this type could result in substantial costs and we could be forced to allocate funds to said purposes and which may result in counterclaims or other claims against the Company, diverting management's attention and could significantly harm our operating results.

Frequently, we apply for registration in order to obtain or keep certain trademarks registered. There is no guarantee that such trademark or trade name registrations will be granted. We cannot ensure that all of the steps we have taken to protect our trademarks in Mexico and other countries will be sufficient, since the Company's operation and finances may be adversely affected if the income and the operating profits are insufficient to prevent infringement of our trademarks by third parties. The unauthorized reproduction of our trademark may result in diminishing the value of our brand and its acceptance in the market, loss of competitive advantage or brand goodwill, and could adversely affect our business.

During the course of our activities, third parties may consider that Posadas violates or infringes their derechos industrial or intellectual property rights. Although Posadas intends to implement measures that mitigate possible exposure to these claims, these measures may be insufficient or ineffective or differ in interpretation and in the future, it may be necessary to use litigation proceedings to defend the use of intellectual or industrial property rights, in order to determine the validity and scope of third party intellectual property rights. Litigation of this nature may result in substantial costs and obligate us to allocate funds for said purposes, which may result in counterclaims or other lawsuits against the Company, distract the attention of company directors, impact our reputation and may significantly affect the results of our operations

The offer of hotel products is in constant renewal, the trend being to establish new brands by segments, individualizing the types of service, travel experiences, target markets, amongst others. Posadas has been investing in research and the creation of new hotel products and concept brands. The launch, positioning and acceptance of these new brands by the market is uncertain, thus these efforts may represent investments and expenses that not necessarily represent successful products, perhaps adversely affecting our business.

**Stoppages or failures in information systems**

The Company's operation depends on sophisticated information systems and infrastructure through which it supports or carries out its operations or processes. Systems are prone to failures arising from fires, floods, power outages, information or infrastructure theft, telecommunication failures, system failures, among other reasons. The occurrence of any failure may affect Posadas' operations, which may negatively impact its sales and/or operating costs. Even though there are some plans to reduce the impact of such failures, said plans may not be effective.

To mitigate information loss and operating failures in its systems, the Company stores its technological platform in a private cloud and with high availability programs pursuant to best industry practices, complemented with the best security control and information protection, although these measures may be insufficient.

**Risk of outdated room distribution technology**

Due to changes in the purchasing trends of travelers, there exists a greater demand for high-content hotel information in order to make purchasing decisions. Likewise, purchasing preferences may include different services such as airplanes, hotel, car rental and the attractions existing at the destination selected. All of the above, require online information transfers coming from different sites or databases that demand a high-capacity systems infrastructure to consolidate information both from Posadas as well as from those other intermediaries that render services connecting our products and the final consumer.

This demand may imply important technology and content investments, as well as high distribution costs that may make less profitable the marketing of our products. Furthermore, due to the lack of investment, or investment in inappropriate products, or accelerated technology trends, we may become outdated in technological advances in comparison with our competitors and suppliers. This could negatively affect optimal connectivity with principal channels and/or not have the capacity to send the content (images, videos, information) to all websites.

### **Information security and computer system hacking**

The Company safeguards the correct functioning of computer security controls designed to reasonably guarantee the trustworthiness, compliance, confidentiality, integrity and availability of the information which it possesses and that which is under its safekeeping. It seeks to identify, evaluate and mitigate risks, vulnerabilities and threats that may adversely impact the information, data bases, systems and the continuity of operations, including the risk existing from the departure of personnel.

Likewise, the information management systems and the procedures for the use and preservation of the same are exposed to failures derived from fires, flood, loss of electrical energy, theft of information or infra-structure, telecommunication breakdowns, imperfections in the selfsame systems, amongst other reasons, or to interpretative guidelines by the authorities, different from those applied by the Company administration.

The Company keeps a system access control and registry to prevent any unauthorized access to information systems and equipment, as well as informational misuse, through a strict control of assignment and use of information access privileges.

Management by the business units of personal or sensitive information is regulated by the Federal for the Protection of Personal Information, this is clearly and indubitably communicated or made available to the clients or third parties since the first contact by means of a privacy notification regarding the protection of their personal information. The privacy notification should state, amongst, the principal purpose for compiling, utilizing and disclosing the information pertaining to clients or third parties.

The Company analyzes in detail the legal requirements to be fulfilled in order to implement control mechanisms that guarantee the privacy of the clients' or third parties' sensitive information under its safekeeping.

The Company has diverse policies to mitigate these risks:

- Corporate Information Security Policy
- Computer Equipment Renewal Policy
- Fund Monitoring Policy
- Information Backup due Disengagement Policy

The foregoing is bolstered by the formulation of an annual internal audit plan integrating data and information protection control processes that define formal, continuous and timely review mechanisms, including specific organizational areas, persons and systems. The latter to comply with the normativity established by the Technology Division. Likewise, the Audit area informs its audit results to the CEO and follows up action plans compliance.

The occurrence of any breakdown, intentional acts, or difference in interpretative guidelines may affect the operations of Posadas, perhaps having a negative impact on its sales and/or operating costs, maybe resulting in litigation and its implicit costs and eventually penalties and indemnities. Although some plans exist to reduce the impact of these breakdowns, said plans may not be sufficiently effective. Although the Company considers that it carries out sufficient activities and efforts to mitigate these risks, these measures may be insufficient or ineffective and adversely affect the operation of systems and/or have a negative impact on information use or disposal.

### **Investments and remodeling**

As part of the investment and disinvestment strategy in real estate assets, in 2018 the Fiesta Americana Condesa Cancun (FACC) hotel was sold for the net amount of \$2,004 million, of this amount \$1,489 million were invested in the following principal projects:

- Consolidation of our position as operators and owners of 12.5% of the hotel project "Tulkal" on the Riviera Maya. Two hotels are under construction in this development: a Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms, with opening date set for the first trimester of 2021. Posadas has contributed \$1,052 million encompassing 2017 and 2018, of which \$746 million were contributed during 2018.

- Remodel totally the Live Aqua Beach Resort Cancun (rooms, common area and restaurants), for a total investment of \$453 million, of which \$276 million correspond to Posadas (the remainder was contributed by the lessors). The remodel concluded at the beginning of 2019.

In addition, the Company is considering an investment project which is still in the determination stage; to increase the inventory in the time-share product Live Aqua Residence Club, a 45 room project for an estimated investment of \$216 million in San Miguel de Allende, Guanajuato; a real property investment project related to the Fiesta Americana Reforma hotel in the Reforma corridor, and the conversion to time-share of its Fiesta Americana Los Cabos hotel, with 249 rooms.

Developing projects of this kind may imply greater leverage, they may not be as successful and profitable or their development may be delayed or not materialized, or the corresponding financing may not be obtained.

### **Disinvestment and Sales**

The Company has carried out diverse disinvestment operations, conveying assets on which it has granted guarantees incumbent upon the sellers of the assets in the operation. The occurrence of hidden defects, allegation of better third party rights, the impossibility of obtaining or regulating either the real property or operating status may have adverse effects due to indemnity obligations and others expenses which may be incurred.

In the case of the Fiesta Americana Hermosillo sale in 2016, the rent received represented a neutral net flow, since the sale price depends on the hotel's performance for the following three years. The performance of the hotel depends on diverse factors, some of them external to Company control, therefore the purchase price may be significantly lower than expected, even lower than the market price of the land where it is built.

In 2017 sale agreements were executed subject to conditions precedent for the following hotels: Fiesta Americana Hacienda Galindo, Fiesta Inn Aeropuerto, and Fiesta Americana Condesa Cancun. Of these, to the date of this report, the condition precedent for the contracts of Hotel Fiesta Inn Aeropuerto and Fiesta Americana Condesa Cancun were fully complied, therefore, both transactions were concluded.

For the hotel Fiesta Americana Hacienda Galindo sale, the risks that may be incurred are:

- Not comply with the conditions precedent within the stipulated term, no later than December, 2019.
- Not successfully convey the full ownership and use of the Hotel.
- Not perform the real property regularization or clarification obligations related to the real estate boundary limits of the property corresponding to the conveyed real property.
- The calculation of the transaction price based on 10.06 times EBITDA in 2019, is under the estimate.
- That the purchaser breaches their obligations established in the contract.

In April 2018 the Company signed a sale contract for the hotel "Ramada Plaza" located in Laredo, Texas, U.S.A. The price agreed on for the operation was US\$2.5 million which were received between the months of April and June 2018. After this sale, the Company does not have hotel operations in the United States of America.

### **The Company may not be able to save on costs and successfully obtain determined operating efficiencies**

In the process of operating more efficiently, the Company makes investments intended to enhance its procedures and reduce its operating costs. The Company may be unable to reduce costs or attain efficiencies or be unable to confront issues arising from operating changes pursuing said end, which could negatively affect its performance and, in the applicable case, its effects and the costs to mitigate these.

### **Non-compliance with requirements to keep securities market listing and/or registration in the National Securities Registry**

The applicable norms impose a series of requirements to keep listing on the Bolsa Mexicana de Valores S.A.B. de C.V.<sup>T.N.</sup> and keep our securities registered in the National Securities Registry. To this date, the Issuer does not have certainty of information to conclude that it complies in full with the aforementioned registration requirements. Notwithstanding that it has taken certain actions to promote compliance, such measures may not be successful, and thus cause application of the corresponding penalties.

<sup>T.N.</sup>This is the Spanish for the Mexican Securities Exchange.

### **Impact of government regulatory changes**

The passing of new laws and legal provisions applicable to our industry and to our general activity, as well as their administrative or judicial interpretation, is implemented at the various government levels, and such laws and legal provisions may be amended from time to time. The effects of these amendments on our activity, in our market and country, in our clients' economy, in their capacity to travel to and stay in our hotels are unpredictable and unquantifiable. Furthermore, such effects may result in the implementation of specific controls and procedures which may represent important costs and risks for the Company, increase compliance costs, and make our activity less profitable. Moreover, such controls and procedures may not be mitigated or may modify or restrict the manner in which the company is currently operating.

Likewise, it is possible that in interpreting or changing the interpretation of the applicable norms, the competent authorities differ from the interpretation criteria used by the Issuer and, therefore, conclude that the Issuer is not complying with the applicable regulations. If said predicates materialize, this may represent important costs and risks for the Company.

### **Risks Related to the Hospitality Industry**

#### **We are subject to all operating risks common to the hotel and vacation products business industries**

These risks include the following:

- Changes in general economic conditions, including the timing and robustness of recovery from the current economic downturn;
- Impact of the perception of violence, wars and terrorism activities on travel desirability;
- Domestic and international political and geopolitical conditions, including civil uprisings and unrest, expropriation, nationalization and repatriation;
- Travelers' fears of exposure to contagious diseases;
- Decrease in demand or increase in inventory for the sale of vacation properties;
- Impact of internet intermediaries on pricing and continuing reliance on technology;
- Restrictive changes or interpretations of laws and regulations, as well as any other governmental actions, related to zoning and land use, tourism, financial aspects, health, security, the environment, operations, taxation, and immigration;
- Changes in travel patterns;
- Weakness of the markets which originate tourists relevant to our geography;
- Changes in operating costs including energy, employment, insurance and others related to natural disasters and their consequences;
- Disputes with third parties which may result in litigation;
- Disputes relating to the right to use patents and brands and other industrial or Intellectual property rights;
- Availability of capital to fund construction, remodeling and other investments;
- Currency exchange fluctuations;
- Personal injuries that may result in claims brought by our clients or third parties in general;
- The financial condition of owners whose properties we operate.
- The financial condition of the airline industry and its impact on the hotel industry.
- The lack or untimeliness of national and international promotion and publicity of the destinations where Posadas operates hotels.
- Shortage or lack of supply of gasoline, affecting those zones in the country where the Company operates hotels, negatively impacting the effective rate.

#### **The Hotel Industry is Cyclical**

The hotel industry is cyclical by nature. Of the 27,491 hotel rooms that the Company operated as of December 31, 2018 (including Vacation Products), 16% are located in beach destinations where the cyclical aspect is more pronounced in contrast to business hotels. Generally, our Resort hotel revenues are greater in the first and fourth quarters, which reflect winter vacations, than in the second and third quarters. This seasonal cycle may generate quarterly fluctuations in the Company's revenues.

#### **General Real Property Investment Risks**

The Company is subject to the risks inherent in real property ownership and operation. Profitability on the Company's hotels may be affected by changes in local economic conditions, competition from other hotels, interest rate variations and financing availability, legislation impact and compliance with environmental and civil protection laws, issuance and renewal of licenses and permits to operate its businesses, amongst others, continual need for improvements and remodeling, especially of older structures, tax modifications affecting realty, adverse changes in governmental and fiscal policies, as well as disasters, including earthquakes, hurricanes and other natural disasters, adverse changes in federal, state and municipal laws and other factors beyond the Company's control. These may significantly affect operating cost and capacity.

### **Lack of Real Property Liquidity**

Real property is relatively liquid. The Company's ability to diversify its investment in hotel properties in response to economic or other conditions may be limited. There can be no assurance that the market value of any of the Company's hotels will not decrease in the future. The Company cannot guarantee that it will be able to dispose of a hotel if it deems it advantageous or necessary, nor can the Company assure that the sale price of any of its properties will be sufficient to recoup or exceed the Company's original investment amount. The assets allocated to time-share are registered with a real property lien in the corresponding Public Registry of Property in favor of the holders of the time-share for the period of their vested right (40 years), consequently, the rights of the holders of the time-shares are enforceable against third parties or have a preference with respect to the persons entitled to said real properties.

### **Natural Disasters (Acts of God)**

The real properties operated by the Company are subject for events of *forcé majeure*, such as natural disasters and, specifically in those locations where we have a property or where we operate various hotels. Some of these events may be hurricanes, earthquakes, epidemics, terrorism and environmental circumstances (for example, the unusual presence of bladderwrack) and not all can be insured, or the insurance would be very costly with significant deductibles for the Company. Although the company policy is that said realty has an "All Risk" insurance policy, the damages that may be caused by these type of events or that the real properties have not been correctly insured by their respective owners or that there is a coverage exemption, represent a risk factor that may have a significant adverse effect on the operation of the real properties and on the income derived from the same, on the financial situation or the operating results of the Company. Likewise, once the damage has occurred, rebuilding may be compromised by unusual supply and labor requirements or other requirements imposed by the authority.

Since there may be more than one hurricane at the same time in the same region, we may be exposed to greater risk depending on the region. The Company operate 16 hotels in beach locations (Resorts) and of these 7 are situated in Cancun, Cozumel and the Riviera Maya, same which are subject to hurricanes and that may be affected by loss of business due to a decrease in activity in the hurricane zone.

In September 2017 meteorological phenomena and earthquakes occurred, thus deferring tourist flow and materially affecting occupancy in the second half of the month, Even though, the installations of some hotels owned by the Company suffered non-structural damages, and said hotels had insurance policies with coverage for damages to real property and consequential losses, the reconditioning work led to temporarily suspending room inventory, our clientele modified or deferred their travel plans and programmed events, with slight possibility of adjusting related expenses, significantly impacting the second half of the month, as to occupancy factors and average system rate. For more details see *Note 2, part k, of the audited consolidated financial statements of the Company* which are included in this Annual Report Annual (Attachment).

### **Epidemics**

The hotel industry is also susceptible to all sanitary contingencies that may directly affect national and international tourist flow, as well as business traveler flow which may affect occupancy factors and consumption at the real properties operated by the Company.

### **Environmental Regulations and other Regulations**

We are subject to local and federal laws, ordinances and regulations relating to, among other things, taxes, environmental matters, the preparation and sale of food and beverages, handicap accessibility, use and disposal of water and waste, construction, occupational, health, sanitation and safety, and general building, zoning and operating requirements in the various jurisdictions in which our hotels are located and protection of personal information to which we have access. Hotel owners and managers are also subject to compliance with laws governing employment and social security. Compliance with and monitoring these laws may be complex and costly. Failure to comply with the preceding laws may substantially and adversely affect our operating results.

Environmental laws, ordinances and regulations in the various jurisdictions in which we operate may make us liable for the costs of removing, cleaning up or eliminating hazardous or toxic substances on, under, or in the property we currently own, operate or lease or that we previously owned, operated or leased without regard to whether we knew of, or were responsible for, the presence of hazardous or toxic substances. The presence of hazardous or toxic substances or the failure to properly clean up such substances, if present, could jeopardize our ability to develop, use, sell or rent the affected realty or to borrow money using such property as a guarantee. We are also subject to other laws, ordinances and regulations relating to lead, materials containing asbestos, operation and closure of storage tanks, and preservation of wetlands, coastal zones or endangered species, which could limit our ability to develop, use, sell or rent our real property or use it as collateral. Future changes in environmental laws or the discovery of currently unknown environmental conditions, including archeological zones, may have a substantial adverse effect on our financial condition and operating results. In addition, Mexican environmental regulations have become increasingly stringent. This trend is likely to continue with the passing of time and may be influenced by various international environmental agreements.

Governments are implementing campaigns against single use plastics. These measures include prohibitions, restrictions and tariffs on throw-away plastic articles or the implementation of improved recycling installations and the development of viable alternatives to substitute the articles most commonly found in marine litter. Diverse legislative initiatives exist which may be formulated as regards other articles, remains etc., at the national and international level.

The creation of new environmentally protected areas may affect or impose operating or economic costs on our operations. Our compliance with the latter may be challenged by the authority. Accordingly, there can be no assurance that a more stringent enforcement of existing laws and regulations or the adoption of additional legislation or our interpretative criteria of the same would not have a material effect on our business and financial (or other) conditions or prospects.

Posadas acknowledges the importance of its environment, the significance of its activity in the communities in which it operate, as well as the conservation of natural resources, it is for this reason that it integrates the efforts of all its business units and aligns its practices for social, economic and environmental development through its Sustainability Committee. This Committee which held its first session in 2018 and which principal objective is to promote and insert into daily practices, activities to establish an authentic culture which privileges sustainability guidelines, both in the business as well as with interest groups with which it interacts (collaborators, suppliers, clients, shareholders, investors and partners).

#### **Concentration in Internet distribution channels may negatively impact our cost distribution**

A significant number of our hotel rooms are booked through internet travel intermediaries such as Booking.com®, Best Day®, Apple Leisure Group®, Costco Travel®, The Mark Travel®, TUI UK® which have expanded in recent years. To the extent that the increase of bookings through these channels may cause that these intermediaries obtain higher commissions, discounted rates, and other contract concessions from the Company. Moreover, some of these Internet travel intermediaries are attempting to convert hotel rooms into commodities, by increasing the use of generic price and quality indicators (such as “three-star downtown hotel”) at the expense of brand identification. These agencies expect that consumers will eventually develop brand loyalties to their reservations systems rather than to the brands of the hotel suppliers.

Although we expect to derive most of our business from our direct distribution channels (call center, our corporate sales booking tools and our websites) and traditional distribution channels, if the amount of sales made through internet intermediaries increases significantly, the Company’s business and profitability may be adversely impacted.

#### **The hotel industry is significantly dependent on technology**

The hotel industry continues to demand the use of technology and sophisticated systems including solutions utilized for property management, income management, quality and brand control, procurement, reservation systems, operation of our customer loyalty program, distribution and guest services. These technologies may be subject to or require enhancements and new interfaces, including those complying with legal requirements such as privacy regulations and specifications established by third parties, such as the electronic card payment industry. Further, the development and upkeep of these technologies may require a significant capital investment. There are no assurances that as various systems and technologies become outdated, or new technology is required, we will be able to replace or introduce new systems in the manner of our competitors or within budgeted costs and pertinent timeframes for such technology. Furthermore, there can be no assurance that we will achieve the benefits anticipated from any new technology platform or system.

## **The Hotel Industry is Capital Intensive**

For our hotel properties to remain attractive and competitive, the Company or the hotel owner, as applicable, must periodically spend a percentage of their income flows. This creates an ongoing need for cash, to the extent that if the Company or the hotel owners, as the case may be, cannot fund capital expenditures from the income flow generated by operations, then the funds must come from additional financing. The upkeep of the Resorts allocated to time-share is paid with the maintenance fees contributed by the clients. If the fee collection or budget is insufficient, the Company must undertake said costs with its own funds. In addition, the Company, to continue growing its Vacation Products business, must use cash flow or contract additional indebtedness to develop new units. Accordingly, the Company's financial results may be affected by the cost and availability of such funds.

## **Public Security**

Diverse situations related to public security in different areas of the country may affect hotel operations, our clients and collaborators, which may lead us to decide to temporarily or definitely close hotels in determined areas or conclude that they are economically unfeasible.

The perception of insecurity in some cities and in the country by some potential guests may have repercussions on tourist flow and business travelers to the destinations in which the Company operates a hotel, which may adversely affect our income and operating results as a consequence of decreased demand for the affected destinations. This has also been the argument of some clients to cancel sus reservations, impacting the group and individual segments, principally. The cancellation or the disputes arising from cancellation attempts may affect the operating results of the Company.

Likewise, the travel alerts issued by other countries regarding several states of the Mexican Republic may adversely affect tourist flow to Mexico and/or delay their travel plans, thus affecting the Company operating results.

## **Risks Relating to Mexico**

### **Mexican Economic Conditions and Government Policies**

The Company and a significant part of its subsidiaries are incorporated under Mexican law, and its corporate offices, as well as an important part of its assets, are located in Mexico. Thus, the Company's operating results have been and in the future will be significantly affected by Mexican political, social and economic conditions.

The Mexican government has exercised significant influence over the Mexican economy. Therefore, the Government's economic policies may have a significant impact on the private sector in general, and on the Company in particular, as well as on market conditions, on prices and payment of the securities issued by Mexican legal entities, including those issued by the Company.

In the past, Mexico has experienced periods of slow, and even negative economic growth; the peso suffered drastic devaluations and currency exchange controls were implemented. Beginning in 1994, and during 1995, Mexico underwent an economic crisis characterized by devaluation of the peso in regard to other currencies, increased inflation, high interest rates, capital flight, negative economic growth, reduction in consumer purchasing power, and a high unemployment rate.

The Mexican economic crisis and slowdown may generate a material adverse effect on the Company's operations and financial conditions, as well as a stronger currency exchange rate could reduce the flow of international tourists to our country. In 2016, 2017 and 2018 the GDP was only 2.4%, 2.3% and 2.0% respectively, due to federal government efforts to implement government structural reforms, such as energy and tax legislative reforms. In 2018, the service industry was a propellant, however the industrial sector was weakened by both construction, mining, and manufacturing industries.

In 2015 and 2016, the peso depreciated significantly against the United States dollar, representing a 16.91% depreciation for 2015 and 20.09% for 2016. This affected the Company's debt leverage and interest hedge index since most of its debt is denominated in United States dollars. However, in 2017 and 2018, the peso appreciated by 4.29% and 0.26%, respectively.

Countries invest important amounts of funds in promoting and publicizing to attract tourists to their country. The decision of the Federal government to cancel the Tourism Promotional Council of Mexico and the reassignment of the tourism aspect of the promotion of the Mexico brand and its destinations to the Ministry of Foreign Affairs may have as a consequence a fall in the demand by foreign visitors of our national territory. The percentage of guests coming from abroad to our hotel at resorts is approximately 60%, while for our city hotels it is close to 10% (Source: Posadas).

## **Currency exchange fluctuations**

As of December 31, 2018, 97% of our total indebtedness was denominated in U.S. dollars. While the majority of the Company's sales (approximately 73%) are peso denominated, an important portion of the accounts receivable are denominated in US dollars; see Notes 8,11 and 17 in the Company's audited consolidated financial statements included in this Annual Report (Attachment). The peso has been subjected to significant past depreciations and may be depreciated in the future. Peso depreciation would negatively impact the Company's results and financial condition due to implicit increased financing costs. This because the peso cost of the Company's dollar indebtedness would increase and would affect the Company's ability to pay its dollar denominated debt. The currency exchange rate for the period ending in December 2018 was \$19.6829 pesos per United States Dollar that represented a 0.26% appreciation during the corporate year. Regarding the use of derivatives, we have used mainly cross-currency swaps where we pay a fixed United States Dollar rate in USD and receive a floating peso rate. During higher volatility periods such as those experienced in the 2008-2010 markets, these may represent significant variations as currency losses and gains, and to a lesser extent variation in interest rates that may considerably affect operating results. As of December 31, 2015, the Company had a sell position of US\$14 M equivalent to \$242.8 M with due date of January 11, 2016. To December 31, 2018, the Company did not have any financial derivative instrument signed.

## **Inflation**

Given that a significant portion of the Company's operating costs are peso-denominated, a considerable inflation increase may in turn increase the Company's operating costs. Inflation may affect our client's purchasing power, and, in this manner, it may adversely affect the demand for hotel rooms and Vacation Products memberships. Inflation fluctuations may importantly affect the Company's financial situation and operating results. The annual inflation rates, in accordance with the National Consumer Price Index ("INPC", due to its initials in Spanish) measurements published by *Banco de Mexico* have been 3.4%, 6.8% and 4.8% for 2016, 2017 and 2018, respectively.

## **Interest Rates**

As in the case of the value of the peso against the dollar and inflation levels, historically interest rates in Mexico have undergone volatility periods. These adverse situations have affected the Mexican economy, including inflation increases, and thus have resulted in substantial interest rate increases in the Mexican market during such periods. Interest rate movements may affect directly the Company's integrated financing result, thereby increasing its financing costs, in the event its bank debt is contracted at a floating rate. However, the recently experienced fall of interest rates on international markets has reduced the Company's financial risk. Interest rates on 28-day CETES (Mexican Treasury Bills) for 2016, 2017 and 2018 are: 4.2%, 6.7% and 7.6% (at the corporate year closing 8.17%), respectively.

To this report's date, the Company has timely complied with all its interest and capital payments due dates pursuant to all its bank, securities exchange and operating commitments.

## **Risks related to Economic Downturn in United States of America and other countries**

The risk of an economic downturn in the United States of America, Europe or other countries may imply changes to the inhabitants' spending patterns, such as postponing or cancelling travel decisions which may be reflected in lower occupancy in the Company's hotels, specifically those beach destinations with greater influx of tourists from the United States, such as Cancun and Los Cabos.

The Brexit associated economic problems could affect travelers coming from the United Kingdom, the third originating market for Mexico; in South America, the economic crisis in Argentina, and the macroeconomic weakness of Brazil (fourth and fifth originating markets for Mexico, respectively) could have as a consequence less flow of tourists from these alternative international markets in the zone of influence of our country.

## **Risks related to comparative advantages of other countries in our surroundings for the same markets**

The countries that compete for the surrounding originating markets are: North America, South America and Europe, such as the Dominican Republic or Costa Rica, are attempting to attract the flow of tourists by means of public investment in publicity, promotion and communication. Likewise, some of said countries are willing to grant tax credits to tourism investment or activity. These governmental decisions may give competitive advantages in relation to the present conditions in Mexico. If these investments or subsidies are successful, the Mexican tourism market may lose opportunities to retain or increase international travelers entering the country as regards those countries, or the possibility of offering tourism products at more competitive prices, that may displace or limit the growth quota of the international tourism market of our country (*Source: Study written by the National Tourism Business Council - CNET*).

This same effect may present itself if, despite the non-existence of a lessening of economic activity, the travelers originating from said countries decide to change their travel patterns and destinations.

As of December 31, 2018, approximately 16% of the Company's rooms are located in beach destinations, and the remaining 84% are urban hotels.

### **External Information Sources and Expert Statements**

All of the information contained in the present Annual Report is the responsibility of Grupo Posadas, S.A.B. de C.V. and has been prepared by this Company.

This Annual Report contains, amongst others, information related to the hotel industry. This information has been collected from a series of sources, including the Ministry of Tourism, and the National Institute for Statistics, Geography, and Computer Science, the World Tourism Organization, the National Tourism Business Board, amongst others. Likewise, the Company has utilized a series of public source information, including among others, the *Banco de Mexico*. That information which is not source-based has been prepared in good faith by the Company, based on its knowledge of the industry and the market in which it participates. The terms and methodology used by the different sources are not always congruent among themselves, and for these reasons, comparisons are difficult.

The present Annual Report includes certain statements concerning the future of Posadas. These statements appear in different parts of the Report and make reference to the intention, the opinion, or the present expectations of the Company or of its officers regarding future plans and economic and market tendencies that affect the Company's financial situation and its operating results. These statements should not be interpreted as a future yield guarantee and imply risks and uncertainty; real results may vary from those expressed herein due to different factors. The information contained in this Report including, amongst others, the sections "Risk Factors", "Management Comments and Analysis of Company's Operating Results and Financial Situation" and "Company" identify some important circumstances that may cause said variations. Possible investors are advised to take said expectation statements with the appropriate reservations. The Company is not obligated to publicly reveal results of the review of the expectations statements so as to reflect events or circumstances subsequent to the date of this Report, including possible business strategy changes, or the application of capital investments in expansion plans, or to reflect the occurrence of unexpected events.

### **d) Other Securities**

In March 1992, the Issuer registered the shares representing its corporate capital in the National Securities and Intermediaries Registry, today the National Securities Registry ("RNV", according to its initials in Spanish) under the CNBV so as to trade on the BMV. In our opinion, the Issuer has fully and timely delivered, since its registration and trading, its quarterly, annual and occasional reports, as well as of material events both to the BMV, as well as to the CNBV, in compliance with the Securities Market Law and any other applicable provisions. The Issuer is obligated to file similar reports before other authorities that regulate the markets in which the corporation's debt securities are issued or registered, such as the Luxembourg Securities Exchange, as well as to the common legal representative of said securities holders.

Based on the applicable regulations, neither the "2022 Senior Notes" nor related documents were submitted for review or approval before any federal or state securities commission or regulatory entity of any country.

#### **Maintenance Requirements**

The Company is obligated to provide the CNBV and the BMV, among other information, the financial, economic, accounting, administrative and legal information that is described hereinbelow, based on the text of the "Generally Applicable Provisions to Securities Issuers and other Securities Market Participants". During the last three corporate years, the Company considers that, on general terms, it has fully and timely delivered this information, or any other information requested by the authorities.

#### **I. Annual Information:**

- (a) The third business day immediately following the date on which the ordinary general shareholders meeting is held which issues a resolution on the results of the corporate year, and which should be held within the 4 months following the close of said corporate year:
  - 1.- Reports and opinion mentioned in article 28, section IV, of the Securities Exchange Law.
  2. Annual financial statements, accompanied by an external auditor's opinion, as well as of the Issuer's associated entities which contribute more than 10 percent to its profits or total consolidated assets.

3. Communication signed by the secretary of the board of directors reporting the updated status of the books containing the records of the minutes of the shareholders' meetings, sessions of the board of directors, share record book and, if a variable capital corporation, the registry book containing increases and decreases in corporate capital.
4. Provide a statement related to fulfillment of professional requirements and independence at the initiation of the Audit that there is documentation evidencing the implementation of a quality control system and consent so that the Report of the External Auditor may be included in the Annual Report or the prospectus, since it is necessary under the Generally Applicable Provisions to Entities and Issuers supervised by the National Banking and Securities Commission for those entities and issuers that contract external auditing services for basic financial statements (CUAE), article 39.

(b) No later than April 30 of each year:

1. Annual Report corresponding to the immediately preceding corporate year.

No later than May 31 of each year:

2. Report corresponding to the immediately preceding corporate year related to the degree of compliance with the Code of Better Corporate Practices.

## II. Quarterly Information:

Within twenty business days following the end of each of the first three quarters of the corporate year, and within forty business days following the conclusion of the fourth quarter, the financial statements, as well as the economic, accounting and administrative information detailed in the corresponding electronic formats, at least comparing the numbers of the quarter in question with the numbers for the same period of the previous corporate year.

## III. Legal Information:

- (a) On the day of its publication, the call to the meeting of shareholders, debenture holders or other securities holders.
- (b) According to article 36, it is necessary under the Generally Applicable Provisions to Entities and Issuers supervised by the National Banking and Securities Commission those that contract external auditing services for basic financial statements (CUAE), the issuer should carry out diverse evaluation, review and information proceedings on (amongst others):
  - a. The results of the evaluation regarding fulfillment of the Firm and off the Independent External Auditor with the requirements of independence stipulated in article 6.
  - b. The results of the review of the External Audit Report and the Basic Financial Statements attached thereto, as well as the communications and opinions of the Independent External Auditor in article 15.
  - c. The mention and follow-up of the implementation of the preventive and corrective measures derived from the observations of the External Auditor.
  - d. The results of the performance evaluation of the External Independent Auditor.
  - e. Information regarding the measures adopted due to the claims made by shareholders, directors and others related to issues with the External Audit.

(b) The business day immediately following the meeting in question:

1. Summary of the resolutions adopted in the shareholders meeting held in compliance with the provisions of article 181 of the General Law of Business Corporations, which expressly includes the destination of profits and, in the respective case, the dividend determined, the number of the coupon or coupons to be paid, as well as the payment location and date.
2. Summary of the resolutions adopted by the meetings of shareholders, debenture holders or other securities holders.

(b) Within five business days following the shareholders meeting:

1. Copy authenticated by the Company's secretary of the board of directors or by the person empowered to authenticate, of the records of the minutes of the shareholders meetings, accompanied by the attendance list signed by the ballot inspectors designated for said

purpose, indicating the number of shares corresponding to each shareholder and, if applicable, by the shareholder's representative, as well as the number of shares represented.

2. Copy authenticated by the chairman of the meeting, of the minutes of the shareholders meetings, of the records of the debenture holders or other securities holders meetings, accompanied by the attendance list signed by the ballot inspectors designated for this purpose, indicating the number of securities corresponding to each debenture holder and, if applicable, by whom they are represented, as well as the total number of securities represented.

- (d) At least six business days before the act referred to, for each one the following notifications:
1. Notification to the shareholders for exercising the corresponding preemptive right due to a corporate capital increase, and the subsequent issue of shares, which payment should be presented in cash.
  2. Notification of delivery or exchange of shares, debentures or other securities.
  3. Notification of dividend payments, which should state the amount and proportion of the dividends, and if applicable, interest payment.
  4. Any other notification addressed to the shareholders, debenture holders, and other securities holders or the investing public.
- (e) On June 30 every three years, the formalization of the general shareholders meeting which approved the comparison of the Company's corporate by-laws with the Company's registration information in the Public Registry of Commerce.

IV. Purchase of own shares:

The Company is obligated to inform the BMV, no later than the business day immediately following the agreement date of any transaction to purchase its own shares.

V. Material Shareholding:

The Company is obligated to present no later than June 30 of each year a report containing disclosed shareholding information of material directors and officers and the holders of material percentages of the Issuer's shares.

VI. Material Events:

The Company is obligated to inform the BMV of its material events, in the manner and on the terms stipulated by the Securities Market Law and the General Provisions.

The Company considers that, in general, it has fully and timely delivered for the last three corporate years the required reports on material events and periodic information.

### **e) Significant Changes to Securities Rights Registered in the National Securities Registry**

During the 2014 corporate year, the Issuer's extraordinary general shareholders' meeting resolved to decrease the shares representing its fixed corporate capital without withdrawal rights by cancelling 64,151,031 common, registered Series A shares, without par value, which directly or indirectly belonged to the corporation. In this context, during 2014, the Issuer proceeded to cancel, decrease its fixed corporate capital without withdrawal rights and update its registration in the RNV, which to this date amounts to \$512,737,588.00 (five hundred twelve million, seven hundred thirty-seven thousand, five hundred eighty-eight pesos 00/100 Mexican Currency), represented by 512,737,588 (five hundred twelve million, seven hundred thirty-seven thousand, five hundred eighty-eight) common, registered Series A shares, without par value.

To this date, the share number in the repurchase fund amounts to 16,855,600 shares, therefore. 495,881,988 shares Series A are circulating.

The 2015 and 2016 General Extraordinary Shareholders Meetings modified the third, fifth, ninth, twelfth, twenty-first and thirty-first clauses of the corporate by-laws to adapt them to the legislative changes concerning

disclosure of corporate acts, the name of the corporate headquarters, and the broadening of its corporate purpose to include the operations of its subsidiaries merged into the issuer

In the Extraordinary and Ordinary Annual General Shareholders Meeting dated April 12, 2018, no change to the securities registered in the RNV nor modifications to clauses were made. The merger of Servicios Gerenciales Posadas, S.A. de C.V. as merged corporation into Grupo Posadas as the surviving Company was approved. According to the 2017 corporate year results and reports, dividends were declared in the ratio of \$0.40 cents of pesos per share in circulation, amongst other ordinary and annual resolutions.

In the General Extraordinary and Ordinary Shareholders Meeting, dated March 29, 2019, no changes were made to the securities registered in the RNV or modification to the clauses, approving the absorption by merger of Inversora Inmobiliaria Club, S.A. de C.V. and Konexo Centro de Soluciones, S.A. de C.V., with and into Grupo Posadas, S.A.B. de C.V., the first two entities disappearing in their capacity as merged corporations and the last entity surviving in its capacity as the surviving corporation. The effects of these mergers are pending execution.

#### **f) Public Documents**

The information contained in this Annual Report may be consulted or supplemented with the Company's investor relations area at telephone (52 55) 5326-6757, or directly at the domicile of the Company located at Prolongacion Paseo de la Reforma Number 1015, Piso 9, Torre A, Col. Santa Fe Cuajimalpa, Mexico City, 05348, Alcatia Cuajimalpa de Morelos as well as on the Internet page of the Securities Exchange at [www.bmv.com.mx](http://www.bmv.com.mx), where the Better Corporate Practices Code may also be consulted.

For more information please consult the Company's Internet page at: [www.posadas.com](http://www.posadas.com).

Translation for Information Purpose

## 2) THE COMPANY

### a) History and Development of the Company

Grupo Posadas, S.A.B. de C.V., was incorporated in Mexico on April 18, 1967, under the original corporate name of Promotora Mexicana de Hoteles, S.A., with a corporate life of 99 years. The Company is domiciled at Prolongacion Paseo de la Reforma Number 1015 Piso 9 Torre A, Col. Cuajimalpa, Mexico City, 05348, and its telephone is 53-26-67-00.

The Company has its roots in 1967, when Gaston Azcarraga Tamayo established Promotora Mexicana de Hoteles, S.A. for the purpose of participating in the tourism sector by building and operating a hotel in the Federal District, the Fiesta Palace, now known as Fiesta Americana Reforma. In 1969, Promotora Mexicana de Hoteles associated itself with American Hotels, a subsidiary of American Airlines so as to establish Operadora Mexicana de Hoteles, S.A. de C.V., a Mexican company created to manage hotel properties. The first Fiesta Americana hotel opened in 1979 in Puerto Vallarta; currently it is operated by the Company.

The subsequent new Company facet dates back to 1982, when Promotora Mexicana de Hoteles, S.A. and Gaston Azcarraga Tamayo bought 50% of the corporate capital of Posadas de Mexico S.A. de C.V. Initially, Posadas de Mexico was established in 1969 by Pratt Hotel Corporation, a United States corporation, to operate Holiday Inn franchises in Mexico. In 1990, Promotora Mexicana de Hoteles bought the remaining 50% of shares representing the corporate capital of Posadas de Mexico S.A. de C.V. The latter purchase brought about the largest hotel company in Mexico, operating 13 hotels at that time. Its principal corporate purpose was the management of Holiday Inns and the management of Fiesta Americana hotels ("FA").

At the end of the 80's, the Mexican hotel industry was going through a period of saturation and the Company realized that management of third-party hotels reported more reservations than those that it obtained. Consequently, the Company decided to focus on developing its own brands (Fiesta Americana ("FA") and Fiesta Inn ("FI")), while it continued operating the Holiday Inn franchises in some viable destinations.

In 1992, the Company changed its name from Promotora Mexicana de Hoteles, S.A. de C.V. to Grupo Posadas, S.A. de C.V. In March of this same year, the Company was listed on the Mexican Securities Exchange. In 1993, it began to address the business traveler segment by opening the first Fiesta Inn in a city destination. In 1998, the Company began to expand to South America by acquiring the Caesar Park chain, along with brand rights in Latin America. Likewise, in 2001, the Company opened its first Caesar Business hotel in Sao Paulo, Brazil. In 2012, the Company sold the hotel operation business in South America.

The Company entered the Vacation Products business in 1999 opening the first resort under the brand Fiesta Americana Vacation Club in Los Cabos, Mexico. Since then Posadas has added three resorts under this concept in Cancun, in Acapulco, close to the archeological zone of Kohunlich, Cozumel and recently in Puerto Vallarta.

In 2003, the Company established the management services center Conectum which is responsible for management control of owned, leased and third-party hotels.

In December 2005, the Company made a strategic investment in Grupo Mexicana de Aviacion, S.A. de C.V., which was sold at a symbolic value on August 13, 2010.

In the General Extraordinary Shareholders Meeting held in November of 2006, the Company adopted the form of "Sociedad Anonima Bursatil"<sup>T.N.</sup> and changed its corporate name to Grupo Posadas, S.A.B. de C.V., in order to comply with the provisions of the Securities Market Law.

In December 2006, the first hotel under the brand "One Hotels" opened in the city of Monterrey, Mexico.

In 2008, development of non-hotel businesses continued with the consolidation of Ampersand which engages in the management of loyalty programs, and the Konexo call center.

In 2010, the Company launched the product "Kivac" which consists in the sale of points effective for 5 years exchangeable for lodging at any of the Company's hotels, and the company initiated conversion of three of its beach hotels to the "all inclusive" category. This situation consolidated in 2011. It also purchased ownership of the shares of one of its subsidiaries (Sudamerica en Fiesta S.A.) which was owned by IFC, thereby acquiring full control over the South American business

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<sup>T.N.</sup> The Spanish translates as "Securities Market Corporation" in English,

In 2011, the Company allied itself with Santander Bank to issue a credit card under the shared brand Santander-Fiesta Rewards, with which clients accumulate points to be exchanged in the company's loyalty program operating under the same Brand "Fiesta Rewards".

In 2011, the Fiesta Inn concept was re-launched. The Company exercised the shares purchase option right from third parties regarding one of its subsidiaries, indirect owner of one of its beach hotels, the Fiesta Americana Condesa Cancun.

From the corporate point of view, in 2011, Jose Carlos Azcarraga Andrade was appointed General Director of the Company, and the shareholders meeting agreed to unify Series L shares (shares with limited vote) into Series A. This was executed in February 2013.

On July 16, 2012, Posadas announced that it had reached an agreement with Accor, S.A. (Accor), one of the world's leading hotel management companies, to sell its operations in South America. On October 10, 2012, the sale was officially completed.

In 2012, the Company acquired 47.8% of the corporate capital of SINCA, which was the holding company for a group of companies that owned 10 hotels that were sold to FibrHotel.

In 2012, Posadas sold 12 real properties and hotel equipment to FibrHotel, located in central and northern Mexico, operated under the Fiesta Inn and One hotel brands. In mid-2013, the Company sold three additional "Fiesta Inn" hotels to FibrHotel, and in 2014 sold 2 more Fiesta Inn and One brand hotels. Posadas was the majority owner of all of these hotels. Regarding all the hotels conveyed to FibrHotel, the Company has signed contracts to keep operating them.

In April 2013, Posadas created The Front Door, a new luxury brand in the Vacation Products Business intending to offer a select portfolio of residential and hotel properties at exclusive destinations. That same year, the Company acquired 16 luxury apartments located in Puerto Vallarta (Marina Vallarta) to be allocated to the time-share business. In 2016, The Front Door became Live Aqua Residence Club (LARC). In December 2015, the Company acquired a land lot in Los Cabos, Baja California Sur, to be allocated to the construction of villas for the Live Aqua Residence Club product. During 2016, the first construction stage of these villas continued, which concluded in 2017 with 109 rooms and a total investment of \$434 million pesos.

In connection with our traditional Fiesta Americana Vacation Club, in 2013 we allocated the Fiesta Americana Cozumel hotel to the time-share system. The real property operates under the "all-inclusive" format. Finally, in 2013 and 2014, Phase III of our timeshare facility allocated to Vacation Products in Los Cabos, Baja California Sur, was finalized. Both projects are estimated at an approximate investment of \$450 million.

In 2013, Posadas acquired two lots of land that it intends to use for Vacation Products, one of them located in Bucerias, Nayarit (Nuevo Vallarta), and the other in Acapulco, Guerrero.

In 2013, we contributed to a trust (as a sale vehicle) the last lot of land to which Posadas is entitled in Porto Ixtapa. We expect that economic development at that location results in a successfully closed sale.

In 2013, Posadas executed a strategy to sell non-priority assets or non-strategic assets. In this context, in June it agreed with FibrUno to sell the real properties which contained its Corporate Offices located at Reforma 155 and enter into a mandatory ten-year term lease agreement. Subsequently, Posadas terminated the lease contract for the Reforma 155 corporate offices and entered into a mandatory 10-year term lease contract with the same party in relation to offices located at Av. Prolongacion Paseo de la Reforma 1015, Torre A.

On August 30, 2013, the sale of the property located in Costa Maya, Quintana Roo, was agreed upon. This transaction was executed in 2014.

In May 2013, we took advantage of the federal government's tax forgiveness program regarding 7 tax liabilities attributed to the Company. Thus, we withdrew the corresponding defense proceedings and paid \$143 million.

During 2014, the Vacation Product segment offer was broadened by reopening the hotels Fiesta Americana Cozumel All Inclusive and The Explorea Cozumel which were remodeled for an approximately \$300 million investment.

As part of its product renovation strategy, during 2014 Posadas developed and launched the new "Fiesta Americana" and "Grand Fiesta Americana" concept, an integral renovation, encompassing image and logotype including public areas and rooms. Likewise, the Fiesta Inn Express and Fiesta Inn Loft brand expansion respond to the travelers' needs.

In 2015, with the creation of the Gamma brand the Company started its Franchise operations. Based on this brand, Posadas markets its services through franchising, thus recognizing that there are business opportunities in good quality Mexican hotels, with market presence but however lack new systems and distribution channels. Therefore, these hotels are not market-competitive for the principal corporate accounts and need better marketing tools to increase market share. The foregoing allows, most of the time, the owners of said hotels or those legally entitled to freely convey them, to preserve their operation, increase quality standards and, at the same time, take advantage of the Franchisor's distribution channels infrastructure. This allows preservation of the local touch that makes them distinctive. To March 31, 2018, there are 10 Gamma hotels franchised.

In May 2015, the Company approved and ratified the partially conclusive agreement signed with the Tax Administration Service before the Taxpayers' Defender Office for the amount of \$67 million regarding the Turística Hotelera Cabos XXI, S.A. de C.V. subsidiary.

As part of the activity and service consolidation process, the Company has been focusing on the hotel business industry. Therefore, the company has maintained service businesses: (i) Conectum, the administrative service center, responsible for the administrative control of the owned, leased, and of third-party hotels, as well as of the corporate offices and (ii) Konexo, the contact center ("Call Center"), amongst whose relevant clients are the Company's subsidiaries and Compras (before Summas) which offers management and administration of centralized purchasing services to our different owned, leased and third-party hotels. These businesses have become or are in the process of becoming internal service areas for the corporate offices and for the hotels operating under our brands.

During 2016 Live Aqua presented as Live Aqua Urban Resort, Live Aqua Beach Resorts and Live Aqua Boutique Resorts.

As part of the Company's expansion plan in the Caribbean, in 2017, two contracts were signed in order to operate the following hotels in Cuba:

- Fiesta Americana All-Inclusive Punta Varadero with 633 rooms.
- Fiesta Americana All-Inclusive Holguin Costa Verde, located in Playa Pesquero, with 749 rooms.

Both hotels have local investment and they are operating since 2019.

Likewise, in 2017, the Company signed a 15-year operating contract for a Grand Fiesta Americana hotel in Punta Cana, Dominican Republic, with 554 rooms and it is planned that this local investment project will start operations in 2020.

In 2017, Grupo Posadas incorporated into its portfolio the "LatinoAmerican" brand, a new hotel concept that provides an original Urban-(G) Local Hotels lodging category, adapted to a new traveler, hypermodern and relaxed, who moves in a globalized world.

It also integrated Re\_Set, an exclusive family and friend group discount plan providing more travel freedom on more occasions, should they decide to travel, whether in Mexico or abroad.

In the financial, corporate and realty field, the following activities stand out from 2016 to the publication of this report:

- On June 30, 2015, the Issuer carried out a debt issue for US\$350 M dollars in notes known as "2022 Senior Notes" by way of the Luxemburg Securities Exchange. The intention was to substitute the US\$310 M dollars issue known as "2017 Senior Notes" that the Issuer held to December 31, 2014 and for which US\$1,060 dollars were offered for each thousand dollars of the prior issue. As a result of the offer, it was possible to repurchase US\$271.7 M dollars of "2017 Senior Notes" equivalent to 87.63% of the principal amount. The "2022 Senior Notes" accrue 7.875% annual interest with a due date on June 30, 2022. The interest is biannually payable starting on December 30, 2015.
- In connection with the Senior Notes issue due in 2017, issued in November 2012, in January 2013, the Senior Notes issue due in 2017 was modified to total an issue of US\$275.0 M. In February 2014, US\$31.6 M Senior Notes due in 2015 were exchanged for Senior Notes due in 2017 and an add-on issue was made in such a manner that the issue due in 2017 totaled a principal amount of US\$310.0 M. Likewise, Impulsora de Vacaciones Fiesta S.A. de C.V. and Controladora de Acciones Posadas S.A. de C.V. have been included as payment guarantors of such notes. Due to the issuance of the notes denominated "2022 Senior Notes", the remaining balance of this program decreased to US\$38.3 M to December 31, 2015. In November 2016, the US\$38.3 million balance was pre-paid in November 2016 since the Company made an add-on issue on May 16, 2016 of US\$50 M dollars of the "Senior Notes 2022" program at an annual

7.875% rate due in 2022. With the add-on issue, the “Senior Notes 2022” program amounted to US\$400 M dollars.

- In 2013, Posadas began its corporate restructuring project, which continues in 2018 in accordance with the plans published in the Corporate Restructuring information leaflets dated February 29 and August 15, 2017, the Company consolidated a part of the realty and payroll business, therefore the Company undertook the total patrimony and obligations of these subsidiaries. Likewise, once the sale of the hotel located in Ciudad Laredo, Texas was executed, a foreign subsidiary was dissolved. As a consequence of these mergers, the companies Inversora Inmobiliaria Club, S.A. de C.V. and Operadora del Golfo de Mexico, S.A. de C.V. became guarantors of the Senior Notes 7.875% issue with due date in 2022.
- In 2016, the first construction stage of Villas Los Cabos was initiated and it opened in 2017. It became the second Live Aqua Residence Club vacation property, located beside the Hotel Grand Fiesta Americana Los Cabos All-Inclusive Golf & Spa, with 109 rooms and a total \$434 million pesos investment.
- On May 2, 2016, the Company informed the lease and future sale of the Fiesta Americana Hermosillo hotel with 220 rooms, which will continue being operated by Posadas.
- On August 1, 2016, the Company informed the Fiesta Inn Monterrey Valle hotel sale to Fibra Hotel with 176 rooms, which will continue being operated by Posadas for a 20-year term.
- In 2017, the Company acquired 6% of a trust to develop a hotel project in Riviera Maya, “Tulka”, where two hotels will be built: A Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms; both to be operated by Posadas and the planned opening is at the beginning of 2021. In 2018, the Posadas began construction of this development and by the end of the corporate year, had made a \$1,052 contribution increasing its holding in the trust to 12.5%.
- On June 22, 2017, the subsidiary Inmobiliaria del Sudeste, S.A. de C.V., owner of the Fiesta Americana Merida hotel contracted a secured trust loan for \$200 million with a seven-year term. The funds will be used for corporate purposes including refurbishment of the hotel public areas. On January 23, 2018, the Company prepaid \$10 M, reducing the outstanding balance to \$200 M. To December 31, 2019, the remaining balance amounts to \$189 million.
- Regarding the 2006 tax claim, reported in the 2015 consolidated financial statements and pursuant to its present procedural phase, a \$966.7 million security and bond was established to December 31, 2018.
- In 2017, the Company agreed to the sale and subsequent leasing of the Fiesta Americana Condesa Cancun hotel with 507 rooms to FibraHotel (“FIHO”), for the total sale price of \$2,892 million. The Company and FIHO agreed to invest approximately \$60 million each, for the renovation of public areas during 2017 and 2018, without the hotel inventory. In January 2018 as part of the sale agreement, Posadas as lessee and FIHO as lessor executed a leasing contract for the total term of 15 years, by virtue of which the Company would continue to operate the Hotel. During 2018, Posadas agreed to increase its remodeling investment commitment to reach \$75 million for each one of the parties, said remodeling should concluded in this same year 2019.
- Likewise, in 2017, the Company signed a contract to operate for 15 years a Grand Fiesta Americana hotel in Punta Cana, Dominican Republic, with 554 rooms. It is planned that this local investment project will start operations 2020.
- In April 2018, the Company signed a sale contract for the “Ramada Plaza” hotel located in Laredo, Texas, U.S.A. The price agreed upon for the operation was US\$2.5 million which was received between the months of April and June of 2018.
- On February 20, 2019, pursuant to the contract (“Indenture”) of the 7.875% Senior Notes Due 2022, the Company announced to the market through the BMV, the Offer to Purchase for Cash so as to prepay and cancel up to \$515 million of its debt due in 2022. The offer period expired on March 20, 2019 and was liquidated on March 22, 2019, making a payment of US\$7,527,647.85 that represents the sum of the consideration to the holders of the repurchased Bonds and the payment of the interest accrued by said Bonds. After the cash purchase offer, the balance of the “7.875% Senior Notes Due 2022” is of US\$392,605,000.

- In the resolutions resulting from the General Extraordinary and Ordinary Shareholders' Meeting, held on March 29, 2019, it was approved that Inversora Inmobiliaria Club, S.A. de C.V. and Konexo Centro de Soluciones, S.A. de C.V. would merge with and into Grupo Posadas, S.A.B. de C.V., the first two disappearing as merged corporations and the last company surviving as the merged corporation.
- On February 19, 2019, a trust was constituted in Banco Santander, S. A., with \$224 million derived from the sale of the Hotel Fiesta Americana Condesa Cancun, so that in compliance with the provisions of the 2022 Senior Notes these funds would be applied to payment of the consideration stipulated in the Investment Plan contained in the selfsame trust contract. Said trust considers five hotel projects and its estimated duration would be approximately 12 months. To the issuance date of this annual report, the balance in the trust is \$194 million.
- During 2018, the rooms and public areas of the Live Aqua Beach Resort Cancun Hotel were remodeled, for \$453 million; of this amount Posadas invested \$276 million (the remainder was contributed by the lessors). At the same time as the remodeling, the lease contract was renewed for fifteen more years, with an option for 5 additional years.
- A hotel group owned by a private investor, which includes amongst others the Grand Fiesta Americana Coral Beach hotel and which is operated by the company, in January 2017 renewed the management and licensing contract for ten more years.

The 2018 detailed closing financial situation is presented in the Financial Statements to this report and demonstrates duly explained and classified the Corporation's profit and loss during the corporate year. Likewise, it presents the financial situation changes during said year, and evidences the 2018 corporate year changes in the entries that comprise the corporate patrimony. The necessary notes complementing and clarifying the information contained in the financial statements are also detailed in the Independent Auditors Report and the 2016, 2017 and 2018 consolidated financial statements of Grupo Posadas S.A.B. de C.V. and Subsidiaries issued by Galaz, Yamazaki, Ruiz Urquiza S.C., (Deloitte).

#### Principal Investments 2016-2018

During the past years, the Company strategy has been to continually grow through hotel management contracts, and now hotel franchise contracts. This implies allocating limited capital expenses to determined expansion projects so as to focus on investment in maintenance of already existing properties.

The following details the principal investments that the Company has made between 2016 and 2018:

For 2016, the consolidated annual capital expenses totaled \$703 M:

- 81% was used for the maintenance and remodeling of hotels, specifically the Fiesta Americana Guadalajara, Fiesta Americana Merida and Fiesta Americana Condesa Cancun.
- 9% was used for Vacation Products such as the first stage of the Live Aqua Residence Club Villas in Los Cabos.
- The remaining 10% was used for corporate and technology purposes.

For 2017, the consolidated annual capital expenses totaled \$803 M:

- 50% was used for the maintenance and remodeling of hotels, specifically the Fiesta Americana Guadalajara, Fiesta Americana Merida and Fiesta Americana Condesa Cancun.
- 41% was used for Vacation Products such as the second stage of the Live Aqua Residence Club Villas in Los Cabos.
- The 9% remaining was used for distribution channels as well as for technology infrastructure.

For 2018, the consolidated annual capital expenses totaled \$671 M:

- 73% was used for the maintenance and remodeling of hotels, specifically the Live Aqua Beach Resort Cancun, Fiesta Americana Hacienda Galindo, Fiesta Americana Merida and Fiesta Americana Condesa Cancun.
- 22% was used for Vacation Properties.
- The 5% remaining was used for distribution channels as well as for technology infrastructure.

## **b) Business Description**

### **i) Principal Activity**

The principal activities of Grupo Posadas, S.A.B. de C.V. and its Subsidiaries are the construction, purchase, leasing, promotion, franchising, operation and management of hotels that mainly operate under the commercial brands of: Live Aqua Urban Resort, Live Aqua Beach Resorts, Live Aqua Boutique Resort, Live Aqua Residence Club, Grand Fiesta Americana, Fiesta Americana, The Explorean, Fiesta Americana Villas, Fiesta Inn, Fiesta Inn Express, Fiesta Inn Loft, Gamma and One Hotels.

Since 1999, it operates a timeshare sale and administration business under the trade name of Fiesta Americana Vacation Club, for resorts located in Los Cabos, Baja California Sur, Cancun, Cozumel and Kohunlich, Quintana Roo and in Acapulco, Guerrero, and now under the "Live Aqua Residence Club" (previously "The Front Door") in Puerto Vallarta and Los Cabos. During the course of its operations, it has formed alliances with Hilton Grand Vacation Club, The Registry Collection and Resort Condominiums International (RCI), which has allowed it to penetrate the foreign market with greater force.

Since 2010, Posadas started marketing the Kivac product, consisting of the sale of points exchangeable for stays in the group's hotels. This is an advance sale of accommodation services and the points serve as account units.

In 2014, Posadas made an incursion into the hotel franchising market under the brand Gamma and in 2018 signed its first One Hotel brand franchise contract.

Posadas' income evidences seasonal behavior throughout the year. For beach hotels, occupancy tends to be higher during the winter and vacation periods (Easter Week, Summer), while city hotels have very stable occupancies throughout the year.

The Company plans to operate and franchise in Mexico 49 additional hotels with 9,298 rooms that are projected to start operating before the first half of 2022. This will represent a 34% room offer increase and, of this, 38% corresponds to economy and business formats, including the Gamma brand. Of these hotels, 3 operate as a Live Aqua, one Live Aqua Residence Club, 3 as Grand Fiesta Americana, 10 under the brand Fiesta Americana, 2 as "The Explorean", 12 operate under the brand Fiesta Inn, 10 under the three star hotel chain "One Hotels", and 8 under the Gamma brand. In line with the Company's strategy of operating a greater number of hotels with minimal investment, the Company plans to be the operator or franchisor of said rooms through franchising, management and leasing contracts with third party investors. The Company estimates total investment for the aforesaid Mexican development plan at approximately \$29,718 million (US\$1,509 M) of which Posadas will contribute with a 5.3% of its funds

Since 2014, and in 2016, the Company has been significantly developing and investing in development projects for the new Fiesta Americana and Grand Fiesta Americana and Fiesta Americana standards, which are in the development stage. A long-term accommodation product under the Fiesta Inn Loft is being designed and launched, at present 5 hotels are in operation. And the design of a Fiesta Inn derived product where the variety of services and infrastructure offered specifically by the hotel is limited but maintains the same room and other common area quality standards (Fiesta Inn Express). Similarly, design and implementation of the necessary infrastructure to provide hotel franchise services under its brands, including the Gamma brand.

In 2018, the One brand concept was renewed, due to the 2017 research results of guests, competition and market trends. The preceding resulted in a new target market, the development of a more friendly experience, a room concept renovation, and the planning of friendly public areas, in tune with the current trends. In 2018, 4 hotels with this new concept were opened: One Puebla Periferico, One Monterrey Tecnológico, One Acapulco Diamante and One Tijuana Otay.

Posadas is an important purchaser of goods and services in the industry in Mexico. In 2016, a reengineering of the Group supply chain was initiated to take advantage of its profitability per scale and contribute to the 2020 strategy. This initiative under the Corporate Procurement Division has the goal of implementing better global practices focusing on process automation, operating efficiency, cost reduction, policy compliance, expense transparency, risk control and sustainability. This Procurement institutionalization model concluded in 2018 such as supplier consolidation, hotel purchase centralization in the SAP Ariba platform, and the issuance of a responsible procurement policy. In this last category, the Company continues its efforts to detect and eliminate business relationships with companies that damage the environment, do not respect human rights, use child or forced labor, and discriminate in any sense, amongst others. The Company intends to continue analyzing its procurement focusing integrally and not exclusively on price and trends. This model is positioning the Group in the forefront of the procurement process in Mexico reducing costs, ensuring brand standard and safeguarding the reputation of the Company.

Some of its main suppliers are: Accenture, Deloitte, MetLife, Lexmark, Oracle, SAP Ariba, Dell, LG, Duetto Research, Colchones America, Jianlu, La Europea, Sigma Food Service, Servicio PanAmericano, AegisWard, BBDO, OCESA, PSAV, Beta Procesos, Jypessa, Europorcelanas, Proepta, Hotel Haus, Construcciones y Edificaciones Al Costo, amongst others. It should be mentioned that the Issuer is not dependent on any supplier

The supply variations due to exchange rates and inflation have been controlled by substituting imported products with national similar quality products. Likewise, supplier consolidation has resulted in better terms and conditions.

Due to the fact that the Company sustains its development on hotel management, the price volatility of the principal hotel construction and equipment raw materials would indirectly affect it through a developer. The volatility of raw material prices for hotel operation would directly affect operating expenses. Year after year, the Company has attempted to carry out corporate negotiations with its suppliers so as to obtain better prices and standardized modalities and qualities.

The product or similar services categories, or those individual products that represent 10% or more of total consolidated income for each one of the last 3 corporate years, indicating the amount and percentage are found in section: iii) Patents, Licenses, Brands and Other Contracts of this Annual Report and in Section 3, Financial Information, subsection b) Financial Information by Business Line, Geographic Zone and Export Sales, and subsection c) Risk Factors, Concentration in One Industry in this Annual Report.

For the Company's financial information according to business line and geographic zone, see section 3) *Financial Information b) "Financial Information by Business Line, Geographic Zone and Export Sales"*.

For information on risk and the effects of climate change on the Issuer's business see risk section 1) *General Information c) Risk Factors, part Natural Disasters and Environmental regulations*.

## **ii) Distribution Channels**

The Company considers that investment in new systems and technology is critical to its growth. During the course of its history, the Company has developed new systems and technology which have permitted it to optimize product distribution and manage its operations.

The technological platform which the Company uses to market and sell hotel rooms is a system that incorporates third party technology and services and that the selfsame Company developed and denominated "Inventario Central", or Central Inventory. Central Inventory consolidates into one room availability database the entire hotel portfolio, updated in real time in line with room availability changes. This database may be simultaneously consulted by all the distribution channels which the Company uses to sell its rooms. Said distribution channels include the Company's own reservation central located in Morelia, Michoacan, global distribution systems (GDS due to its initials in English), travel agencies, Internet intermediaries, and the Company's own web site.

The Company Loyalty program operates under the brand "Fiesta Rewards". The Company continues with alliance with Santander Bank to issue a credit card under the shared brand Santander-Fiesta Rewards, with which the clients accumulate points to be exchanged in the company's loyalty program. To December 31, 2017 there were more than 117,000 card holders in Mexico.

The Fiesta Rewards program has contributed significantly to the Company's retention of valuable clients and to keeping income stable during various business cycles. Members affiliated to Fiesta Rewards receive various benefits such as preferential rates and may redeem the points obtained at participating hotels for, amongst other things, hotel stays, airplane tickets and car rentals. The Fiesta Rewards program is the loyalty program amongst Mexican hotel chains with most brand recognition and the largest number of members.

In 2018, Fiesta Rewards was presented through different communication means: Television, movie theater minutes, digital, billboards, magazines and internal media, thanks to the mechanics of "El pase completo de Fiesta Rewards" participation of more than 70,000 members was achieved and 218,000 tickets to attend the 2019 Super Bowl, affiliating new members, reaffirming their loyalty with the program and our brands. To date, we have more than 1.7 million members of Fiesta Rewards, Appreciare and Motiva, generating 1,522,930 room nights.

Currently the loyalty program has commercial alliances with American Express, Thanks Again, Club Premier and Iberia Plus, amongst others. To December 31, 2018, there were 270,800 thousand active members which represented approximately 27% of our hotel occupancy.

The national, U.S, and Canadian markets are the principal targets of our marketing efforts abroad, this market is mainly resort-oriented. Part of these efforts are done from our subsidiaries in the United States.

The timeshare marketing system differs from hotel room distribution channels. It is mainly based in the implementation of a promotional system by launching campaigns to attract potential clients to the Vacation Products experience by providing them with complementary passes, and through a local sale program and showroom network. Vacation Products sales costs around 35% of the product and are normally executed by means of specialized third parties contracted for such purpose.

With respect to Vacation Products sales and Kivac, the Company usually offers its clients a five-year deferred payment plan for both programs. Most sales for both programs are made in installments. Regarding Kivac, clients may only use their effectively paid points. Regarding timesharing, payment is not related to membership rights, which are sold for 40 years. In Vacation Products marketing, clients pay a financing cost for the granting of a payment term.

The Kivac product, previously mentioned, was launched onto the market in 2010, which purpose is to market hotel inventory, by the sale of points exchangeable for lodging. The points are valid for 5 years. To December 31, 2018, the members of the Kivac program totaled 42,700 and generated approximately 150 thousand room nights.

During 2018, we created Kivac Xpand, the perfect complement for the Kivac points packages, which allows travel throughout the year without restrictions as to seasons, gives access to new international destinations and more than 10 thousand hotels in Mexico. Since it was launched in the second semester of the year, it has generated more than \$4 M points redeemed.

In 2017, responding to the trend of connecting with our new consumers, lifestyles and technological changes, the Company created, "Re\_Set", an exclusive discount plan with which families and groups of friends have the liberty of traveling a greater number of times, at the time they wish, whether in Mexico or abroad. To December 31, 2018, we have 656 active members and more than \$3 M in sales.

For their part, the products Live Aqua Residence Club (LARC) and Fiesta Americana Vacation Club (FAVC), closed 2018 with 872 and 29,900 active members, respectively.

The Company has an online reservation tool for specially negotiated rates, denominated "Corporate" for Corporate and Local Agreements, consortiums, Agencies, Wholesalers, Exchanges, and Grupo Posadas Employees. Within the most important Corporate accounts are found the following:

- A. Aerovias de Mexico S.A. de C.V.
- B. Danieli & C.- Officine Meccaniche S.P.A.
- C. Scotiabank Inverlat, S.A.
- D. Provident Servicios, S.A. de C.V.
- E. Autopartes y Arneses de Mexico, S.A. de C.V.
- F. Conductores Tecnologicos de Juarez, S.A. de C.V.
- G. Cerveceria Cuauhtemoc Moctezuma, S.A. de C.V.
- H. LG Electronic Mexico

In 2018 all our sale segments grew:

The room income generated by means of "Corporate", increased by 11%, compared to 2017. In this regard:

- We surpassed 3.4 million in reservations (one reservation each 9 seconds)
- Our own channels (including groups) maintain a contribution of 69% of the reserves.
- The web channel grew about 17% in comparison to the preceding year, generating a contribution of 7%.
- The voice channel continues to be the most important contributor to Posadas representing 20% of the reservations.
- We have 2 million followers on all of our social networks.
- The Distribution platform was certified PCI, which is an Information Security standard for the Payment Card Industry, which guarantees that companies that manage credit card information are less vulnerable to frauds.

### **iii) Patents, Licenses, Brands and Other Contracts**

The Company operates its hotel business under four principal models: (i) owned hotels and leased hotels commercially exploited to the benefit of Posadas; (ii) third party hotels managed by Posadas to the benefit of said third parties; (iii) hotels leased to third parties but managed by Posadas to the benefit of the lessors and (iv) franchised hotels.

The Company considers that its experience as a hotel operator, that it has its very own reservations system, technological investments as well as a loyalty reward system are the principal attributes with which it can add value for independent hotel owners. For the purpose of increasing yield on invested capital, in recent years the Company's strategy has concentrated on selling hotel management and operating services by signing management contracts with local partners to develop new properties and by converting already existing properties to the Company brands. In 2014, the Company put on the market a new system to provide franchising services under the Gamma brand and in 2018 it has extended its franchise program for newly constructed hotels to the One Hotel brand. In other words, until now, the hotels operated under Posadas' brands were managed by Posadas itself. However, with the introduction of the franchise system, the hotels using Posadas' brands may be operated by third parties. Similarly, Posadas intends to operate hotels which are not identified by Posadas' brands, this is the case of the Holiday Inn Merida hotel.

In order to continue with its growth strategy, the Company is continually looking for opportunities to operate hotels in new locations. The Development division is responsible for identifying new project locations. The Company does not apply strict statistical or numerical parameters when deciding to expand its operations to a particular location, instead it takes into consideration the city's population, the level of economic activity and local investors' willingness to invest their capital in said location. Once the Development area determines the location's expansion potential, the Company's Market area evaluates the proposal's feasibility by analyzing offer and demand in the locality, competition and rate ranges.

The Company has signed management contracts to operate hotels that do not belong to it but that give it varying degrees of control over the properties' operation. In addition, the Company has executed contracts for the use of its brands from which it receives royalty income. In some cases, the Company also signs lease agreements for the properties that it operates. As consideration for the Company's technical and operational assistance and the use of industrial property rights and copyrights in Mexico, the managed hotels pay royalties to Posadas. These royalties are calculated as a percentage of each hotel's total sales or are from other services marketed under Company brands. Likewise, the Company is the holder of diverse industrial and intellectual property rights which it has created and developed throughout the years, such as: Live Aqua and its derivatives, Grand Fiesta Americana, Fiesta Americana, The Explorean, Fiesta Inn and its derivatives, Gamma, One Hotels, Fiesta Americana Vacation Club, Fiesta Rewards, Conectum, and Konexo, amongst others. These brands are protected in different jurisdictions, subject to the terms and conditions each jurisdiction stipulates.

As part of the Company's strategy to create new brands aligned to current market trends (*millennials*), in 2017, it incorporated into its portfolio the "LatinoAmerican" brand, a new hotel concept that provides an original Urban-(G) Local Hotels lodging category, adapted to a new traveler, hypermodern and relaxed, who moves in a globalized world. It also continues exploring and investigating new brands.

We implemented the Net Promoter Score (NPS) as a fundamental indicator to measure performance of the hotels based on guest appreciation, appealing to our customer centered philosophy.

To December 31, 2018, the average life of the Company's hotel management contracts (except its owned and leased hotels) was 13.4 years. Detailed per brand, it was: 15.2 years for Live Aqua, 11.7 years for Grand Fiesta Americana, 10.6 years for Fiesta Americana, 14. years for Fiesta Inn, 18.6 years for Fiesta Inn Loft, 19.7 for Fiesta Inn Express, 14.6 years for Gamma and 13.1 years for One Hotels. Generally, once the contract terminates, the owner may choose to renew the management contract, normally for periods shorter than the initial period. See chapter "Risk Factors" for more information related to contract renewal.

Currently, the Company provides hotel services basically under 9 brands:

Posadas Mix of Brands					
Brand	Category	Hotel Rooms	Rooms by range	Location	Segment
	Lujo	2 125	20-100	Luxury residences for Vacation Properties	International tourists and high end locals
	Boutique	1 60	60-100	Upscale Resorts and large cities	International tourists and high end locals
	Luxury	4 733	130-400	Upscale Resorts and large cities	International tourists and high end locals
	Grand Tourism	8 2,226	200-600	Large cities and upscale Resorts	Domestic and International tourists and business travellers
	Family / Business	13 3,753	80-650	Large cities and upscale Resorts	Domestic and International tourists and business travellers
	Business	73 10,217	90-220	Small and mid size cities	Domestic and International business travellers
	Business	1 120	40-150	Small and mid size cities	Domestic and International business travellers
	Business	1 117	40-150	Small and mid size cities	Domestic and International business travellers
	Family	16 2,209	80-200	Small and mid size cities	Domestic and International business travellers
	Económico	49 6,121	100-140	Mid and large size cities in industrial locations	Domestic business travellers
	Family	4 1,501	100-300	Resorts	Domestic and International tourists
	Family	2 96	40-100	Resorts	Ecotourism, Domestic and International tourists
Others	Family / Business	1 213	100-220	Mid and large size cities	Domestic and International tourists and business travellers
<b>Total</b>		<b>175 27,491</b>			

Source: Posadas

The Company has entered into strategic alliances regarding certain products and services offered to third parties or offered jointly by Posadas and the third parties, such as the shared-brand Santander-Fiesta Rewards credit card mentioned herein in section: 1) General Information, subsection b) Executive Summary and section 2) The Company in this document.

The Company moves its vacation products inventory by marketing timeshare contracts pursuant to Mexican law terms. These are usually installment sales and the purchasers are able to purchase more points to improve the conditions of the product purchased. For operation of the Vacation Products, it has alliances with the Company's own hotels, Hilton Grand Vacation Club and with Resort Condominiums International (RCI); these last alliances have allowed us to better penetrate foreign markets.

To finance its operations and growth, to December 31, 2017, the Company had placed only one bond issue abroad. See section 3) *Financial information, c) Material Loan Information*.

The Vacation Product segment of the Company has three lodging service marketing modalities. On one hand, it has two timeshare products both granting, in relation to hotel properties, a 40 year right to use represented by annual points. These modalities are our traditional Fiesta Americana Vacation Club and the product Live Aqua Residence Club (LARC); this last one addressed to a high purchasing power level. FAVC points may be exchanged for lodging at any of the 7 FAVC complexes located in Los Cabos, Acapulco, Cancun, Cozumel and Kohunlich, as well as at any Posadas operated hotel. LARC points may be exchanged in Puerto Vallarta, Cozumel and Los Cabos, in addition to the aforementioned destinations. Additionally, FAVC members may use their points at Resorts Condominium International ("RCI") complexes and Hilton Grand Vacation Club or at any complexes affiliated thereto in different parts of the world.

In the case of "Live Aqua Residence Club", the Company allied itself with The Registry Collection so as to exchange points.

#### *Other relevant contracts*

In addition to the hotel management, license and franchise contracts, the timeshare sale and related strategic alliances, the hotel business has become highly dependent on information and connectivity systems, and on certain providers of hotel inventory distribution channels, as previously described in section ii) "*Distribution Channels*".

Furthermore, Posadas executed with Accenture, and other technological service and license suppliers such as Oracle and Ariba, important contracts supporting the Company's operations. The failure to renew these contracts could cause Posadas to retain similar third-party services, which could imply costs due to changes in supplier.

#### *Derivatives*

The Company occasionally uses derivative financial instruments by relating hedges to debt incurred. The derivative financial instruments which have been used are those involving the exchange of principal and interest from one currency to another (CCS) and instruments to fix variable debt interest rates (IRS). The preceding is for economic hedging purposes.

The reference or underlying variables of derivative financial instruments applicable to *Cross Currency Swaps* ("CCS") held by the Issuer may be subject to market, loan and operation risks that may result in unexpected and material losses. A fall in asset valuation, an unanticipated financing event or unforeseen circumstances causing a correlation of factors that were previously uncorrelated, may cause losses resulting from risks unaccounted for when a derivative financial instrument was structured and traded. Some of these factors are the exchange rate ("*FX*"), Libor rate changes represented in basis points ("*pbs*"), changes in *Spread or Basis* pbs and changes in the TIIE rate represented in pbs. Currently, the notional value of these instruments has been considerably reduced and the hedge by these instruments is maintained, and the depreciation corresponding to monthly markets valuations are recorded in the net profit and loss statement of savings corresponding to monthly flow exchanges for each coupon in pesos and dollars as part of the Comprehensive Financial Result ("*RIF*", due to its initials in Spanish). For greater detail please see section: 3) *Financial Information, ii) Financial Situation, Liquidity and Capital Resources, Derivative Financial Instruments*.

#### **iv) Principal Clients**

Given the nature of the hotel industry, the Company considers that it is not significantly dependent on any or several clients as users of hotel services which if lost would adversely affect the Company's operating results or financial situation. The Company has a business strategy based on targeting the Mexican business and vacation market segments through the Grand Fiesta Americana, Fiesta Americana, Fiesta Inn, Gamma and One Hotels brands; the wholesale segment in the North American market, principally for the resorts line; and the Mexican group and conventions market segment for Fiesta Americana and Fiesta Inn. However, it is worth mentioning that the Company's marketing efforts are focused on the Mexican, United States and Canadian markets, therefore, a slowdown or downturn of said markets may significantly and adversely affect the Company's operating results. The restrictions for US travelers to Cuban destinations presuppose that Posadas must look for new originating markets for these hotels, thus, the delay in the consolidation of these new markets or competition from other destinations geographically closer and economically more competitive may complicate the operating results of these markets.

Furthermore, there is a trend to consolidate hotel ownership in groups such as FibraHotel and other institutional real property investors. At present, we operate 64 hotels owned by FibraHotel representing the 40% of the total hotels operated by the Company and 5 other owners concentrate the operation of 31 third party hotels representing a 18% of the total.

This trend is expected to continue in the near future. The loss of FibraHotel or other family groups as a client, would seriously and adversely affect the Company's operating results and financial situation.

#### **v) Applicable Legislation and Tax Situation**

In general, hotel and timeshare activity are subject to diverse local (municipal, state) and national (federal) regulations, in the diverse operating jurisdictions. In this manner, modification of said provisions may mean a cost increase that the Company must incur to comply, in addition to the limitations which they may impose on its activity.

In January 2018, the Mexican Congress approved an amendment to the Federal Consumer Protection Law which impacts upon the diverse marketing and publicity modalities of our offered services, on our clients' information and on some service contracting mechanisms.

In this same line of reasoning, the authorizations most relevant to hotel service operations are related to licenses or authorizations concerning operations, food and beverage supply, including alcoholic beverages, swimming pools, civil defense, health, wastewater use and disposal, consumer protection, hotel registration and classification, environmental, amongst others. Thus, we depend on administrative authorities so that said authorizations are issued in a timely manner, and that the application guidelines of said authorities are congruent and pursuant to applicable normativity.

We have no knowledge of contingencies that, consequently, may result in the assumption of, or cause a material adverse damage to the hotels' operation related to the obtainment or compliance with said authorizations or the modification to the same. However, we are continuously correcting any deviations from or adapting our operations to the existing or new applicable rules.

Finally, various subsidiaries of the Company hold concessions for different purposes, which are governed by the applicable laws and specifically by the terms of the concession. Of these the principally important are the Federal Maritime and Territorial Land Zones, water and wastewater wells.

The arrival of Posadas to new markets with different jurisdictions has as a consequence that it should adapt its operations to comply with local regulations, that in general terms are similar to those existing in Mexico. In the case of Cuba, there are additionally the provisions and restrictions stipulated by the government of the United States of America related to operations with property, assets and counterparties from the island.

To check Tax Situation details, see section: 2) *The Company*, b) *Business Description*, v) *Applicable Legislation and Tax Situation*, subsection *Tax Regulations in Mexico*.

#### **Securities Market Law**

On December 28, 2005, the Securities Market Law was published in the Federal Official Bulletin and entered into force on June 28, 2006. In the general extraordinary shareholders' meeting held on November 30, 2006, the Company modified its bylaws to incorporate the newly established requirements. The Securities Market Law, amongst other things (i) clarifies public tender offer rules classifying them as mandatory or voluntary, (ii) issues information disclosure criteria for the shareholders of Issuers, (iii) augments and strengthens the duties of the board of directors, (iv) precisely determines the board of directors' duties as well as those of its members, the secretary and the director general, introducing new concepts such as duties of due diligence and loyalty, (v) substitutes the concept of statutory auditor and their obligations with an audit committee, the corporate practices committee and external auditors, (vi) defines the director general's obligations and those of upper-level officers, (vii) broadens minority shareholders' rights, and (viii) broadens the penalty definition for violations of the new Securities Market Law, and, in general terms, regulates the relationship and informational obligations of the Issuer to shareholders, related parties, authorities, among others.

Likewise, the Company is obligated to comply with the regulatory provisions issued by the National Banking and Securities Commission related to corporate operations and publicity of the issuers, operations with the Issuer's own securities, operations with related parties, independent external audits, amongst other aspects.

The Company deems that it has complied with all material aspects of the applicable laws and regulations and has obtained or is in the process of obtaining all licenses and permits allowing it to run its business in compliance with the law.

## **Mexican Tax Regulations**

Mexican enterprises are subject to Income Tax ("ISR", due to its initials in Spanish) which continues in force to this report publication date. The ISR is calculated by considering certain inflationary effects as taxable or deductible, such as depreciation calculated on constant price values.

ISR -The rate was 30% in 2017 and 2016 and years thereafter. Due to the repeal of the Income Tax Law in effect until December 31, 2013, the tax consolidation rules were eliminated. Therefore, the Issuer is obligated to pay the deferred income tax determined as of that date in the subsequent corporate years beginning in 2014. This deconsolidation tax was recognized in the Consolidated Comprehensive Results statement to December 31, 2013, under the heading of profits tax and amounted to \$882 M. The updated balance to December 31, 2016 after 3 annual payments amounted to \$309 M, recognizing the corresponding short and long-term liabilities. Notwithstanding the foregoing, the SAT reviewed the aforementioned deferred tax ruling. Derived from the agreement resulting from the difference of criteria of the applicable legislation, the Company closed this SAT audit with other agreements. For further detail, see section: 3) *Financial Information*, c) *Material Loan Information*.

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

Additionally, the Company's activities may be burdened with local taxes, such as an Accommodations Tax, and other taxes levied on other events which we occasionally carry out, such as contests, gambling and lottery activities, amongst others.

In December 2013, the 0% tax rate for hotel services rendered to foreign groups was repealed and became a tax incentive effective from January 1, 2014. A 16% tax is imposed on the services provided to such groups and, if specific requirements are met, the 16% VAT may be credited.

While the aforementioned Law repealed the 2014 tax consolidation rules, an option was given to corporate groups to jointly calculate Income Tax (tax integration rules). The new rules allow integrated corporations directly or indirectly owned by an integrating corporation in more than 80%, to obtain certain tax payment benefits (if in the corporate group there exist entities with profits or loss in the same corporate year), which may be deferred for three years and paid over, as updated, on the date on which the tax return corresponding to the corporate year following the corporate year in which the aforementioned return must be filed.

Regarding the impact of environmental normativity related to climate change, see: 2) *The Company*, vii) *Environmental Performance*.

## **US Tax Regulations**

According to current United States law, the subsidiaries operating in that country are subject to Income Tax computed at a 21% rate.

### **vi) Human Resources**

To December 31, 2018, the Company had 18,277 employees. In Mexico, around 50% of the employees are unionized. Generally, a union represents the unionized employees for each hotel. The collective bargaining agreements are generally reviewed yearly for salary adjustments and every two years for other clauses contained therein. Each of the individual hotel unions is affiliated to one of the larger national labor organization: either the "CTM" (due to its initials in Spanish, *Confederacion de Trabajadores de Mexico*) or the "CROC" (due to its initials in Spanish, *Confederacion Revolucionaria de Obreros y Campesinos*).

During the last 10 years, the Company has not had a material labor dispute with the unions representing its employees. The Company considers that it has a good relationship with all employees in all of its properties, as well as with its employees' unions.

Likewise, the Company has a pension plan, seniority premiums and severance pay for non-unionized personnel thus complementing the legal seniority premium and pensions granted by law. In order to have access to the pension plan, employees must be older than sixty. The annual cost of legal seniority premiums, retirement and pension plans for personnel meeting certain requirements is calculated by an independent actuary based on the projected unit credit method.

The Company has established pension and retirement plans for collaborators, which to December 31, 2018, report a total accumulated reserve of \$78.9 M.

A group of executives and employees has the right to receive an annual bonus based on the Company's global performance, as well as on individual performance.

The Company has operative staff training programs and has training schools specifically designed for operating the Fiesta Americana, Fiesta Inn and One Hotels brands. The training programs include kitchen and reception employees up to hotel managers. Posadas also supports rotation of hotel executive officers at its different properties for the purpose of enhancing their management skills. Occasionally, Posadas hires temporary employees.

The management of human capital is one of the Company's priority, and during 2014 it started a project headed by the Human Capital Division to attract and retain key position talent in different Company business units, thus diminishing the risk of losing business know-how, productivity, efficiency and continuity. This project currently continues; in 2015 and 2016, approximately 796 evaluations were carried out to identify the talent with the greatest potential and design individual development and retention plans for this collaborator group.

Likewise, the company continues its evaluation plan to manage and detect internal talent as well as to formulate succession plans.

In the personal and business sphere, we seek, as we have done each year, to improve quality of life in the Company. To this end, we have taken the following initiatives:

- Training and development of personnel; a project achieved with programs focused on issues of sustainability and professional growth opportunities.
- Sense of belonging and team work: continuous promotion.
- Healthy employment practices: this is possible because we foster a clean and safe working environment.
- Value culture and positive working environment; continuous promotion at all levels.
- Family-work balance between our collaborators; an aspect that we do not put aside.
- Gilberto Rincon Gallardo Inclusive Company Distinction: an acknowledgement of the respect and inclusion practices followed in our hotels, sales rooms and offices.
- Integrated welfare of our collaborators: taking care of the health and performance of our collaborators with the help of the "Vive Salud" program.
- Posadas Service School: a cornerstone that continues to generate experiences for our guests and key to the progress of our collaborators.
- Stated its commitment to implement the National Conduct Code for the Protection of Children and Adolescents in the Travel and Tourism Sector (SECTUR).
- Established in Company guideline documents (Ethics Code, Internal Regulations and Posadas Foundation Policy) our commitment against sexual and labor exploitation of children and adolescents.
- Raised awareness and trained all of its collaborators at 100% of the hotels regarding the prevention of sexual and labor exploitation.
- Implemented an action protocol to ensure that our collaborators know how to act in situations of presumably sexual and labor exploitation of children and adolescents.
- Formed collaboration networks with other institutions to prevent, evaluate and report at risk cases.
- Informed guests of its commitment against labor exploitation of children and adolescents.
- Promotes the conditions necessary to create dignified and non-discriminatory employment.
- Offers benefits superior to those stipulated by law (breastfeeding room, savings fund, grocery vouchers, major medical expenses insurance).
- Offers professional growth opportunities, training programs and personal development focused on sustainability.
- Promotes healthy working practices in a clean and safe environment.
- Promotes a value-centered culture and a positive environment, encouraging balancing family with flexible working schedules and home office initiatives.
- Maintains a Health Program "Vive Salud" seeking its collaborators' comprehensive welfare, taking care of their health and performance.

## **vii) Environmental Performance**

The construction and hotel industries in Mexico are subject to federal, state and municipal laws, as well as to strict regulations in preservation, conservation and environmental protection matters; hotel operations and safety aspects, amongst others. The Company is implementing actions within its reach to reasonably comply with the laws

governing hotel and environmental matters. We are currently in the process of modifying and processing various authorizations, licenses, permits and concessions necessary for the operation of our hotels.

The Company has an internal environmental and safety compliance program aimed at ensuring that all its operating and under construction properties and businesses comply with applicable environmental laws and regulations. In Mexico, most hotels have entered into agreements with the Federal Environmental Protection Agency submitting themselves to exhaustive policy and procedure reviews to deserve the Environmental Tourism Quality Certificate conferred by *Profepa* upon proving that all environmental rules have been complied. The degree of progress made in said procedures is satisfactory and varies from hotel to hotel.

Since 2000, the Company has a department denominated Risk Unit, exclusively engaged in dealing with environmental and civil defense issues that may take place both at the Company's hotels and corporate offices. The Risk Unit reports to the General Hotel Operations Division through the Engineering and Maintenance Division. In turn, the person responsible for said division is supported by the hotels' maintenance managers to comply with the laws established by the competent authorities, as well as with the Company's environmental and civil defense policies. If the Risk Unit detects any discrepancy, it elaborates a Correction Action Plan which determines the actions to be taken to comply with the applicable norm.

All real properties managed by Posadas are focused on complying with the National Fire Protection Association (NFPA) normativity, certifying it in fire protection. In all Posadas' properties there are prevention measurements, including the use of fire hydrants, sprinklers, fire extinguishers, fire detectors and alarms.

Additionally, the hotels meet 100% of the requirements prescribed by the three governmental levels in Civil Defense matters. Consequently, we obtained Civil Defense accreditation which is an indispensable requirement to hotel operations. In the drafting of new and existing hotel projects, Corrective Plans and maintenance tasks, the Unit works jointly with NFPA-certified and specialized consultants, as well as with insurance companies to monitor compliance with the required certification standards.

The sustainable tourism model of Grupo Posadas has permitted us to position ourselves as a leader in environmental issues.

The basic tools include construction and operation manuals, that in turn determine the use of materials, finishes, equipment and high technology installations, in addition to administrative and operative procedures, all of which attempt to minimize impact over the natural and social surroundings and allows us to make progress in protecting and caring for the environment.

For the purpose of working jointly to certify all of the hotels in the category of "Tourism Environmental Quality", Grupo Posadas and Profepa signed a concertation agreement. Certification demands the implementation of policies, norms, federal laws, state and municipal laws, as well the implementation of different means of control and evaluation of procedures, amongst which are keeping a record of the consumption of fossil fuels, electricity, gas and water. Likewise, these include keeping an inventory of greenhouse gases with the National Emissions Registry.

Derived from effort and work on environmental issues, some of the achievements of the Company during 2018 are:

- Adapting the physical plant.
- Storing temporarily organic and inorganic waste, training, signaling according to norms, collecting and final disposition accredited by SEMARNAT.
- Storing temporarily dangerous waste, signaling according to norms, training, collecting and final disposition accredited by SEMARNAT.
- Storing temporarily of chemical products and solvents, signaling according to norms and training.
- Collecting and final dispositions of vegetable oil used to manufacture biodiesel.
- Economizing of water in showers and washbasins, change of toilets to low consumption and dry urinals.
- Illuminating with LED in public and service areas.
- Equipping air conditioners with ecological coolants.
- High-efficiency heaters and low emissions NOX.

Acknowledgements for green initiatives to December 31,2018:

- 38 hotels with Tourism Environmental Quality Certificate (certificate issued by PROFEPA).
- 153 certifications Environmental Green Key (International Certificate).
- 31 Hydro-Sustainable Hotel distinctions (distinction issued by the Helvex Foundation).
- Environmental Competitive Leadership (acknowledgement issued by SEMARNAT).

- 10 S distinctions (given by PROFEPA and the Ministry of Tourism).
- Equipment against fires, alarms and detection (certificate issued by the company in charge of maintenance).
- Internal Civil Protection Program (accreditation given by Civil Protection).

The market shows a marked trend to consume sustainable products and services. In this sense, our clients are not the exception therefore sustainable operation of our hotels is key to marketing our services. For this reason, gradually, the company has been implementing sustainable consumption and management policies.

According to publicly accessible information, climate changes could be a factor, among many others, that may result in unusual or unpredictable catastrophic events such as a hurricane or flooding that could affect mainly our beach hotels. Climate change is also considered to be a cause of high tide movements, which are a reference mark to determine the federal sea and land zones of the country's coasts. Our properties located near such federal zones may be affected by such movements and, in this context, it may be necessary to request special permits and make substantial investments to recover and maintain the beach zones adjacent to the Company's properties.

The Federal government has passed decrees to establish the Caribbean Biosphere Reserve. The operating rules are yet to be defined. The hotels located inside or near this area may need to adjust their operations and incur additional compliance costs or investment.

### **viii) Market Information**

#### **Industry's Global Context**

The tourism industry is susceptible to an ample variety of factors, from changes in consumer habits and preferences to international security and terrorism, natural disasters, political factors, amongst others.

According to information of the World Tourism Organization, for 2018, world tourism showed positive behavior reflected in the arrival of international tourists increasing by 6%, reaching a total of 1,401 million international tourists. It is important to underline, that this variable has grown consecutively for 9 years.

This same global growth trend observed in the last years, is principally due to the increase of arrivals of international tourists from the Middle East, Africa and Pacific Asia with a growth of 10.3%, 7.3% and 6.1%, respectively.

Europe maintained a 6% growth, in comparison with the high growth it had in 2017, principally due to decreases arrivals from the United Kingdom. Asia and the Pacific grew the same 6%. America only increased by 3% due principally to the hurricanes Irma and Maria.

Africa increased by 7%, while the Middle East continued to consolidate its growth with an increase of 10%.

France kept its first place in the Ranking of international tourist arrivals with 93.6 million arrivals, while Spain only increased by 0.9%. On the other hand, United States showed a 4.2% recovery.

Turkey stepped up one position in the Ranking of international tourist arrivals, with a 22.6% growth while Mexico presented a 5.5% growth.

The United Kingdom decreased by 5.5% and went down two positions in the international tourist arrival Ranking, mainly due to political BREXIT related uncertainty.

The following table shows a preliminary view of the countries with the largest arrival of international tourists in 2018 (Source: Panorama of tourism activity number 26 of the National Tourism Council "CNET" and the World Tourism Organization "OMT" and web pages of the countries).

Ranking WTO					
2018	2017	International Tourist Arrivals			
#	#	Country	Million people	Growth Rate	
1	1	 France	93.6	7.7%	
2	2	 Spain	81.9	0.9%	
3	3	 United States	80.1	4.2%	
4	4	 China	62.1	2.3%	
5	5	 Italy	61.2	4.9%	
6	7	 Turkey	46.1	22.6%	
7	6	 Mexico	41.4	5.5%	
8	9	 Germany	39	3.9%	
9	10	 Thailand	38.3	8.2%	
10	8	 United Kingdom	35.7	(5.3%)	

The World Tourism Organization foresees that international tourist arrivals will increase 2019 approximately 3% and 4% around the world.

**Tourism in Mexico** (Source: Banco de Mexico, National Statistics and Geography Institute (INEGI), Ministry of Tourism (SECTUR))

*International.* Mexico is the Latin American country which attracts most international tourism, and is one of the most important worldwide tourist destinations.

According to WTO estimated numbers, Mexico received 41.4 million international tourists in 2018, which is a number greater by 5.5% of the previous year. Of which international tourists' arrivals were 18.1 million, representing 7.6% more in comparison with 2017. While the largest number of foreign visitors, 79.4% was by air.

Of the tourists that enter Mexico by air, approximately 6 of each 10, come from the United States, representing 59.2% of the total, followed by Canada with 11.5%.

It is estimated that the economic disbursement by international visitors to Mexico was US\$22.5 thousand million in 2018, which represented an increase of approximately 5.5% as compared with 2017.

The Tourism Balance in 2018 surpassed 11.2 thousand millions of dollars, and represented a 6.8% increase with respect to 2017.

*Domestic.* The arrival of national tourists to hotel rooms was more than 65.8 million tourists, which represented a 3.8% increase.

*Hotel occupancy levels.* As to the offer of hotels taking as a whole the 25 most relevant touristic centers, there stands out that the average number of rooms available amounted to 316,788, which represented an increase of 2.3%, that is to say 7,078 rooms more than in 2017. The percentages of hotel occupancy in these establishments reported 65.3%, which means an increase of 0.9 percentage points.

During 2018 the airports with the greatest number of foreign visitors were: Cancun with 7.9 M (3.5% in comparison to 2017), Mexico City with 4.9 M (8% in comparison with 2017), Los Cabos 1.7 M (3.3% in comparison with 2017), Puerto Vallarta 1.5 M (1.2% in comparison with 2017) and Guadalajara with almost 1.2 M (5.8% in comparison with 2017).

The 2018 results were caused principally by the negative perception of insecurity at some destinations, derived from the travel alerts that were issued at that time by the United States government and which were withdrawn, secondly due to the bladderwrack plague in the Mexican Caribbean and, lastly, the decrease of trips coming from Argentina and the slowdown of the British market.

## Competition

The hotel industry is highly competitive. In general, the Company's hotels compete against diverse Mexican and International hotel operators, some of which are larger than the Company and operate under well-known international brands. In mid-size cities and large city suburbs, the Company's hotels primarily compete against Mexican and international chains as well as different independent hotel operators.

Depending on the hotel's category, competition is based mainly on price, quality of the installations and services offered, as well as physical location in a particular market. Hotel operators must make continuing capital expenditures for modernization, refurbishment and maintenance, to prevent competitive obsolescence of their properties and thereby lose competitiveness. The competitiveness of the Company's hotels has been enhanced by our frequent guest program (Fiesta Rewards), as well as by its Vacation Properties such as the Fiesta Americana Vacation Club, Live Aqua Residence Club, Kivac and Re\_Set programs.

In order to automatize and speed up the information collection process, in 2017 the information source was modified to report by chain to the STR Census Database (Smith Travel Research) leading hotel industry information provider.

The principal competitors of Live Aqua and Grand Fiesta Americana according to room numbers are other international and Mexican chains such as: InterContinental, JW Marriot, Quinta Real, amongst others. While the competitor of Live Aqua Residence Club is Inspirato.

The principal competitors of the Fiesta Americana brand, including the Vacation Product Industry and Explorea regarding room numbers are: Camino Real, Crowne Plaza, Marriott, Hilton, Sheraton and Westin, amongst others.

It is important to mention that international hotel chains have been launching new brands focused on more segmented markets. These new brands may compete against those already mentioned by occupying spaces in the market structure of the aforesaid brands. Confronted with this situation, Posadas has been investing in the creation of new brands designed for more specific markets and it is estimated that during this corporate year of 2019, Posadas will launch on the market some of these new hotel products.

The principal competitors of Fiesta Inn hotels, including its derivatives Fiesta Inn Loft and Fiesta Inn Express, as to room numbers are independent local operators and Mexican and international chains such as: Holiday Inn, City Express, Hampton, Courtyard, Real Inn, Wyndham Garden, La Quinta Inn & Suites, Ramada, amongst others.

The principal competitors of Gamma hotels in room numbers are: Mision Express, Best Western, Best Western Plus, Comfort Inn, Quality Inn, and Real de Minas, amongst others.

The principal competitors of One hotels in room numbers are: IBIS, IBIS Styles, IBIS Budget, City Express Junior, Sleep Inn, and Microtel Inn & Suites.

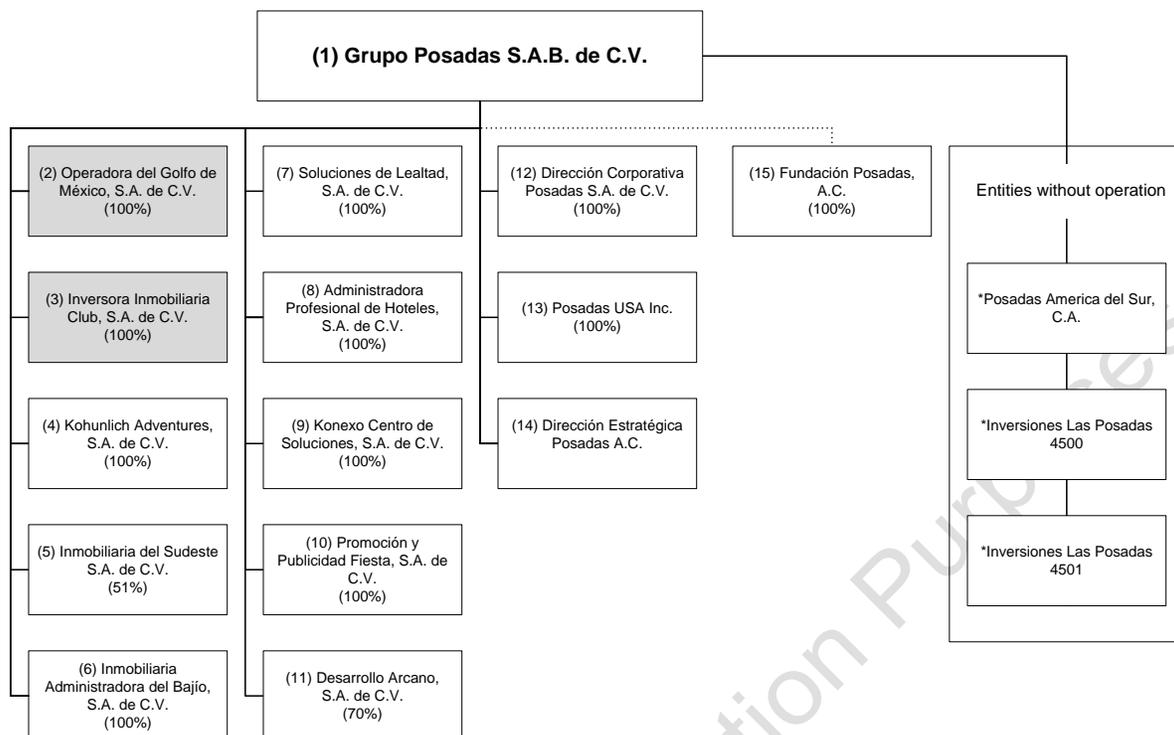
Although the Company considers itself a leader in Mexico as to the number of operated hotels and rooms, there is no official publication proving the market participation of its hotels in relation to existing competitors or its competitive position. The information regarding competitors has its study source that of Posadas Chains 2018 with information of STR Census Database (Smith Travel Research) to December 2018.

In reference to total rooms (including own, leased and operated rooms) in Mexico and based on the 2018 Posadas Chains study with STR Census Database information, June 2017, for Hotel Groups, the Posadas brands jointly have a 15% market participation. Per brand in the competitor set: luxury hotels corresponding to brands Live Aqua, including Live Aqua Residence Club have a 9% market share; Grand Tourism hotels (Grand Fiesta Americana) have a 25% market share; in the five star category, the hotels operating under the Fiesta Americana brand (including FAVC & Explorea) have a 19% market share; in the four star category, Fiesta Inn, Fiesta Inn Loft and Fiesta Inn Express, has a 16% market share; likewise the Gamma brand has a 16% market share. In the "economy" three-star segment, the brand One Hotels has a 51% market share. The foregoing information includes the total availability inventory of the top 10 corresponding to each brand.

## **ix) Corporate Structure**

The Company is organized as a holding corporation and additionally conducts a very important number of its operations by itself and through its mainly Mexican subsidiaries. After the corporate restructuring, it is intended that the Company operates with the lowest possible number of subsidiaries.

The following organizational chart illustrates how the Company's principal subsidiaries are organized, as well as the principal activities of each entity to March 31, 2018:



Source: Posadas

■ Guarantors of the Senior Notes 2022

- (1) Grupo Posadas, S.A.B. de C.V.:
  - a. Owns hotel trademarks, under which it operates hotels in Mexico through management and/or franchise contracts, and it receives net cash flows from owned and leased hotels. This Entity pays rents for leased hotels to third parties. This Entity hires employees for the corporate offices as well as owned and leased hotels.
  - b. Manages our loyalty program Fiesta Rewards.
  - c. Sells time-share rights in Los Cabos (owned property), Cozumel (beneficially owned), Acapulco, Cancun, Marina Vallarta and Kohunlich (that are leased from another subsidiary). It also manages our vacation club exchange program.
  - d. Markets our Kivac and Re\_Set vacation products.
- (2) Operadora del Golfo de Mexico, S.A. de C.V., is entitled to the bare ownership for all our owned hotels in Mexico, except for the FA Merida hotel.
- (3) This the subsidiary through which we own the Vacation Properties in Acapulco, Cancun, Marina Vallarta and Kohunlich. As of March 29, 2019, the Ordinary and Extraordinary shareholders meeting approved the merger of this entity into Grupo Posadas.
- (4) Kohunlich Adventures, S.A. de C.V., Holds our federal ground transportation permits for transportation of our hotel guests.
- (5) Inmobiliaria del Sudeste S.A. de C.V., Is the owner of, and receives all of the cash flows of, the FA Merida hotel
- (6) Inmobiliaria Administradora del Bajío S.A. de C.V., Is the payroll entity for the FA Merida hotel.
- (7) Soluciones de Lealtad, S.A. de C.V., Does not have operations.
- (8) Administradora Profesional de Hoteles, S.A. de C.V., Does not have operations.
- (9) Konexo Centro de Soluciones S.A. de C.V., Holds our Konexo's call center business. As of March 29, 2019, the Ordinary and Extraordinary shareholders meeting approved the merger of this entity in Grupo Posadas.
- (10) Promocion y Publicidad Fiesta, S.A. de C.V., Manager of the marketing funds for all of our hotels.
- (11) Desarrollo Arcano, S.A. de C.V., Developer of a residential venture in Ixtapa, Mexico, still holds two plots of land in Ixtapa available for sale.
- (12) Direccion Corporativa Posadas, S.A. de C.V., Payroll entities for the corporate executive committee.
- (13) Posadas USA Inc., Performs sales, marketing and collection activities in the United States.
- (14) Direccion Estrategica Posadas, A.C., Is the Company savings account for certain executive members.
- (15) Fundacion Posadas A.C. Holds and administers our public charity programs. This entity is not consolidated in Grupo Posadas, and according to its by-laws Grupo Posadas does not any right in its assets.

\*Inversiones Las Posadas 4500, C.A., Inversiones Las Posadas 4501, C.A., Posadas America del Sur, C.A., among other foreign entities, are entities that we plan to liquidate, pursuant to our on-going corporate restructuring, none of is operating.

Grupo Posadas' board of directors continues with the internal restructuring plan whose trend is to consolidate its operations and companies in the issuer. The restructuring plan, which was the subject of three informational leaflets published on April 10, 2014, February 26, 2016 and August 15, 2017 and to which the reader is remitted for greater detail, consists of an internal corporate structure reorganization of certain businesses of Posadas. It is underlined that no corporation which is not currently a direct or indirect subsidiary of Posadas participates in the corporate restructuring, and as to those corporations in which third party minority participation exists, it is foreseen that said third parties will not acquire interest in corporations or assets in which they did not have an interest or a holding. For this reason, the consolidated assets and operations of Posadas as a corporate group have not undergone substantial changes after the Company's corporate restructuring. Along these lines, Posadas has implemented a series of corporate movements that solely involve subsidiaries controlled (that is to say, corporations where the Issuer owns 51% or more of the corporate capital), directly or indirectly. The corporate restructuring does not imply the Company's incursion into a new business line, and in no manner, affects the existence or legal capacity of Posadas as a Publicly-Traded Corporation, nor will it

affect in any manner the products and services that the Company offers to its clients. Neither will the corporate restructuring affect the Company's work force. The corporate restructuring of Posadas' Subsidiaries is intended to reduce and make more efficient the Issuer's corporate structure.

In September 2017, Posadas merged its subsidiaries: Administracion Digital Conectum, S.A. de C.V., Posadas de Latinoamerica, 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. Said merger did not affect the consolidated financial statements. Once the merger became effective, Posadas fully absorbed with all rights and liabilities the totality of the assets and liabilities, obligations and guarantees of the companies merged. Likewise, in extraordinary shareholders meeting on April 12, 2018, Posadas' shareholders resolved to merge the company Servicios Gerenciales Posadas, S.A. de C.V. into Grupo Posadas, disappearing the first entity and the second fully assumed with all rights, the assets, liabilities and obligations of the company merged, with accounting and tax effects as of May 1, 2018.

In 2018, the merger of the subsidiary of Grupo Posadas corresponding to the hotel committee payroll (Servicios Gerenciales Posadas, S.A. de C.V.), therefore the total capital and obligations which were the responsibility of said corporation were undertaken. Likewise, a foreign subsidiary was dissolved once the sale of the hotel in the city of Laredo, Texas was completed.

The General Extraordinary and Ordinary Shareholders' Meeting, held on March 29, 2019, approved the merger of Inversora Inmobiliaria Club, S.A. de C.V. and Konexo Centro de Soluciones, S.A. de C.V. with and into Grupo Posadas, S.A.B. de C.V., the first two disappearing as merged corporations and the last company surviving as the merged corporation.

#### **x) Description of the Company's Principal Assets**

Herein below is a list of the Company's hotels to December 31, 2018, including number of rooms, age, location and type (franchised, owned, managed or leased):

Hotel	Opening	Country	Contract	Rooms
Live Aqua Urban Resort Mexico	2012	Mexico	Managed	135
Live Aqua Beach Resort Cancun	2004	Mexico	Leased	371
Live Aqua Boutique Resort Playa del Carmen	2015	Mexico	Managed	60
Live Aqua Urban Resort Monterrey	2016	Mexico	Managed	74
Live Aqua San Miguel de Allende	2018	Mexico	Managed	153
Live Aqua Residence Club Los Cabos	2017	Mexico	Owned	109
Grand Fiesta Americana Al Parks Vallarta	2015	Mexico	Managed	444
Grand Fiesta Americana Coral Beach	1990	Mexico	Managed	602
Grand Fiesta Americana Chapultepec	2001	Mexico	Managed	203
Grand Fiesta Americana Guadalajara Country Club	2007	Mexico	Managed	207
Grand Fiesta Americana Puebla	2016	Mexico	Managed	168
Grand Fiesta Americana Monterrey Valle	2016	Mexico	Managed	180
Grand Fiesta Americana Los Cabos Golf & Spa Resort	2000	Mexico	Owned	249
Grand Fiesta Americana Queretaro	2003	Mexico	Managed	173
Fiesta Americana Aguascalientes	1993	Mexico	Managed	192
Fiesta Americana Condesa Cancun	1989	Mexico	Leased	507
Fiesta Americana Cuernavaca, Hacienda San Antonio El Puente	2011	Mexico	Managed	131
Fiesta Americana Guadalajara	1982	Mexico	Owned	391
Fiesta Americana Hacienda Galindo	1977	Mexico	Managed	168
Fiesta Americana Hermosillo	1982	Mexico	Managed	221
Fiesta Americana Merida	1995	Mexico	Owned	350
Fiesta Americana Monterrey Pabellon	2016	Mexico	Managed	178
Fiesta Americana Puerto Vallarta	1979	Mexico	Managed	291
Fiesta Americana Reforma	1970	Mexico	Owned	616
Fiesta Americana Mexico Toreo	2016	Mexico	Managed	252
Fiesta Americana Veracruz	1995	Mexico	Managed	233
Fiesta Americana Mexico Satelite	2018	Mexico	Managed	223
FAVC Cancun	1981	Mexico	Owned	310

Hotel	Opening	Country	Contract	Rooms
FAVC Condesa Acapulco	1971	Mexico	Owned	560
FAVC Cozumel Dive Resort	1991	Mexico	Owned	174
FAVC Explorea Cozumel	2014	Mexico	Owned	56
FAVC Explorea Kohnulich	1999	Mexico	Owned	40
FAVC Los Cabos Villas	2000	Mexico	Owned	457
FAVC Puerto Vallarta - Nima Bay	2013	Mexico	Owned	16
Fiesta Inn Aeropuerto Ciudad de Mexico	1970	Mexico	Leased	327
Fiesta Inn Aguascalientes	1993	Mexico	Managed	125
Fiesta Inn Aguascalientes Patio	2018	Mexico	Managed	126
Fiesta Inn Cancun Las Americas	2012	Mexico	Leased	187
Fiesta Inn Celaya	2003	Mexico	Managed	124
Fiesta Inn Centro Historico	2003	Mexico	Leased	140
Fiesta Inn Ciudad de Mexico Forum Buena Vista	2017	Mexico	Managed	129
Fiesta Inn Ciudad del Carmen	2003	Mexico	Managed	131
Fiesta Inn Ciudad del Carmen Laguna de Terminos	2018	Mexico	Managed	133
Fiesta Inn Ciudad Obregon	2007	Mexico	Managed	141
Fiesta Inn Ciudad Juarez	1999	Mexico	Managed	166
Fiesta Inn Colima	2004	Mexico	Managed	104
Fiesta Inn Cuautitlan	2004	Mexico	Leased	128
Fiesta Inn Cuernavaca	2008	Mexico	Managed	155
Fiesta Inn Culiacan	2003	Mexico	Leased	146
Fiesta Inn Chetumal	2013	Mexico	Managed	131
Fiesta Inn Chihuahua	1993	Mexico	Managed	152
Fiesta Inn Chihuahua Fashion Mall	2017	Mexico	Managed	156
Fiesta Inn Coatzacoalcos	2008	Mexico	Managed	122
Fiesta Inn Durango	2008	Mexico	Managed	138
Fiesta Inn Ecatepec	2005	Mexico	Leased	143
Fiesta Inn Guadalajara	1995	Mexico	Managed	158
Fiesta Inn Hermosillo	2002	Mexico	Managed	155
Fiesta Inn Insurgentes Sur	2011	Mexico	Leased	162
Fiesta Inn Insurgentes Viaducto	2003	Mexico	Leased	210
Fiesta Inn Leon	1995	Mexico	Managed	160
Fiesta Inn Los Mochis	2016	Mexico	Managed	125
Fiesta Inn Merida	2014	Mexico	Managed	166
Fiesta Inn Mexicali	2004	Mexico	Managed	150
Fiesta Inn Morelia Altozano	2018	Mexico	Managed	155
Fiesta Inn Monclova	1996	Mexico	Managed	121
Fiesta Inn Monterrey Fundidora	2007	Mexico	Managed	155
Fiesta Inn Monterrey La Fe - Aeropuerto	1998	Mexico	Managed	161
Fiesta Inn Monterrey Tecnologico	2010	Mexico	Managed	201
Fiesta Inn Monterrey Valle	1994	Mexico	Managed	177
Fiesta Inn Naucalpan	1997	Mexico	Managed	119
Fiesta Inn Nogales	2004	Mexico	Managed	107
Fiesta Inn Nuevo Laredo	2011	Mexico	Managed	120
Fiesta Inn Oaxaca	1993	Mexico	Managed	145
Fiesta Inn Pachuca Gran Patio	2016	Mexico	Managed	156
Fiesta Inn Perinorte	1996	Mexico	Managed	127
Fiesta Inn Perisur	2001	Mexico	Leased	212
Fiesta Inn Plaza Central	2014	Mexico	Managed	169
Fiesta Inn Playa del Carmen	2016	Mexico	Managed	129
Fiesta Inn Poza Rica	2005	Mexico	Managed	107
Fiesta Inn Puebla Las Animas	2012	Mexico	Leased	140

Hotel	Opening	Country	Contract	Rooms
Fiesta Inn Puebla FINSA	2006	Mexico	Managed	123
Fiesta Inn Puerto Vallarta la Isla	2017	Mexico	Managed	144
Fiesta Inn Queretaro	2000	Mexico	Managed	175
Fiesta Inn Queretaro Centro Sur	2014	Mexico	Managed	134
Fiesta Inn Saltillo	1997	Mexico	Managed	149
Fiesta Inn San Cristobal de las Casas	2011	Mexico	Managed	80
Fiesta Inn San Luis Potosi Glorieta Juarez	1996	Mexico	Managed	135
Fiesta Inn San Luis Potosi Oriente	2004	Mexico	Leased	140
Fiesta Inn Silao Aeropuerto del Bajio	2017	Mexico	Managed	142
Fiesta Inn Tampico	2002	Mexico	Managed	124
Fiesta Inn Tepic	2008	Mexico	Managed	139
Fiesta Inn Tijuana Otay	2005	Mexico	Leased	142
Fiesta Inn Tlalnepantla	1994	Mexico	Managed	131
Fiesta Inn Toluca Toluca	1998	Mexico	Managed	144
Fiesta Inn Toluca Aeropuerto	2013	Mexico	Managed	150
Fiesta Inn Toluca Centro	2009	Mexico	Managed	85
Fiesta Inn Torreon Galerias	2005	Mexico	Managed	146
Fiesta Inn Tuxtla Fashion Mall	2018	Mexico	Managed	128
Fiesta Inn Tuxtla Gutierrez	2007	Mexico	Managed	120
Fiesta Inn Veracruz Boca del Rio	1999	Mexico	Managed	144
Fiesta Inn Veracruz Malecon	2001	Mexico	Managed	92
Fiesta Inn Villahermosa	2015	Mexico	Managed	159
Fiesta Inn Xalapa	1993	Mexico	Managed	119
Fiesta Inn Zacatecas	2011	Mexico	Managed	146
Fiesta Inn Loft Ciudad del Carmen	2015	Mexico	Managed	120
Fiesta Inn Loft Monterrey La Fe	2016	Mexico	Managed	48
Fiesta Inn Loft Monclova	2014	Mexico	Managed	37
Fiesta Inn Loft Queretaro	2014	Mexico	Managed	50
Fiesta Inn Express Queretaro Constituyentes	2018	Mexico	Managed	117
One Acapulco Costera	2008	Mexico	Managed	126
One Acapulco Diamante	2018	Mexico	Managed	126
One Aguascalientes Ciudad Industrial	2008	Mexico	Managed	126
One Aguascalientes San Marcos	2009	Mexico	Managed	126
One Cancun Centro	2014	Mexico	Managed	126
One Chihuahua Fashion Mall	2017	Mexico	Managed	126
One Ciudad del Carmen Concordia	2012	Mexico	Managed	126
One Ciudad de Mexico Alameda	2014	Mexico	Managed	117
One Ciudad de Mexico la Raza	2018	Mexico	Managed	123
One Ciudad de Mexico Patriotismo	2007	Mexico	Managed	132
One Culiacan Forum	2012	Mexico	Managed	119
One Coatzacoalcos Forum	2007	Mexico	Managed	126
One Guadalajara Centro Historico	2012	Mexico	Managed	146
One Guadalajara Expo	2017	Mexico	Managed	126
One Guadalajara Periferico Norte	2011	Mexico	Managed	132
One Guadalajara Periferico Vallarta	2014	Mexico	Managed	121
One Guadalajara Tapatio	2013	Mexico	Managed	126
One Irapuato	2013	Mexico	Managed	126
One La Paz	2014	Mexico	Managed	126
One Leon Antares	2017	Mexico	Managed	126
One Leon Poliforum	2014	Mexico	Managed	126
One Mexicali	2017	Mexico	Managed	120
One Monclova	2014	Mexico	Managed	66

Hotel	Opening	Country	Contract	Rooms
One Monterrey Aeropuerto	2006	Mexico	Managed	126
One Monterrey Tecnológico	2018	Mexico	Managed	126
One Playa del Carmen Centro	2010	Mexico	Managed	108
One Puebla FINSA	2010	Mexico	Managed	126
One Cuautitlan	2016	Mexico	Managed	156
One Queretaro Aeropuerto	2013	Mexico	Managed	126
One Queretaro Centro Sur	2014	Mexico	Managed	126
One Queretaro Plaza Galerias	2008	Mexico	Managed	126
One Oaxaca Centro	2013	Mexico	Managed	109
One Celaya	2015	Mexico	Managed	126
One Cuernavaca	2015	Mexico	Managed	125
One Gran Sur	2015	Mexico	Managed	144
One Durango	2016	Mexico	Managed	126
One Puebla Angelopolis Periferico	2018	Mexico	Managed	126
One Puebla Serdan	2017	Mexico	Managed	126
One Reynosa Valle Alto	2010	Mexico	Managed	135
One Salina Cruz	2011	Mexico	Managed	126
One Saltillo Derramadero	2009	Mexico	Managed	126
One San Luis Potosi Glorieta Juarez	2008	Mexico	Managed	126
One Silao	2014	Mexico	Managed	126
One Tijuana Otay	2018	Mexico	Managed	126
One Toluca Aeropuerto	2007	Mexico	Managed	126
One Vallarta Aeropuerto	2014	Mexico	Managed	126
One Villahermosa Centro	2014	Mexico	Managed	110
One Villahermosa Tabasco 2000	2015	Mexico	Managed	126
One Xalapa Las Animas	2012	Mexico	Managed	126
Gamma Boca del Rio Oliba	2018	Mexico	Franchise	63
Gamma Campeche Malecon	2015	Mexico	Franchise	146
Gamma Ciudad Juarez	2018	Mexico	Franchise	160
Gamma Ciudad Obregon	2014	Mexico	Managed	135
Gamma Cuernavaca Puerta Paraiso	2017	Mexico	Franchise	102
Gamma El Castellano, Merida	2015	Mexico	Franchise	153
Gamma Guadalajara Centro Historico	2018	Mexico	Managed	197
Gamma Ixtapa	2015	Mexico	Franchise	153
Gamma Leon	2014	Mexico	Managed	159
Gamma Monterrey Ancira	2015	Mexico	Franchise	244
Gamma Morelia Belo	2014	Mexico	Managed	84
Gamma Inn Tijuana	2014	Mexico	Managed	140
Gamma Pachuca	1998	Mexico	Leased	114
Gamma Tampico	2018	Mexico	Franchise	136
Gamma Torreon	2016	Mexico	Managed	102
Gamma Xalapa Nubara	2015	Mexico	Franchise	121
Holiday Inn Merida	1980	Mexico	Managed	213

Source: Posadas

According to our standards, all these properties must have insurance covering property damage, which is common for this industry (such as fires, explosions, earthquakes and hurricanes). These insurance policies also include coverage for consequential losses. All these policies are contracted with prestigious insurance companies. Some of the assets are encumbered as guarantee for the Company's or its subsidiaries' liabilities, which are generally undertaken for financing reasons or tax liabilities in litigation; therefore, generally, the attachment proceeding is a typical mortgage or fiduciary proceeding or the execution of a final ruling. (see section: 3) *Financial Situation, d) Comments and Analysis of Management on the Operating Results and Financial Situation of the Company, ii) Financial Situation, Liquidity and Capital Resources.*

Moreover, the Company is the holder of certain real property destined for office use in Morelia and at present is the owner of two lots of land located in the states of Nayarit and Guerrero to be used to build hotel properties, and two land lots in Arcano for the construction of hotel projects. These projects would be conditioned on obtaining financing.

In August 2017, the Company formalized the sale of Hotel Fiesta Inn Aeropuerto with 327 rooms in \$435 million pesos to Fibra UNO. Said hotel continues to be operated by Posadas under a 15-year term lease agreement and with a renewal option of 2 periods of 5 additional years.

Because the Company signed a lease contract, the Hotel Fiesta Americana Hacienda Galindo with 168 rooms was remodeled in stages in 2017, due to a leasing agreement by the Company. Likewise, it signed a sale-purchase contract subject to diverse conditions that must take place no later than December 2019, formalized and paid in 2020. The price is a multiple of 10.06 times EBIDTA of the hotel during the 2019 corporate year minus investments and leases. After executing the corporate purchase-sale, Posadas will manage said hotel under an operating contract.

The Company agreed to the sale and subsequent lease of the hotel Fiesta Americana Condesa Cancun to Fibra Hotel in 2017 subject to condition precedents. In February 2018, the Company informed the satisfaction of the conditions precedent so that the sale-purchase contract became effective. Therefore, the lease contract entered into force for a total 15-year term.

In April 2018 the Company signed a sale contract for the hotel "Ramada Plaza" located in Laredo, Texas, U.S.A. The price agreed on for the operation was US\$2.5 million which were received between the months of April and June 2018.

As part of the Company's Caribbean expansion plan, the following contracts to manage and operate hotels with third party investment were signed in 2018:

- Fiesta Americana All Inclusive Punta Varadero with 633 rooms.
- Fiesta Americana All Inclusive Holguin Costa Verde with 749 rooms.

In 2017, the Company formalized its participation as investor and operator of a hotel project on the Riviera Maya, "Tulkal", and began construction in 2018. There two hotels will be built: A Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms; both will be operated by Grupo Posadas and their opening is planned for the beginning of 2021.

In November 2018, we successfully opened the Live Aqua San Miguel de Allende, becoming the best hotel in the city. Likewise, the Live Aqua Beach Resort Cancun was completely renovated, completely changing the room concept, to a contemporary style, as well as all the hotel consumption centers.

Likewise, in this year, the leasing contract for the Hotel Live Aqua Cancun was extended.

During 2018, the Company opened 16 hotels, representing a total of 2,253 additional rooms under the modalities described below:

Hotel	Rooms	Contract
Fiesta Inn Ciudad del Carmen Laguna de Terminos	133	Managed
Fiesta Inn Morelia Altozano	155	Managed
Gamma Tampico	136	Franchise
Fiesta Inn Tuxtla Fashion Mall	128	Managed
Gamma Boca del Rio Oliba	63	Franchise
One Puebla Angelopolis Periferico	126	Managed
Gamma Guadalajara Centro Historico	197	Managed
One Monterrey Tecnologico	126	Managed
One Ciudad de Mexico La Raza	123	Managed
One Acapulco Diamante	126	Managed
Fiesta Inn Express Queretaro Constituyentes	117	Managed
Fiesta Americana Mexico Satellite	223	Managed
Gamma Ciudad Juarez	160	Franchise

Hotel	Rooms	Contract
Live Aqua San Miguel de Allende	153	Managed
Fiesta Inn Aguascalientes Patio	126	Managed
One Tijuana Otay	126	Managed
Fiesta Inn Cancun Las Americas Room Incremental	35	Managed
<b>Total</b>	<b>2,253</b>	

With respect to remodeling investment plans for own and leased hotels and the Live Aqua Residence Club in Los Cabos to be allocated to our Vacation Product segment, please see section Vacation Products (Vacation Products) refer to section 1) *General Information*, b) *Executive Summary* and section 2) *The Company, History and Development* in this Annual Report.

### **xi) Judicial, Administrative or Arbitral Proceedings**

As of December 31, 2018, the Company was a party in several judicial and administrative proceedings derived from the ordinary course of business, both as plaintiff and defendant. However, none of the judicial or administrative proceedings of which Posadas has knowledge may be considered “material” in terms of the Generally Applicable Provisions to Securities Issuers and other Securities Market Participants, due to the incipient procedural status, the indetermination of the amount, or due to the merits of the proceeding, in our legal advisors’ opinion.

In November 2000 and June of 2004, certain companies proceeded against a Posadas subsidiary for the improper execution of a trust guarantee which held the shares of a corporation holding the real property denominated Fiesta Inn Aeropuerto hotel, which at the same time had been given as a mortgage security for a bank loan. This same loan was later acquired by Posadas from the lending bank. The original creditor of the loan also sued to invalidate the loan. A ruling in this proceeding is not expected before 2017, and based on the nature of the claims, should they be ruled against our interest, we foresee that we will be judicially ordered to pay the value of the shares which were the subject of the execution.

Regarding employment proceedings, there is a series of individual lawsuits that may represent as a whole a significant contingent amount. However, not all of the lawsuits are deemed to have the same risk of materialization.

On the other hand, regarding the loans recognized to the Company and its subsidiaries through Mexicana’s bankruptcy proceeding for an approximate amount of \$171.2 million, the Company reserved the total amount in 2010. Of said loans, \$115 million correspond to operating transactions registered in the consolidated profit and loss statement, line items “sale, publicity and promotion” and “direct costs and expenses”. In this framework, Posadas may be subject to collateral legal proceedings or other proceedings with respect to this issue.

As we have referred in other statements, in 2017, Posadas, and other material defendants were sued in a labor proceeding by two unions of *Compañía Mexicana de Aviación*. The company has presented its defense and the procedural status of this proceedings has not significantly progressed.

An old subsidiary of the Company has been ordered to pay expenses and costs of a judicial proceeding filed in Argentina. At present, the majority of the payment obligations arising from the ruling in the proceeding have been liquidated, and there is pending the additional proceeding to totally liquidate the debt.

Since judicial and administrative proceedings do not depend on the Company, the latter cannot with certainty assure or affirm regarding the outcome of said proceedings, the period in which they will be resolved and, in the applicable case, the eventual loss that an adverse resolution would bring to the Company and its operations. Within these proceedings, there are proceedings and investigations under the National Information Access Institute related to the processing of private information.

For further detail of ongoing tax proceedings, see section: 3) *The Company c) Material Loan Information*.

### **xii) Representative Shares of Corporate Capital**

As of December 31, 2018, the Company’s corporate capital is made up of 512,737,588 no par value shares, fully subscribed and paid, of which 495,881,988 were in circulation and 16,855,600 shares have been repurchased by the Issuer in terms of the third paragraph of article 56 of the Securities Exchange Law. To said date, 512,684,913 shares out of the total of 512,737,588 were deposited with the S.D. Indeval, *Institucion para el Deposito de Valores, S.A. de C.V.* in a sole certificate. Therefore 52,675 shares representing the corporate capital of Grupo Posadas are not deposited with said institution.

From said corporate capital, the Issuer directly holds shares charged to the repurchase fund as follows:

Number of Shares	2018	2017	2016
	Series "A"	Series "A"	Series "A"
Capital	512,737,588	512,737,588	512,737,588
Minus-			
Repurchase of shares	(16,855,600)	(16,855,600)	(16,855,600)
	<b>495,881,988</b>	<b>495,881,988</b>	<b>495,881,988</b>

To the date of this report, the corporate capital is composed of series "A" shares, common, registered, no par value and freely subscribed.

As of December 31, 2017, the legal reserve is presented in accumulated earnings and amounts to \$99.2 million (face value) and represents 20% of the nominal corporate capital. Said reserve cannot be distributed in dividends to shareholders.

The General Ordinary Shareholders Meeting held on March 19, 2019 approved that the maximum amount of funds to be allocated to purchasing the corporation's shares, according to the Securities Market Law's limitations, would be the amount of \$535 million. This amount does not exceed the earnings balance withheld to December 31, 2018.

Hereinbelow, there are listed the events which occurred during the last corporate years:

- (i) The Issuers' Extraordinary General Shareholders Meeting, on March 15, 2016, resolved to amend the fifth clause of its corporate by-laws and merge eight corporations: Promotora Inmobiliaria Hotelera, S.A. de C.V., Controladora de Acciones Posadas, S.A. de C.V., Promotora del Caribe, S.A., Promociones Hoteleras del Caribe, S.A. de C.V., Corporativo Prohoca, S.A. de C.V., Fiesta Vacation, S.A. de C.V., Hoteles and Villas Posadas, S.A. de C.V., Asesores Administrativos Los Cabos, S.A. de C.V..
- (ii) The Issuers' Extraordinary General Shareholders Meeting, on October 31, 2016, resolved to modify the third, ninth, twelfth, twenty-first, and thirty-first of its Corporate By-laws and merge 11 corporations: Gran Inmobiliaria Posadas, S.A. de C.V., Inmobiliaria y Administradora Minerva, S.A. de C.V., Yipa, S.A. de C.V., API PM, S.A. de C.V., API LA, S.A. de C.V., API FA, S.A. de C.V., Axioma Demostrado, S.L., Corp. Hotelera de Ciudad Juarez, S.A. de C.V., Sistema Director de Proyectos, S.A. de C.V., Comisiones and Incentivos Fiesta, S.A. de C.V., Comercializadora Reservas Posadas, S.A. de C.V.
- (iii) The Extraordinary and Ordinary Shareholders Meeting dated August 31, 2017 resolved to reformulate the fifth clause of the Corporate Bylaws, approved the sale and lease of the hotel Fiesta Americana Condesa Cancun and merge into Grupo Posadas 6 corporations as merged: Posadas de Latinoamerica, S.A. de C.V., Desarrollos Inmobiliarios Posadas, S.A. de C.V., Servicios Administrativos Posadas, S.A. de C.V., Administracion Digital Conectum, S.A. de C.V., Porto Ixtapa, S.A. de C.V., and Solosol Tours, S.A. de C.V.
- (iv) The annual Issuers' Ordinary General Shareholders Meeting, for the 2014, 2015, 2016 and 2017 corporate years have approved the corresponding corporate years without declaring any dividends.
- (v) The Extraordinary and Ordinary Shareholders Meeting dated April 12, 2018 resolved the merger of Servicios Gerenciales Posadas, S.A. de C.V., with and into Grupo Posadas, S.A.B. de C.V., disappearing the first corporation in its capacity of merged company and the last surviving in its capacity as merging company. As a result of the merger, the corporate capital of Grupo Posadas, S.A.B. de C.V. will remain unaltered with no transactions. Likewise, the meeting approved the order and payment of a cash dividend to the shareholders of \$0.40 (forty cents) per share, therefore, the total dividend paid on April 24, 2018 amounted to \$200 M.
- (vi) In the General Extraordinary and Ordinary Shareholders' Meeting of the Issuer, held on March 29, 2019, it was approved that Inversora Inmobiliaria Club, S.A. de C.V. and Konexo Centro de Soluciones, S.A. de C.V. would merge with and into Grupo Posadas, S.A.B. de C.V., the first two disappearing as merged corporations and the last company surviving as the merged corporation.

### xiii) Dividends

The periodicity, amount and form of dividend payments are proposed by the Company's Board of Directors and are put to the consideration of the ordinary annual general shareholders meeting for approval. The dividend amount

depends on operating results, financial situation, capital expenses, investment projects and other factors deemed important by the Board of Directors.

The Extraordinary and Ordinary Annual General Shareholders Meeting held on March 22, 2017, March 15, 2016 and April 14, 2015, declared no dividends for the corporate years ending December 31, 2016, 2015 and 2014 respectively.

In the Extraordinary and Ordinary Annual General Shareholders Meeting dated April 12, 2018, approved the declaration and payment of a cash dividend to the shareholders of \$0.40 (forty cents) per share, therefore, the total dividend payable on April 24, 2018 amounted to \$200 M.

In the General Extraordinary and Ordinary Shareholders' Meeting held on March 29, 2019, no distribution of dividends corresponding to the corporate year ending on December 31, 2018 was decided.

The Issuer's capacity to approve dividend payments in cash may be conditioned by a limitation imposed due to financing contracted and is, in effect, closely related to the Senior Notes.

Translation for Information Purposes

### 3) FINANCIAL INFORMATION

#### a) Selected Financial Information

The following is a summary of the Company's most relevant financial information regarding the last three corporate years. For better understanding, this summary should be reviewed along with the Annual Financial Statements and their respective notes, as well as with the explanations provided by the Company's management contained in subsection 3 d) of this annual report.

Audited Financials (million pesos)			
As of December 31 <sup>st</sup> :			
Financial Highlights	2018 - IFRS	2017 - IFRS	2016 - IFRS
Total Revenues	7,910.4	8,472.0	7,734.3
Corporate expenses	379.4	440.0	319.4
Depreciation, amortization and real estate leasing	937.1	906.2	1,040.5
Operating income	2,023.2	1,221.6	1,054.5
Comprehensive financing cost (income)	483.0	431.6	1,924.7
Taxes	592.0	1,262.6	(174.3)
Net Income	932.1	(472.6)	(697.2)
Majority net income	928.7	(483.9)	(705.8)
<b>Balance Sheet Data (End of period)</b>			
Current assets	5,846.0	5,996.1	4,789.5
Property and equipment, net	4,936.2	4,601.2	6,483.1
Total assets	17,170.3	16,345.1	14,887.0
Current liabilities	3,080.0	2,872.8	2,426.7
Long-term debt	7,785.8	7,768.5	7,871.8
Total liabilities	13,982.5	13,922.1	11,958.7
Stockholders' equity	3,187.8	2,423.0	2,928.3
<b>Other Financial Data</b>			
EBIT / Revenues	25.6%	14.4%	13.6%
Net Income/Revenues	11.8%	(5.6%)	(9.0%)
EBITDA	\$2,425.3	\$1,652.3	\$1,649.8
EBITDA to Revenues	30.7%	19.5%	21.3%
Total debt to EBITDA	3.2 X	4.7 X	4.8 X
Current assets / Current liabilities	1.90 X	2.09 X	1.97 X
Total liabilities / Equity	4.39 X	5.75 X	4.08 X

Please refer to the Notes to the audited consolidated Financial Statements that are attached to this annual report.

It is important to mention that the Senior Notes maturing in 2022 are currently guaranteed by two subsidiaries that represent an important amount of the assets, shareholders' equity, sales and operating profits of the corporation, in accordance to the audited financial statements of the external auditors, and therefore the information has not been broken down. To this date, the merger of Sociedad Inversora Inmobiliaria Club S.A. de C.V. into Grupo Posadas S.A.B. de C.V. has been approved which is the guarantor of said issuance, therefore once the merger becomes effective only one of the subsidiaries shall continue as guarantor.

In this regard, please refer to the information detailed in section *ii) Financial Situation, Liquidity and Capital Markets*.

The operational and financial trends discerned from this financial information may not necessarily be indicative of the Issuer's future performance, since in these years the Company has executed unusual operations and its results have been significantly affected by changes to the applicable tax provisions, and it cannot be ensured that there may or may not be legal modifications that may affect the Company's results. Both the unusual operations and/or the risk factors in the future performance of the Issuer may be consulted in the section "The Company" of this report.

## b) Financial Information per Business Line, Geographic Zone and Export Sales

Sales behavior during the last three years for each of the Company's business units is hereinafter explained in detail:

REVENUES BY BUSINESS UNIT (million pesos)	2018-IFRS		2017-IFRS		2016-IFRS	
	Revenues	%	Revenues	%	Revenues	%
Owned and Leased Hotels	3,403.8	43.0%	4,347.1	48.8%	4,063.1	50.9%
Management	1,177.2	13.2%	1,017.9	11.4%	922.2	11.6%
Vacation Properties	3,148.7	35.4%	2,982.4	33.5%	2,605.1	32.6%
Other Businesses	180.7	2.3%	559.7	6.3%	389.0	4.9%
Other Revenues	0.0	0.0%	0.0	0.0%	0.0	0.0%
<b>TOTAL</b>	<b>7,910.4</b>	<b>100%</b>	<b>8,472.0</b>	<b>100%</b>	<b>7,734.3</b>	<b>100%</b>

Source: Posadas

## c) Material Loan Information

Section B. *Financial Situation, Liquidity and Capital Resources*, found later in this Report, contains a detailed discussion of the Company's total debt structure composition. As of December 31, 2018, the Company was current with all capital and interest payments on all loans contracted. In like manner, to the date of this report, the Company is current with capital and interest payments on financing contracted.

The tax legislation is frequently modified by the pertinent authorities. Said modifications or interpretations from the authority regarding applicable provisions may have a significant negative effect on the tax liabilities imposed on the Company and compliance costs therewith. Likewise, it is possible that the authority has application and interpretation criterion regarding the applicable law different from those of the Issuer.

The Company is frequently subjected to audits by tax authorities and is vulnerable to becoming the debtor of tax liabilities determined by said authorities which may adversely affect the Company businesses financial situation and cash flows. The relevant liabilities are detailed hereinbelow:

I. Regarding the 2006 corporate year, there is a proceeding against a tax liability determined by the Central International Auditing Administration of the Tax Administration Service (SAT, due to its initials in Spanish) for an updated \$966.7 million amount to December 31, 2018 which is pending ruling by the Federal Administrative Justice Court. Therefore, it is not possible to predict a result for the Company to the date of this annual report. The tax authorities have alleged failure to pay Income Tax, reason for which the Company presented a revocation remedy before the SAT which was decided contrary to its interests. Thus, the Company filed a null and void remedy, resulting in the aforementioned proceeding. According to our external advisors on this issue, there are sufficient arguments to obtain a favorable result in said proceeding. It is important to mention that the Company constituted a guarantee in order to comply with the tax interest on its determined tax liability. Although the Company has announced that it is constantly and closely communicating with the authority in order to resolve these proceedings, there is no guarantee that the Company will be successful.

II. Pursuant to the new Income Tax Law (LISR, due to its initials in Spanish) in force in 2014, the tax consolidation rules was eliminated and therefore the Issuer has the obligation to pay the tax that was financially deferred until December 31, 2013 during the following five years counting from 2014. The deconsolidation tax determined by the Company to said date was recognized in the consolidated comprehensive operating results statement to December 31, 2013, under the heading of profit tax and amounted to \$882.3 million; the updated balance to December 31, 2016, after 3 annual payments, totaled \$309 million, recognizing the respective short-term and long-term liability.

Notwithstanding the above, the SAT reviewed the aforementioned deferred tax determination. Due to differences in the interpretation of the applicable legislation, an agreement was reached with the Authority and the Company closed this audit with SAT on the following agreed terms:

Eliminate from the calculation upon the termination of tax consolidation rules determined in corporate year 2013, the loss registered due to the sale of shares. Said elimination causes:

- a. Recognition of an additional payment obligation for the total amount, in different corporate years, of \$2,376 million pesos, which includes accrued taxes and surcharges to April 7, 2017. Of this amount, \$524 million pesos were liquidated during the corporate year (\$488 million pesos were paid on April 7, and the remaining amount during the month of April 2017). The balance is to be paid in annual

payments between 2018 and 2023, subject to updates, for an approximate amount of \$309 million pesos each one, numbers to be updated each corporate year with payment obligation.

- b. A profit loss registered only once in 2017 for \$930 million pesos, as the consequence of the long-term liability increase.
- c. Ratify the right of Grupo Posadas to amortize the pending tax losses accumulated to 2013, for an approximate amount of \$7,751 million pesos.

By executing said agreements, subject to the corresponding formalization, the audits, tax liabilities and observations received to date for the aforementioned concepts related to the 2007 to 2013 tax years, have been duly resolved.

In respect to the tax liability corresponding to the 2006 tax year, informed to the public since 2015, Grupo Posadas and the SAT are in talks to conclusively resolve the corresponding tax liability.

The referred to payments will be covered by the Company operating flows, are included in its budgets, and do not affect the projects and investment programs scheduled for the periods in question or timely debt servicing. These agreements are also consistent with the policies of Grupo Posadas, its Board of Directors and its executives with respect to implementing all of the measures necessary to ensure the sustained profitable growth of the Issuer.

This agreement will be implemented by a self-correction, eliminating the tax loss deduction for the sale of shares from the original calculation. Said situation must be ratified and approved by the tax authorities through the issuance of an approval resolution.

For the first three annual payment, authorization was requested to apply article 70-A of the Tax Code of the Federation (surcharges at the extension rate and elimination of fines) which will be accepted and confirmed by the Decentralized Collection Administration of the Federal District "1", by issuing an approval resolution.

III. During the course of 2016 the SAT audits to determined correct compliance by the Company of its tax obligations for tax years 2007, 2008 and 2009 were concluded, as a result of said reviews, the tax authority made observations regarding alleged income tax payment omissions payable by the Company. These were derived from the purchase and subsequent amortization of intellectual property (trademarks and other patents) which was purchased in the 2006 tax year from the Issuer's subsidiary (Posadas Venture, B.V.) domiciled in The Netherlands. Similarly, the SAT made observations regarding the alleged omission of tax payment, specifically the 2007 tax year. This (in the SAT's opinion) due to a mistaken assessment of the purchase price of various real properties that were conveyed separating the right to use from the remaining bare ownership rights.

Derived from the 2007 tax year SAT audit, there was determined payable by the Company an Income Tax liability, updates, late charges and fine for a total amount of \$1,026 M. Therefore, dated March 22, 2017 a revocation remedy against said determination was filed and which was ruled in favor of the Company. Thus, the liability was cancelled.

Furthermore, as a result of the SAT 2008 tax year audit there was determined payable by the Company a fine in the amount of \$16.4 M. Likewise, dated March 13, 2017 a revocation remedy against said determination was filed and which was ruled in favor of the Company. Thus, the liability was cancelled.

Finally, with respect to the SAT audit corresponding to the 2009 tax year, there was determined payable by the Company a tax liability under the concept of Income Tax, updates, late charges and fine in the amount of \$98.1 M. Therefore, on March 2, 2017 a revocation remedy against said determination was filed and which was ruled in favor of the Company. Thus, the liability was cancelled.

In the month of April 2017, the Company made corrections related to tax years 2007, 2008 and 2009, paying only the surcharges for the entries which were the subject of observations. Accordingly, the Company presented an authorization request to obtain a favorable ruling from the SAT to benefit from article 70-A of the Federal Tax Code (surcharges at the extension rate and elimination of fines).

Official letters closing the audits were obtained for tax years 2010 and 2013. As to tax years 2007, 2008 and 2009, notification was given to the Company of the official letters ruling the revocation of the determined tax liabilities, for the purpose of issuing new official letters acknowledging the liquidation of the surcharges for the entries which were the subject of observations, due to corrections to be made by the Company for these tax years.

On December 9, 2016, the Central Auditing Administration of the Financial Sector of the General Large Taxpayers Administration under the Tax Administration Service remitted to the company the official letter number 900-

02-00-00-00-2016-80249 dated December 5, 2016 by means of which diverse documentation and information was requested. This in order to verify the Company's tax situation regarding the tax year from January 1, to December 31, 2011.

Derived from diverse meetings held with tax authorities and based on the provisions of the eighth paragraph of article 76 of the Federal Tax Code, the company could have been fined because it stated a tax loss greater than that the actual company loss. Said fine would be between a 30% and 40% of the difference resulting from the stated loss and the real loss. However, on March 23, 2018, the company presented written document requesting the benefit of article 70-A of the Federal Tax Code in order to obtain pardon of 100% of the \$30 million peso fine for having stated a tax loss greater than the actual loss. This pardon which was granted at 100% through official letter notified April 13, 2018. It is considered that the audit closing official letter (without observations) will be notified to the Company in the first days of May 2018.

On June 22, 2017, the subsidiary Inmobiliaria del Sudeste, S.A. de C.V., owner of hotel Fiesta Americana Merida obtained a secured trust loan for \$210 million with a seven-year term. The funds will be used for corporate purposes including remodeling of the hotel public areas. On January 23, 2018, the Company prepaid \$10 M, reducing the unpaid balance to \$200 M. To December 31, 20118, the remaining balance was \$189 M.

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Translation for Information Purposes

**d) Management Comments and Analysis of the Operating Results and Financial Situation of the Company.**

**i) Operating Results**

2018 - 2017

**Corporate year ending December 31, 2018  
Compared with corporate year ending December 31, 2017  
Information according to International Financial Reporting Standards (IFRS)**

**Consolidated Comprehensive Operating Results Statement  
For the years ending December 31, 2018 and 2017  
(In thousands of Mexican pesos)**

	2018	2017
Continuing operations		
Revenue	\$ 7,910,374	\$ 8,471,990
Cost of sales	<u>4,977,675</u>	<u>5,014,507</u>
	2,932,6	
Gross profit	99	3,457,483
Administrative expenses	1,151,869	1,105,068
Sale and development expenses	211,992	272,308
Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets	937,073	906,225
Other (revenue) expenses, net	(1,391,474)	(47,756)
Interest expense	653,537	641,173
Interest income	(172,765)	(60,399)
Commissions and financial expenses	83,516	147,657
Exchange (gain) loss, net	(81,335)	(296,806)
Equity in associate	<u>(15,000)</u>	<u>-</u>
	<u>1,377,413</u>	<u>2,667,470</u>
Income (loss) before income taxes	1,555,286	790,013
Income tax expense (benefit)	<u>591,985</u>	<u>1,262,607</u>
Income (loss) from continuing operations	963,301	(472,594)
Discontinued operations		
Loss from discontinued operations	<u>(31,202)</u>	<u>-</u>
Consolidated income (loss) for the year	<u>932,099</u>	<u>(472,594)</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)
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss	49,167	(11,670)
Income taxes	<u>(14,750)</u>	<u>3,501</u>
	<u>31,939</u>	<u>(11,364)</u>
Consolidated comprehensive income (loss) for the year	<u>\$ 964,038</u>	<u>\$ (483,958)</u>

(Continued)

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

(Concluded)

Translation for Information Purposes

In this context, at the end of 2018, the following material events occurred. (Additionally, reference may be made to section 2) *The Company, subsection a) History and Development of the Company.*

Profit and Loss Statement – IFRS (million pesos)	2018		2017		Var %
	\$	%	\$	%	
<b>Total Revenues</b>	7,910.4	100.0	7,830.0	100.0	1.0
<b>Owned and Leased Hotels</b>					
Revenues	3,403.8	100.0	3,617.2	100.0	(5.9)
Direct Cost	2,903.5	85.3	2,888.5	79.9	0.5
Contribution	500.4	14.7	728.7	20.1	(31.3)
<b>Management</b>					
Revenues	1,177.2	100.0	1,105.7	100.0	6.5
Direct Cost	786.8	66.8	703.5	63.6	11.8
Contribution	390.4	33.2	402.2	36.4	(2.9)
<b>Vacation Properties</b>					
Revenues	3,148.7	100.0	2,982.4	100.0	5.6
Direct Cost	2,219.2	70.5	2,100.2	70.4	5.7
Contribution	929.5	29.5	882.1	29.6	5.4
<b>Other Businesses</b>					
Revenues	180.7	100.0	124.7	100.0	45.0
Direct Cost	386.3	213.8	268.4	215.3	43.9
Contribution	(205.6)	(113.8)	(143.7)	(115.3)	43.1
Corporate expenses	379.4	4.8	440.0	5.6	(13.8)
Depreciation / Amort. & Leases	402.1	5.1	430.6	5.5	(6.6)
Impairment of assets	0.0	0.0	0.0	0.0	Na
Other (revenues) and expenses	(1,190.1)	(15.0)	(223.0)	(2.8)	433.7
Other revenues	0.0	0.0	0.0	0.0	Na
<b>EBIT</b>	<b>2,023.2</b>	<b>25.6</b>	<b>1,221.6</b>	<b>15.6</b>	<b>65.6</b>
<b>EBITDA</b>	<b>2,425.3</b>	<b>30.7</b>	<b>1,652.3</b>	<b>21.1</b>	<b>46.8</b>

Note: The 2018 Annual Report numbers of the Company were reclassified in some categories in relation to previous Annual Reports and audited Financial Statements, however these differences do not represent a risk to interpretation by users of the information

### 2018 – 2017 Total Revenue

The Company's total revenue increased by 1.0% from \$7,830.0 M in 2017 to \$7,910.4 M in 2018, the numbers were adjusted due to the sale of the Hotel Fiesta Americana Condesa Cancun for comparison purpose with the preceding year. All business segments showed growth in comparison with the previous year with the exception of the Owned and Leased Hotels.

### 2018 – 2017 Owned and Leased Hotels

Owned and Leased Hotels (Accumulated)	Total		Urban		Coastal	
	2018	% Var.	2018	% Var.	2018	% Var.
Average rooms available	4,646	(0.9)	3,562	0.7	1,083	(5.7)
ADR	1,773	1.5	1,573	2.9	2,413	0.8
Occupancy (Var. in pp)	75%	(0.8)	75%	(0.6)	77%	(1.2)
RevPar	1,337	0.5	1,178	2.0	1,858	(0.7)

2018 was characterized by a very good operating performance, propelled by a 1.5% available average rate.

Owned hotels include revenues, costs and expenses derived from the operation of the owned and leased hotels operated by the Company. The 5.9% revenue decrease of Owned and Leased Hotels from \$3,617.2 million in 2017 to \$3,403.8 M in 2018 is mainly attributed to the sale and subsequent administration of the hotel Fiesta Americana Condesa Cancun. From the operative view point: Urban hotels with a sustained average rate growth of 2.9% and an effective rate of 2.0%, resulting from a better effective rate of 2.0% that was \$1,174 in 2018 and \$1,144 in 2017 and a 0.7% increase in the average number of available rooms.

Beach hotels operated 5.7% less rooms due to the Fiesta Americana Condesa Cancun and Live Aqua Cancun Beach Resort remodeling. On the other hand, said hotels had a marginal increase in the average rate of 0.8% with an occupancy decrease of 1.2 pp. The foregoing resulted in a lower effective rate of 0.7% in comparison with that of the previous year due in part to a tourist flow decrease to beach destinations, principally coming from the United States due to the alerts issued by the United States government.

Departmental costs of owned and leased hotels by the Company consist of salaries related to room housekeeping personnel. In addition, it includes costs for food and beverages, as well as other expenses, such as commissions to agencies, reservation fees and room amenities and laundry services. Departmental costs and expenses equal \$2,903.5 million for 2018, representing an increase of 0.5% in comparison with the \$2,888.5 million for the same period in 2017. The Departmental result (revenue minus departmental costs and expenses) was \$500.4 million for 2018, thus it represented a 31.3% decrease in comparison with \$728.7 million for the comparable 2017 period.

General Expenses related to the Company's own and leased hotels consist of administrative expenses, as well as sale, promotion and publicity expenses, in addition to maintenance and energy costs, real property tax, insurance premium payments, auditor and legal advisor fees. In sum, these expenses increased by 4.2% to \$ 1,151.9 million for 2018 in comparison with \$1,105.1 million for the 2017 comparable period. This increase was attributed to the double-digit increase in office rental, insurance and bonds, although it should be emphasized that maintenance and energy categories had 10% decrease.

## 2018 – 2017 Management

The Management business includes hotel administration services, brand licensing and franchising as well as loyalty programs and call centers corresponding to Posadas managed hotels

Due to the adoption of IFRS, inter-company operations were eliminated, such as: administration commissions which were registered as expenses in owned and leased hotels, which subsequently were converted into income for the hotel administration segment.

2018 revenue increased 6.5% in comparison with 2017, obtaining \$1,177.2 million in 2018 in comparison with \$1,105.7 million in 2017.

Direct costs and corporate expenses related to Grupo Posadas Hotel Management, Brands and Others business line include, principally costs and expenses of its corporate sales, as well as hotel operations. These costs and expenses increased 11.8% to \$786.8 million in comparison with the same period for 2017, in which they represented \$703.5 million. For greater detail regarding eliminations, please consult note 24, on Information of Business segments from the audited consolidated Financial Statements.

Management (Accumulated)	Total		Urban		Coastal	
	2018	% Var.	2018	% Var.	2018	% Var.
Average rooms available	23,384	5.2	20,964	6.2	2,420	(2.7)
ADR	1,376	1.7	1,229	3.7	2,546	(0.6)
Occupancy (Var. in pp)	66%	(1.2)	66%	(1.1)	71%	(2.1)
RevPar	912	(0.2)	808	2.0	1,815	(3.5)

At the system level in 2018, including owned, leased, managed and franchised hotels, there was observed an increase in room average of 5.2% and average rate of 1.7%, respectively. However, an occupancy decrease of 2 pp was recorded, resulting in a marginal decrease in the effective rate of 0.2%. In the preceding table, there are detailed the operating results for the city and beach hotels, respectively.

The following operating information takes into consideration the performance of all hotels operated in Mexico "same hotels" (hotels operating during the last 24 months):

Management (Accumulated)	Total		Urban		Coastal	
	2018	% Var.	2018	% Var.	2018	% Var.
Average rooms available	21,418	(0.0)	18,998	0.3	2,420	(2.7)
ADR	1,401	2.7	1,248	4.5	2,546	(0.6)
Occupancy (Var. in pp)	68%	(0.3)	68%	(0.1)	71%	(2.1)
RevPar	956	2.3	847	4.4	1,815	(3.5)

In comparison with the preceding year.

For urban hotels, at the system level it was noted that the average number of rooms managed presented an increase of 0.3%, with a 4.5% average rate improvement, maintaining occupancy to attain an effective rate of 4.4%. Beach hotels presented a decrease of 2.7% in the average rooms. The average rate descended to 0.6% with an occupancy lower than 2.1 pp, thus the effective rate decreased to 3.5%.

During 2018, the Company began operating 16 new hotels, stopped operating 2 (Fiesta Inn Loft Irapuato, Gamma Chapala) and sold its hotel in Laredo, Texas. For more details see section: *1) General Information, b) Executive Summary.*

### **2018 – 2017 Vacation Properties (Vacation Properties and Vacation Plans)**

This segment mainly includes the income derived from the sale of vacation properties: Fiesta Americana Vacation Club (FAVC), Live Aqua Residence Club (LARC) and vacation plans (KIVAC and Re\_Set).

The income from the Vacation Products increased from \$2,982.4 million in 2017, to \$3,148.7 million in the 2018 comparable period, representing 5.6%. Growth defined the vacation properties business; to December 31, 2018, it closed with more than 34,000 members and travelers, of these 29,900 FAVC members, 872 LARC members and 42,700 KIVAC and Re\_Set 652 program members.

It is worth mentioning that the Food and Beverage area grew 12%.

Expenses for the Vacation Products include, principally: expenses related to sales, financing, administration and operating expenses of our destinations. These costs increased 5.7% to \$2,219.2 million in comparison to \$2,100.2 million for the same period in 2017.

On the other hand, the IFRS contribution margin remained at the same level as the previous year at 29.5%, and the business margin of 0.6 pp was less than the previous year.

To December 31, 2018 the portfolio profile of vacation products, valued at approximately US\$5,000 million, reveals the soundness of the portfolio since 91.5% of the same is within the normal collection period of less than 90 days.

### **2018 – 2017 Other Businesses**

This segment presents third parties operations related to the Konexo and Conectum units, in order to independently measure their performance.

### **2018 – 2017 Corporate Expenses**

Company corporate expenses include expenses such as salaries, administrative expenses, legal advisory fees or the payment of corporate restructuring fees, as well as diverse payments related to its financial, corporate human resources and technology departments, as well as those of the Office of the General Director. Corporate expenses (according to the Segment Note) in 2018 represented \$379.4 million, which was a 13.8% decrease in comparison with the \$440 million that this category represented for the same period in 2017. The percentage of the Company revenues, corporate expenses represented 4.8% of its total income in 2018, 0.8 pp less than that of the previous year.

### **2018 – 2017 Depreciation, Amortization and Real Property Leasing and Wear and Tear**

Grupo Posadas had depreciation, amortization and leasing expenses from real property for an amount equal to \$937,073 million in 2018. This represented an increase of 3.4 in comparison to \$906.2 million expended for this concept in the comparable 2017 period. The increase was principally due to an 12.5% increase in the cost of hotel leases resulting from the inclusion of the hotel Fiesta Inn Aereopuerto

## 2018 – 2017 Operating Results

The operating results for Grupo Posadas consolidate the revenues from its lines of own hotels, administration of hotels, brands and others, Vacation Properties and other business lines and deducts its corporate expenses and expenses due to depreciation, amortization, leasing of real property and deterioration of assets. It is important to point out, that under the heading of Other (Revenue) Expenses, Net there was entered the yield from the sale of the hotel Fiesta Americana Condesa Cancun.

Consequently, because of the preceding, its consolidated operating profit was \$2,023.2 million for 2018 and of \$1,221.6 million reported in 2016.

## 2018 – 2017 Comprehensive Financial Result

Concept (thousands of pesos)	2018	2017
Interest gained	(172,765)	(60,399)
Interest paid	653,537	641,173
Exchange rate (gain) loss	(81,335)	(296,806)
Comissions and financial	83,516	147,657
<b>Total</b>	<b>482,952</b>	<b>431,625</b>

In 2018 the global financial result of the Company was \$482.9 million, an increase when compared with \$431.6 million for 2017. Interest expenses grew by 1.9% to \$653.5 million in 2018, in comparison to \$641.2 million for the 2017 comparable period. Currency exchange effects related to Posadas foreign operations translated into a profit of \$81.3 million in 2018, in comparison with the 2017 currency exchange profit of \$296.8 million, since the Mexican peso stayed at a similar level as 2017, exchange rate at the end of the period minus exchange rate at the beginning of the period.

To close of 2018, the net interest hedge of EBITDA was 5.0 times, the important change as regards the prior year was due to the proceeds obtained from the sale of the Fiesta Americana Condesa Cancun.

## 2018 – 2017 Revenue from discontinued operations, net income tax

On the other hand, as a consequence of the agreement with Mexican tax authorities (SAT) in April 2017, in relation to and the extinction of benefits under the SIBRAS rules, the Company registered a \$592.0 million tax in 2018 while in the previous year, the tax amount was \$1,262.6 million. This category was affected by the material event described in section h of the external audit Report attached and in 3) *Financial Information*, c) *Material Credit Information*.

## 2018 – 2017 Majority Net Result

Our financial statements report a consolidated net profit of \$928.7 million for 2018, and a loss of \$483.9 million for 2017.

## 2018 – 2017 Financial Situation

The cash balance to December 31, 2018 was \$2,734 million (equal to US\$139 million).

The Company's total assets to December 31, 2018 amount to \$17,170.3 million (US\$837.8 million).

The principal entries which used cash were, amongst others, capital expenses, and interest payments corresponding to the "Senior Notes 2022" coupon and taxes.

To 2018 closing, the total debt amounted to \$7,809 (US\$397 million) million net of issuance expenses, while the net debt according to IFRS was \$5,075 million (US\$258 million). The ratio of Net Debt to EBITDA was 2.1 times, which includes the proceeds of the sale of the Fiesta Americana Condesa Cancun and therefore is much less as that reported to December 31, 2017, of 3.7 times.

The Total Debt mix at close of 2018 was the following: almost 100% long-term, 98% in USD and 100% at fixed rate. The average debt life was 3.6 years and only 3% of the debt was guaranteed with real property assets.

To December 31, 2019, the corporate ratings were:

Moody's: global scale "B2" with positive outlook.

S&P Global Ratings: global scale “B+” with stable outlook.

Fitch Ratings: global scale Issuer Default Rating (IDR) “B” and local scale “BB+(mex)”, both with stable outlook.

The rating for the notes issue “7.875% Senior Notes 2022” are: Moody’s: “B2”/S&P: “B+”/Fitch: “B+ RR3”.

Translation for Information Purposes

2017 - 2016

**Corporate year ending December 31, 2017**  
**Compared with corporate year ending December 31, 2016**  
**Information according to International Financial Reporting Standards (IFRS)**

**Consolidated Comprehensive Operating Results Statement**  
**For the years ending December 31, 2017 and 2016**  
**(In thousands of Mexican pesos)**

	2017	2016
Continuing operations		
Revenue	\$ 8,471,990	\$ 7,734,349
Cost of sales	<u>5,014,507</u>	<u>4,402,320</u>
Gross profit	3,457,483	3,332,029
Administrative expenses	1,105,068	982,304
Sale and development expenses	272,308	252,243
Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets	906,225	1,040,475
Other (revenue) expenses, net	(47,756)	2,548
Interest expense	641,173	643,592
Interest income	(60,399)	(46,802)
Commissions and financial expenses	147,657	93,474
Exchange (gain) loss, net	(296,806)	1,234,444
Equity in associate	-	-
	<u>2,667,470</u>	<u>4,202,278</u>
Income (loss) before income taxes	790,013	(870,249)
Income tax expense (benefit)	<u>1,262,607</u>	<u>(174,349)</u>
Income (loss) from continuing operations	(472,594)	(695,900)
Discontinued operations		
Loss from discontinued operations	-	(1,279)
Consolidated income (loss) for the year	<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	(3,195)	32,195
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss	(11,670)	(23,820)
Income taxes	<u>3,501</u>	<u>7,146</u>
	<u>(11,364)</u>	<u>15,521</u>
Consolidated comprehensive income (loss) for the year	<u>\$ (483,958)</u>	<u>\$ (681,658)</u>

(Continued)

	2017	2016
Consolidated income (loss) for the year attributable to:		
Controlling interest	\$ (483,905)	\$ (705,819)
Non-controlling interest	<u>11,311</u>	<u>8,640</u>
Consolidated income (loss) for the year	<u>\$ (472,594)</u>	<u>\$ (697,179)</u>
Consolidated comprehensive income (loss) for the year attributable to:		
Controlling interest	\$ (495,269)	\$ (690,298)
Non-controlling interest	<u>11,311</u>	<u>8,640</u>
Consolidated comprehensive income (loss) for the year	<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>\$ (0.98)</u>	<u>\$ (1.42)</u>
From continuing operations -		
Basic and diluted earnings (loss) per common share (in pesos)	<u>\$ (0.98)</u>	<u>\$ (1.42)</u>
Weighted average number of shares	<u>\$ 495,881,988</u>	<u>\$ 495,881,988</u>

(Concluded)

Translation for Information Purposes

In this context, at the end of 2017, the following material events occurred. (Additionally, reference may be made to section 2) *The Company, subsection a) History and Development of the Company.*

Profit and Loss Statement – IFRS (million pesos)	2017		2016		Var %
	\$	%	\$	%	
<b>Total Revenues</b>	8,907.0	100.0	7,979.3	100.0	11.6
<b>Owned and Leased Hotels</b>					
Revenues	4,347.1	100.0	4,063.1	100.0	7.0
Direct Cost	3,360.2	77.3	3,161.0	77.8	6.3
Contribution	986.9	22.7	902.0	22.2	9.4
<b>Management</b>					
Revenues	1,017.9	100.0	922.2	100.0	10.4
Direct Cost	745.5	73.2	687.8	74.6	8.4
Contribution	272.4	26.8	234.4	25.4	16.2
<b>Vacation Properties</b>					
Revenues	2,982.4	100.0	2,605.1	100.0	14.5
Direct Cost	2,101.5	70.5	1,748.7	67.1	20.2
Contribution	880.9	29.5	856.4	32.9	2.9
<b>Other Businesses</b>					
Revenues	559.7	100.0	389.0	100.0	43.9
Direct Cost	539.8	96.5	295.3	75.9	82.8
Contribution	19.8	3.5	93.7	24.1	(78.8)
Corporate expenses	440.0	4.9	319.4	4.0	37.9
Depreciation / Amort. & Leases	430.6	4.8	538.3	6.7	(20.0)
Impairment of assets	0.0	0.0	57.1	0.7	na
Other (revenues) and expenses	67.7	0.8	117.7	1.5	(42.5)
Other revenues	0.0	0.0	0.0	0.0	na
<b>EBIT</b>	<b>1,221.6</b>	<b>13.7</b>	<b>1,054.4</b>	<b>13.2</b>	<b>15.9</b>
<b>EBITDA</b>	<b>1,652.3</b>	<b>18.6</b>	<b>1,649.8</b>	<b>20.7</b>	<b>0.1</b>

### 2017-2016 Total Revenue

The Company's total revenue increased by 11.6% from \$7,979.3 M in 2016 to \$8,907 M in 2017. The preceding was principally due to the extraordinary performance of the owned hotels and membership sales of the Vacation Products (Vacation Properties and Vacation Plans).

Note: The 2017 Annual Report numbers of the Company were reclassified in some categories in relation to previous Annual Reports and audited Financial Statements, however these differences do not represent a risk to interpretation by users of the information.

### 2017-2016 Owned and Leased Hotels

Owned and Leased Hotels (Accumulated)	Total		Urban		Coastal	
	2017	% Var.	2017	% Var.	2017	% Var.
Average rooms available	4,807	(2.4)	3,622	(6.2)	1,185	11.1
ADR	1,742	9.9	1,527	10.0	2,394	4.1
Occupancy (Var. in pp)	75%	(1.1)	75%	(1.3)	76%	(0.4)
RevPar	1,310	8.4	1,144	8.2	1,816	3.5

2017 was characterized by a good operating performance, propelled by an 8.4% effective growth rate.

Owned hotels include revenues, costs and expenses derived from the operation of the owned and leased hotels operated by the Company. The 7.0% revenue increase of Owned and Leased Hotels from \$4,063.1 million in 2016 to \$4,347.1 M in 2017 is mainly attributed to better performance by urban hotels. From the operative point of view: (i) the result of a higher effective rate (RevPar) of 8.2% of \$1,144 in 2017 from \$1,195 in 2016 and (ii) the 6.2% decrease in the average number of rooms available due to the sale of two hotels, with a sustained 10.0% increase in the average daily rate and a 8.2% effective rate (RevPar).

Beach hotels operated 11.1% more rooms due to the Fiesta Americana Condesa Cancun remodeling and the inventory increase. On the other hand, said hotels had a 4.1% increase in the average rate with a 0.4 pp. occupancy decrease. The foregoing resulted in a better effective rate of 3.5% in comparison with that of the previous year due in part to a tourist flow increase to beach destinations, principally coming from the United States.

Departmental costs and expenses equal \$3,360.2 million for 2017, representing an increase of 6.3% in comparison with the \$3,161.0 million for the same period in 2016. The Departmental result (revenue minus departmental costs and expenses) was \$986.9 million for 2017, thus it represented a 9.4% increase in comparison with \$902.0 million for the comparable 2016 period.

General Expenses related to the Company's own and leased hotels increased by 12.5% to \$ 1,105.1 million during 2017 in comparison with \$982.3 million for the 2016 comparable period. This increase was attributed to the double-digit increase in the maintenance and energy categories with a 10% and 18% growth respectively.

## 2017-2016 Management

Due to the adoption in 2017 of IFRS, inter-company operations were eliminated, such as: administration commissions which were registered as expenses in owned and leased hotels, which subsequently were converted into income for the hotel administration segment.

2017 revenue increased 10.4% in comparison with 2016, obtaining \$1,017.9 million in 2017 in comparison with \$922.2 million in 2016. Growth of a 7.6% increase in the effective rate which resulted from higher occupancy and a 6.9% increase in average availability rate.

Direct costs and corporate expenses related to Grupo Posadas Hotel Management, Brands and Others business line include, principally costs and expenses of its corporate sales, as well as hotel operations. Pursuant to the information on Business segments from the 2017 audited consolidated Financial Statements, these costs and expenses increased by 8.4% to \$745.5 million in comparison with the same period in 2016 in which they represented \$687.8 million.

Management (Accumulated)	Total		Urban		Coastal	
	2017	% Var.	2017	% Var.	2017	% Var.
Average rooms available	22,258	7.0	19,736	7.3	2,522	4.9
ADR	1,353	6.9	1,185	6.9	2,562	5.4
Occupancy (Var. in pp)	67%	0.4	67%	(0.0)	72%	3.9
RevPar	912	7.6	792	6.8	1,854	11.3

The following operating information takes into consideration performance of all hotels operated in Mexico "same hotels" (hotels operating during the last 24 months):

Management (Accumulated)	Total		Urban		Coastal	
	2017	% Var.	2017	% Var.	2017	% Var.
Average rooms available	19,165	1.2	16,643	0.7	2,522	4.9
ADR	1,347	6.7	1,154	5.6	2,562	5.4
Occupancy (Var. in pp)	69%	0.9	69%	0.4	72%	3.9
RevPar	934	8.0	795	6.2	1,854	11.3

The Company has opened 11 new hotels in 2017.

For urban hotels, at the system level it was noted that during the 2017 corporate year the average number of rooms managed presented an increase of 0.7%, with a 5.6% average rate improvement, increasing occupancy by 0.4 pp to attain an effective rate of 6.2%.

In 2017, beach hotels presented an increase of 4.9% in the average rooms. The average rate climbed to 5.4% with an occupancy higher than 3.9 pp, thus the effective rate increased to 11.3% in comparison to 2016.

#### **2017-2016 Vacation Properties (Vacation Properties and Vacation Plans)**

The income from the Vacation Products increased by 14.5% to \$2,982.4 million in 2017, from \$2,605.1 million in the 2016 comparable period. Growth defined the vacation properties business; to December 31, 2017, there were more than 30,000 FAVC members, 670 LARC members and 40,000 KIVAC program members.

It is worth mentioning that the Food and Beverage area grew 17%. On the other hand, the margin for the 12 months in 2017 is 3.3 pp (IFRS) less in comparison to that of the same period in the previous year and is 4.2 pp for business margin.

Expenses increased 20.2% to \$2,101.5 million in comparison to \$1,748 million for the same period in 2016.

To December 31, 2017 the portfolio profile of vacation products, valued at approximately US\$4,389 million, improved substantially. The soundness of the portfolio is demonstrated by the fact that 91.5% of the same is within the normal collection period of less than 90 days.

#### **2017-2016 Other Businesses**

This segment presents third parties operations related to the Ampersand, Konexo and Conectum, GloboGo, Promocion y Desarrollo, and Summas, as well as the sale of the Fiesta Inn Aeropuerto and Fiesta Inn Monterrey Valle in order to independently measure their performance.

It is important to mention that Ampersand shows an important decrease in revenues as a result of its re-dimensioning, considering it strategically necessary to focus this resource on our loyalty programs.

#### **2017-2016 Corporate Expenses**

Corporate expenses (according to the Segment Note) in 2017 represented \$440 million, which was a 37.9% percentage increase in comparison with the \$319.1 million that this category represented for the same period in 2016. The percentage of the Company revenues, corporate expenses represented 4.9% of its total income in 2017, 0.9 pp more than that of the previous year.

#### **2017-2016 Depreciation, Amortization and Real Property Leasing and Wear and Tear**

Grupo Posadas had depreciation, amortization and leasing expenses from real property for an amount equal to \$906.2 million in 2017. This represented a decrease of 12.9% in comparison to \$1,040.5 million expended for this concept in the comparable 2016 period. The increase was principally due to the impairment of assets caused by the remodeling of the Fiesta Americana Hermosillo hotel in 2016 and hotel leases which recorded a decrease due to the appreciation of the Mexican currency in relation to the US dollar.

#### **2017-2016 Operating Results**

The operating results for Grupo Posadas consolidate the revenues from its lines of own hotels, administration of hotels, brands and others, Vacation Properties and other business lines and deducts its corporate expenses and expenses due to depreciation, amortization, leasing of real property and impairment of assets. Consequently, because of the preceding, its consolidated operating profit was \$1,222 million for 2017 and of \$1,054 million reported in 2016.

#### **2017-2016 Comprehensive Financial Result**

Concept (thousands of pesos)	2017	2016
Interest gained	(60,399)	(46,802)
Interest paid	641,173	643,592
Exchange rate (gain) loss	(296,806)	1,234,444
Comissions and financial	147,657	93,474
<b>Total</b>	<b>431,625</b>	<b>1,924,708</b>

In 2017, the global financial result of the Company was \$431.6 million, a decrease when compared with \$1,924.7 million for 2016. Interest expenses marginally grew by 0.4% to \$641.2 million in 2017, in comparison to \$643.6 million for the 2016 comparable period. Currency exchange effects related to Posadas foreign operations translated

into a loss of \$296.8 million in 2017, in comparison with the 2016 currency exchange loss of \$1,234.4 million, since the Mexican peso depreciated 4.5% during 2017, exchange rate at the end of the period minus exchange rate at the beginning of the period.

To close of 2017, the net interest hedge of EBITDA was 2.8 times, keeping a level similar to that of 2016.

#### **2017-2016 Revenue from discontinued operations, net income tax**

On the other hand, as a consequence of the agreement with Mexican tax authorities (SAT) in relation to and the extinction of benefits under the SIBRAS rules, the Company registered a \$1,262.6 million tax in 2017 while in the previous year, the \$174.3 million tax was in favor of the Company.

#### **2017-2016 Majority Net Result**

Our financial statements report a holding company shareholding loss of \$483.9 million for 2017, 32.2% less than the \$705.8 million loss in 2016.

#### **2017-2016 Financial Situation**

The cash balance to December 31, 2017 was \$1,384 million (US\$70 million).

The Company's total assets to December 31, 2017 amount to \$16,345.0 million (US\$837.8 million).

The principal entries which used cash were, amongst others, "Senior Notes 2017" payment, capital expenses, taxes and interest payments corresponding to the "Senior Notes 2022" coupon and taxes.

To 2017 closing, the total debt amounted to \$7,780 (US\$394 million) million net of issuance expenses, while the net debt according to IFRS was \$6,396 million (US\$324 million). The ratio of Net Debt to EBITDA was 3.7 times, which is at the same level as that reported to December 31, 2016.

The Total Debt mix at close of 2017 was the following: almost 100% long-term, 97% in USD and 100% at fixed rate. The average debt life was 4.6 years and only 3% of the debt was guaranteed with real property assets.

To this report publication date, the corporate ratings were:

Moody's: global scale "B2" with positive outlook.

S&P Global Ratings: global scale "B+" with positive outlook.

Fitch Ratings: global scale Issuer Default Rating (IDR) "B" and local scale "BB+(mex)", both with stable outlook.

The rating for the notes issue "7.875% Senior Notes 2022" are: Moody's: "B2"/S&P: "B+"/Fitch: "B+ RR3" with negative comment.

2016 - 2015

**Corporate year ending December 31, 2016**  
**Compared with the corporate year ending December 31, 2015**  
**Information according to International Financial Reporting Standards (IFRS)**

**Consolidated Comprehensive Operating Results Statement**  
**For the years ending December 31, 2016 and 2015**  
**(In thousands of Mexican pesos)**

	2016	2015
<b>Continuing operations</b>		
Revenue	\$ 7,979,349	\$ 6,901,221
Cost of sales	<u>4,538,947</u>	<u>4,101,783</u>
Gross profit	3,440,402	2,799,438
Administrative expenses	982,304	884,090
Sale and development expenses	252,243	166,250
Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets	1,040,475	801,646
Other expenses, net	110,921	145
Interest expense	643,592	508,840
Interest income	(46,802)	(34,457)
Commissions and financial expenses	93,474	100,080
Exchange loss, net	1,234,444	708,553
Holding of loss in associate	<u>-</u>	<u>750</u>
	<u>4,310,651</u>	<u>3,135,897</u>
Loss before income taxes	(870,249)	(336,459)
Income tax expense (Benefit)	<u>(174,349)</u>	<u>131,334</u>
Income (loss) from continuing operations	(695,900)	(467,793)
<b>Discontinued operations</b>		
(Loss) income from discontinued operations	<u>(1,279)</u>	<u>(2,612)</u>
Consolidated income (loss) for the year	<u>(697,179)</u>	<u>(470,405)</u>
<b>Other comprehensive income</b>		
Income on exchange differences from translating foreign operations, which will be reclassified subsequently to profit or loss	32,195	7,516
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss	(23,820)	18,091
Income taxes	<u>7,146</u>	<u>(5,127)</u>
	<u>15,521</u>	<u>20,180</u>
Consolidated comprehensive income for the year	<u>\$ (681,658)</u>	<u>\$ (450,225)</u>

(Continued)

	2016	2015
Consolidated income (loss) for the year attributable to:		
Controlling interest	\$ (705,819)	\$ (470,208)
Non-controlling interest	<u>8,640</u>	<u>(197)</u>
Consolidated income (loss) for the year	<u>\$ (697,179)</u>	<u>\$ (470,405)</u>
Consolidated comprehensive income (loss) for the year attributable to:		
Controlling interest	\$ (690,298)	\$ (450,028)
Non-controlling interest	<u>8,640</u>	<u>(197)</u>
Consolidated comprehensive income for the year	<u>\$ (681,658)</u>	<u>\$ (450,225)</u>
Earnings (loss) per share:		
From continuing and discontinued operations -		
Basic and diluted earnings (loss) per common share (in pesos)	<u>\$ (1.42)</u>	<u>\$ (0.95)</u>
From continuing operations -		
Basic and diluted earnings (loss) per common share (in pesos)	<u>\$ (1.42)</u>	<u>\$ (0.94)</u>
Weighted average number of shares	<u>495,881,998</u>	<u>495,929,856</u>

(Concluded)

In this context, at the close of 2016, the following material events occurred. (Additionally, reference may be made to section 2) *The Issuer, subsection a) History and Development of the Issuer.*

Profit and Loss Statement – IFRS (million pesos)	2016		2015		Var %
	\$	%	\$	%	
<b>Total Revenues</b>	7,979.3	100.0	6,901.2	100.0	15.6
<b>Owned and Leased Hotels</b>					
Revenues	4,063.1	100.0	3,544.4	100.0	14.6
Direct Cost	3,161.0	77.8	2,741.8	77.4	15.3
Contribution	902.0	22.2	802.6	22.6	12.4
<b>Management</b>					
Revenues	922.2	100.0	782.3	100.0	17.9
Direct Cost	687.8	74.6	588.3	75.2	16.9
Contribution	234.4	25.4	194.0	24.8	20.9
<b>Vacation Properties</b>					
Revenues	2,605.1	100.0	2,200.5	100.0	18.4
Direct Cost	1,748.7	67.1	1,593.6	72.4	9.7
Contribution	856.4	32.9	606.9	27.6	41.1
<b>Other Businesses</b>					
Revenues	389.0	100.0	319.7	100.0	na
Direct Cost	295.3	0.0	312.3	0.0	na
Contribution	93.7	100.0	7.4	100.0	na
Corporate expenses	319.1	4.0	303.1	4.4	5.3
Depreciation / Amort. & Leases	538.3	6.7	414.7	6.0	29.8
Impairment of assets	57.1	0.7	0.0	0.0	na
Other (revenues) and expenses	117.7	1.5	0.1	0.0	80,488.3
Other revenues	0.0	0.0	(54.4)	(0.8)	(100.0)
<b>EBIT</b>	<b>1,054.4</b>	<b>13.2</b>	<b>947.3</b>	<b>13.7</b>	<b>11.3</b>
<b>EBITDA</b>	<b>1,649.8</b>	<b>20.7</b>	<b>1,362.0</b>	<b>19.7</b>	<b>21.1</b>

### 2016 -2015 Total Revenue

The Company's total revenue increased by 15.6% from \$6,901.2 million in 2015 to \$7,979.3 million in 2016. The preceding was principally due to the extraordinary performance of the owned hotels and membership sales of the vacation properties.

Note: The 2016 Annual Report numbers of the Company were reclassified in some categories in relation to previous Annual Reports and audited Financial Statements, however these differences do not represent a risk to interpretation by users of the information.

### 2016 -2015 Owned and Leased Hotels

Owned and Leased (Accumulated)	Total		Urban		Coastal	
	2016	% Var.	2016	% Var.	2016	% Var.
Average rooms available	4,983	(5.1)	3,747	(5.7)	1,235	(3.4)
ADR	1,585	14.5	1,395	14.9	2,155	15.4
Occupancy (Var. in pp)	75%	2.7	75%	4.2	76%	(1.9)
RevPar	1,195	18.7	1,048	21.7	1,639	12.6

2016 was characterized by a very good operating performance, propelled by a material 18.7% effective growth rate.

Owned and Leased hotels include revenues, costs and expenses derived from the operation of the owned and leased hotels operated by the Company. The 14.6% revenue increase of Owned and Leased Hotels from \$3,544.4 million in 2015 to \$4,063.1 million in 2016 is mainly attributed to better performance by urban hotels. From the operative point of view: (i) the increase of 2.7 pp in occupancy, (ii) the result of a higher effective rate (RevPar) of 18.7% of \$1,195 in 2016 from \$1,005 in 2015 and (iii) the 5.1% decrease in the average number of rooms operated is mainly due to remodeling. The urban hotels results showed improvement in comparison with those registered in 2015. With a 5.7% decrease of the average operated room number due to the Guadalajara Fiesta Americana remodeling, a 14.9% increase in the average daily rate (ADR) and an occupancy factor 4.2 pp higher, the effective rate (RevPar) was 21.7% higher.

Beach hotels operated 3.4% less rooms due to the Fiesta Americana Condesa Cancun remodeling. On the other hand, said hotels had a 15.4% increase in the average fee with a 1.9 pp. occupancy decrease. The foregoing resulted in a better effective rate of 12.6% increase in comparison with that of the previous year due in part to a tourist flow increase to beach destinations principally coming from the United States.

Departmental costs of owned and leased hotels by the Company consist of salaries related to room housekeeping personnel. In addition, it includes costs for food and beverages, as well as other expenses, such as commissions to agencies, reservation fees and room amenities and laundry services. Departmental costs and expenses equal \$3,161.0 million for 2016, representing an increase of 15.3% in comparison with the \$2,741.8 million for the same period in 2015. The Departmental result (revenue minus departmental costs and expenses) was \$902.0 million for 2016, thus it represented a 12.4% increase in comparison with \$802.6 million for the comparable 2015 period.

General Expenses related to the Company's own and leased hotels consist of administrative expenses, as well as sale, promotion and publicity expenses, in addition to maintenance and energy costs, real property taxes, insurance premium payments, auditor and legal advisor fees. In sum, these expenses increased by 11.1%, to \$ 982.3 million during 2016 in comparison with \$884.1 million for the 2015 comparable period. This increase was attributed to the double-digit increase in the maintenance and energy categories with a 12% and 6% growth respectively.

## 2016 -2015 Management

The Management business includes hotel administration services, brand licensing and franchising as well as loyalty programs and call centers corresponding to Posadas managed hotels.

Due to the adoption of IFRS, inter-company operations were eliminated, such as: administration commissions which were registered as expenses in owned and leased hotels, which subsequently were converted into income for the hotel administration segment.

2016 revenue increased 17.9% in comparison with 2015, obtaining \$922.2 million in 2016 in comparison with \$782.3 million in 2015. Growth of a 10.6% increase in the effective rate which resulted from higher occupancy and an 8.4% increase in average daily rate.

Direct costs and corporate expenses related to Grupo Posadas' Hotel Management, Brands and Others business line include, principally costs and expenses of its corporate sales, as well as hotel operations. Pursuant to note 24, on Information of Business segments from the audited consolidated Financial Statements, these costs and expenses increased by 16.9% to \$687.8 million in comparison with the same period in 2015 in which they represented \$588.3 million.

Management (Accumulated)	Total		Urban		Coastal	
	2016	% Var.	2016	% Var.	2016	% Var.
Average rooms available	20,851	5.4	17,792	4.7	3,058	9.7
ADR	1,265	8.4	1,117	7.1	2,090	10.8
Occupancy (Var. in pp)	67%	1.3	66%	1.3	70%	1.1
RevPar	846	10.6	741	9.3	1,456	12.6

The following operating information takes into consideration performance of all hotels operated in Mexico “same hotels” (hotels managed during the last 24 months):

Management (Accumulated)	Total		Urban		Coastal	
	2016	% Var.	2016	% Var.	2016	% Var.
Average rooms available	19,315	2.0	16,316	1.0	2,998	7.7
ADR	1,262	7.8	1,103	6.0	2,100	11.4
Occupancy (Var. in pp)	68%	2.8	68%	3.1	70%	1.2
RevPar	860	12.4	749	11.1	1,467	13.3

The Company has opened 13 new hotels in 2016. For further information please see section: 1) *General Information*, b) *Executive Summary*.

For urban hotels, at the system level it was noted that the average number of rooms managed presented an increase of 1.0%, with a 6.0% average rate improvement, increasing occupancy by 3.1 pp to attain an effective rate of 11.1%.

Beach hotels presented an increase of 7.7% in the average rooms. The average rate climbed to 11.4% with an occupancy higher than 1.2 pp, thus the effective rate increased to 13.3%.

### 2016 -2015 Vacation Properties

This segment mainly includes the income derived from the sale of timeshares: Fiesta Americana Vacation Club (FAVC), Live Aqua Residence Club (LARC) and other similar services (KIVAC), related to our Vacation Properties.

The income from the Vacation Properties increased by 18.4% to \$2,605.1 million in 2016, from \$2,200.5 million in the 2015 comparable period. Growth defined the vacation properties business; to December 31, 2016, there were 32,364 FAVC members, 540 LARC members and 33,100 members in the KIVAC program, the latter with a 25% YY growth. Total collection improved by 15% YY, with an automatic collection of 91.5%, 1 pp higher than the previous year.

It is worth mentioning that the Food and Beverage area grew 27% and rent per room income 16% in comparison to 2015. On the other hand, the margin for the 12 months in 2016 is 5.3 pp (IFRS) higher in comparison to that of the same period in the previous year and is 3.9 pp for business margin.

Expenses for the Vacation Properties include, principally, expenses related to sales, financing, administration and operating expenses of our destinations. These costs increased 9.7% to \$1,748.7 million in comparison to \$1,593.6 million for the same period in 2015.

To December 31, 2016 the portfolio profile of vacation properties, valued at approximately US\$3,958 million, improved substantially. The soundness of the portfolio is demonstrated by the fact that 91.5% of the same is within the normal collection period of less than 90 days.

To continue satisfying the highest purchasing power market, in December 2015, the Company purchased a lot of land located in development Cabo del Sol beside the hotel Grand Fiesta Americana Los Cabos to continue developing the Live Aqua Residence Club. This lot of land represented an \$ 89 million (US\$5 M) investment and 100 new rooms are to be built on this property. During 2016, the Company continued the first construction stage of the Live Aqua Residence Club in Los Cabos, the opening is planned for mid-2017. This stage equals to 34% of the project, and the rest of the units will open by the end of 2017.

### 2016 -2015 Other Businesses

This segment presents third parties operations related to the Ampersand, Konexo and Conectum, GloboGo, Promocion y Desarrollo, and Summas, as well as the sale of the FI Monterrey Valle hotel in order to independently measure their performance.

It is important to mention that Ampersand shows an important decrease in revenues as a result of its re-dimensioning, considering it strategically necessary to focus on our loyalty programs.

## 2016 -2015 Corporate Expenses

The Company's corporate expenses include expenses such as salaries, administrative expenses, legal advisory fees, as well as diverse payments related to its financial, corporate human resources and technology departments, as well as those of the Chief Executive Office. Corporate expenses (according to the Segment Note) in 2016 represented \$319.1 million, which was a 5.3% percentage increase in comparison with the \$303.1 million that this category represented for the same period in 2015. The percentage of the Company revenues, corporate expenses represented 4.0% of its total income in 2016, a level similar to that of the previous year.

## 2016 -2015 Depreciation, Amortization and Real Property Leasing

Grupo Posadas had depreciation, amortization and leasing expenses from real property for an amount equal to \$1,040.5 million in 2016. This represented an increase of 29.8% in comparison to \$801.6 million expended for this concept in the comparable 2015 period. The increase was principally due to the impairment of assets caused by the remodeling of the Fiesta Americana Hermosillo hotel and hotel leases which recorded an increase due to the depreciation of the Mexican currency in relation to the US dollar.

## 2016 -2015 Operating Results

The operating results for Grupo Posadas consolidate the revenues from its lines of own hotels, administration of hotels, brands and others, Vacation Properties and other business lines and deducts its corporate expenses and expenses due to depreciation, amortization, leasing of real property and impairment of assets. Consequently, because of the preceding, its consolidated operating loss was \$697.7 million for 2016 and of \$470.5 million reported in 2015.

## 2016 -2015 Comprehensive Financial Result

Concept (thousands of pesos)	2016	2015
Interest gained	(46,802)	(34,457)
Interest paid	643,592	508,840
Exchange rate (gain) loss	1,234,444	708,553
Comissions and financial	93,474	100,080
<b>Total</b>	<b>1,924,708</b>	<b>1,283,016</b>

In 2016, the global financial result of Grupo Posadas was \$1,924.7.0 million, an increase when compared with \$1,283.0 million for 2015. Interest expenses grew by 26.5% to \$643.6 million in 2016, in comparison to \$508.8 million for the 2015 comparable period. This increase was principally due to the peso's depreciation with respect to the United States dollar and to having cash funds to early pay the 2017 Senior Notes due November 2017. Currency exchange effects related to Posadas foreign operations translated into a loss of \$1,234.4 million in 2016, in comparison with the 2015 currency exchange loss of \$708.5 million, since the Mexican peso depreciated 20.1% during 2016.

To close of 2016, the net interest hedge of EBITDA was 2.8 times, keeping a level similar to that of 2015.

## 2016 -2015 Revenue from discontinued operations, net income tax

On the other hand, in 2013, as a consequence of the entry into force of the new Mexican tax laws, we had to recognize an updated payable Income Tax of \$529 million, because of the repeal of the Consolidated Tax Rules, and additionally updated taxes payable for \$1,006.4 million recognized in deferred tax, resulting from the extinction of benefits under the SIBRAS rules. The Company and its subsidiaries had already undertaken the obligation to pay the determined deferred tax on December 31, 2015 during the following three corporate years counted from 2015. This category was affected by the subsequent event described in section 3) *Financial Information*, c) *Relevant Credit Information*.

## 2016 -2015 Majority Net Result

Our financial statements report a holding company shareholding loss of \$705.8 million for 2016.

## 2016 -2015 Financial Situation

The cash balance to December 31, 2016 was \$1,770 million (US\$86 million).

The Company's total assets to December 31, 2016 amount to \$14,886.9 million (US\$729.3 million).

The principal entries which used cash were, amongst others, "Senior Notes 2017" payment, capital expenses, taxes and interest payments corresponding to the "Senior Notes 2022" coupon and taxes.

To 2016 closing, the total debt amounted to \$7,872.2 (US\$380.9 million) million net of issuance expenses, while the net debt according to IFRS was \$ 6,102.1 million (US\$295 million). The proportion of Net Debt to EBITDA was 3.7 times, which remains at the same level as that reported to December 31, 2015 on a comparable basis.

The Total Debt mix at close of 2016 was the following: 100% long-term in USD and at a fixed rate. The average debt life was 5.5 years and no debt was guaranteed with real property assets.

To December 31, 2016, the corporate ratings were:

Moody's: global scale "B2" with positive outlook.

S&P Global Ratings: global scale "B+" with stable outlook.

Fitch Ratings: global scale Issuer Default Rating (IDR) "B" and local scale "BB+(mex)", both with stable outlook.

The rating for the notes issue "7.875% Senior Notes 2022" are: Moody's: "B2"/ S&P: "B+"/Fitch: "B+RR3".

## ii) Financial Situation, Liquidity and Capital Markets

The Company operates in a capital-intensive industry, thus, it requires significant funds to meet its capital expense needs. Historically, its capital expense needs have been provided by a combination of funds derived from internal generation, capital and debt.

For some years, the Company strategy had been to continue growing through hotel management contracts, which implied less capital expense. However, certain investors have preferred to execute leasing contracts whereby Posadas undertakes the maintenance, equipment, furnishings, operating equipment, and working capital investment obligation. Moreover, in certain hotels such as Live Aqua Cancun, Fiesta Americana Condesa Cancun and Grand Fiesta Americana Chapultepec, it has undertaken investment commitments for the remodeling and adaptation of the real property, its installations and equipment, furnishings and operating equipment. Resulting from these operations, throughout the last 3 years we have been able to invest more than \$2,000 million pesos in the maintenance and remodeling of our hotels (principally Live Aqua Cancun Beach Resort, Fiesta Americana Condesa Cancun, Fiesta Americana Guadalajara and Fiesta Americana Merida), distribution channel technology, as well as in the technological infrastructure of Grupo Posadas.

To December 31, 2018, 2017 and 2016 the financial debt was integrated as follows (interest rates in force to December 31, 2018 – 2016, respectively):

USD (Thousands)	2018	2017	2016
"Senior Notes 2022" fixed interest rate 7.875%	7,620,602	7,569,715	7,871,765
<b>MXN (Thousands)</b>			
Loan at annual rate 9.175%	188,768	210,000	
Other loans at variable rates of 3.32%			472
	7,809,370	7,779,715	7,872,237
<b>Minus</b>			
Long-term maturities	(23,531)	(11,232)	(472)
<b>Long-term debt</b>	<b>7,785,839</b>	<b>7,768,483</b>	<b>7,871,765</b>

To December 31, 2018, 100% of the Company's debt was at a fixed rate. Its nominal weighted interest rate with tax withheld at the close of 2018 was 8.28% in US Dollars.

The long-term debt maturity dates to December 31, 2018 are as follows:

To pay during	Thousands of American dollars	Thousands of Mexican pesos
2020		25,766
2021		28,214
2022		30,895
2023	400,000	80,362
		165,237
Equivalent in thousands of Mexican pesos		8,038,397
Less - debt issuance costs		(252,558)
		\$ 7,785,839

Hereinafter is a summary of the details of the Corporation's material debt:

## **Long-Term Debt**

### **Senior Notes**

On June 30, 2015, the Company carried out a debt issue for US\$350 million dollars in notes known as "2022 Senior Notes" by way of the Luxemburg Securities Exchange. The intention was to substitute the US\$310 million dollars issue known as "2017 Senior Notes" that the Issuer held to December 31, 2014 and for which US\$1,060 dollars were offered for each thousand dollars of the prior issue. As a result of the offer, it was possible to repurchase US\$271.7 million dollars of "2017 Senior Notes" equivalent to 87.63% of the principal amount. The "2022 Senior Notes" accrue 7.875% annual interest with a principal due date of June 30, 2022. The interest is payable bi-annually starting on December 30, 2015.

On February 20, 2019, pursuant to the contract ("Indenture") of the 7.875% Senior Notes Due 2022, the Company announced to the market through the BMV, the Offer to Purchase for Cash so as to prepay and cancel up to \$515 million of its debt due in 2022. The offer period expired on March 20, 2019 and was liquidated on March 22, 2019. After the cash purchase offer, the balance of the 7.875% Senior Notes Due 2022 is US\$392,605,000.

On February 19, 2019, a trust was constituted in Banco Santander, S. A., with \$224 million derived from the sale of the Hotel Fiesta Americana Condesa Cancun, so that in compliance with the provisions of the 2022 Senior Notes, these funds would be applied to payment of the consideration stipulated in the Investment Plan that is contained in the selfsame trust contract. Said trust considers five hotel projects and it is estimated that its duration would be approximately 12 months. To the issuance date of this annual report, the balance in the trust is \$194 million.

On November 30, 2012, the Company issued debt instruments for US\$225 million denominated as "Senior Notes 2017" with due date on November 30, 2017, with a fixed rate of 7.875%. On January 30, 2013, the Entity issued an add-on for US\$50.0 million of "Senior Notes 2017", integrating the latter into one issuance with the same characteristics as previously stated, thus totaling US\$275 million dollars. On February 20, 2014, the Entity issued an add-on issue of "Senior Notes 2017" for US\$35 million dollars with due date on November 30, 2017 at a fixed rate of 7.875%. The Senior Notes 2017 were issued based on a private exchange for US\$31.6 million of the 2015 Senior Notes program. The add-on issue was made on the same terms as the first, thus said issued totaled US\$310.0 million dollars. Due to the issuance of the denominated "Senior Notes 2022" the outstanding balance of this program decreased and to December 31, 2015 was US\$38.3 million dollars, which was paid pre-paid on November 30, 2016.

Principal restrictions and negative covenants stipulated in the debt contracts to December 31, 2018:

- Incur additional debt
- Grant guarantees
- Make restricted payments or investments
- Sell assets or allocate the asset price amount to certain purposes and periods
- Declare dividends
- Make certain inter-company transactions
- Merge with other companies

Likewise, the following predicates, amongst others, may trigger an accelerated maturity: default in the payment of principal and interest, crossed payment and crossed acceleration with any other financial debt, breach of affirmative and negative covenants, bankruptcy or request for bankruptcy, liquidation or commercial insolvency proceeding, delivery of false or incorrect material information and change of control.

To December 31, 2018, and to the publication date of this annual report, the restrictions and obligations have been fulfilled.

The amount of issuance expenses totaled \$339.5 million which are being amortized in relation to the life of the new issue, based on the effective rate method which include US\$16.1 million of prepayment premium for the prepayment of the previous issue, that were registered in "Financial commissions and expenses" in the consolidated comprehensive operating results statement.

The securities are guaranteed by the Operadora del Golfo, S.A. de C.V. e Inversora Inmobiliaria Club, S.A. de C.V. To this date, the merger into the Issuer of the last-named corporation has been approved, so that

once the merger enters into effect only Operadora del Golfo, S.A. de C.V. shall survive as guarantor of the issue. The Indenture imposes obligations and restrictions on this type of negotiable instruments. A breakdown of the company's main financial items is presented hereunder, as well as the guarantor subsidiaries separated from the non-guarantor subsidiaries (some numbers may vary due to rounding off):

Results (million pesos as of December 31, 2018)	Grupo Posadas & Guarantors		Consolidated	
	2018	2017	2018	2017
Total Revenues	7,461	7,977	7,910	8,472
Impairment, depreciation and amort.	357	380	402	431
Leases	535	476	535	476
(Net Loss)	937	(484)	932	(473)
Total Assets	16,226	15,225	17,170	16,345
Total Liabilities	13,630	13,406	13,982	13,922

As of July 21, 2017, Citibank, N.A., was appointed trustee of the "7.875% 2022 Senior Notes"

#### ***Credit lines contracted, in effect and undrawn***

The Company had a revolving credit line with Banco Santander S.A. for a total amount of \$200.0 million for a twelve-month term with due date September 26, 2017. This line had a real property guarantee, and with certain fund withdrawal restrictions related to breach of payment of principal and interest, accelerated maturity if any of the Issuer's other debt should be subject to accelerated maturity, breach of affirmative and negative covenants, declaration or request of bankruptcy, liquidation or commercial insolvency proceeding, delivery of inaccurate or false material information and change of control, among others.

To the due date September 26, 2017, the Company decided not to renew the revolving credit line with Banco Santander S.A. As such, to the present date the Company does not have any dedicated contracted credit line.

#### ***Supply Chain Program***

The Company established four supply chain programs with: Banco Santander (Mexico) S. A., Banco Actinver, S.A., BBVA Bancomer S.A. and Banco Monex S. A., for a total amount of up to \$305 million. To December 31, 2018, the Company had used 50% of these lines.

#### ***Additional Information regarding Financing***

As of December 31, 2018, the financial debt in effect of Grupo Posadas does not include mortgage guarantees. The Company has also guaranteed, in the ordinary course of its businesses, obligations with third parties, clients or suppliers.

On June 22, 2017, the subsidiary Inmobiliaria del Sudeste, S.A. de C.V., owner of the Fiesta Americana Merida hotel contracted a loan for \$210 million with a seven-year guarantee trust. The funds will be used for corporate purposes including remodeling of hotel public areas. To December 31, 2018, the Company the remaining outstanding balance is \$189 M.

#### ***Derivative Financial Instruments***

The company monitors and participates occasionally in the derivative financial instruments market, using these instruments as an economic hedge of its debt. As of December 31, 2018, the Company had not contracted any Financial Instrument.

**Treasury.** The corporate treasury manages the treasury of those hotels of which Posadas is owner and lessee and that of the service businesses other than those strictly related to the hotel business.

Historically, the Company has sought to keep a balanced currency investment structure and this structure is mainly composed of the Mexican-peso and US-dollar debt mix that each one of the Companies of Grupo Posadas holds. In Grupo Posadas, the bulk of the investments are concentrated in money market,

government, bank and private commercial paper. These instruments allow the Company to keep liquidity and availability to meet its daily cash flow needs.

**Capital Expenses.** At the close of December 2018, capital expenses amounted to \$671 million; of which 73% was allocated to hotels, 22% to vacation products and 5% for corporate use. Currently, the Company mostly finances budgeted capital expenses by internal generation. The Company's dependence on debt to finance capital expenses has decreased to the extent that it has expanded through hotel management contracts or leasing contracts.

On February 19, 2019, a trust was constituted in Banco Santander, S. A., with \$224 million derived from the sale of the Hotel Fiesta Americana Condesa Cancun, so that in compliance with the provisions of the 2022 Senior Notes these funds would be applied to payment of the consideration stipulated in the Investment Plan that is contained in the selfsame trust contract. Said trust considers five hotel projects and it is estimated that its duration would be approximately 12 months. To the issuance date of this annual report, the balance in the trust is \$194 million.

**Balance Account Changes.** For the 2018, 2017 and 2016 corporate years, the company is adopting IFRS which principally affects the items of fixed assets, credit risks, Vacation Properties reserves and deferred taxes, amongst others.

**Unregistered operations.** As of December 31, 2018, the Company had not carried out any material operation which was not registered in the Audited Financial Statements.

### iii) Internal Control

The Company has an Audit Committee which carries out audit activities established by the Mexican securities law (LMV), as well as those corporate practices activities determined by the Board of Directors. The Audit Committee is formed by at least three independent directors appointed by the Company Board of Directors or its Shareholders Meeting. The Chairman of this Committee is appointed by the General Shareholders Meeting.

Likewise, the Company has a Corporate Practices Committee responsible for corporate practices activities as established by the Securities Market Law, except for those similar activities that the Board of Directors assigns to the Audit Committee or other Committees which meet the requirements and obligations established by the Securities Market Law. The Corporate Practices Committee is made up of at least three independent directors appointed by the Company Board of Directors or its Shareholders Meeting. The Chairman of this Committee is appointed by the General Shareholders Meeting.

In order to mitigate risks and continue strengthening the Corporate Government, the Company has an Internal Audit and Risk Administration Division independent from the selfsame and which directly reports to the General Division and to the Audit Committee,

Annually, the Internal Audit Division proposes to the Audit Committee the internal and risk annual audit program whose quarterly progress and findings are presented to such Committee. However, the Audit Division participates in carrying out un-scheduled audits at the request of the Office of the Chief Executive Officer, or of any other upper-level body.

The Risk Administration area carries out diverse activities to identify improvement opportunities and answer to negative events, identifying areas exposed to potential risks and their possible impact to the achievement of the Company's strategic goals. All of the above aided by a technological tool which allows efficient management of the functional and operating needs of the Risk Administration area.

By way of this division, the internal control environment is strengthened and a Risk Administration culture is promoted in the Company.

### e) Critical Estimates, Accounting Allowances or Reserves

See Note 5 of the Audited Financial Statements in the Attachment.

The critical accounting opinions and key uncertainty sources when applying the estimates made to the date of the consolidated financial statements December 31, 2018 are:

- i. The estimate for doubtful collection accounts and returns related to Vacation Properties.

Estimates are used to determine doubtful collection reserves principally considering collection delays according to the financing plans established. The estimated return for Vacation Properties is based on a membership cancellation percentage probability and includes the recovery of the Vacation Properties inventory value.

*Receivable documents for Vacation Properties operation* – To December 31, 2018 the return reserve of Vacation Properties according to IFRS amounts to \$134.6 M.

- ii. Recognition of Vacation Club income

Said income is considered as financial leasing since all risks and benefits inherent to the FAVC ownership are substantially transferred to the purchasers, and the right to use is granted for a term similar to the asset life.

- iii. Presentation of deferred income and other Kivac assets in the short and long-term

The estimate is the proportion of Kivac to be used in the year following the formulation date of the consolidated statement of financial situation taking into consideration the anticipated Kivac collection which gives the purchasers' the right to use the accommodation services provided by this product.

- iv. Financial projections due to asset impairment

If there are impairment signs, the Issuer carries out a review to determine if book value exceeds the recovery value of its assets. Once this review has been made, it is necessary to formulate estimates of the use value assigned to the real properties. The calculations of value in use require that the Issuer determine future cash flows resulting from the cash generating units and an appropriate discount rate to calculate present value. The Issuer uses cash flow projections estimated on historic performance, market conditions prevailing in each location and determination of occupancy levels and rates.

- v. Use of tax losses

To determine if said losses may be used there are formulated taxable income and profits projections that would be individually generated in the years following 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 group entities, amongst others, that generate sufficient profits and make possible the use of tax losses before they expire.

- vi. Effects of contingencies faced by the Entity

The Entity, in the ordinary business course, faces diverse legal proceedings, evaluating the probability that these may become payment obligations, to this end it considers the corresponding legal status on the estimate date and the opinion of legal advisors; said evaluations are periodically reconsidered.

- vii. Useful life and residual value of real properties

The Entity uses independent appraisers to estimate the useful life and residual value of its assets; these consider useful life in accordance to construction cost engineering studies and the components of real properties for which the foundation is being laid, electric, water and health and air-conditioning installations.

- viii. Classification criteria for operation segments of the Issuer

The Issuer classifies its profit and loss in four operating sectors, based on internal reports drafted pursuant to a management focus.

- ix. Estimated amounts of investments in securities other than money equivalents

To the date of the consolidated statement of financial situation, the Issuer estimates its short-term cash needs considering its operating cycle, debt servicing for the following year and the budget authorized by the Investment Committee for capital investments. The excess is presented as investment in securities other than cash equivalents.

## **4) MANAGEMENT**

### **a) External Auditors**

During the last corporate years (2002-2018) Galaz, Yamazaki, Ruiz Urquiza, S.C., a member firm of Deloitte Touche Tohmatsu Limited, has conducted the independent audit.

During the last sixteen corporate years, the Company's financial statements have not been subject to qualification or negative opinion by the external auditors, nor have said auditors refrained from issuing an opinion.

The independent auditor is appointed by the Company's Board of Directors. Since 2003, the Audit Committee's opinion has been taken into consideration, taking into account the independence, professionalism and experience of the firm appointed as independent auditor.

During the 2013 corporate year, the Audit Committee directed the selection process for the legal entity that provides the external audit services of the Company by way of a quantitative and qualitative evaluation process of the four principal auditing firms in Mexico. The latter to make a recommendation to the Board of Directors regarding the hiring of the legal entity that would provide external audit services. This included the fee proposal, as well as the amount of the services to be provided by said firm under the concept of permitted services un-related to audits during the 2013 corporate year, and which may not exceed 30% of the total auditing fees agreed with said firm. The latter being the parameter ratified by the Audit Committee for these additional or complementary services and which was ratified in Committee session on February 26, 2013. During the 2018 corporate year, additional or complementary services during the corporate year concluded on December 31, 2018, represented approximately 4.7% of the professional fees approved by the Board under the concept of auditing services.

The additional or complementary services provided by Galaz, Yamazaki, Ruiz Urquiza, S.C. included: (i) consulting in accounting guidelines NIIF 15 and NIIF 16; (ii) transfer price analysis regarding Grupo Posadas' subsidiaries to be used in a tax refund proceeding, considering in the opinion of the Audit Committee that contracting said services do not affect impartiality in relation to the auditing of the Corporation's consolidated financial statements.

The entry into force of the Generally Applicable Provisions applicable to entities and issuers supervised by the National Banking and Securities Commission that contract external auditing services for basic financial services presupposed that both the external auditors as well as the issuer shall carry out determined procedures in addition to the usual procedures, up to corporate year 2017. In this sense, the performance evaluation of the external auditing firm and of the external auditor, the quality of the report, the technical capacity requirements of the personnel assigned to this task, the requisites to validate their autonomy, the observations made, amongst other obligations, the issuer considered that these were substantially complied pursuant to the new normativity.

The additional or complementary services provided by Galaz, Yamazaki, Ruiz Urquiza, S.C. included: (i) limited review of the Company's financial statements as the basis for the issuance of liabilities and related work; (ii) transfer price analysis; (iii) tax services specifically related to responding to diverse formal requirements of the tax authorities regarding audits made of the Company; (iv) various opinions related to the norms applicable to prevent and report money laundering, considering in the opinion of the Audit Committee that contracting said services do not affect impartiality in relation to the auditing of the Corporation's consolidated financial statements.

### **b) Related Party Transactions and Conflicts of Interest**

In the normal course of its activities, the Company has entered into commercial and financial transactions with its subsidiaries and a significant number of the entities wherein it has a shareholding participation, whether or not it has material influence. In regard to the latter, the most relevant transactions refer to loans, current account contracts, leasing, rendering of services, purchase and sale of shares, assets, inter-company loans, merger of Company subsidiaries, diverse operations to administratively simplify the corporate and subsidiary structure, and management of hotel operation contracts, and/or licenses to use brands which it may have signed for hotel management properties. The Company intends to continue entering into part of these transactions in the future. From time to time, the Company analyzes transfer prices, thus, in the opinion of the administration, the transactions with related companies are executed on market terms.

In the 2018 corporate year, the Corporate Practices Committee was not informed of any matter which requires the Board of Directors approval so that any director, material officer or person with power to control

could take advantage of a business opportunity for themselves or in favor of third parties and which would correspond to the Issuer or to the legal entities which are controlled by the Issuer, or on which it has a material influence on the terms of Article 28, section III, subsection f) of the Securities Exchange Law.

The employee benefits granted to key management personnel and/or Material Directors of the Issuer within the normal course of the Company's business may be summarized as presented for corporate years 2018, 2017 and 2016 in the Opinion of the Independent Auditors which is found in Attachment. For further detail regarding payments to Material Directors, see note 18 of the Audited Financial Statements attached hereto.

The Corporate Practices Committee informed the Board of Directors of the Issuer that it had information regarding specific operations between the Company's subsidiaries or between the Company's subsidiaries and the Company which were ordinary or customary for the business. Said operations were considered to have been concluded at market price and operations (i) with related persons or affecting related persons, consisting of the supply of pastry and bakery products, rendering hotel service related to consultancy, legal advisory services, and the rendering of operating services in hotels located in Monterrey, Saltillo and Queretaro which were rendered at market price, (ii) loans and advances to executive committee members, employees and officers of the Company in the ordinary course of business, approved by the Corporate Practices Committee issued in 2016.

As of December 31, 2018, material officers and other Company employees had received loans and, to that date, the unpaid aggregated balance thereof amounted to approximately U\$1.5 M.

## c) Management and Shareholders

### The Board of Directors

According to the Company corporate by-laws, the Company's management is the responsibility of a Board of Directors, whose members are annually elected or ratified at a General Ordinary Shareholders Meeting. The corporate by-laws provide that the Board of Directors must meet at least every three months. The Company corporate by-laws establish, amongst others, that the Issuer companies must have a minimum of 5 directors and a maximum of 21, and that at least 25% of the members must be independent. The Permanent and Alternate Secretaries are not members of the Board of Directors.

During the 2018 corporate year, Jorge Mario Soto y Galvez, independent board director of the corporation, unfortunately passed away, thus in February 2019 there was designated as a temporary director Guillermo Garcia-Naranjo Alvarez, who was ratified as an independent board member by the shareholders' meeting in March 2019.

The Board of Directors designated by the Ordinary Shareholders Meeting of the Company, held on March 29, 2019, is composed of 10 permanent directors which are listed hereinbelow:

### Members of the Board of Directors:

Member	Age	Occupation	Appointed Date
Pablo Azcarraga Andrade	60	Chairman of the Board of Directors of Grupo Posadas	29-Apr-97
Enrique Azcarraga Andrade	54	Director General, EXIO, S.C.	31-May-91
Fernando Chico Pardo	66	Chairman, Promecap, S.C.	26-Jul-95
Jose Carlos Azcarraga Andrade	53	Chief Executive Officer of Grupo Posadas	30-Apr-08
Juan Servitje Curzio	61	Chairman of the Board of Directors of Productos Rich S.A. de C.V.	30-Apr-12
Guillermo Garcia-Naranjo Alvarez*	62	Independent Consultant	20-Feb-19
Silvia Sisset de Guadalupe Harp Calderoni	47	Private Investor	05-Apr-10
Carlos Levy Covarrubias	57	Private Investor	27-Apr-06
Luis Alfonso Nicolau Gutierrez*	57	Independent Consultant	30-Apr-12
Benjamin Clariond Reyes-Retana*	70	Independent Consultant	27-Mar-13

\*Independent Director

Due to the death, announced on December 5, 2018, of Jorge Mario Soto y Galvez, independent director, chairman of the audit committee and a member of the corporate practices committee of the Company, in

February 2019 the board of directors designated Guillermo Garcia-Naranjo Alvarez, as a temporary independent director, chairman of the Audit Committee and a member of the corporate practices committee. The Extraordinary and Ordinary Shareholders' Meeting of the Company held on March 29, 2019, confirmed the designation of Guillermo Garcia-Naranjo Alvarez as an independent director, likewise assuming the position of Chairman of the Audit Committee and a member of the Corporate Practices Committee.

*Pablo Azcarraga Andrade*

Mr. Azcarraga holds an accounting degree from Universidad Anahuac and a Master's Degree in Hotel Management with a certificate in Marketing and Finance from Cornell University in New York. From 1986 to date, he has held various positions within Posadas, such as General Director of Fiesta Americana Condesa Cancun hotel, General Director of the Fiesta Americana Hotel Division, and he is currently the Chairman of the Board of Directors of Posadas.

*Enrique Azcarraga Andrade*

Mr. Azcarraga is an industrial engineer with an MBA degree from Harvard University. He has collaborated in several companies such as Operadora de Bolsa, Grupo Posadas, DESC – Sociedad de Fomento Industrial, GBM – Grupo Bursatil Mexicano, and is currently the General Director of Exio, S.C., a wealth investment consulting company.

*Fernando Chico Pardo*

Mr. Chico holds a degree in Business Administration and a Master's Degree in Business Administration from Northwestern University. Mr. Chico has held several positions in the following companies: Bimbo, Anderson-Clayton, Bank of America, Salomon Brothers, Standard Chartered Bank, Mocatta Metals Corporation, Casa de Bolsa Acciones y Asesoría Bursatil, Inversora Bursatil, Grupo Financiero Inbursa and is currently the Chairman of Promecap, S.C. and ASUR. Mr. Chico is also an active member of the Board of Directors of: Grupo Financiero Inbursa, Condumex, Grupo Carso, Sanborns, Sears Roebuck de Mexico, United Pension Fund, Quantum Group of Funds and Papalote Museo del Niño.

*Jose Carlos Azcarraga Andrade*

Mr. Azcarraga is an industrial engineer from the Universidad Anahuac, with a Master's Degree in Business Administration from Kellogg University. He has held various positions in the Company, such as General Director of Vacation Properties Posadas, and since November 11, 2011, he is General Director of Grupo Posadas, S.A.B. de C.V.

*Juan Servitje Curzio*

Mr. Servitje is an industrial engineering graduate from the Universidad Anahuac and holds a Master's Degree in Business Administration with honors from Northwestern University, J.L. Kellogg School of Management. He is the Chairman of the Board of Directors of Productos Rich, S.A. de C.V., and since 2000, he is the Chairman of Rich Products Corporation for Latin America, also he is a member of the Board of Grupo FRIALSA (Leading Company in Mexico in controlled temperature Storage and Distribution). Likewise, he participates in various non-profit organizations such as USEM (Mexican Social Entrepreneurs Union), SIFE (Students in Free Enterprise), amongst others.

*Guillermo Garcia-Naranjo Alvarez*

Mr. Garcia-Naranjo is a Certified Public Accountant, and for more than 20 years he has served as statutory auditor of multiple companies in different industries, actively participating in diverse associations such as the Mexican Institute of Financial Executives (IMEF), the Public Accountants College of Mexico (CCPM), the Mexican Institute of Public Accountants (IMCP) and the Mexican Financial Reporting Standards Council (CINIF). He worked at KPMG during almost 40 years, holding different posts until he became Partner General Director, position that he held from 2001 to September 30, 2016, during said time period, he was also a member of the International Board of KPMG and of KPMG Americas.

*Silvia Sisset de Guadalupe Harp Calderoni*

Ms. Harp holds a Public Accounting degree from the ITAM. She worked at Robert's and at Filantropia, Educacion y Cultura, A.C. Ms. Harp was the General Director of Fundacion Alfredo Harp Helu and since 2006 she holds the position of Chairwoman. At the moment, she participates on the Boards of Directors of Grupo Marti and the Fundacion Teleton Trust.

*Carlos Levy Covarrubias*

Mr. Levy holds a Bachelor's Degree in Business Administration from the Universidad Iberoamericana. In 1987, he joined Casa de Bolsa Accival and held several equity operations positions until he became

Operations Managing Director. From 1991 through 2005, Mr. Levy held various positions in Banamex-Accival Financial Group, such as the Group's Director of Wealth Coordination, Deputy General Director of Treasury, General Director of Casa de Bolsa Accival and Corporate Director for Specialized Banking and Investment Management of Banamex Financial Group. After leaving the Financial Group, Mr. Levy founded an investment management company in which he currently participates. Likewise, he was the Chairman of the Mexican Association of Financial Brokers from 2003 through 2005.

*Luis A. Nicolau Gutierrez*

Mr. Nicolau is a lawyer graduated from the *Escuela Libre de Derecho* and he holds a Master's Degree in Law from Columbia University (Fullbright Scholar). Since 1999 he is a partner of the law firm Ritch, Mueller, Heather y Nicolau, S.C. Member of the Board of Directors of Coca-Cola FEMSA, KIO Networks, Morgan Stanley Mexico, Grupo Financiero Credit Suisse, UBS Asesores Mexico and Lazard Mexico. Member of the Investment Committee of Ignia Fund and of Promotora Social Mexico, A.C., and a member of the Supervisory Committee of the Mexican Securities Market. Author of diverse securities market, corporate government, mergers, and acquisitions publications

*Benjamin Clariond Reyes-Retana*

Mr. Clariond has a degree in Business Administration from the *Instituto Tecnológico y de Estudios Superiores de Monterrey*, a certificate in upper-level corporate management from the Industrial Studies Center in Geneva, and a certificate in Family-owned Enterprise Management from the Wharton School, incorporated into the University of Pennsylvania. He has held various upper-level executive positions in Grupo IMSA in Monterrey and was chairman and board member of industrial, banking and service institutions. He has been a legislative deputy elected to the LIV Legislature for the 1st Federal Electoral District of Nuevo Leon, at that time he was a member of the Committees for Human Settlements and Public Works, Industrial Capital and Promotion and Communication and Transportation, and was also on the technical committee of the Chamber of Deputies. He was the Municipal President of Monterrey from January 1, 1992 to October 31, 1994 and on April 17, 1996 the State Congress designated him interim Governor of the state of Nuevo Leon. He is a Federal Deputy elected by proportional representation for Nuevo Leon to the LXI Legislature of Mexico's Congress.

Mr. Pablo Azcarraga Andrade, Mr. Enrique Azcarraga Andrade and Mr. Jose Carlos Azcarraga Andrade are brothers. Mr. Juan Servitje Curzio is married to Cecilia Azcarraga Andrade.

Furthermore, the Ordinary General Shareholders Meeting of Grupo Posadas, S.A.B. de C.V also ratified the following alternate members to the Board of Directors: Alfredo Loera Fernandez and Charbel Christian Francisco Harp Calderoni, to represent indistinctly Silvia Sisset Harp Calderoni and Carlos Levy Covarrubias in their absence.

The majority of the Board of Directors members must be Mexican. Minority shareholders holding 10% of the corporate capital are also entitled to appoint a director and their corresponding alternate. The directors shall continue in their positions, although their appointed term has concluded or if they have resigned from the position, for up to a term of thirty calendar days in the absence of their alternate's appointment or if the latter does not take possession of their position, without applying the Article 154 provisions of the General Law of Business Corporations. Should this be the case, the Board may appoint temporary directors without a shareholders meeting approval.

So that a Board of Directors meeting is legally convened, majority attendance of the permanent members or their respective alternates must be met, and the resolutions of the Board of Directors shall be valid if taken by a majority vote of those present at the meeting. Should a tie exist, the Board of Directors' chairman shall have the deciding vote. However, should the Board convene in order to discuss any proposal to purchase Company shares, the presence of at least 75% of the permanent directors or their respective alternates shall be required.

The Company's corporate by-laws provide that the Board of Directors shall convene at least once every three months, and that the Chairman of the Board, 25% of the directors, the Secretary or the Vice-Secretary, the Chairman of the Audit Committee or the Chairman of the Corporate Practices Committee may call for a Board meeting.

In compliance with the Securities Exchange Law, the Company's Board of Directors shall approve all operations different from the Company's ordinary business, and which, amongst others, include: (i) the Company's general strategy, (ii) operations with related parties, except if these are immaterial to the Company due to their amount, (iii) non-recurring and unusual transactions and the purchase or sale of assets with a value

equal to or greater than 5% of the Company's consolidated assets, and (iv) granting guarantees or undertaking liabilities in an amount equal to or greater than 5% of the Company's consolidated assets.

The Board of Directors is the Company's legal representative. The Board of Directors is responsible, amongst other things, for:

- approving the Company's general business strategy;
- approving, after hearing the Audit Committee or the Corporate Practices Committee's opinion, in the applicable case: (i) operations with related parties, subject to determined exceptions, (ii) the appointment of the Director General or the Chairman, their remunerations and removal, for justifiable cause, (iii) the Company and its subsidiaries' financial statements, (iv) unusual or non-recurring operations and any operation or series of operations in the same corporate year which involve (a) the purchase or sale of assets in an amount equal to or greater than 5% of the Company's consolidated assets, or (b) the granting of guarantees or undertaking of liabilities in an amount equal to or greater than 5% of the Company's consolidated assets, (v) the agreements entered into with independent auditors, and (vi) accounting policies;
- establishing special committees and determining their powers and authority, in the understanding that the Board of Directors may not delegate to any said committee the powers expressly reserved, in accordance with the law, to the Company's shareholders or Board;
- determining matters related to the change in control clause provided for in the corporate by-laws

#### *Duties of Due Diligence and Loyalty*

The LMV (Securities Market Law) imposes duties of due diligence and loyalty on the directors. The duty of due diligence implies that the Company's directors must act in good faith and in the Company's best interest. To said purpose, the Company's directors are obligated to request from the Chief Executive Officer, the material officers and the external auditors the information which is reasonably necessary to make decisions. Directors who breach their due diligence duty shall be severally responsible for actual and consequential damages caused to the Company or its subsidiaries.

The duty of loyalty implies that the Company's directors must maintain as confidential all information they obtain due to their positions and shall refrain from participating in the deliberation and voting on any issue in which they have any conflict of interest. Directors are disloyal to the Company if they obtain economic benefits for themselves, if they knowingly favor a determined shareholder or group of shareholders, or if they take advantage of business opportunities without an exemption granted by the Board of Directors. The duty of loyalty also implies that the directors shall (i) inform the Audit Committee and/or the Corporate Practices Committee and the external auditors of all irregularities of which they obtain knowledge during the performance of their duties, and/or (ii) refrain from disclosing false information and from ordering or causing the omission of recording transactions carried out by the Company affecting any financial statement concept.

Directors who breach their duty of loyalty are considered liable for actual and consequential damages caused to the Company or its subsidiaries resulting from the aforementioned acts or omissions. This liability applies also to the actual and consequential damages caused to the Company resulting from the economic benefits obtained by the directors or third parties due to the breach of loyalty.

Directors may be subject to criminal penalties of up to 12 years imprisonment should they act in bad faith affecting the Company, including the alteration of its financial statements and reports.

A liability action for breach may be exercised by shareholders representing at least 5% of the corporate capital, and criminal proceedings may only be exercised by the Ministry of Finance and Public Credit after the CNBV's prior opinion. Directors will not incur in the aforementioned responsibilities (including criminal responsibilities) if acting in good faith: (i) they fulfill the legal approval requirements for those matters which should be presided over by the Board of Directors or its committee, (ii) they make decisions pursuant to the information provided by material officers or third parties whose capacity and credibility are not subject to reasonable doubt, (iii) they choose, to the best of their knowledge, the most appropriate alternative, or the negative patrimonial consequences were unforeseeable, and (iv) they comply with shareholders' resolutions, provided that said resolutions do not contravene the applicable laws.

In compliance with the Mexican Securities Law (LMV), for the exercise of its supervisory powers, the Board of Directors may be supported by an Audit Committee and a Corporate Practices Committee, and the Company's external auditor. The Audit Committee and the Corporate Practices Committee, jointly with the Board

of Directors, exercise the duties previously carried out by the Statutory Auditor in keeping with the General Law of Business Corporations.

### **Remunerations of Directors**

Grupo Posadas' General Ordinary Shareholders Meeting held on March 29, 2019 approved an amount equal two *Centenario* gold coins or their equivalent as remuneration for the permanent directors and the secretary for corporate year 2018, until the following Annual Ordinary General Shareholders Meeting, for their attendance at each Board meetings. Alternate directors shall earn the same fees only when they attend Board meetings in substitution of the corresponding permanent directors. The members of the Audit Committee and Corporate Practices Committee will earn the same fee for each meeting that they attend except the Chairmen who will earn three *Centenario* gold coins per meeting.

### **Executive Committee**

In keeping with the Company's corporate by-laws, an Executive Committee exists, composed of a minimum of 3 and a maximum of 5 permanent members, who may have alternates and who may or may not be directors. The Executive Committee is elected by the Board of Directors and its members hold their positions for the term of one year; however, they continue in their positions until the persons appointed to substitute them take office. The Executive Committee is in charge of analyzing the Company issues, matters or problems regarding its business or new businesses, taking into consideration the economic, legal or any other perspectives considered relevant. The Committee may present proposals before the Board of Directors regarding the matters under discussion and it may only act as representative of the company when the Board of Directors so decides. The members of the Executive Committee do not receive any remuneration for carrying out their duties. The Board of Directors may delegate to said Committee certain responsibilities in addition to the ones stipulated in the corporate by-laws.

### **Audit Committee and Corporate Practices Committee**

At the present time, the Audit Committee is composed of three members: Guillermo Garcia-Naranjo Alvarez, as Chairman, Benjamin Clariond Reyes-Retana and Luis Alfonso Nicolau Gutierrez. The Chairman was ratified by the General Ordinary Shareholders Meeting held on March 29, 2019 and the remaining members were appointed by the Board of Directors on April 10, 2018. The Chairman of the Audit Committee is appointed by the Company's shareholders meeting and the other members by the Board of Directors.

At present, the Corporate Practices Committee is composed of three members: Luis Alfonso Nicolau Gutierrez (appointed by the Shareholders Meeting held on March 29, 2019), as Chairman, Guillermo Garcia-Naranjo Alvarez and Benjamin Clariond Reyes-Retana, were ratified as members of this committee at the Board of Directors meeting of April 10, 2019. The Chairman of the Corporate Practices Committee is appointed by the Company's shareholders meeting, and the remaining members by the Board of Directors.

In the opinion of the Board, each committee has at least one financial expert.

The Audit Committee and the Corporate Practices Committee are responsible for, amongst other matters and under their jurisdiction per the terms of the Securities Market Law, (i) supervising the duties of the external auditors and analyzing their reports, (ii) discussing and supervising the formulation of the financial statements, (iii) presenting a report on the effectiveness of the internal control systems before the board of directors, (iv) requesting reports from the members and material directors whenever they deem it necessary, (v) informing the board of directors of all irregularities of which they have knowledge, (vi) receiving and analyzing the comments and observations formulated by the shareholders, members of the board, relevant directors, third parties or external auditors, and carrying out the pertinent corresponding actions related to said comments, as well as comply with determined obligations related to designation, contracting, quality evaluation, independence, requisites, observations, communications, etc. of the external auditing firm, (vii) calling shareholders meetings, (viii) evaluating the performance of the Chief Executive Officer or Chairman, (ix) preparing and presenting its annual activity report to the Board of Directors, (x) providing opinions to the Board of Directors, (xi) requesting and obtaining opinions from independent experts, and (xii) attending Board of Directors sessions when drafting annual reports and fulfilling all other information presentation obligations.

The Chairman of the Audit Committee shall prepare an annual activity report for said committee and present it to the board of directors. Such annual report shall include, at least: (i) the status of the internal control and internal audit system and, if applicable, the descriptions of its deficiencies and deviations, as well as the aspects requiring improvements, taking into consideration the opinions, reports, communiqués and the external audit report, as well as the reports issued by independent experts; (ii) report and monitor prevention and

corrective measures implemented based on investigative results related to breaches of the Company's operating and accounting registration guidelines and policies; (iii) a performance assessment of the legal entity rendering the external audit services, as well as of the external auditor in charge of the same, the quality of the external auditors' report, and of the observation made to the fundamental auditing procedures, the internal controls and other material comments formulated by the external auditor; (iv) the description and evaluation of the additional or complementary services, if applicable, provided by the legal entity entrusted with carrying out the external audit, as well as those rendered by the independent experts, the evaluation of the independence requisites, and the measures implemented to guarantee the independence of the auditing firm, the external auditor and their work team; (v) material results of the review of the financial statements of the Company and its subsidiaries, (vi) the description and effects of modifications of accounting policies; (vii) the measures adopted due to relevant observations formulated by shareholders, members, relevant directors, employees and, in general, by any third party, regarding accounting, internal controls, and matters related to external or internal audits, or derived from the accusations made of unregulated administrative conduct; and (viii) the follow-up of the resolutions resulting from the shareholders' and Board of Directors' meetings.

The Chairman of the Corporate Practices Committee shall prepare an annual report of the activities of said body and present it to the board of directors. Said annual report shall comprise, at least: (i) observations regarding the performance of the material directors; (ii) transactions executed with related parties, specifying the details of the important and material operations; (iii) remunerations of the members of the board and relevant directors, (iv) approvals granted by the Board of Directors pursuant to the terms stipulated in article 28, (3), subsection f of the Securities Market Law.

### Principal Officers

A brief biographical summary of the principal officers is herein included as follows:

Name	Age	Current Position	Years with the Company
Pablo Azcarraga Andrade	60	Chairman of the Board of Directors	34
Jose Carlos Azcarraga Andrade	53	Chief Executive Officer of Grupo Posadas	25
Javier Barrera Segura	56	Franchise Vice-President	30
Jorge Carvallo Couttolenc	62	Real Estate Vice-President	25
Arturo Martinez del Campo Saucedo	52	Chief Financial Officer	4
Enrique Calderon Fernandez	52	Hotel Operations Vice-President	12
Gerardo Rioseco Orihuela	55	Vacation Properties Vice-President	19

#### Javier Barrera Segura

Mr. Barrera holds a degree in Economics from the ITAM and a Master's Degree in Business Administration from Tulane University. For more than 20 years, he has held important positions in the Company before becoming Vice-President of Posadas' Franchise. Mr. Barrera was responsible for designing and launching the Fiesta Americana Vacation Club business and he was also Marketing Director. In 1986, he was granted the National Economics Award.

#### Jorge Carvallo Couttolenc

Mr. Carvallo holds a Chemical Engineering degree and a Master's degree in Business Administration from the ITAM. In the Company, he has held various positions in the Finance and Development areas. As General Director of Real Property, he has been responsible for developing the Mexican and South American expansion plans and he is currently Vice-President of Inmobiliaria Posadas (Real Estate).

#### Arturo Martinez del Campo Saucedo

Mr. Martinez del Campo is an Industrial Engineering graduate from the Universidad Iberoamericana with a Master's Degree in Administration from the University of California. He joined Grupo Posadas, S.A.B. de C.V. on February 2, 2015. He obtained broad experience in Grupo Financiero Banamex – Citigroup; he held the following positions: Mexico Cost Management Head, Financial Planning Corporate Banking and Treasury (Mexico / Latam), Chief Financial and Administrative Officer at *Credito Familiar* and Chief Financial Officer at Avantel / Banamex Citigroup, among others.

Enrique Calderon Fernandez

Mr. Calderon has a degree in Hotel Administration from the *Centro de Estudios Superiores de San Angel*. He has served for more than 20 years in the hotel marketing and tourism service areas in Posadas and other companies of the tourism sector, creating marketing, promotional and sales strategies. In 1999, he joined Posadas as Sales Director for Fiesta Americana hotels, and since then he has held several positions such as Sales Director South Region, Urban Hotels Key Accounts and Mexico Sales Director.

Gerardo Rioseco Orihuela

Mr. Rioseco is an Industrial Engineering graduate from the Universidad Anahuac del Sur. With prior experience in the finance and tourism sectors, he joined the Company in 1999 participating in the launch of Fiesta Americana Vacation Club as Project Director in Los Cabos. From 2002 on, he is the Commercial Director of FAVC and subsequently Vacation Properties Vice-President. In November 2011, he was appointed Vice-President of Vacation Properties. He is Vice-President of the Mexican Association of Tourism Developers (AMDETOUR) and a board member of the American Resort Development Association (ARDA).

#### **Remunerations of Executive Committee (Management) members and principal officers**

For the year ending on December 31, 2018, the cash remunerations paid to the aforementioned officers and persons deemed related persons as a whole represented approximately 1.5% of the Company's total income. Said amount includes the payments of wages, vacation bonuses, legal Christmas bonuses and performance bonuses. Performance bonuses are determined based on individual performance and Company performance.

The Company has established an Executive Committee retirement and pension plan which to December 31, 2018, reports a total accumulated reserve of \$5.8 million.

#### **Principal Shareholders**

According to the information obtained as of March 21, 2019, (date of the S.D. Indeval S.A. de C.V. report due to the extraordinary and ordinary general shareholders meeting held on March 29, 2019), from the information disclosed by the shareholders, board members and material officers of the Issuer, as of the date of this report and to the extent of the Company's knowledge, the following shareholders fall into the predicates stated herein below:

- (i) Shareholders or group of shareholders who are beneficiaries of more than 10% of the shareholder equity of the Company:
  - a. Fondo Administrado 4, S.A. de C.V., FIRV Variable Income Investment. We have no information that allows us to identify a "shareholder beneficiary" of this corporate capital holding.
  - b. A group of the members of the Azcarraga Andrade family are the holder of more than 10% of the equity of the Company. Said persons are: Maria Beatriz, Maria Cecilia, Maria Luisa, Pablo, Enrique, Jose Carlos Azcarraga, Mariana, Jeronimo, Pedro, Xavier Azcarraga De Leschevin de Prevoisoin, Nicolas Servitje Azcarraga, Fernanda Azcarraga Galas, Andres de Haro Azcarraga, Alvaro Azcarraga Fuentes. To the extent of the disclosure, each of them is beneficiary, in their portion, of beneficiary rights to the selfsame, therefore amongst them, a "shareholder beneficiary" cannot be identified.
- (ii) Shareholders or group of shareholders with material influence, control over or power to control the Company:

A group of persons who are members of the Azcarraga Andrade Family may exercise material influence on the Company and it is considered that said group may have the power to control the Company, should they exercise their voting rights for the same purpose. Likewise, various family members and shareholders are material directors and/or executive directors of the Issuer, amongst others, the Chairman of the Board of Directors and the Director General (CEO) of the Company.

- (iii) Material directors and executives who individually hold more than 1% and less than 10% to this date: we know that Pablo, Jose Carlos, Beatriz and Enrique Azcarraga Andrade, as well as Silvia Sisset Harp Calderoni and Carlos Felipe Levy Covarrubias, jointly hold in aggregate, directly or indirectly, 19.1% of the Issuer's corporate capital.

## **Code of Ethics and Conduct**

In 2014, the Office of General Director published a Code of Ethics applicable to all material directors and other employees of the Company, which contains provisions related to the conduct of the Issuer's employees with respect to the following aspects: Code of Ethics and Conduct. On April 22, 2015, the Board of Directors approved the Code of Ethics and Conduct that the Company's directors and employees must observe. In February 2019, the Board of Directors approved the updating some of the provisions of the Code of Ethics and Conduct.

The Ethics and Conduct Committee holds sessions quarterly in order to discuss and resolve issues received by means of formal accusation channels established by the Company.

During 2016 in the framework of complying with the National Code of Conduct promoted by the Ministry of Tourism, there was published an Interpretation Criteria of the National Code of Conduct regarding the prohibition of child labor, sexual and work exploitation and human trafficking. The Company Hotels are bound to observe said Code and have implemented the measures contained therein.

## **d) Corporate By-laws and Other Agreements**

The Board of Directors has the authority to determine the criteria for the compensation packages of the Chief Executive Officer and other material executives and in legal terms, the power to approve policies and guidelines for the use and enjoyment of the assets of Posadas, operations between related persons, amongst these, board members, executives or approval so that a relevant board member or director or a person with the power to control may take advantage of business opportunities to benefit themselves or in favor of third parties. Based on the above, the Board of Directors determined the operations policy with related parties that includes, amongst other aspects, benefits granted by the Company to shareholders, Directors and collaborators, guidelines to be observed to identify, authorize, control and report transactions/operations with related parties, how to treat and manage conflicts of interests as well as the policy for operations with shares of the Issuer.

In terms of clause twelve of the Company by-laws, rules have been established in order to delay, prevent, defer, or make more burdensome a change of control of the Issuer. Said clause was modified by the shareholders meeting dated April 14, 2015 and updated on the October 31, 2016 meeting.

On March 15, 2016, the Extraordinary and Ordinary Shareholders Meeting of the Company approved the modification of the fifth clause of the by-laws, to clarify its corporate purpose and encompass all the activities the Issuer will acquire as a consequence of the corporate restructuring plan publicized in the informational leaflet on February 29, 2016. The text of the fifth clause has been publicized in the summary of resolutions and in the record of the minutes of the shareholders meeting pursuant to the Generally Applicable Provisions to Securities Issuers and other Securities Market Participants.

On October 31, 2016, the Extraordinary Shareholders Meeting of the Company modified the third, ninth, twelfth, twenty-first and thirty-first clauses of the Corporate bylaws to adapt them to the new name of Mexico City and to the new electronic publicity system of the Ministry of the Economy, such as the mechanisms to publicize calls to meetings and other corporate acts.

On August 31, 2017, the Extraordinary and Ordinary Shareholders Meeting of the Company resolved to again modify the fifth clause of the by-laws in order to again expand its corporate purpose and include all the activities that the Issuer will acquire as a result of the Corporate reorganization plan made public in the information leaflet on August 15, 2017.

In accordance with the corporate by-laws in effect for the Company, the quorum requirements for convening and validity of the resolutions adopted in the Ordinary and Extraordinary Shareholders' Meeting are the following:

To consider legally convened an ordinary general shareholders meeting at first call at least 50% of the ordinary Series "A" shares should be represented. Through second or subsequent calls, the Ordinary General Shareholders' Meeting shall be considered validly convened if any number of Series "A" shares are represented.

To consider legally convened an extraordinary general shareholder's meeting at first call at least 75% of the ordinary Series "A" shares should be represented. At second or subsequent calls, the aforementioned

Extraordinary General Shareholders' Meeting shall be considered validly convened if at least 50% of the Series "A" shares are represented.

In accordance with the Company's by-laws, the Board of Directors has, amongst others, the following powers: 1) general power of attorney for collections and lawsuits with all the general and special powers that require a special clause in accordance with the Law; 2) general power of attorney to manage business and corporate assets on the broadest terms in compliance with the provisions of the respective law; 3) general power of attorney for acts of ownership, pursuant to the provisions of the respective law; 4) the Board of Directors shall have general legal representation powers by the delegation of legal representation of the corporate principal to represent it in trials or labor proceedings under the terms of the Federal Labor Law in force; 5) general power of attorney to draw, accept, endorse, negotiate, issue, guarantee, certify and in any other manner subscribe negotiable instruments on behalf and representation of the company, on the terms established in the General Law of Negotiable Instruments and Credit Operations; 6) powers to open and cancel bank, investment or other accounts as well as to make deposits and draw on said accounts through the person or persons designated by the selfsame Board of Directors; 7) powers to appoint and remove the chief executive officer of the company and lower-ranking officers, as well to determine their attributions, powers, performance bonds, employment conditions and remunerations; 8) powers to grant general or special powers of attorney, as well as to substitute or delegate the powers granted to it, always reserving the right to exercise the same, and to revoke any of the powers granted, substituted or delegated; 9) the Board of Directors, through its chairperson, secretary or vice-secretary, may call Ordinary or Extraordinary General Shareholders' Meetings, in all the cases set forth in these By-laws or when deemed convenient, and to set the date, time and order of business for said Meetings; 10) to execute the resolutions adopted by any Company Shareholders' Meeting which shall be done through its chairperson, except if that power is delegated to another board member; 11) to establish and modify the Company's or its subsidiaries employee share sales or purchase options or share subscription plans; 12) to appoint and remove the Executive Committee members, as well as members of other mid-level administration or operation bodies, establishing their composition, powers and functioning subject to the provisions of the applicable law; and 13) to establish the Audit and Corporate Practices Committee or Committees referred to in the Securities Market Law and to appoint and remove their members, with the exception of the Chairperson, who shall be appointed by the Shareholders' Meeting in compliance with the Securities Market Law provisions; 14) to present to the General Shareholders' Meeting held at the close of the corporate year the following reports: the annual Audit Committee report, the annual Corporate Practices Committee report and the report of the Chief Executive Officer referred to in the Securities Market Law; as well as those other reports, opinions and documents which are required to comply with and under the terms of the Securities Market Law, the General Law of Business Corporations and other applicable laws; and 15) to preside over, discuss, and resolve on the matters referred to in the Second Section of the Twelfth Clause of the Company's corporate by-laws strictly adhering to the terms therein stipulated.

The members of the Board of Directors of the Issuer are elected by the favorable majority vote of the holders of Series "A" shares in circulation, present at an ordinary general shareholder's meeting. It being the case that resolutions, if the directors state to have a conflict of interest, are taken according to the principles established for such effect by the Securities Market Law.

The Issuer's corporate by-laws establish measures preventing the purchase of shares granting control of the Issuer. In accordance with these measures, certain purchases of Series "A" shares representing the Issuer's corporate capital must be previously approved by the Issuer's Board of Directors or the General Extraordinary Shareholders' Meeting when, amongst other things, the consequence of such acquisitions is that the shareholding of the acquiring party in question, either individually or jointly with determined persons, represents a holding equal to or above ten percent of all Series "A" shares or five percent if the purchaser is considered a competitor. For a description of the measures referred to in this article, the procedure to request authorization from the Issuer's Board of Directors and/or the Extraordinary General Shareholders' Meeting, the quorum to convene and resolve, and the consequences of acquiring the shares, consultation of the complete text of the Second Section of the Twelfth Clause of the Issuer's corporate by-laws is suggested.

#### *Minority Shareholder Rights*

In line with the Securities Market Law, the Company's corporate by-laws stipulate the following minority shareholder rights:

- The right of holders of at least 10% of the shares representing the Company's corporate capital to request that the chairperson of the Board of Directors or of the Audit Committee and of the Corporate Practices Committee to call a shareholders' meeting in which they have the right to vote.

- The right of holders of at least 5% of the shares representing the Company's corporate capital to bring an action to determine the liability of any director, subject to satisfaction of certain legal requirements.
- The right of holders of at least 10% of the shares with the right to vote and represented in the respective shareholders' meeting to request postponement of the vote on any matter on which they believe they lack sufficient information.
- The right of holders of at least 20% of the shares representing the Company's corporate capital to bring legal action challenging any resolution of the general meetings in which they have the right to vote, subject to meeting certain legal requirements.
- The right of holders, either individually or jointly representing at least 10% of the corporate capital, to appoint at least one director and their respective alternate director in the corresponding meetings.

#### **e) Other Corporate Governance Practices**

In accordance with the Securities Market Law, the Corporate By-Laws and the decision of the Board of Directors, the Company has implemented diverse corporate government practices, including: 1. The establishment and operation of an Audit Committee and a Corporate Practices Committee that convene periodically. 2. The inclusion of independent members on its Board of Directors. 3. The Shareholder's Meeting establishing the feasibility of alternate Directors in the sessions of the Board of Directors, at present, only two directors have assigned alternate directors. 4. The holding of sessions by the Board of Directors convening at least once every three months to present the results of the immediately preceding quarter. 5. That, in addition, company information is available to all Directors and the Issuer has made available technological tools to ease said informational access. 6. The establishment and operation of a Planning and Finance Committee which shall hold sessions periodically.

The Company has an internal audit and risk management area which directly reports to the Audit Committee and the Director General. Additionally, said area has an ongoing relationship with the Company's external auditor which is appointed by the Board of Directors after hearing the prior opinion of the Audit Committee.

During 2015, the Company continued creating diverse guidelines and policies so that the Corporate Government of the selfsame becomes more efficient and professional. The latter such as the Code of Ethics and Conduct, Internal Control and Audit Policies, Investment Policy, Issuer's Securities Operation Policy which are the responsibility of directors, officers and employees, the Issuer's Owned Shares Operation Policy which is the responsibility of the Issuer, and the Company's Loans to Material Directors Policy, which were approved by the Board of Directors session after hearing the prior opinion of the Audit and Corporate Practices Committees, within the scope of their respective responsibilities.

Providing continuity to the Company interest in Corporate Government guidelines, policies and practices, during 2016 the following documents were drafted: 1) Related Persons Policy, 2) Financial Information Disclosure to Third Party Guidelines. Both documents were subject to a validation process by the Audit and Corporate Practices Committees to be later presented to and approved by the Board of Directors.

During 2018, the Company established a Sustainability Committee for the purpose of defining its commitment, strategy and central actions for socio-cultural and environmental aspects that should be considered in the strategic planning and execution of short, mid, and long-term Posadas' activities, establishing homogenous management principles, including relevant interest group relationships. As well as, the use of homogenous management methodologies for follow-up of the sustainability strategy.

The Sustainability Committee is a collegiate decision-making body, regarding the activities carried out by Posadas for its own benefit, as well as for standards and the activities for the rendering of third-party services.

## 5) CAPITAL MARKETS

### a) Securities Structure

The shares which represent the corporate capital of the Company are listed on the Mexican Securities Exchange Market, S.A.B. de C.V., where they have traded since 1992. The number of shares in circulation (weighted average - excluding shares in repurchase -) amounts to approximately 496 Million. The stock certificates issued and in effect to this date are the following:

Security or Provisional Certificate Number	Date of Issuance	Number of shares represented	Series
CP8	21-12-98	10,000	A
1	15-10-14	512,424,496	A
2	18-06-15	260,417	A
3	12-06-17	42,675	A

Shares have shown low trading according to the selfsame BMV's rating. Trading in series "A" shares has never been suspended by the regulatory authorities. As of February 28, 2013, only the Series "A" shares are traded.

### b) Share Performance on the Securities Market

Source: 2013 to 2016 and 2018 Bloomberg / 2017 Reuters (The daily average volume is based on trading days).

#### Annual performance in the past 5 years

POSADAS A	2014	2015	2016	2017	2018
Price Max.	25.50	41.50	46.97	47.60	42.00
Price Min.	22.50	27.00	41.50	35.00	29.90
Price at closing	25.50	41.50	46.00	38.00	40.00
Daily operated volume (thousands of shares)	804.33	16.43	7.96	113.40	100.85

#### Quarterly last 2 years

POSADAS A	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
Price Max.	46.00	47.60	44.80	39.70	38.60	38.20	42.00	42.00
Price Min.	46.00	42.50	39.50	35.00	30.00	29.90	38.20	34.60
Price at closing	46.00	44.80	39.50	38.00	31.00	38.20	42.00	40.00
Daily operated volume (thousands of shares)	0.3	5.9	186.8	164.2	98.7	22.5	89.3	192.4

#### Monthly last 6 months

POSADAS A	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	*Apr-19
Price Max.	38.00	40.00	40.00	38.00	38.00	38.00
Price Min.	34.60	38.00	38.00	38.00	38.00	35.90
Price at closing	35.00	40.00	38.00	38.00	38.00	36.50
Daily operated volume (thousands of shares)	441.6	5.1	353.9	0.1	0.1	120.6

(\*Information as of April 29, 2019)

### c) Market Maker

The Company does not have a market maker

## 6) PERSONS RESPONSIBLE FOR THE INFORMATION CONTAINED IN THE ANNUAL REPORT

The persons indicated below have prepared, within the scope of their respective duties, the information in this annual report and which, to the best of their knowledge, fairly reflects the Company's situation and they have no knowledge that any material information may have been omitted or falsified in this annual report or that the same contains information that would mislead investors. This document has been subjected to review and comments by the Corporate Practices Committee and the approval of the Board of Directors of the Issuer.

Name	Position	Institution
Ing. Jose Carlos Azcarraga Andrade	Director General (CEO)	Grupo Posadas, S. A. B. de C. V.
Ing. Arturo Martinez del Campo Saucedo	Chief Financial Officer (Financial Vice-President)	Grupo Posadas, S. A. B. de C. V.
Lic. Enrique Calderon Fernandez	Hotel Operations Vice-President	Grupo Posadas, S. A. B. de C. V.
Ing. Gerardo Rioseco Orihuela	Vacation Properties Vice-President	Grupo Posadas, S. A. B. de C. V.
Lic. Javier Barrera Segura	Franchise Vice-President	Grupo Posadas, S. A. B. de C. V.
Ing. Jorge Carvallo Couttolenc	Real Property Vice-President	Grupo Posadas, S. A. B. de C. V.
Dra. Olga Gutierrez Nevarez	Director of Legal Affairs	Grupo Posadas, S. A. B. de C. V.
C.P. Gabriel Elias Guzman	Corporate Comptroller and Treasury Director	Grupo Posadas, S. A. B. de C. V.
C.P. Roberto Alvarez Lopez	Tax Director	Grupo Posadas, S. A. B. de C. V.
C.P.C. Fernando Loera Aguilar	External Auditor	Galaz, Yamazaki, Ruiz Urquiza, S.C.

## 7) ATTACHMENTS

Audited financial statements corresponding to the corporate years ending December 31 of 2018, 2017 and 2016.

Annual Reports prepared by the Audit Committee and the Corporate Practices Committee according to article 43 of the Securities Market Law.

Documents issued by Galaz, Yamazaki, Ruiz Urquiza, S.C. and the person in charge of the external audit, pursuant to article 33, section I, subsection a), numbered paragraph 5 and article 84 Bis of the generally applicable Provisions to securities issuers and other securities market participants and in accordance to the generally applicable Provisions to entities and issuers supervised by the National Banking and Securities Commission that contract external auditing services for basic auditing services (CUAE).

Translation for Information Purposes

**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**

	Page
Table of contents	
Independent Auditors' Report	1
Consolidated Statements of Financial Position	7
Consolidated Statements of Comprehensive Income (Loss)	8
Consolidated Statements of Changes in Stockholders' Equity	10
Consolidated Statements of Cash Flows	11
Notes to the Consolidated Financial Statements	13

# **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>
	December 31, 2016		December 31, 2016
<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%	-
Effective rate	<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	<u>23,013</u>
	<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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