GRUPO POSADAS, S.A.B. de C.V.

Prolongación Paseo de la Reforma 1015, Torre A, Piso 9
Col. Santa Fe Cuajimalpa, delegación Cuajimalpa
Ciudad de México, 05348

Series "A" shares representing the corporate capital of Grupo Posadas, S.A.B. de C.V. quoted on the Bolsa Mexicana de Valores, S.A.B. de C.V. (Mexican Stock Exchange)

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, 2019

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

Debt Instruments	**Senior Notes**
Ticker symbol	**"POSADA"**
Amount	**US$392,605,000**
Issue Date	**June 30, 2015**
Maturity Date	**June 30, 2022**
Issue term	**7 years**
Interest and calculation procedure	**Annual fixed interest rate at 7.875% calculated on the basis of 360 days *per annum***
Interest payment periods	**Every six months beginning December 30, 2015**
Place and method for paying interest and principal	**Accrued principal and ordinary interest payable at maturity, by wire transfer, through Citi Agency & Trust, as "Trustee"**
Negotiable Instrument subordination	**Priority of Payment (*Pari Passu*))**
Amortization and early amortization	**Single payment beginning 2020 at 101.969% and after 2021 at 100% until maturity date. Issuer entitled to amortize early, fully or partially, as described in the "Make-Whole" clause.**
Guarantee	**"Senior Notes" are unsecured and one subsidiary act as guarantor thereof**
Trustee	**Citi Agency & Trust, as "Trustee"**
Rating by rating institution and its meaning*	**S&P Global Ratings, "CCC+", Fitch México S.A. de C.V., "CC", Moody´s de México S.A. de C.V., "Caa1" *See websites: www.standardandpoors.com/es, www.fitchratings.mx, www.moodys.com/pages/default_mx.aspx**
Common representative	**Citi Agency & Trust, as "Trustee"**
Depositary	**Citi Agency & Trust**
Tax rules	**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[T.N.] 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.**
Calculation Agent	**Citi Agency & Trust**

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.

[T.N.] These are the initials in Spanish for the *Ley Mexicana de Valores*, which translates into English as the Mexican Securities Law

ÍNDICE

1) GENERAL INFORMATION
a) Glossary of Terms and Definitions

TERM	DEFINITION
"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, 2019, 2018 and 2017 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 Properties"	Company Segment responsible for marketing and operation of vacation products, i.e. time-share, and vacation plans, i.e. pre-payment and discount club.
"NPS"	Net Promoter Score: index that measures the customer´s loyalty to the brand.

b) Executive Summary

The executive summary briefly summarizes information regarding the 2019 performance of Posadas. This information is insufficient for an exhaustive financial analysis or to make decisions related to Posadas' financial information. 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: 2019 Posadas Chain Study with Information from Smith Travel Research Census Database to December, 2019).

As of December 31, 2019, there were 184[1] hotels and resorts operated and/or franchised under Posadas' brands, representing a total of 29,851 rooms in Mexico and the Caribbean; 81% distributed in urban destinations and the remaining 19% in beach destinations. Consequently, it serves a broad base of tourist and business travelers.

For most of 2019, out of the 184 hotels, the Company was the majority owner of 12 hotels, operated 141, franchised 13 and leased 18.

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 Posada's brands, which have been update in diverse aspects: 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 Explorean, 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 5-star brand that offers a wide variety of services and luxury rooms with avant-garde details and designs focused on creating unique and sensorial experiences, seeking to attract high economic level tourism to beach destinations and executive business travelers to city destinations focused on adults. In 2019, we consolidated both the services offered under this brand, and excellence in experience. Our most demanding guest may find a sophisticated yet relaxed atmosphere, avant-garde design and international cuisine, to satisfy their needs.

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

Grand Fiesta Americana is the 5-star 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 exceptional luxurious Mexican experience in a classical contemporary environment.

Fiesta Americana is the leading 5-star[2] 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 real properties located in the most important beach destinations of our country.

The Explorean 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[2].

Fiesta Inn is the 4-star[2] Business Class chain addressed to business travelers. Fiesta Inn adapts to current business travelers' needs with an excellent location, multifunctional areas, comfortable rooms, public areas, meeting rooms, event halls and restaurants offering a balance between relaxation and work.

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.

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[1] 184 hotels with 180 operating contracts
[2] Classification given according to the self-evaluation mechanism regulated by the Ministry of Tourism (SECTUR)

The **Gamma** brand is a collection of 3-star[3] hotels, under franchise, with each hotel keeping its unique architecture, 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 leaving aside hotel chain standardization.

One is the practical and affordable 3-star hotel brand[3], with modern design and accelerated development. It is designed for pleasure and/or business travelers searching for hotels with guaranteed fair-price and friendly service focused on self-service in a variety of destinations and key locations, but without losing the security, comfort and cleanliness of a chain hotel.

By implementing digital "check-in" in our hotels, we seek to satisfying travelers' demand for immediacy. In July 2019 a trial run was made in our One hotel Patriotismo, Mexico City with excellent results.

By promoting existing and creating new brands, we make manifest investors' trust in Posadas' strength. Such is the case of IOH and Curamoria, brands to be materialized in 2020.

IOH not only merges opportunities to satisfy national travelers searching for flexibility in their multipurpose trips, but also prevails in design and digital solutions for guests. We expect opening our first IOH hotel in the city of Merida in 2020, with 140 rooms.

In **Curamoria**, our new boutique hotel brand, the traveler can find trendy locations with *d'auteur* design, gourmet experiences, authenticity and luxury in addition to digital connectivity and functionality.

The hotel sector in Mexico has great potential and it is a growth and economic development engine. New generations seek to travel and accumulate experiences; therefore, we consider that in the mid-term, we will overcome the strong impact caused by the SARS-CoV-2 (COVID-19) pandemic to this sector.

To the close of the 2019 corporate year, globally speaking, Mexico still held 7th place in the international arrival ranking of the World Tourism Organization with 45.0 million foreign visitors in 2019, this is to say, with an increase of 9.0%.

However, both, in the national and international market, there we observed a rate decrease affecting our margins. Maintaining our operating efficiency and clients' satisfaction (Net Promoter Score) were the biggest challenges this year.

2019 was a year of great challenges due to market contraction, reason for which we focused our efforts on two main axis: the creation of an increased rate in high occupancy and stable hotels and increased market participation through aggressive marketing activities to attract more business than competing hotels.

Regarding new hotel development, the Company strengthened the hotel portfolio with 14 openings during 2019:

1. Fiesta Americana all Inclusive Varadero[4]
2. Fiesta Americana all Inclusive Holguín[4]
3. Fiesta Inn Express Monterrey Centro (Altea Versalles)
4. Fiesta Inn Parque Puebla
5. Gamma Mazatlan Centro Historico
6. Gamma Cancun Centro
7. Gamma Monterrey Rincon de Santiago
8. Fiesta Inn Express Puebla Explanada
9. Fiesta Inn Guadalajara Periferico Poniente
10. Gamma Orizaba Gran Hotel de France
11. Fiesta Inn Celaya Galerias
12. Fiesta Americana Viaducto Aeropuerto
13. One Tapachula
14. Fiesta Americana San Luis Potosi

[3] Classification given according to the self-evaluation mechanism regulated by the Ministry of Tourism (SECTUR)

[4] In the COVID 19 pandemic context, we agreed with the holders of these real properties to terminate the contracts of Fiesta Americana All-Inclusive Varadero and Fiesta Americana All-Inclusive Holguin, which means the conclusion of all our operations opened to date in the Republic of Cuba.

Likewise, 12 new long-term hotel operating contracts regarding 2,319 rooms were renewed. By signing the aforementioned contracts, to the close of the 2019 corporate year there were 42 contracts signed for 8,250 rooms representing a 25% current total inventory increase in all hotel Company brands for the following three years under different operating modalities: leasing, administration and franchise.

Despite this, in the context of COVID 19 and at the owners' request, 7 (seven) hotels contracts operating under our brands were terminated: two developments located in the Republic of Cuba and 5 hotels located in the Mexican Republic, one of them leased; together representing a total of 1,942 rooms. Likewise, contracts related to 7 projected hotels were terminated, all of them in national territory.

On April 30, 2019, the Entity early terminated with Parks Operadora Hotelera, S. de R.L. de C.V. ("Parks") the operation and license contract for the Fiesta Americana Grand Puerto Vallarta hotel and simultaneously signed a 10-year obligatory lease agreement, running from May 1, 2019.

Regarding our outside of Mexico growth strategy, in August 2019 we entered into a fifteen-year contract to operate a 345-room hotel under the Live Aqua brand in Punta Cana, Dominican Republic. We estimate that the hotel will start operations in 2020. This project is in addition to the contract signed in September 2017 to operate a hotel under the Grand Fiesta Americana brand in Punta Cana, Dominican Republic

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 estimated opening in 2021, however, this may be delayed. 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 this investment was concluded at the beginning of 2019.

According to the company's plan to sell non-performing assets, on February 24, 2020 the sale of a land lot in Nuevo Vallarta, Nayarit was concluded for the amount of $240 million pesos.

To January 31, 2020 we received $108 million due to the sale of the Fiesta Americana Hermosillo hotel announced on April 29, 2016, and likewise, we hope to conclude the sale of the Fiesta Americana Hacienda Galindo hotel in the second semester of 2020

Regarding marketing and sales, at a consolidated level, through our channels we continue attracting 7 of each 10 clients, the Web channel being the one of greatest growth and penetration. The digital world will continue being a great challenge and we will continue investing to keep pace with consumers.

In 2019, we obtained an increase in the amount of reservations processed though our distribution suite:

- Our own channels (including groups) maintain a 69% reservation contribution.
- The voice channel continued to be the most important generating the greatest number of reservations representing 23.5%.

The campaign *VIAJA*, in its tenth edition and during the summer season, continues to be the most important of the national tourism sector. It had a 21.45% sale growth in relation to the previous year, generating more than 29,000-night rooms and income of $23 million pesos.

Our clients' loyalty is one of the greatest foundations of this Campaign. Our loyalty program, "Fiesta Rewards" contributed 32% of system occupancy. During the year, 165,000 new members joined, achieving a total of 330,000 active members.

To 2019 closing of the corporate year, the Santander Fiesta Rewards credit card has more than 171,000 cardholders, in this same year 53,701 new cardholders affiliated, increasing 24% its income.

In support of our Fiesta Rewards loyalty renovation program, we trained 174 of our hotel collaborators in the new model and processing, making them hosts. With this, we seek to ensure a correct operation thus generating new experiences for our members. Additionally, we organized 14 micro-learning modules (informational content) for those positions not directly responsible for the program but which influence members' experience.

Two years after implementing the NPS, as the main indicator measuring hotel performance based on guests' opinions, in our hotels we can now begin talking about the culture that has permeated the hotels and central headquarters where the goals continues to be placing the client at the center of strategies and decision making.

Through this NPS methodology, we have focused on understanding and studying our endorsing, non-committal and derogatory clients; thus, generating a culture of anticipation, incident-control and resolution (empowerment), to have more promoters of our brands and consequently greater income.

In 2019, we worked hand in hand between hotels and central headquarters to generate action plans and strategies, for those key moments of greatest impact on our clients and which are in the hands of General Managers and operating team, in order to generate greater loyalty, satisfaction and exceed guests' expectations. We have oriented the redesign and updating of our physical and operating standards pursuant to the results of this indicator, seeking harmony with our clients' requirements and real expectations.

We continue working on the strengths that have characterized us during consecutive years: friendliness, staff efficiency and room cleanliness. All our brands had positive growth at the end of the year

The words "service" and "excellent" are the words most frequently mentioned by our endorsers, thus we can ensure that we are better following the standards and satisfying the needs and preferences of guests, in addition to hearing their voice, as is reflected in 97% of the surveys answered by our General Managers, giving a detailed and personalized follow-up.

We constantly seek to fulfill our guests' needs and understand 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.

Nowadays, Posadas' portfolio has 9 hotel business brands and 4 Vacation Property business brands; the last 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 Properties:
  - 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 seven complexes located in Los Cabos (Villas and Resort), Baja California Sur; Acapulco, Guerrero; Cancun, Cozumel (two complexes) and Kohunlich (Chetumal), Quintana Roo and Puerto Vallarta, 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 16 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 development. 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: 2020 was the 10-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 the Company brands. In order to benefit both companies and employees in Mexico, a new product denominated Kivac Travel Suite was launched in 2019 consisting of a model that rewards company employees with a travel plan for destinations in Mexico and the United States. In 2019, 37 companies in Mexico adopted this new benefit for their employees.

- Fiesta Americana Vacation Club Access (before "Re_SET"): In 2019 we renewed and renamed the "Re_SET" product created in 2017 as: Fiesta Americana Vacation Club Access in response to the connecting with new customers, lifestyles and technological trends It is an exclusive family and friend group discount plan, providing more travel flexibility, at any time, either in Mexico or abroad.

During the year, 262,691 weeks or intervals were sold, of which 75.4% were sold to foreigners and 24.6% to Mexicans.

2019 was one of the best years for the Vacation Properties and Plans business, sales increased for the 6th consecutive year producing more than 413 thousand room nights for the Posadas system with more than 79 thousand members and travelers of which 31,525 are FAVC members, 1,123 LARC members, including 45,406 members of the new product KIVAC Travel Suite and 1,507 Fiesta Americana Vacation Club Access (before "Re_SET") members.

This year an EBITDA of $856 million pesos was generated (excluding IFRS 16-leases). With the preceding flows, we triggered investment for more than $500 million allocated to maintaining our hotel physical standards and incorporating technology into our daily activities and processes to improve our guests' experience.

In order to be more efficient regarding operating 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 committees' 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., guarantor in the indenture of the 7.875% Senior Notes with 2022 due date merged into Grupo Posadas, S.A.B. de C.V., as of October 3, 2019. Due to the preceding, the only prevailing guarantor of the aforementioned debt is Operadora del Golfo de Mexico S.A. de C.V., bare owner of diverse hotels. Due to the Caribbean expansion plan, as well as to perform its hotel operator obligations in the Dominican Republic, in 2019 the affiliate PSDS Operadora del Caribe, S.R.L. was incorporated.

Regarding the 2006 corporate year, there continues pending resolution a proceeding against a tax liability determined by the Central International Auditing Administration of the Tax Administration Service (SAT) for an amount of $975.4 million updated to December 31, 2018. The Company constituted a guarantee in order to comply with the tax interest on the tax liability to be determined. Although the Company has announced that it is constantly and closely supervising the procedure 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 of 2019 corporate year to the close of said year were a direct hedge for liabilities denominated in dollars

COVID 19: The effects of the pandemic caused by the SARS-CoV-2 (COVID 19) virus have significantly impacted the operation and results of the Company. We cannot yet evaluate its total effects; however, they have signified important pressure on liquidity due to the suspension of almost all our operations. Throughout this report, we will refer to these effects if they are known and specific, however there are consequences or circumstances that, based on the known information, we cannot measure yet.

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.

As of January 1, 2019, the Company adopted the new international accounting standard, IFRS 16 leases (issued by the IASB in January 2016) which establishes the new or modified requirements regarding lease accounting, eliminating the difference between operating and financial leases and requiring recognition of a right-to-use asset and a corresponding liability valued as the net present value of all fixed remaining payments, with some exceptions for short term leases and low value leases. For further detail see note 3.a of the audited consolidated Financial Statements.

This consolidated financial information summary is presented for the years 2019, 2018 and 2017, 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 31st:			
Financial Highlights	**2019 - IFRS**	**2018 - IFRS**	**2017 – IFRS**
Total Revenues	9,072.7	8,325.8	8,580.9
Corporate expenses	403.9	379.4	452.7
Depreciation, amortization and real estate leasing	931.8	937.1	906.2
Operating income	678.8	2,023.2	1,221.6
Comprehensive financing cost (income)	687.1	483.0	431.6
Taxes	66.3	592.0	1,262.6
Net Income	(67.4)	932.1	(472.6)
Majority net income	(79.9)	928.7	(483.9)
Balance Sheet Data (End of period)			
Current assets	5,285.8	5,846.0	5,996.1
Property and equipment, net	4,513.2	4,936.2	4,601.2
Total assets	20,695.5	17,170.3	16,345.1
Current liabilities	3,838.8	3,080.0	2,872.8
Long-term debt	7,371.3	7,785.8	7,768.5
Total liabilities	17,639.2	13,982.5	13,922.1
Stockholders' equity	3,056,360.0	3,187.8	2,423.0
Other Financial Information			
EBIT / Revenues	7.5%	24.3%	14.2%
Net Income/Revenues	(0.7%)	11.2%	(5.5%)
EBITDA	$1,566.5	$2,425.3	$1,652.3
EBITDA to Revenues	17.3%	29.1%	19.3%
Total debt to EBITDA	4.7 X	3.2 X	4.7 X
Current assets / Current liabilities	1.38 X	1.90 X	2.09 X
Total liabilities / Equity	0.01 X	4.39 X	5.75 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, 2019, amounted 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	2015	2016	2017	2018	2019
Maximum Price	41.50	46.97	47.60	42.00	40.00
Minimum Price	27.00	41.50	35.00	29.90	35.50
Closing Price	41.50	46.00	38.00	40.00	38.00
Daily Average Volume (thousands of shares)	16.43	7.96	113.40	100.85	65.51

Source: Bloomberg, except 2017 with information from 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. 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 for both hotels and products acquired from our Vacation Property segment: It may limit the hotel building capacity of owners, that we have agreed to operate or that are under our franchise, put at risk maintaining ownership of said real property, make the investments required or the timely investment of the same, 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.

Our financial results, as well as our growth, may be significantly affected by economic crisis, 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 participation in leisure and business segments increasing its brand portfolio. Although this strategy has stabilized our results in the past, we cannot guarantee that it will be successful in the future because we consider that the current situation is unprecedented, specifically as related to pandemics.

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 material adverse effect on the operating and financial results of our business.

Approximately 29% 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 or areas of the Dominican Republic, may adversely affect travelers' decisions to travel to certain Mexican or Dominican Republic 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 Vacation Products, and other 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, 2019, only three investors own 16 hotels, another investor is the owner of 70 hotels with 10,143 rooms that represents 38% of the total hotels 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. In the current context of operation suspension and slow reopening, this concentration may also affect the capacity of the owners to bear operating expenses.

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 both 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 (and the national industry) also competes for guests with resorts in other countries. International competitors and other country destinations may be benefited due to the greater national support policies of their government, representing, if applicable, possible competition advantages for competitors and destinations.

The intensity of our competition varies depending on urban or beach hotels, family or individual trips, amongst others. In this last market of individuals, travelers seek substitutes any other trend that reduces costs and offers a variety of options, thus the participation and competition of platforms such as "*Airbnb*" has been growing, with competitive rates and electronic communication means that may add another competition dimension to the industry. The latter are not regulated in the same manner as the hotel industry and without needing to transfer or absorb the expenses inherent to the industry, in this manner perhaps negatively affecting our business, operating results or financial condition. On the other hand, travelers' perception of higher-exposure to contagion in public spaces, such as hotels, may lead them to choose that type of lodging options, substituting traditional hotel lodging.

The Company has sought to mitigate 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.

Additionally, hereinafter, all lodging establishments must implement, during the time of the public health threat, special COVID-19 related hygiene and health protocols. However, the perception of safety in potential guests may presuppose competition amongst establishments or destinations which best generate in guests a perception of safety when traveling. This may increase even more the operating expenses necessary not only to fulfill the new measures, but also to stand out in different markets and offers.

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 2019, it launched onto the market the Curamoria brand focused on boutique hotel collection franchises, specially aimed at hotel which intend to preserve their own brands and characteristics but observing our reservation channels. This means a foray into a new market that, until now is unknown to Posadas, related to different brand hotel franchises under a collection and in which Posadas is not a leader. Therefore, the Company cannot guarantee its success in the execution and operation of these 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 the 2019 corporate year closing, the Corporate operations are concentrated mainly in Mexico, with 182 hotels operated in this country and two in the Caribbean. 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 on its operations in Mexico, market in which it already has a high penetration. If these Mexican operations 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.

As part of its Caribbean expansion plan, the Company signed a contract in 2017 to operate a hotel under the Grand Fiesta Americana brand and another in 2019 to operate a hotel under Live Aqua brand, both for a 15 year term and located in Punta Cana, Dominican Republic. We estimate that these hotels will start operating in 2020. In order to perform its obligations as hotel operator in said country, the Company incorporated an affiliate in December 2019, same which is in the registration process before the tax authority in said jurisdiction.

Posadas' ability to operate and grow in this country 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, 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.

In the pandemic context, Posadas and the holders of the real properties have agreed to terminate the operating contracts of two hotels in the Republic of Cuba: Fiesta Americana Punta Varadero and Fiesta Americana Holguin. The turning over-receipt is currently being processed.

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 determination of some buildings allocated to Vacation Products (FAVC and LARC) and the sale of prepaid vacation plans or discount clubs (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, the owners and the Company's capacity to manage limited operating flow, including financing availability. The growth strategy may be impacted by the economic crisis resulting from the effects of COVID 19. The tourism business has specially been affected, not being less important for lodging establishments and passenger transportation. It will be very important that difficulties are overcome to reactivate economic activity and transportation of persons in general, and especially in and to the markets where we operate or guests originate. There can be no assurance that Company expansion plans will be achieved, or that new brands or hotels or Vacation Product development will have consumer acceptance or be operated profitably in all jurisdictions. In this same manner, the Company continues to offer certain contact center services to third parties.

In the pandemic context, the 7 projected hotel operating contracts in Mexico still in the planning stage were terminated.

As part of its growth strategy, the Company had been carrying out and has the obligation to invest in different acquisitions, construction and refurbishment of its owned and leased properties. However, multiple factors including the liquidity crisis or the expectation of investment return, 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 its Caribbean expansion plan, the Company signed a contract in 2017 to operate a hotel under the Grand Fiesta Americana brand and another in 2019 to operate a hotel under the Live Aqua brand, both for a 15 year term and located in Punta Cana, Dominican Republic; said management and operation depends on global economic, political, commercial, governmental, tax and employment 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 given the discretionary nature of the country's government administrative legislation interpretation, or our interpretation may be 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, 2019, the Company had 141 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 minimum revenue to the hotel owner 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.

All Brand operating and licensing contracts stipulate variable fee charges based on the income or revenue, insofar as these contracts are not updated, no fees will be accrued in its favor.

Owners may assert the right to terminate operating contracts, even when agreements provide otherwise. When terminations occur due to these or other reasons, we may assert our right to damages due to breach of contract and related claims, which may cause us to incur significant legal fees and expenses. Any damages finally collected may be less than the projected future value of the fees and other amounts that we would have otherwise collected under the management or operating agreement. A significant loss of agreements due to early terminations may harm our financial performance or our ability to make our business grow.

Furthermore, although under our management and lease agreements the owner cannot transfer, convey the hotels or assign the rights over said hotels to a third party, we cannot assure that said transfer or conveyance 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.

In 2019, the Company stopped operating the hotels: One Reynosa Valle Alto, One Celaya, Fiesta Inn Celaya, One Irapuato and Gamma Torreon. Additionally, on April 1, 2020, it stopped operating the Holiday Inn Merida hotel. Within the pandemic context, the company has ceased to operate the hotels Fiesta Americana All-Inclusive Punta Varadero, Fiesta Americana All-Inclusive Holguin, Live Aqua Boutique Playa del Carmen, Fiesta Inn San Cristobal de las Casas, Gamma Leon, Gamma Ciudad Obregon, One Coatzacoalcos, under operating and licensing contracts.

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, 2019, 18 operated under a leasing arrangement. In the first 2020 quarter, the lease agreement for the Fiesta Inn Guadalajara Aeropuerto hotel became binding and the Live Aqua Playa del Carmen Hotel lease agreement was terminated. 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 which is much more probable in abnormal limited operation context or limited occupancy derived from social distancing measures.

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

All lease agreements stipulate fixed rental income portion that we pay regardless the income or revenue. To December 31, 2019, we were current in payment of the revenue of all leased hotels. In 2020, as a result of the state of emergency due to *force majeure* issued by the General Health Council, the predicate of *force majeure* which may release lessors from lease payments was materialized. Although the Company has entered into various agreements in this regard with the lessors of the goods it leases, these agreements may be insufficient compared to the expectation of income and related expenses. Negotiations are still ongoing that may lead to a disagreement.

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 exceptions) minus the accumulated depreciation and losses due to 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 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 2019 corporate year closing are represented as operational leasing, sacrificing comparability with the previous years. This norm will impact financial leverage and interest hedging ratios; therefore, it eventually may limit to this manner how the Company obtains income through this operating mechanism. The initial asset entry for leased hotels, including transportation equipment, totaled $3,508.5 million and to December 31, 2019 $4,146.5 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. In 2019 it added to its franchise brand portfolio The Explorean and Curamoria, a franchise collection brand. 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. These products mean that Posadas must invest in the creation, adaptation and maintenance of a franchise system supporting the services offered to this system's users. Moreover, it implies that third parties' hotels outside of Posadas' control will operate under its unauthorized 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.

All franchise contracts stipulate variable fee charges based on the income or revenue, insofar as these contracts are not updated, no fees will be accrued in its favor.

Owners may assert the right to terminate franchise contracts, even when agreements provide otherwise. When terminations occur due to these or other reasons, we may assert our right to damages due to breach of contract and related claims, which may cause us to incur significant legal fees and expenses. Any damages finally collected may be less than the projected future value of the fees and other amounts that we would have otherwise collected under the franchise agreement. A significant loss of agreements due to early terminations may harm our financial performance or our ability to make our business grow.

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, 2019, 13 hotels were operated under franchise.

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

Fibra Hotel and other fibras

To December 31, 2019, 46% of our hotels are the property of Fibras. Of the total hotel rooms operated by the Company, 38% are the property of one of the Fibras trading on 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.

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, 2019, 2018 and 2017. 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 a 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 Company 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 its Vacation Programs portfolio, 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 Company primarily depend on the collection of dividends and fees arising from hotel operating, brand licensing, and franchising contracts. Beginning on June 1, 2016, the Company has been undertaking direct operation of the owned and leased contracts, the personnel rendering service in said hotels, as well as the operation of Vacation Product sale activities. Part of the real properties will be held by the Company's subsidiaries. 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. de 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. de C.V. and Inversora Inmobiliaria Club, S.A. de C.V., holder of the real properties allocated to time share as merging into Grupo Posadas. This merger became effective on October 3, 2019.

Even though at present almost all the subsidiaries are not contractually limited in the payment of 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 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 ultimately satisfy the demands of its creditors 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 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 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 corporations to be merged, or to deposit the above amount or to obtain all 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, while 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 approved mergers has concluded.

ii) Governmental authority authorizations

The corporate movements of some of the Issuer's Subsidiaries need, in the preliminary stage, authorization from 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 or costs relatively significant due to executing these operations. The Issuer cannot ensure that in the authorization obtainment process, there will be no delays nor impediments nor disbursements that make it unable to obtain authorizations relevant to completing 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 proposed restructuring or produce effects other than those set forth in the informational leaflet or the corporate acts authorizing the latter. 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 a nature other than those foreseen, such as additional costs or expenses, or any other expenditure, that the Company would have to disburse thereby.

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 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 such as those currently existing in this sector, 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 present 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 conserving and obtaining new financing, including financial loans. A downgrade by the rating agencies may increase the cost and/or limit our financing availability which would make difficult a capital availability increase necessary to operate

In 2020, the rating agencies have reduced Posadas' rating as follows:

- On March 25, 2020, S&P Global Ratings Agency notified its decision to adjust the Company's rating to CCC+ with negative outlook (published in the March 27,2020 material event)
- On March 23, 2020, FITCH Ratings notified modification of the rating to CCC+ and on the local scale to B- (mex) with negative outlook (published in the March 27,2020 material event).
- On April 27, the rating agency Moody's decided to adjust the Company's rating to Caa1 previously B2 (published in the April 27,2020 material event).
- On June 19, 2020, FITCH Ratings modified its corporate rating to CC and the issuance of its Notes due 2022 for USD$393 million to CC/RR4. Simultaneously, it withdrew the local scale rating and adjusted it to CC (mex). According to the Fitch's communication, it principally underlines the pressure on the liquidity profile caused by the social distancing measures, and which kept the hotels practically closed since the end of March until the end of June of 2020

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, 2019, and to this date, a guarantee of $975.4 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 and/or a fortuitous event could impact the previous agreements with the governmental authority, such as a change in administration. For additional information see section 3) *Financial Information*, c) *Material Loan Information*.

Posadas suppliers may be deemed the type of taxpayers regarding which the SAT applies a presumption of the material inexistence of these operations, and therefore the supply of the goods or services provided to Posadas may also deemed inexistent. 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 obligation, and of the affirmative and/or 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.

On the other hand, the incursion into new markets causes that our operations may be subject to tax obligations, which may or may not be subject to withholdings in other jurisdictions or to exemptions provided in international treaties to avoid double taxation. In this sense, we cannot assure that the tax effects of operating in other countries may be comparable or less burdensome to the effects of operating in national markets

Finally, certain tax modifications imposed since 2020 impact our foreign technology digital platforms and media service suppliers were encumbered with value added tax. Our suppliers may choose to transfer or not transfer the aforementioned tax, but if they do not do so, Posadas would be obligated to pay the tax and, subsequently, prove payment.

Proceedings and claims

The Company faces a series of legal proceedings, other than tax proceedings, arising from the normal course of its operations. 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, 2019, will not significantly affect its consolidated financial situation nor its operating results in the short term.

As we have referred in other communications, in 2017, Posadas, and other relevant defendants were the subject of an employment proceeding by two *Compañia Mexicana de Aviacion* 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.

The Issuer has a minority investment in a project under development on the Riviera Maya. Since 2017, said project is in the possession of and managed by the consortium's majority investor. Some environmental organizations have recently brought proceedings against the development of the project, however, according to verbal information shared by our members, these proceedings are still in early stages to estimate the impact of a negative result on the Company's investment project.

On the other hand, the Company has initiated several collection proceedings regarding accounts receivable in its favor, or 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 of the same may result in a loss of collection expectations or these may result in the implementation of determined controls and procedures that may imply 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, 2019, 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 rate or fixed rate agreed upon at the moment the operation is executed. As such, these operations are denominated in Mexican currency. However, the Company in the future may use derivative financial instruments for interest rates and currency exchange rates so as to mitigate risks.

In this same manner, 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. 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 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 2019 closing, approximately 65% of our cash was in dollars. At present, we do not have any derivative contract.

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 administration contracts, collective bargaining agreements or individual contracts terms, as well as the performance terms of certain specialized service contracts executed with third parties rendering recurring or temporary services in our facilities, as applicable, the employees at our managed hotels or 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 could occur in the case of franchised hotels.

We also have a large number of outsourcing, construction work, security, promotion or intermediation (promotion and intermediation contracts were terminated on December 31, 2019) services suppliers, among other service providers, whose employees or auditing authorities such as the IMSS or INFONAVIT[T.N.] 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 administration of employment justice and union membership sector, and new amendments 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 or commissioned works

The Company contracts with third parties: the rendering of design, construction work, coordination, supervision and equipment services for owned and leased hotels, it also entrusts the creation of intellectual property works under the guidelines and standards of the Company to third parties. Even though the Company signs agreements regarding the quality standards, price and services and compliance with the regulatory provisions for 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.

Contracts with third parties to provide some services necessary for our business.

We have entered into agreements with third parties to provide certain services necessary for our operations, such as call center services, distribution and technological services, catering, food and beverage supplies, advertising, security, transportation, among others. The loss or termination of these agreements or our inability to maintain or renew these agreements or to negotiate new agreements with other suppliers at comparable rates may damage our business and operating results. Additionally, our reliance on third parties to provide essential services on our behalf gives us less control over the costs, efficiency, timeliness, and quality of those services.

[T.N.] 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

Negligence, inexperience or intentional acts of a contractor may compromise our services and/or our guests' security, this would have a significant adverse effect on our Business and reputation. The Company has a supplier selection process, as well as Supplier certification through an external company, allowing us to make a better supplier selection decision, including detecting and eliminating relationships with companies that do not respect human rights, use child labor, discriminate in any manner, affect the environment, have harmful practices towards fauna, etc.

Our insurance coverage may be insufficient to cover potential losses.

We carry insurance coverage for general civil liability, damage to property, business interruption resulting from damages, 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 foresee 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; the insured amounts are based on Probable Maximum Loss studies.

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 and health 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 that a third party considers that the corporation is liable for criminal negligence or negligence 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, especially those resulting from intentional or criminally negligent acts. Service standards or the determinations of governmental authorities may impose hotel responsibility, or perhaps, even though the hotel is not liable, these may determine redress of 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 unlawful persons or with proceeds, and to periodically report operations denominated “vulnerable” as well as to 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 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 undergoing 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 regulations and violate these provisions.

Likewise, the Company provides services to the general public and it is legally prohibited from discriminating for 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 to have fulfilled or are in the process of fulfillment. 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, for a 40 year right, evidenced by a yearly assignation of Vacation Product points. We typically charge an initial payment of between 10% and 30% of the total membership price 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 Grand Vacations Club, The Registry Collection, Save on Resorts and the selfsame Posadas hotels. 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 right to use contract, after paying a residual value to the company, or, the company may rescind the 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 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 on a hybrid 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. During the first semester of 2020, the private cloud infrastructure will be updated with the latest equipment and devices.

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 airplane, 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 is under its safekeeping. It seeks to identify, evaluate and mitigate risks, vulnerabilities and threats that may adversely impact the information, databases, 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/or 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 Law for the Protection of Personal Information, this is clearly and indubitably communicated or made available to the clients or third parties from the first contact by means of a privacy notification regarding the protection of their personal information. The privacy notification should state, amongst others, 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 defines 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 monitors 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

At the end of 2019 with consolidated income of $ 9,073 million, we generated an EBITDA of $ 856 (excluding IFRS 16-leases) million pesos. With the above flows, we detonated investments of more than $ 500 million aimed at maintaining our hotels' physical standards and incorporating technology in our daily environment to improve the experience of our guests.

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. To the close of 2019, Posadas has contributed $1,081 million.
- 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.
- Current remodel of the 203-room Fiesta Americana Chapultepec hotel in Mexico City. This remodeling estimated in $173 million will be finished in 2020.

In 2019, derived from good Vacation Club segment results, the Company decided to convert the 249-room Fiesta Americana Grand Los Cabos hotel into a time share. This conversion will take place beginning in 2020.

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 typical of sellers of the assets pertinent to 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 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.

In April 2018, the Company signed a sale purchase agreement for the "Ramada Plaza" hotel located in Laredo, Texas, USA. The price agreed for the operation was US$2.5 million, which was received between April and June 2018. After this sale, the company does not maintain hotel operations in the United States of America.

On January 31, 2020 we received $108 million derived from the Fiesta Americana Hermosillo hotel sale announced on April 29, 2016 and likewise we expect to conclude in the second semester of the year the sale of the Fiesta Americana Hacienda Galindo hotel.

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 property boundary limits 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 as established in the contract.

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.[T.N.] 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.

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, on our market and country, on 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.

<u>Risks Related to the Hospitality Industry</u>

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

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[T.N.] This is the Spanish for the Mexican Securities Exchange.

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;
- Obligation to fully or partially close hotels due to State or Federal health regulations in Mexico
- Domestic and international political and geopolitical conditions, including civil uprisings and unrest, expropriation, nationalization and repatriation;
- Travelers' fears of exposure to contagious diseases such as the present COVID-19 pandemic;
- 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 legal-operational and financial condition of the 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 29,851 hotel rooms that the Company operated as of December 31, 2019 (including Vacation Products), 19% 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 from 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 bladder wrack) 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 18 hotels in beach locations (Resorts) and of these 11 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. Likewise, our hotels in the Caribbean are exposed to the same meteorological hazards.

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 a 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 (Attachment).

Epidemics and Pandemics

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.

The spread of contagious diseases in places where we own, operate, lease or franchise properties and/or different parts of the world from which a large number of guests come, may continue or worsen in the future to some extent and during periods we cannot predict.

These events can reduce the general lodging demand, limit the prices we can obtain or increase our operating costs and affect our income.

From the end of 2019, and until the publication of this report, the world is undergoing a pandemic due to the current SARS-COV2 virus (COVID-19) outbreak that was first reported in Wuhan (China) on December 31 2019. To date, governments and other global authorities have imposed measures to reduce its spread, including: restricting freedom of movement, limiting of gatherings of persons, limiting commercial operations, prohibiting travel, closings of borders, closing of companies, schools, confinement and social distancing, amongst others. The intensity or decrease of the pandemic is difficult to predict, since to date there is no definitive medication for its control and/or a vaccine for its prevention. Said control measures have an adverse impact on world and regional economies, affecting the unemployment rate, discretionary expenses, consumer confidence, travel restrictions and regulations, the generation of Company income and our ability to pay our liabilities, as well as those of owners, franchisees, or partners. As well as shortage of our suppliers, amongst others.

Currently, the tourism sector is one of the most affected by the COVID-19 outbreak, with repercussions on both the travel supply and demand. The situation poses an additional negative risk in a context of a weak world economy, and geopolitical, social and commercial tensions, as well as disparate behavior of the main travel issuing markets.

The pandemic has subjected our business, operations and financial condition to a series of risks, including, amongst others, the following:

(i) Income and Expenses: The company's efforts have been focused on preserving liquidity and, as a result, the cash balance as of March 31, 2020 was $1,192 million. During the months of April, May and part of June, the hotels were closed pursuant to government instructions, while the vacation program segment continued its dynamic regarding membership sale collection. The authorities are, differently and regionally, authorizing the reopening of non-essential activities, including the hotel business, but in any case, with reduced capacity, consumption center limitations or operating prohibitions (restaurants, event rooms), and other public areas (gyms, recreations areas). The new operating rules represent increased operating expenses to comply with sanitary provisions and generate trust in our guests and collaborators.

All operating, brand licensing and franchising contracts stipulate variable fee charges based on the income or revenue, insofar as these contracts are not updated, no fees will be accrued in our favor. It is important to note that epidemics are not a risk covered by consequential loss insurance.

(ii) Operations:

On March 23, 2020, the Company through a relevant event on March 23 informed the public of the initial impact on our operations and the mitigation mechanisms implemented to deal with the pandemic, its progress in different countries and social distancing measures taken by national and foreign governments.

On March 30, the General Health Council of Mexico published the declaration of "Force Majeure Health Emergency due to Epidemic Disease SARS-COV2 Virus (COVID-19)" in the Official Gazette of the Federation (DOF, due to its initials in English) on March 30, 2020. In the same way, the Ministry of Health published in the DOF on March 31, 2020 the “Agreement establishing extraordinary actions to attend to the SARS-CoV2 virus health emergency”, where, amongst other measures, the suspension of non-essential activities was ordered. None of the activities that the Company carries out were deemed essential, except for those aimed at providing services to clients that do carry out essential activities, and always on a limited basis. In compliance with the foregoing, we suspended operations to the general public and reservations to stay in the chain's hotels ceased during the period of the “*Social Distancing*” policy, which began on March 30, 2020 and formally continued until May 30. On May 29, the federal government published guidelines for the gradual and regional return of economic activities. Each of the state governments issued additional measures for these purposes and based on federal and state indicators, the gradual and limited opening of our operations to the public will be scheduled. To date, only a few states have restarted the reopening of economic activities to the general public and, in all cases, gradually and staggered according to a regional indicator to evaluate epidemiological risks.

Likewise, the authorities at various government levels have established sanitary security protocols and mechanisms which we must implement prior to the opening of our hotels. The plurality of new applicable regulations can be overwhelming, as can the consensus of different authorities for their issuance and monitoring, whose application guidelines are still unknown to us and could be subject to different application criteria amongst themselves and to the way in which we have adapted them in our different work centers. These protocols require modification of guest servicing processes, special cleaning and hygiene, facilities and processes of all kinds, the establishment of barriers or physical distance between people, continuous monitoring of employee activities and health, and training. Even when we consider that our protocols and additional measures comply with the new provisions in this regard, the possibility of exposure to contagion in public spaces remains.

(iii) Financing:

The increase in our debt level may negatively affect our financial and operating activities or the ability to incur additional debt. In addition, as a result of the aforementioned risks, we may be required to raise additional capital and our access and financing cost will depend, amongst other things, on global economic conditions, financing markets, the availability of sufficient amounts of financing, our prospects, our credit ratings, and in general hotel industry perspectives .

Due to the considerable deterioration of the global economic outlook and the impact on the sector, the securities rating institutions modified the Company's ratings as follows:

- On March 25, 2020, S&P Global Ratings Agency notified its decision to adjust the Company rating to CCC+ with negative outlook (published in the March 27,2020 material event)
- On March 23, 2020, FITCH Ratings notified modification of the rating to CCC+ and on the local scale to B- (mex) with negative outlook (published in the March 27,2020 material event).
- On April 27, the rating agency Moody's decided to adjust the Company's rating to Caa1 previously B2 (published in the April 27,2020 material event).
- On June 19, 2020, FITCH Ratings modified its corporate rating to CC and the issuance of its Notes due 2022 for USD$393 million to CC/RR4. In the same report, Fitch changed the local rating to CC (mex) and withdrew the rating. According to the Fitch's communication, it principally underlines the pressure on the liquidity profile caused by the social distancing measures, and which kept the hotels practically closed since the end of March until the end of June of 2020

If our credit ratings or the general market are further reduced, these conditions would create increased risk to our credit rating levels, our industry, and our company. Access to capital and the cost of debt financing would be further affected. The interest rate of existing debt instruments, including credit lines, depend on these ratings, so our indebtedness cost may increase further

Some of our business agreements may require guarantees due to rating changes, as well as future debt agreements, the conditions and terms may be more restrictive, which may further restrict our business operations or cause that new financing may not be obtained due to current restrictions.

Due to the developing nature of the situation, it is too early to calculate the full impact of COVID-19 and we consider it to be an unprecedented event in international tourism.

Environmental Regulations and other Regulations

We are subject to municipal, state and federal laws, ordinances and regulations relating to, among other things, taxes, environmental, 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 operates, 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. The extent of increased 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.

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, as in 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 temporally 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 their 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.

<u>Risks Relating to Mexico</u>

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.

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 2017, 2018 and 2019 the GDP was only 2.43%, 2% and (0.1%) respectively, this due mainly to the (1.9%) DGP decrease in secondary activities.

Most of the Company's debt is US dollars denominated, however, during 2018 and 2019 the peso appreciated by 0.26% and 4.11%, 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 Promotion Council of Mexico and the reassignment of the Mexico tourism brand promotion 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, 2019, 98% of our total indebtedness was denominated in U.S. dollars. While the majority of the Company's sales (approximately 73%) are peso (Mexican Currency) 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 2019 was $18.8727 pesos per United States Dollar that represented a 4.1% marginal appreciation during the corporate year. To December 31, 2019, 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 6.8%, 4.8% and 2.8% for 2017, 2018 and 2019, 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 2017, 2018 and 2019 are: 6.7%, 7.6% and 7.8% (at the corporate year closing 7.25%), respectively.

To the 2019 corporate year closing, the Company had 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.

It is foreseeable that the economic effects of the COVID-19 pandemic crisis will also significantly affect international market clients which are the origin of tourists traveling to Mexico, regardless of whether travel restrictions are lifted in the near future.

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

The countries that compete for the surrounding originating markets of 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 or benefits 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 our country's growth quota of the international tourism market or international competitors may comfortably face the challenges confronted by the global sector regarding the national industry. *(Source: Study written by the National Tourism Business Council - CNET).*

This same effect may present itself if once the global economic activity is reactivated, the travelers originating from said countries decide to change their travel patterns and destinations.

As of December 31, 2019, approximately 18% of the Company's rooms were located in beach destinations, and the remaining 81% are urban hotels.

Reputational risk

Some of the events previously mentioned and others that may not be mentioned in this report and/or that may be beyond our control, may affect the reputation of one or more of our properties or, in general, affect the reputation of our brands. Many other factors can also influence our reputation and the value of our brands, including service, food quality and hygiene, safety of our guests and members, availability and management of limited natural resources, supply, chain management, diversity, human rights, environment, among others.

Reputation value is also based on perceptions, and broad access to social media makes it easy and invites anyone to post information and/ or comments that may influence perceptions of our brands and our hotels. Negative advertising may be difficult to control or manage effectively, regardless of whether the information is true or not. While reputation can take decades to build, negative incidents can quickly erode trust, especially if they result in adverse publicity on social media and any other communication medium, including government investigations or penalties, or proceedings.

Third parties use our brands for the sale of our Vacation Products, our Loyalty Program is linked to a bank credit card, as well as for lodging in franchised hotels. These participants interact directly with guests and under our brand and trade names, if these third parties fail to maintain or act according to applicable brand standards, including any informational incident involving guest information or a circumstance affecting the member both as to health or safety; or project a brand image incompatible with ours, our image and reputation may be tarnished. In the same manner, public perception of construction management by our partners in the Riviera Maya development project has led some third parties to file legal proceedings against said development, which significance, due to the recent proceedings, is still unknown. Such proceedings are outside the responsibility and management of the Company, but their effects could impact the value of our investment.

Negative incidents may cause concrete adverse effects on our business, including loss of sales, participation in our Loyalty Program, decreased access to our websites and booking systems, deterioration in our investments, loss of development opportunities or difficulties in the retention and recruitment of employees, amongst others. Any diminishment in the reputation or perceived quality of our brands or corporate image may affect our market share, business, financial condition or operating results.

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 information sources, 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, Company decisions and 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 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 future plans, 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.

The dates presented below were temporarily extended by the CNBV and the BMV, due to the state of emergency caused by the SARS-CoV2 virus. We will indicate for each item the new date.

I. Annual Information:
(extension due to state of emergency: between July 3 and 8, 2020):

(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, same which due to *force majeure* could not be collected within the period and is done on June 25, 2020:

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. A statement related to fulfillment of professional requirements and independence upon 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, as 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 (exceptionally extended to July 3, 2020):

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:
(due to state of emergency for information of 1Q2020, extension to July 3, 2020).

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:
(due to state of emergency for information: extension to July 8, 2020)

(a) On the day of its publication, the call to the meeting of shareholders, debenture holders or other securities holders.
(b) 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 compliance by the Firm and by 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.

(c) 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.

(d) 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.

(e) At least six business days before each one of the acts referred to, 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.

(f) On June 30 every three years, the formalization of the general shareholders meeting which approved the verification of the Company's corporate by-laws or the certification that the same have not been modified, extended for the 2020 corporate year to September 1.

IV. <u>Purchase of own shares</u>:

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. <u>Material Shareholdings</u>:

The Company is obligated to present no later than June 30 of each year a report containing disclosed shareholding information related to material directors and officers and the holders of material percentages of the Issuer's shares. This obligation has been exceptionally extended to September 1, 2020.

VI. Material Events (without extension):

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 stated 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 stated 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 Series A shares 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 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

The last amendment of the Company's bylaws, is recorded in public instrument number 34,853 dated September 05, 2017, by Juan Jose Barragan Abascal, Notary Public number 171, Partial Formalization of the Record of the Minutes of the Extraordinary and Ordinary Shareholders Meeting dated August 31, 2017, which modifies the fifth clause, section (r) and (u) (corporate purpose), same which was recorded under Commercial Folio number 17145* on January 29, 2018.

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 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 nor modification to the clauses, approving the take-over 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. Said merger became effective on October 3, 2019.

On June 25, 2020, the Issuer's ordinary general shareholders' meeting took place, which, amongst other things, resolved on the annual results and reports, as well as the ratification of the members of its board of directors.

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, Alcaldia Cuajimalpa de Morelos as well as on the Internet page of the Securities Exchange at 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.

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.

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"[T.N.] 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

[T.N.] The Spanish translates as "Securities Market Corporation" in English, 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

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 "Fiesta Rewards" Brand.

In 2011, the Fiesta Inn concept was re-launched. The Company exercised the share 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 FibraHotel.

In 2012, Posadas sold 12 real properties and hotel equipment to FibraHotel, located in central and northern Mexico, operated under the Fiesta Inn and One hotel brand. In mid-2013, the Company sold three additional "Fiesta Inn" hotels to FibraHotel, and in 2014 sold 2 more Fiesta Inn and One brand hotel. Posadas was the majority owner of all of these hotels. Regarding all the hotels conveyed to Fibrahotel, 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 intended 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 time-share 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. On February 24 we concluded the sale of the Nayarit land lot for $240 million pesos.

In 2013, we contributed to a trust (as a sale vehicle) the last lots of land to which Posadas is entitled in Porto Ixtapa. We expect that economic development at that location will result 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 FibraUno 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 on 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 Explorean 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 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 which 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 before the Taxpayers' Defender Office the partially conclusive agreement signed with the Tax Administration Service for the amount of $67 million regarding the Turistica 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 the Live Aqua Urban Resort, Live Aqua Beach Resorts and Live Aqua Boutique Resorts.

Regarding our growth strategy outside of Mexico, the Company entered into the following operating contracts in Punta Cana, Dominican Republic

- September 2017: 15-year operating contract, under the Grand Fiesta Americana brand, with 554 rooms. This local investment project is estimated to be operational in 2020.
- August 2019: 15-year operating contract under the Live Aqua brand with 345 rooms. This project is estimated to be operational in 2020

In the financial, corporate and realty field, the following activities stand out from 2017 to 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 due date on June 30, 2022. The interest is bi-annually 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 the 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 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 continued in 2018 in accordance with the plans published in the Corporate Restructuring information leaflets dated February 29, 2016 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 Laredo, Texas was executed, a foreign subsidiary was dissolved. During 2019, Inversora Inmobiliaria Club, S.A. de C.V., guarantor in the indenture of the Senior Notes due 2022, merged into Grupo Posadas, S.A.B. de C.V., becoming effective on October 3, 2019. As a consequence of these mergers, Operadora del Golfo de Mexico S.A. de C.V. prevails as guarantor of said issue.

- 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. In 2019, the Company converted to time-share the Grand Fiesta Americana Los Cabos hotel section. This increased the inventory of FAVC and LARC products.

- 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 January 31, 2020 we received $108 million derived from said sale.

- In 2017, the Company acquired 6% of a trust to develop a hotel project on the Riviera Maya, “Tulkal”, 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, Posadas began construction of this development and by the end of the corporate year, had made a $1,052 M contribution increasing its holding in the trust to 12.5%. During 2019, the Company additionally contributed $27.1 million, derived from the Trust's operating expenses that correspond to it according to its shareholding percentage and authorized certain modifications to the Trust contract to enable the Trustor to finance its contribution. In 2020, the Company has contributed $27 million and, according to the 2020 budget, a $5 million contribution, at least, is pending, to be destined to trust operating expenses and other payments derived from the signed operation contract. Likewise, all the “Tulkal” brands owned by the Company have been transferred free of charge.

- 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. The Company has made the following payments: 1) On January 23, 2018, $10 million advance payment, reducing the unpaid balance to $200 million. 2) As of July 2018, monthly payments of $1,872. As of December 31, 2019, the remaining balance amounts to $165.2 million. As a result of COVID, the company obtained from Citibanamex a grace period beginning on April 23, 2020 to March 2021 to give time to the hotel to recover from the lockdown.

- Regarding the 2006 tax claim reported in the 2015 consolidated financial statements and pursuant to its present procedural stage, a $975.4 million guarantee was established to December 31, 2019.

- 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 affecting 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 to conclude in 2020.

- During 2018, the Live Aqua Beach Resort Cancun room and public area remodeling was carried out, for $452 million, of which Posadas invested $276 million (the remaining was contributed by lessors). Hand in hand with the remodeling, the lease agreement was renewed for fifteen years, with an option of 5 additional.

- A group of hotels owned by a private investor including, amongst others, the Grand Fiesta Americana Coral Beach hotel and which the company operates, in January 2017 renewed the operating and license contract for another ten years.

- In September 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 in 2022, once its estimations have been reviewed.

- 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, through the BMV, to the market 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 merger corporation. Said merger became effective on October 3, 2019.

- 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, but it has been extended due to the current market conditions. To the issuance date of this annual report, the balance in the trust is $17.9 million.

- In August 2019, a contract to operate a Live Aqua hotel for 15 years in Punta Cana, Dominican Republic was signed, it is estimated to start operations in 2020. Due to the imminent opening, the Company established a subsidiary in that country that will be responsible for carrying out the hotel administration.

- On February 24, 2020 we concluded the sale of a land lot in Nuevo Vallarta, Nayarit for $ 240 million pesos

The 2019 detailed corporate year 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 2019 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 2017, 2018 and 2019 consolidated financial statements of Grupo Posadas S.A.B. de C.V. and Subsidiaries issued by Galaz, Yamazaki, Ruiz Urquiza S.C., (Deloitte).

<u>Principal Investments 2017-2019</u>

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 maintaining already existing properties.

The following details the principal investments that the Company has made between 2017 and 2019:

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.

For 2019, the consolidated annual capital expenses totaled $501 M:

- 54% was used for the maintenance and remodeling of hotels, specifically the Live Aqua Beach Resort Cancun, Grand Fiesta Americana Chapultepec.
- 25% was used for Vacation Properties.
- The 21% remaining was used for corporative uses and technology.

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. During 2020 the opening of hotels under the new brands IOH and Curamoria. is expected

Since 1999, it operates a time-share 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 Vacations Club, The Registry Collection and Resort Condominiums International (RCI) furthermore it has international reservation access through Save on Resorts, which has allowed it to penetrate foreign markets 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 Gamma brand 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 36 additional hotels with 7,558 rooms that are projected to start operating before the first half of 2022. This will represent a 25% room offer increase and, of this, 35% corresponds to economy and business formats, including the Gamma brand. Of these hotels, 4 operate as Live Aqua, 3 as Grand Fiesta Americana, 6 under the brand Fiesta Americana, one under Curamoria brand, one under IOH brand, one under a new brand, 5 operate under the brand Fiesta Inn, 8 under the three star hotel chain "One Hotels", and 7 under the Gamma brand. Of the projected hotels, 24 are being constructed by diverse owners. 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 aforecited Mexican development plan at approximately $25,814 million (US$1,368 M) of which Posadas will contribute 5% of its funds

Since 2018, the Company has been significantly developing and investing in new standard development projects of *Business* brands, fully refreshing the One and Fiesta Inn experiences, focusing the strategy on current travelers' needs and new working formats. As a flexible solution, IOH is also added to the portfolio. There are already 6 One hotels with the new image generating high guest satisfaction and 7 under construction. Additionally, there are 3 hotels under construction with the new Fiesta Inn image in Cancun, Tijuana and Mazatlan.

Posadas is an important purchaser of goods and services in the Mexican hotel industry. During 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 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. Amongst 2019 achievements are: the cataloging of products and services; optimizing the Procurement process for users, the percentage growth of negotiated expenses, and the increased participation in expense categories in which the area had not participated. Likewise, the centralization of influential purchases throughout the company was concluded through the institutionalization of the process and with the aid of the Purchasing platform: SAP Ariba. In relation to risks and sustainability management, considerable progress was made in Supplier certification through an external company, allowing us to make a better decision in the selection of a supplier, detecting and eliminating commercial relationships with companies that do not respect human rights, use child or forced labor, discriminate in any sense, impact the environment, have harmful practices towards their personnel or towards fauna, among other aspects. 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.

During 2019, the Company entered into a global agreement in which various owned and managed hotels would participate in the corporation Cogeneracion del Altamira, S.A. de C.V. and enter into self-supply contracts for minimum volumes and 5-year terms. However, various bureaucratic issues have impeded obtaining the necessary authorizations so that the programs enter into force.

Some of its main suppliers are: Sigma Food Service, Jianlu, Accenture, Dell Leasing, Telefonos de Mexico, Beta Proceso, Jabones y Productos Especializados, Oracle, La Europea, Presentation Services, Bimbo, Atlantic Meat, AegisWard and BBDO amongst others. It should be mentioned that the Issuer is not dependent on any supplier

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 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 data-base 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 center located in Morelia, Michoacan, global distribution systems (GDS), travel agencies, Internet intermediaries, and the Company's own web site.

The Company Loyalty program has an alliance with Santander Bank, a credit card under the shared brand Santander-Fiesta Rewards, with which the clients obtain travel benefits. To 2019 corporate year closing, there were more than 171,000 card holders in Mexico, in the same year 53,701 new cardholders were affiliated, increasing income by 24%.

Fiesta Rewards has significantly contributed to Posadas having valuable clients and maintaining stable income, during diverse business cycles. Fiesta Rewards members receive diverse benefits such as points, preferential rates, pre-sales, exclusive experiences, and point exchanges for nights of accommodation in Posadas' affiliated hotels, catalog items, airline tickets, car rental, amongst other things. Fiesta Rewards is the most recognized loyalty program among hotel chains in Mexico in terms of the number of active members.

Throughout the year, Fiesta Rewards was present in different communication means: Television, digital, billboards, magazines and internal media. Likewise, the Company maintains commercial alliances with American Express and Club Premier amongst others, also at the end of the year it presented a new image, renewing the experience with a customer-centered focus in order to acknowledge the loyalty of its members as the center of all the company's efforts, through emotional and functional benefits that are relevant and convenient to them, offering unique and exclusive value. To December 31, 2019, it had 330,000 thousand active members, which represent approximately 32% of the occupancy of our hotels, generating 2,044,255 rooms per night.

The national, U.S, and Canadian markets are the principal targets of our marketing efforts abroad, and 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 cost 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 time-sharing, 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 abovementioned Kivac product was launched on the market in 2010 aimed at commercializing the hotel inventory, through the sale of points redeemable for stays. The points are valid for 5 years. With the purpose of benefiting both companies and employees in Mexico, a new product was launched in 2019 called Kivac Travel Suite, which consists of a benefit model for company employees with access to a travel plan for destinations in Mexico and U.S. In 2019, 37 companies in Mexico adopted this new benefit for their employees. As of December 31, 2019, the Kívac program members, including the new KIVAC Travel Suite product, totaled 45,406 and generated around 205,267 thousand rooms per night.

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. In 2019, it generated more than $7,078,177 points redeemed.

In 2019, we renewed and renamed the “Re_SET” product created in 2017 into Fiesta Americana Vacation Club Access in response to the trend of connecting with new customers, lifestyles and technological changes. It consists of 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, 2019, we have 1,682 active members and more than $168,911,800 in sales.

For their part, the products Live Aqua Residence Club (LARC) and Fiesta Americana Vacation Club (FAVC), closed 2019 with 1,123 and 31,163 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. Daimler Servicios Corporativos Mexico S. de R.L. de C.V.
B. Aerovias de Mexico S.A. de C.V.
C. G.V. Servicios Aereos S.A. de C.V.
D. Provident Servicios, S.A. de C.V.
E. Representaciones de HTLS de Mexico S.A. de C.V.
F. LG Electronic Mexico
G. Logis One S.A. De C.V.
H. XIGNUX S.A. DE C.V.
I. Conductores Tecnologicos de Juarez, S.A. de C.V.

In 2019, the following sale segments grew:

- We had 3.5 million reservations (one reservation each 9 seconds).
- Room income generated through “Corporate” had an 8.62% growth, compared to 2018.
- Our own channels (including groups) maintain a reservation contribution of 69%.
- Consolidation of the Open Pricing model for all hotels, for all the rate structure in all channels, in order to improve costs and maintain our competitive advantages.
- Migration of all our hotels and Distribution platform to an OPEN PRICING model that allowed us to simplify our rate structures and to increase our RevPAR, which are the basis for significant Company growth.
- Our distribution cost per reservation was USD $8.69/reservation (including commissions), remaining for the third consecutive year below USD $ 9 per reservation.
- The web channel grew around 5% in comparison to the previous year, generating a 7% contribution.
- The voice channel remained as the most important channel with the largest number of reservations generated, representing 23.5% of reservations.

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 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 expanded it franchise program for newly constructed hotels under One Hotel brand. In 2019 its franchisable brands expanded to The Explorean and Curamoria.

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, IOH, Curamoria, 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.

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

To December 31, 2019, the average life of the Company's hotel management contracts (except its owned and leased hotels) was 12.8 years. Detailed per brand, it was: 14.2 years for Live Aqua, 10.1 years for Grand Fiesta Americana, 11.7 years for Fiesta Americana, 13.5. years for Fiesta Inn, 17.6 years for Fiesta Inn Loft, 12.4 for Fiesta Inn Express, 15.4 years for Gamma and 12.8 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**
Live Aqua Residence Club	Lujo	2 125	20-100	Luxury residences for Vacation Properties	International tourists and high end locals
Live Aqua Boutique Resort	Boutique	1 60	60-100	Upscale Resorts and large cities	International tourists and high end locals
Live Aqua Hotels & Resorts	Luxury	4 733	130-400	Upscale Resorts and large cities	International tourists and high end locals
Grand Fiesta Americana Hotels & Resorts	Grand Tourism	9 2,459	200-600	Large cities and upscale Resorts	Domestic and International tourists and business travellers
Fiesta Americana Hotels & Resorts	Family / Business	16 5,312	80-650	Large cities and upscale Resorts	Domestic and International tourists and business travellers
Fiesta Inn Hoteles Business Class	Business	72 10,405	90-220	Small and mid size cities	Domestic and International business travellers
Fiesta Inn Loft	Business	4 255	40-150	Small and mid size cities	Domestic and International business travellers
Fiesta Inn Express	Business	3 372	40-150	Small and mid size cities	Domestic and International business travellers
Gamma Hoteles & Resorts	Family	19 2,460	80-200	Small and mid size cities	Domestic and International business travellers
one hotels	Económico	47 5,860	100-140	Mid and large size cities in industrial locations	Domestic business travellers
Fiesta Americana Vacation Club	Family	4 1,501	100-300	Resorts	Domestic and International tourists
The Explorean Discovery Resorts	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
Total		**184** **29,851**			

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 time-share 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, 2019, 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 time-share 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 time-share 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 TCA 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. To date, the Company does not have any of these instruments contracted.

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, is 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. Delay in the consolidation of new markets or competition in other destinations such as Dominican Republic, may be economically more competitive and may complicate the operating results of this 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 70 hotels owned by FibraHotel representing 38% of the total hotels operated by the Company and 4 other owners concentrate the operation of 27 third-party hotels representing a 15% 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 time-share 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 Dominican Republic, there are additionally the provisions and restrictions stipulated for operations related to property, assets and counterparties.

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 interpretative differences 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, 2019, the Company had 19,247 employees. In Mexico, around 48% 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, 2019, report a total accumulated reserve of $112.5 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 priorities, 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:

- Posadas DNA Conferences: Conferences given by internal leaders who talk of our values and competencies; they are live broadcasted from Headquarters or a hotel. They promote a value culture and a positive work environment at all levels.
- Live Together: They are celebrations that allow us to spend time together, generate a sense of belonging and teamwork.
- Posadas Fundraising and Volunteering Foundation: These are activities we do to help raise foundation funds, as well as volunteer work to improve our environment
- Live Health: Healthy work practices, this is possible because we provide a clean and safe work environment through a set of activities that promote well-being, such as medical check-ups, fitness challenges, sporting events, conferences, and health magazine. We have an annual activity calendar allowing us to focus on the principal causes of death and labor risks in our country. In 2019 it was revolved on the following axes

    1. Gastric Diseases
    2. Respiratory diseases
    3. Breast, prostate, colon cancer
    4. Diabetes

5. Heart Diseases
6. Orthopedics
7. Load Management
8. Addiction Prevention
9. Nutrition

- Personnel training and development: programs focused on of sustainability issues and professional growth opportunities.
- Strategic Alignment: Our strategic alignment model known as Map4, based on the Balanced ScoreCard methodology where we express the main strategic objectives from 4 perspectives:

    1. Financial
    2. Customers
    3. Internal Processes
    4. Learning and Development

- OKRs (Objectives and Key Results) methodology, which helps areas to focus their efforts towards the same priorities (quarterly) throughout the company
- Family-work balance of our collaborators: an aspect that we do not put aside.
- Gilberto Rincon Gallardo Inclusive Company Distinction: an acknowledgement granted by the Ministry of Employment and Social Provision due to the implementation and operation of inclusive, equal and equitable employment policies to benefit employees with a vulnerability condition or situation.
- Posadas Service School: A factor considered key to the development of our collaborators. Through the AMA culture (Attitude, Magic and Action), in which we generate memorable experiences for our guests, members and co-workers that allow us to emotionally connect with them, a pillar that differentiates us from other companies. As an important effort to continue cultivating this philosophy, for 2 years we have impregnated the AMA Commandments, which remind us of the essence of our service. This generates quantitative benefits: repurchase percentages, and loyalty of our guests and members. As well as qualitative benefits: Engagement of our guests, members and collaborators.
- Commitment against the sexual and labor exploitation of girls, boys and adolescents through:

    1. Commitment to implement the National Conduct Code for the Protection of Children and Adolescents in the Travel and Tourism Sector (SECTUR).
    2. Drafted the Company Guideline Documents (Ethics Code, Internal Regulations and Posadas Foundation Policy).
    3. Awareness and training of 100% of all hotels collaborators regarding prevention of sexual and labor exploitation.
    4. Implementation of an action protocol to ensure that our collaborators know how to act in presumably situations of children and adolescent sexual and labor exploitation.
    5. Integration of collaboration networks with other institutions to prevent, evaluate and report at risk cases.
    6. Informing guests of the commitment against children and adolescents labor exploitation.

- Foster conditions necessary to create dignified and non-discriminatory employment.
- Benefits superior to those stipulated by law (breastfeeding room, savings fund, grocery vouchers, major medical expenses insurance).

This year we consolidated our catching process through a platform called UNET, which is the unique Human Capital system, encompassing all our processes on only one platform. As part of the implementation of this project, in-person training sessions were given to all the company leaders, where they learned the interview methodology by competencies and allowed them to understand what behaviors we can evaluate observing Posadas' values and culture.

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 measures, 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 operating 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 "Environmental Tourism 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 2019 are:

- Adapting the physical plant.
- Storing temporally organic and inorganic waste, training, signaling according to norms, collecting and final disposition accredited by SEMARNAT.
- Storing temporally dangerous waste, signaling according to norms, training, collecting and final disposition accredited by SEMARNAT.
- Storing temporally 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 NOX emissions.
- In November and December 2019, we carried out training in 80 Group hotels regarding the Official Mexican STANDARD NOM-162-SEMARNAT- 2012, which establishes specifications for the protection, recovery and management of sea turtle populations in their nesting habitat.
- Through the concertation agreement that we signed with the Environmental Protection Attorney General (PROFEPA), we continue with the certification of hotels in the category of "Environmental Tourism Quality". Amongst these, there is the registry of the use of fossil fuels, electricity, gas and water, as well as keeping a greenhouse gas inventory before the National Registry of Emissions.
- Additionally, we have started a program to evaluate the “Regulatory Compliance Level” of our hotels, whether federal, state or municipal, through TACOR, a platform that allows uploading all the documentary information demonstrating compliance with the standards which has a License and Permit Control Board.
- We carried out a glass collection pilot test, between Grupo Modelo and the Fiesta Americana Reforma hotel. The results have been successful and we hope to expand the number of hotels the following year.

Acknowledgements for green initiatives to December 31, 2019:

- 16 Group hotels have the “S” Certificate given by SECTUR, awarded for good sustainable practices in the development of tourism projects and to commitment by tourism companies that operate in Mexico under sustainability guidelines. Among them are: Fiesta Americana Acapulco Villas, The Explorean Cozumel and Kohunlich
- SAFE HOTEL certificate, hotel fire safety quality certificate, awarded to 6 of our hotels, including: Fiesta Americana Condesa Cancún, Grand Fiesta Americana Los Cabos All Inclusive Golf & Spa, Live Aqua Residence Club Los Cabos, Aqua Cancun.
- On December 20, 2019, the GREEN KEY audit of all the Group hotels was completed for recertification. 158 hotels were audited for a total of 184 certified hotels. This certificate recognizes various types of tourist facilities that have achieved sustainable operational excellence by meeting their 132 international guidelines. This recognition is awarded by The Foundation for Environmental Education (FEE) that promotes sustainable development through environmental education. Each hotel undergoes a rigorous evaluation in thirteen categories that include environmental management, staff participation, social responsibility, green activities and administration, amongst others.
- Cristal International Standards Certification, for 5 of our hotels, which is awarded in the hotel industry as a tool to achieve health and hygiene management. Live Aqua Cancun, Fiesta Americana Cozumel Dive Resort are some examples.
- Green Business Report 2019/5th place amongst international level companies and the best in the tourism sector.
- "H" Certificate to 8 hotels granted by the Ministry of Tourism backed by the Ministry of Health, in relation to food and beverages for those who meet the standards defined by the Program. Some examples are the Fiesta Americana Puerto Vallarta, Fiesta Americana Acapulco Villas, Live Aqua Residence Club Los Cabos, Live Aqua San Miguel de Allende Urban Resort.
- 43 of our hotels have a " Environmental Tourism Quality Certificate", issued by PROFEPA.
- 10 of our hotels were awarded the BLUE FLAG certificate, which is sponsored by the Foundation for Environmental Education based in Copenhagen, Denmark and is internationally recognized. It is awarded to those beach installations who have managed to maintain the highest worldwide standards in terms of safety and services, environmental education and water quality. Amongst them are: Live Aqua Cancun, Live Aqua Residence Club Los Cabos, Fiesta Americana Condesa Cancún, Grand Fiesta Americana Los Cabos All Inclusive Golf & Spa, The Explorean Cozumel and the WHITE FLAG certificate for the Fiesta Americana Puerto Vallarta.

The market shows a marked trend to consume sustainable products and services. In this sense, our clients are not the exception therefore the operation of our hotels is key to marketing our services. For this reason, gradually, the company has been implementing 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, international security, terrorism, undergoing pandemics and natural disasters, political factors, amongst others. An example of this are the events that occurred during 2019: political ups and downs, terrorist attacks, ups and downs in global economy, disastrous consequences of climate change, natural phenomena and other manifestations that threaten the tourism industry. Despite this, the weight and strength of the industry remains evident.

According to information of the World Tourism Organization, for 2019, world tourism showed a decrease in the international tourism arrival rate of 3.8%, the lowest in the decade.

The 2019 arrival Ranking only had one change compared to the 2018 Ranking; Thailand with 4.0% growth displaced Germany from position 8 to 9 with a growth of 1.4%. On the other hand, France, Spain and the United States maintain their leadership with a growth of 0.9%, 1.1% and 0.6%, respectively.

Turkey remained in 6th place, with a growth of 14.0%, in the same way, due to the border tourism, Mexico maintains its position number 7, with a growth of 9.0%. The latter, due to a combination of Brexit and the Thomas Cook bankruptcy, it did not climb positions within the Ranking and according to the Migration Policy Unit of the Ministry of the Interior, it showed negative behavior in 2019 compared to 2018, regarding the tourist air arrival from said country of residence

The Middle East and Asia Pacific region were the regions with the highest growth rate with a respective annual rate of 7.6% and 4.6%,

Europe reduced its growth pace from 6% during 2018 to 3.7% in 2019, mainly due to the reduction in arrivals to Germany and the United Kingdom.

The Americas region only increased 2%, with a 3.1% drop in South America, a 2.8% increase in North America and a 4.9%increase in the Caribbean.

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

The following table is a preliminary view of the countries with the largest arrival of international tourists in 2019 (Source: Panorama of tourism activity number 29 of the National Tourism Council "CNET" and the World Tourism Organization "OMT").

Ranking WTO				
2019	2018	International Tourist Arrivals		
#	#	Country	Million people	Growth Rate
1	1	France	90.2	0.9%
2	2	Spain	83.7	1.1%
3	3	United States	79.3	0.6%
4	4	China	67.6	6.7%
5	5	Italy	64.7	5.0%
6	6	Turkey	52.2	14.0%
7	7	Mexico	45.0	9.0%
8	9	Tailand	39.7	4.0%
9	8	Germany	39.4	1.4%
10	10	United Kingdom	36.9	1.7%

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 information from *Banco de Mexico* and INEGI, Mexico received 45 M international tourists in 2019, a number higher than that observed the previous year by 9.0%. Of these border tourist arrivals were 18.1 million, representing 7.6% more compared to 2017. While the number of foreign visitors by air grew only 1.4%, for a 80.1% of total income.

In 2019, 90% of tourists entered Mexico by air, through 5 main airports: Cancun (41.6%), CDMX (21.6%), Los Cabos (9.4%), Puerto Vallarta (8.0%) and Guadalajara (5.9%). Approximately 6 out of 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$24.6 thousand million in 2019, which represented an increase of approximately 9.0% as compared with 2018.

The 2019 Tourism Balance was USD$14.7 billion, and represented a 30.3% increase with respect to 2018.

Domestic. The arrival of national tourists to hotel rooms to those destinations with more than 2,000 rooms grew 1.2% to total 58.3 million.

Hotel occupancy levels. According to the Datatur system, the average number of rooms available amounted to 396,283, which represents an increase of 4.1%, that is, 15,457 rooms more than in 2018. The percentages of hotel occupancy in these establishments reported 60.5%, which means a decrease of 1.6 percentage points.

Information on the Covid 19 pandemic effects are only beginning to be known. According to INEGI, in April 2020, 2,228,723 international visitors entered the country, compared to 8,073,855 international visitors for the same month of the previous year (annual variation of -72.4%). The declining trend began in December 2019 to severely collapse in April 2020 as a consequence of confinement. According to information from this institute, the number of tourists entering had a total annual negative variation of 78.5%, of which tourists entering by air represented a negative annual variation of 98.1%. The estimate of total expenditure and average expenditure also presents a significant fall with an annual variation of (-) 93.75% and (-) 77.3% respectively.

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 reporting 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 Explorean 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, Holiday Inn Express, City Express, Hampton, Courtyard, Real Inn, Ramada, Wyndham Garden, La Quinta Inn & Suites, Ramada, amongst others.

The principal competitors of Gamma hotels in room numbers are: Mission Express, Best Western, Best Western Plus, Quality Inn, Comfort 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.

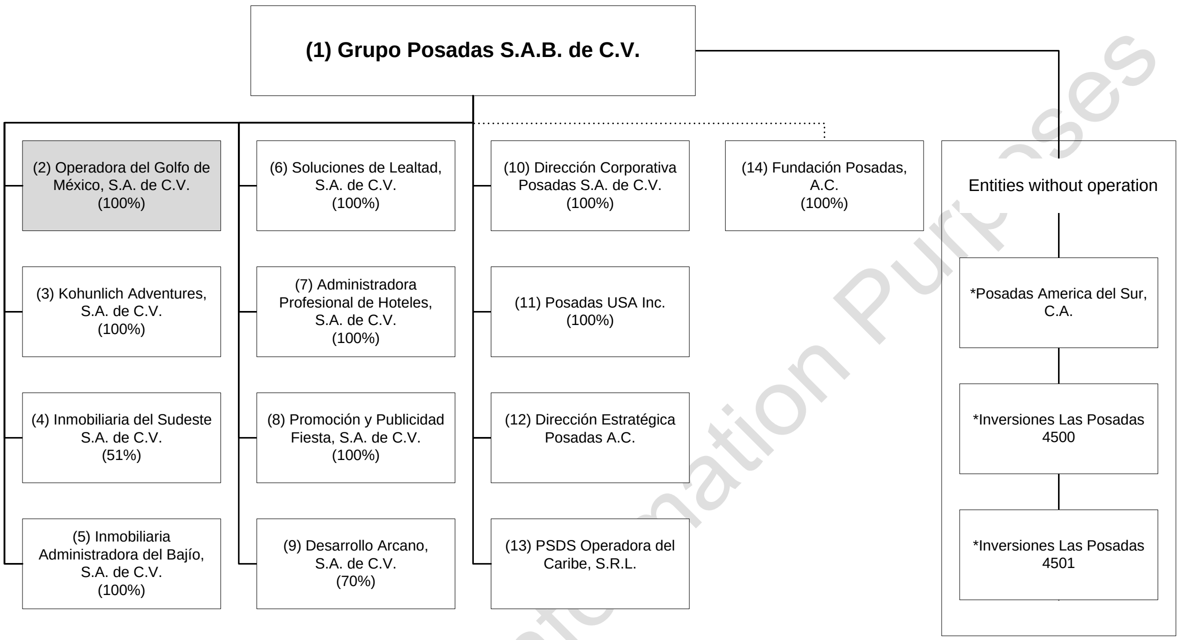
Although the Company considers itself a leader in Mexico as to the number of operated hotels and rooms, there is no official publication proving the market participation of its hotels in relation to existing competitors or its competitive position. The information regarding competitors has its source, the study of Posadas Chains 2019 with information of STR Census Database (Smith Travel Research) to December 2019.

In reference to total rooms (including own, leased and operated rooms) in Mexico and based on the 2019 Posadas Chains study with STR Census Database 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 10% market share; Grand Tourism hotels (Grand Fiesta Americana) have a 27% market share; in the five star category, the hotels operating under the Fiesta Americana brand (including FAVC & Explorean) have a 20% 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 18% market share. In the "economy" three-star segment, the brand One Hotels has a 44% 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 operate 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, 2020:



Source: Posadas

Guarantor 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, Acapulco, Cancun, Marina Vallarta and Kohunlich (beneficially owned). It also manages our vacation club exchange program.
d. Markets our Kivac and Re_Set vacation products

(2) **Operadora del Golfo de México, S.A. de C.V.,** bare owner
(3) **Kohunlich Adventures, S.A. de C.V**., Holds our federal ground transportation permits for transportation of our hotel guests.
(4) **Inmobiliaria del Sudeste S.A. de C.V**., Is the owner of, and receives all of the cash flows of, the FA Mérida hotel
(5) **Inmobiliaria Administradora del Bajío S.A. de C.V.,** Is the payroll entity for such hotel.
(6) **Soluciones de Lealtad, S.A. de C.V.,** Does not have operations.
(7) **Administradora Profesional de Hoteles, S.A. de C.V**., Does not have operations.
(8) **Promoción y Publicidad Fiesta, S.A. de C.V.,** Manager of the marketing funds for all of our hotels.
(9) **Desarrollo Arcano, S.A. de C.V.,** Former developer of a residential venture in Ixtapa, Mexico. It no longer has any operation.
(10) **Dirección Corporativa Posadas, S.A. de C.V**., Payroll entity for the corporate executive committee.
(11) **Posadas USA Inc.,** Performs sales, marketing and collection activities in the United States on behalf of hotels in Mexico.
(12) **Dirección Estratégica Posadas, A.C.,** Is the Company savings account for certain executive personnel.
(13) **PSDS Operadora del Caribe.,** Affiliate incorporated to fulfill our duties as hotel management company in the Dominican Republic.
(14) **Fundación Posadas A.C.** Holds and administers our non-profit charity foundation. This entity does not consolidate in Grupo Posadas, and according to its by-laws Grupo Posadas has no right over its assets.

***Inversiones Las Posadas 4500, C.A., Inversiones Las Posadas 4501, C.A., Posadas América del Sur, C.A**., Among other foreign entities, these are entities that we plan to liquidate, pursuant to our on-going corporate restructuring, none of them have operations.

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 all rights, assets, liabilities and obligations of the company merged, with accounting and tax effects as of May 1, 2018.

In 2018, the Grupo Posadas subsidiary corresponding to the hotel committee payroll (Servicios Gerenciales Posadas, S.A. de C.V.) was merged, 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 merger corporation. Said merger became effective on October 31, 2019.

x) Description of the Company´s Principal Assets

Herein below is a list of the Company's hotels to December 31, 2019, including number of rooms, age, location and type (franchised, owned, managed or leased):

Hotel	Opening	Country	Contract	Rooms
Live Aqua Urban Resort México	2012	Mexico	Managed	135
Live Aqua Beach Resort Cancún	2004	Mexico	Leased	371
Live Aqua Boutique Resort Playa del Carmen	2015	Mexico	Leased	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 AI Parks Vallarta	2015	Mexico	Leased	444
Grand Fiesta Americana Coral Beach	1990	Mexico	Managed	602
Grand Fiesta Americana Chapultepec	2001	Mexico	Leased	203
Grand Fiesta Americana Guadalajara Country Club	2007	Mexico	Managed	207
Grand Fiesta Americana Puebla Angelópolis	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 Querétaro	2003	Mexico	Managed	173
Grand Fiesta Americana Veracruz	1995	Mexico	Managed	233
Fiesta Americana Aguascalientes	1993	Mexico	Managed	192
Fiesta Americana Condesa Cancún	1989	Mexico	Leased	507
Fiesta Americana Cuernavaca, Hacienda San Antonio El Puente	2011	Mexico	Managed	131
Fiesta Americana Guadalajara	1982	Mexico	Owned	391

Hotel	Opening	Country	Contract	Rooms
Fiesta Americana Hacienda Galindo	1977	Mexico	Managed	168
Fiesta Americana Hermosillo	1982	Mexico	Managed	221
Fiesta Americana Mérida	1995	Mexico	Owned	350
Fiesta Americana Monterrey Pabellón	2016	Mexico	Managed	178
Fiesta Americana Puerto Vallarta	1979	Mexico	Managed	291
Fiesta Americana Reforma	1970	Mexico	Owned	616
Fiesta Americana México Toreo	2016	Mexico	Leased	252
Fiesta Americana México Satélite	2018	Mexico	Managed	223
Fiesta Americana All Inclusive Varadero	2019	Mexico	Managed	633
Fiesta Americana All Inclusive Holguín	2019	Mexico	Managed	749
Fiesta Americana Viaducto Aeropuerto	2019	Mexico	Managed	260
Fiesta Americana San Luis Potosí	2019	Mexico	Managed	150
FAVC Cancún	1981	Mexico	Owned	310
FAVC Condesa Acapulco	1971	Mexico	Owned	560
FAVC Cozumel Dive Resort	1991	Mexico	Owned	174
FAVC Explorean Cozumel	2014	Mexico	Owned	56
FAVC Explorean Kohunlich	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 México	1970	Mexico	Leased	327
Fiesta Inn Aguascalientes	1993	Mexico	Managed	125
Fiesta Inn Aguascalientes Patio	2018	Mexico	Managed	126
Fiesta Inn Cancún Las Américas	2012	Mexico	Leased	187
Fiesta Inn Centro Histórico	2003	Mexico	Leased	140
Fiesta Inn Ciudad de México Fórum Buena Vista	2017	Mexico	Managed	129
Fiesta Inn Ciudad del Carmen	2003	Mexico	Managed	131
Fiesta Inn Ciudad del Carmen Laguna de Términos	2018	Mexico	Managed	133
Fiesta Inn Ciudad Obregón	2007	Mexico	Managed	141
Fiesta Inn Ciudad Juárez	1999	Mexico	Managed	166
Fiesta Inn Colima	2004	Mexico	Managed	104
Fiesta Inn Cuautitlán	2004	Mexico	Leased	128
Fiesta Inn Cuernavaca	2008	Mexico	Managed	155
Fiesta Inn Culiacán	2003	Mexico	Managed	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	Managed	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 León	1995	Mexico	Managed	160
Fiesta Inn Los Mochis	2016	Mexico	Managed	125
Fiesta Inn Mérida	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

Hotel	Opening	Country	Contract	Rooms
Fiesta Inn Monterrey Tecnológico	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
Fiesta Inn Puebla FINSA	2006	Mexico	Managed	123
Fiesta Inn Puerto Vallarta la Isla	2017	Mexico	Managed	144
Fiesta Inn Querétaro	2000	Mexico	Managed	175
Fiesta Inn Querétaro Centro Sur	2014	Mexico	Managed	134
Fiesta Inn Saltillo	1997	Mexico	Managed	149
Fiesta Inn San Cristóbal de las Casas	2011	Mexico	Managed	80
Fiesta Inn San Luis Potosí Glorieta Juárez	1996	Mexico	Managed	135
Fiesta Inn San Luis Potosí Oriente	2004	Mexico	Managed	140
Fiesta Inn Silao Aeropuerto del Bajío	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 Tollocan	1998	Mexico	Managed	144
Fiesta Inn Toluca Aeropuerto	2013	Mexico	Managed	150
Fiesta Inn Toluca Centro	2009	Mexico	Managed	85
Fiesta Inn Torreón Galerías	2005	Mexico	Managed	146
Fiesta Inn Tuxtla Fashion Mall	2018	Mexico	Managed	128
Fiesta Inn Tuxtla Gutiérrez	2007	Mexico	Managed	120
Fiesta Inn Veracruz Boca del Río	1999	Mexico	Managed	144
Fiesta Inn Veracruz Malecón	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 Parque Puebla	2019	Mexico	Leased	160
Fiesta Inn Guadalajara Periférico Poniente	2019	Mexico	Managed	142
Fiesta Inn Celaya Galerías	2019	Mexico	Managed	145
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 Querétaro	2014	Mexico	Managed	50
Fiesta Inn Express Querétaro Constituyentes	2018	Mexico	Managed	117
Fiesta Inn Express Monterrey Centro	2019	Mexico	Managed	117
Fiesta Inn Express Puebla Explanada	2019	Mexico	Leased	138
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

Hotel	Opening	Country	Contract	Rooms
One Cancún 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 México Alameda	2014	Mexico	Managed	117
One Ciudad de México la Raza	2018	Mexico	Managed	123
One Ciudad de México Patriotismo	2007	Mexico	Managed	132
One Culiacán Fórum	2012	Mexico	Managed	119
One Coatzacoalcos Fórum	2007	Mexico	Managed	126
One Guadalajara Centro Histórico	2012	Mexico	Managed	146
One Guadalajara Expo	2017	Mexico	Managed	126
One Guadalajara Periférico Norte	2011	Mexico	Managed	132
One Guadalajara Periférico Vallarta	2014	Mexico	Managed	121
One Guadalajara Tapatío	2013	Mexico	Managed	126
One La Paz	2014	Mexico	Managed	126
One León Antares	2017	Mexico	Managed	126
One León Poliforum	2014	Mexico	Managed	126
One Mexicali	2017	Mexico	Managed	120
One Monclova	2014	Mexico	Managed	66
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 Cuautitlán	2016	Mexico	Managed	156
One Querétaro Aeropuerto	2013	Mexico	Managed	126
One Querétaro Centro Sur	2014	Mexico	Managed	126
One Querétaro Plaza Galerías	2008	Mexico	Managed	126
One Oaxaca Centro	2013	Mexico	Managed	109
One Cuernavaca	2015	Mexico	Managed	125
One Periférico Sur	2015	Mexico	Managed	144
One Durango	2016	Mexico	Managed	126
One Puebla Angelópolis Periférico	2018	Mexico	Managed	126
One Puebla Serdán	2017	Mexico	Managed	126
One Salina Cruz	2011	Mexico	Managed	126
One Saltillo Derramadero	2009	Mexico	Managed	126
One San Luis Potosí Glorieta Juárez	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
One Tapachula	2019	Mexico	Managed	126
Gamma Boca del Río Oliba	2018	Mexico	Franchise	63
Gamma Campeche Malecón	2015	Mexico	Franchise	146
Gamma Ciudad Juárez	2018	Mexico	Franchise	160
Gamma Ciudad Obregón	2014	Mexico	Managed	135
Gamma Cuernavaca Puerta Paraíso	2017	Mexico	Franchise	102
Gamma El Castellano, Mérida	2015	Mexico	Franchise	153
Gamma Guadalajara Centro Histórico	2018	Mexico	Managed	197
Gamma Ixtapa	2015	Mexico	Franchise	153

Hotel	Opening	Country	Contract	Rooms
Gamma León	2014	Mexico	Managed	159
Gamma Monterrey Ancira	2015	Mexico	Franchise	244
Gamma Morelia Beló	2014	Mexico	Franchise	84
Gamma Inn Tijuana	2014	Mexico	Managed	140
Gamma Pachuca	1998	Mexico	Leased	114
Gamma Tampico	2018	Mexico	Franchise	136
Gamma Xalapa Nubara	2015	Mexico	Franchise	121
Gamma Mazatlán The Inn Centro Histórico	2019	Mexico	Franchise	63
Gamma Cancún Centro	2019	Mexico	Managed	110
Gamma Monterrey Rincón de Santiago	2019	Mexico	Franchise	89
Gamma Orizaba Grand Hotel de France	2019	Mexico	Franchise	91
Holiday Inn Mérida	1980	Mexico	Managed	213

Fuente: 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 one lot of land located in 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 the 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 for 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 its Caribbean expansion plan, the Company signed a contract in 2017 to operate a hotel under the Fiesta Americana brand and another in 2019 to operate a hotel under the brand Live Aqua, both in Punta Cana, Dominican Republic for a 15-year term.

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 to be operated by Grupo Posadas and their opening is planned for 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.

During 2019, the Company opened 14 hotels, representing a total of 2,973 additional rooms under the modalities described below:

Hotel	Rooms	Contract
Fiesta Americana All Inclusive Varadero	633	Managed
Fiesta Americana All Inclusive Holguín	749	Managed
Fiesta Inn Express Monterrey Centro	117	Franchise
Fiesta Inn Parque Puebla	160	Managed
Gamma Mazatlán Centro Histórico	63	Franchise
Gamma Cancún Centro	110	Managed
Gamma Monterrey Rincón de Santiago	89	Franchise
Fiesta Inn Express Puebla Explanada	138	Leased
Fiesta Inn Guadalajara Periférico Poniente	142	Managed
Gamma Orizaba Grand Hotel de France	91	Franchise
Fiesta Inn Celaya Galerías	145	Managed
Fiesta Americana Viaducto Aeropuerto	260	Managed
One Tapachula	126	Managed
Fiesta Americana San Luis Potosí	150	Managed
Total	**2,973**	

In the context of the COVID-19 pandemic, 7 hotels (6 managed and 1 leased) representing a total of 1,942 rooms, were no longer part of the chain. Amongst them stand out the 2 hotels that the Company operated in the Republic of Cuba.

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, 2019, 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 2021, 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 materialization risk.

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 this 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 *Compañia Mexicana de Aviacion.* 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, all the payment obligations arising from the ruling in the proceeding have been liquidated.

The Chemuyil Trust, an entity in which the Company has a minority 12.5%investment, faces different legal proceedings filed by third parties who consider that their rights to a healthy environment have been violated. According to the verbal information shared by the members in charge of the control and supervision of said proceedings, the procedures are recent and ongoing, and no decision has yet been issued that can definitively estimate a deterioration of the investment.

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.

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, 2019, 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	2019	2018	2017
	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)
	495,881,988	**495,881,988**	**495,881,988**

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, 2019, 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 June 25, 2020 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, 2019.

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

(i) 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 merged corporations: 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.

(ii) 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 merger 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 to 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.

(iii) 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 merger corporation.

(iv) At the Ordinary General Shareholders' Meeting dated June 25, 2020, the financial information, the mandatory reports of the administration, the corporate year results and application, the ratification of the members of the board of directors, as well as the chairmen of the audit and corporate practices committees. The meeting also approved that the directors will not be remunerated for their participation in the sessions.

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.

The Extraordinary and Ordinary Annual General Shareholders Meeting of the Issuer 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 resolved.

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

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 31st:			
Financial Highlights	**2019 - IFRS**	**2018 - IFRS**	**2017 - IFRS**
Total Revenues	9,072.7	8,325.8	8,580.9
Corporate expenses	403.9	379.4	452.7
Depreciation, amortization and real estate leasing	931.8	937.1	906.2
Operating income	678.8	2,023.2	1,221.6
Comprehensive financing cost (income)	687.1	483.0	431.6
Taxes	66.3	592.0	1,262.6
Net Income	(67.4)	932.1	(472.6)
Majority net income	(79.9)	928.7	(483.9)
Balance Sheet Data (End of period)			
Current assets	5,285.8	5,846.0	5,996.1
Property and equipment, net	4,513.2	4,936.2	4,601.2
Total assets	20,695.5	17,170.3	16,345.1
Current liabilities	3,838.8	3,080.0	2,872.8
Long-term debt	7,371.3	7,785.8	7,768.5
Total liabilities	17,639.2	13,982.5	13,922.1
Stockholders' equity	3,056,360.0	3,187.8	2,423.0
Other Financial Data			
EBIT / Revenues	7.5%	24.3%	14.2%
Net Income/Revenues	(0.7%)	11.2%	(5.5%)
EBITDA	$1,566.5	$2,425.3	$1,652.3
EBITDA to Revenues	17.3%	29.1%	19.3%
Total debt to EBITDA	4.7 X	3.2 X	4.7 X
Current assets / Current liabilities	1.38 X	1.90 X	2.09 X
Total liabilities / Equity	0.01 X	4.39 X	5.75 X

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

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)	2019-IFRS		2018-IFRS		2017-IFRS	
	Revenues	%	Revenues	%	Revenues	%
Owned and Leased Hotels	3,735.2	41.2%	3,403.8	43.0%	4,347.1	48.8%
Management	1,158.9	14.7%	1,177.2	14.9%	1,017.9	12.9%
Vacation Properties	3,995.8	50.5%	3,148.7	39.8%	2,982.4	37.7%
Other Businesses	182.7	2.0%	180.7	2.3%	559.7	6.3%
Other Revenues	0.0	0.0%	0.0	0.0%	0.0	0.0%
TOTAL	**9,072.7**	**100%**	**7,910.4**	**100%**	**8,907.0**	**100%**

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, 2019, 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 $975.4 million amount to December 31, 2019 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.

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. As of December 31, 2019, and March 31, 2020, the outstanding balance amounted to $165 M and $159 M, respectively. On June 18, 2020, the amending agreement was signed in which the bank granted mainly (i) a waiver period to defer the payment of interest and principal from April 2020 to March 2021 and (ii) the possibility that the Shareholders can provide a loan to the subsidiary for up to $15 M for working capital.

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

i) Operating Results

2019 - 2018

Corporate year ending December 31, 2019
Compared with corporate year ending December 31, 2018
Information according to International Financial Reporting Standards (IFRS)

Consolidated Comprehensive Operating Results Statement
***For the years ending December 31,* 2019 and 2018**
(*In thousands of Mexican pesos*)

	Notes	2019	2018
Continuing operations:			
Revenue	22	$ 9,072,708	$ 8,325,848
Cost of sales	22	6,184,045	5,393,149
Gross profit		2,888,663	2,932,699
Administrative expenses	22	1,063,209	1,151,869
Sale and development expenses	22	252,013	211,992
Depreciation, amortization, real estate leasing,		925,599	917,575
Impairment of assets and technology platforms		6,200	19,498
Other revenue, net	22	(37,170)	(1,391,474)
Interest expense		645,357	653,537
Interest income		(95,412)	(172,765)
Commissions and financial expenses		449,304	83,516
Exchange (gain) loss, net		(312,140)	(81,335)
Equity in associate		-	(15,000)
		2,896,960	1,377,413
(Loss) income before income tax		(8,297)	1,555,286
Income tax expense	16	66,304	591,985
(Loss) income from continuing operations		(74,601)	963,301
Discontinued operations			
Income (loss) from discontinued operations	26b	7,191	(31,202)
Consolidated (loss) income for the year	¤	(67,410)	932,099
Other comprehensive income (loss)			
Loss on exchange differences from translating foreign operations, which will be reclassified subsequently to profit or loss		(2,162)	(2,478)
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss, - net of income tax		(61,867)	34,417
		(64,029)	31,939
Consolidated comprehensive (loss) income for the year		$ (131,439)	$ 964,038

(Continued)

	2019	2018
Consolidated (loss) income for the year attributable to:		
Controlling interest	$ (79,859)	$ 928,724
Non-controlling interest	12,449	3,375
Consolidated (loss) income for the year	$ (67,410)	$ 932,099
Consolidated comprehensive (loss) income for the year attributable to:		
Controlling interest	$ (143,888)	$ 960,663
Non-controlling interest	12,449	3,375
Consolidated comprehensive (loss) income for the year	$ (131,439)	$ 964,038
Earnings (loss) per share:		
From continuing and discontinued operations -		
Basic and diluted (loss) earnings per common share (in pesos)	$ (0.14)	$ 1.87
From continuing operations -		
Basic and diluted (loss) earnings per common share (in pesos)	$ (0.15)	$ 1.94
Weighted average number of shares	495,881,988	495,881,988

(Concluded)

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)	2019				2018		Var %
	IFRS 16	Leases	BAU	%	$	%	
Total Revenues	9,072.7		9,072.7	100.0	8,325.8	100.0	9.0
Owned and Leased Hotels							
Revenues	3,735.2		3,735.2	100.0	3,403.8	100.0	9.7
Direct Cost	2,778.5	672.7	3,451.2	92.4	2,903.5	85.3	18.9
Contribution	956.8	(672.7)	284.1	7.6	500.4	14.7	(43.2)
Management							
Revenues	1,158.9		1,158.9	100.0	1,177.2	100.0	(1.5)
Direct Cost	849.7	3.1	852.8	73.6	786.8	66.8	8.4
Contribution	309.3	(3.1)	306.2	26.4	390.4	33.2	(21.6)
Vacation Properties							
Revenues	3,995.8		3,995.8	100.0	3,564.2	100.0	12.1
Direct Cost	3,083.8	3.6	3,087.4	77.3	2,634.6	73.9	17.2
Contribution	912.0	(3.6)	908.4	22.7	929.5	26.1	(2.3)
Other Businesses							
Revenues	182.7		182.7	100.0	180.7	100.0	1.1
Direct Cost	413.6	2.7	416.3	227.8	386.3	213.8	7.8
Contribution	(230.9)	(2.7)	(233.6)	(127.8)	(205.6)	(113.8)	13.6
Corporate expenses	403.9	28.6	432.5	4.8	379.4	4.6	14.0
Depreciation / Amort. & Leases	887.7	501.1	386.6	4.3	402.1	4.8	(3.9)
Impairment of assets	0.0		0.0	0.0	0.0	0.0	Na
Other (revenues) and expenses	(23.3)		(23.3)	(0.3)	(1,190.1)	(14.3)	(98.0)
Other revenues	0.0		0.0	0.0	0.0	0.0	Na
Operating Profit	**678.8**	**(209.6)**	**469.2**	**5.2**	**2,023.2**	**24.3**	**(76.8)**
EBITDA (excludes FACC)			**855.8**	**9.4**	**1,272.4**	**15.3**	**(32.7)**
EBITDA	**1,566.5**	**710.7**	**855.8**	**9.4**	**2,425.3**	**29.1**	**(64.7)**

Note: The 2019 Annual Report numbers of the Company were reclassified in some categories in relation to previous Annual Reports and audited Financial Statements, likewise, items derived from the new IFRS 16 on leases and the sale of the Fiesta Americana Condesa Cancún were added. However, these differences do not represent a risk to interpretation by users of the information.

2019 - 2018 Total Revenues

The Company's total revenues grew 9.0% from $ 8,325.8 M in 2018 to $ 9,072.7 M in 2019. All business segments presented growth with the previous year, except for the Management segment.

In 2019 several unexpected issues happened, it is worth mentioning that we had expectations that the 2018 trend would continue, but various domestic and foreign situations such as the cancellation of the new Mexico City airport (NAIM) began to change the outlook for 2019 that explain the lower generation of EBITDA, AA, which we describe below:

I. The austerity policies of the new federal and Mexico City governments led to a slowdown in the trend of reservations, groups and conventions of them as clients.

II. The federal government suspended the Mexico Tourism Promotion Council (CPTM) fund, thus limiting the advertising of "Mexico" as a brand abroad, which may partially explain a smaller inflow of inbound tourists traveling to Mexico.

III. Within the efforts to combat crime related to fuel theft ("Huachicol"), certain shortages occurred that in early 2019 caused a relative immobilization of operations in certain areas of the country. This situation was affected with very low occupancies in 34% of the room inventory of Posadas, mainly in the central area of the Mexico.

IV. Incorporation of two leased hotels that have required more time to reach stable occupancies, the 440-room Grand Fiesta Americana Puerto Vallarta and Fiesta Inn Puebla hotels.

V. Impact of strong sargassum season in Quintana Roo from May to August 2019, causing competitor discounts of up to 20% and traffic shifting to other destinations.

VI. Three other recently opened hotels with lower performance than expected:

- The Live Aqua Cancun hotel (341 rooms) was remodeled expecting to increase rates by 20%, however, the lower demand causes that this expectation has not been met, even though the monthly lease payment after being remodeled increased, considering that 50% of the remodeling of $450 million pesos was carried out by the landlords of this hotel.
- Live Aqua San Miguel Allende (150 rooms), a "high-end" hotel that has required more time to achieve stable rates and occupancies.
- Fiesta Americana Satélite, a new recently opened hotel that has not had the initial performance expected.

2019 – 2018 Owned and Leased Hotels

Owned and Leased Hotels (Accumulated)	Total		Urban		Coastal	
	2019	% Var.	2019	% Var.	2019	% Var.
Average rooms available	5,199	11.9	3,723	4.5	1,476	36.3
ADR	1,740	(1.8)	1,561	(0.7)	2,177	(9.8)
Occupancy (Var. in pp)	72%	(3.1)	72%	(3.3)	74%	(3.0)
RevPar	1,258	(5.9)	1,118	(5.1)	1,610	(13.3)

2019 recorded a contraction in the average available daily rate of 1.8% compared to the previous year, mainly due to the factors mentioned above.

Own hotels include the income and costs and expenses derived from the operation of the own and leased hotels that the Company runs. The 9.7% increase in revenues from Own and Leased Hotels of $3,735.2 M in 2019 versus $3,403.8 M in 2018 is mainly attributed to adding three leased hotels: Grand Fiesta Americana Puerto Vallarta, Fiesta Inn Puebla and Fiesta Inn Express Puebla Explanada. From an operational point of view, it is attributed to the fact that urban hotels had a decrease in the average rate of 0.7% and a RevPAR of 5.1%, decreasing from $1,174 in 2018 to $ 1,118 in 2019. This, accompanied with the increase of 4.5% on the number of average rooms available.

Coastal hotels operated 36.3% more rooms due to the rooms that were under renovation at the Live Aqua Beach Resort Cancun hotel and the Grand Fiesta Americana Puerto Vallarta hotel that previous year was under a managed contract. Also, coastal hotels had a decrease in the average rate of 9.8% with a decrease in occupancy of 3.0 pp. All of the above resulted in a 13.3% lower RevPAR while comparing to the previous year, due in part to the decrease in the flow of tourists to coastal destinations, mainly from the United States, as a result of alerts issued by the US government and the lack of advertisement abroad that was previously done with the funds of the Tourism Promotion Council of Mexico (CPTM).

The Departmental Costs of the hotels owned and leased by the Company consist of the salaries related to the room staff. In addition, they include leases, food and beverage costs, as well as other expenses, such as travel agency fees, reservation fees, and room and laundry services. Departmental costs and expenses are equivalent to $3,451.2 million for 2019, so they represented an increase of 18.9% compared to the $2,903.5 million for the same period in 2018. The Departmental result (income less costs and departmental expenses) was $284.1 million for 2019, so they represented a decrease of 43.2% compared to $500.4 million for the comparable period of 2018.

General Expenses related to the Company's own and leased hotels consist of administrative expenses, as well as expenses for sales and marketing, maintenance and energy, property taxes, payment of insurance premiums, payments of auditor fees and legal advisers. In sum, these expenses decreased by 7.7%, to $1,063.2

million during 2019 compared to $1,151.9 million during 2018. This decrease was attributed to the double-digit decrease in office leasing and a marginal decrease in insurance and sureties.

2019 - 2018 Management

The management business considers the services of hotel administration, brand license and franchising, as well as those of the loyalty program and call center corresponding to the hotels operated by Posadas.

Due to the adoption of IFRS, intercompany operations such as: management fees that are recorded as expenses in the owned and leased hotels segment that are recorded simultaneously as revenue for the hotel management segment, are eliminated.

Revenue in 2019 decreased 1.5% compared to 2018, $1,158.9 million in 2019, compared to $ 1,177.2 million in 2018.

The direct costs and corporate expenses related to the category of Hotel Management, Brands and Others mainly include the costs and expenses of its corporate sales, as well as hotel operations. These costs and expenses increased 8.4% to $852.8 million compared to the same period in 2018 in which they represented $786.8 million. For more detail on the eliminations, please see note 24, Information on Business segments, of the audited consolidated Financial Statements.

Management	Total		Urban		Coastal	
(Accumulated)	2019	% Var.	2019	% Var.	2019	% Var.
Average rooms available	24,594	5.2	22,079	5.3	2,515	3.9
ADR	1,370	(0.4)	1,242	1.0	2,398	(5.8)
Occupancy (Var. in pp)	65%	(1.5)	64%	(1.6)	71%	(0.7)
RevPar	888	(2.6)	797	(1.4)	1,693	(6.7)

System-wide in 2019, including owned, leased, managed and franchised hotels, an increase in average rooms of 5.2% and a decrease in the average daily rate of 0.4% were observed. There was a decrease in occupancy of 1.5 pp resulting in a decrease in RevPAR of 2.6%. The table above details the operating results for urban and coastal 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	Total		Urban		Coastal	
(Accumulated)	2019	% Var.	2019	% Var.	2019	% Var.
Average rooms available	21,756	0.5	19,685	0.1	2,071	4.8
ADR	1,378	(0.8)	1,240	(0.2)	2,592	(6.1)
Occupancy (Var. in pp)	67%	(0.9)	66%	(1.0)	72%	0.2
RevPar	922	(2.0)	823	(1.6)	1,862	(5.9)

In comparison with the preceding year:

For urban hotels, system-wide, we observed that the number of average rooms operated presented an increase of 0.5% with a decrease in both the average rate (ADR) and occupancy of 0.8% and 0.9 pp, respectively, to achieve a lower RevPAR of 2.0%. On the other hand, coastal hotels presented a 4.8% decrease in average rooms. The ADR decreased by 6.1% with a marginally higher occupancy of 0.2 pp, yielding a lower RevPAR of 5.9%.

During 2019, the Company began operating 14 new hotels, stopped operating 5 (One Reynosa Valle Alto, One Celaya, Fiesta Inn Celaya, One Irapuato and Gamma Torreón).

Two conversions were made: Fiesta Americana Veracruz to Gran Fiesta Americana Veracruz and Grand Fiesta Americana Vallarta changed to a leased contract from a Managed one. For more details see section: *1) General Information, b) Executive Summary.*

2019 - 2018 Vacation Properties (Vacation Properties and Vacations Plans)

This segment mainly includes the revenue derived from the sale of vacation properties: Fiesta Americana Vacation Club (FAVC), Live Aqua Residence Club (LARC) and vacation plans (KIVAC Travel Suite and Fiesta Americana Vacation Club Access – previously "Re_Set").

The revenue from vacation products increased from $3,564.2 million in 2018, to $3,995.8 million in the 2019 comparable period, representing 12.1%. Growth defined the vacation properties business. As of December 31, 2019, more than 79,000 members and travelers were recorded, of these: 31,525 are FAVC members, 1,123 LARC members and 45,406 including the new KIVAC Travel Suite product and 1,507 Fiesta Americana Vacation Club Access program members. (previously "Re_Set").

It is worth mentioning that the food and beverage revenues grew 8.3%.

The expenses of Vacation Products mainly include: expenses related to sales, financing, administration, marketing, collection, payroll, energy and insurance, hotel exchanges and expenses of the operation of our destinations. These costs increased 17.2% to $3,087.4 million in comparison to $2,634.6 million for the same period in 2018.

On the other hand, the IFRS contribution decrease 2.3% in comparison with the previous year at 22.7%, and the business margin was lower than previous year.

As of December 31, 2019, the vacation properties receivables rose to $6,213 million and represented an increase of 25% in comparison with 2018, revealing the soundness of the portfolio since 91.5% of the same is within the normal collection period of less than 90 days.

2019 - 2018 Other Businesses

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

2019 - 2018 Corporate Expenses

Company corporate expenses include expenses such as salaries, administrative expenses, legal advisory fees or the payment of corporate restructuring fees, diverse payments related to its financial, corporate human resources and technology departments, as well as those of the CEO´s office. Corporate expenses (according to the Segment Note 24 of the audited Financial Statements) in 2019 represented $432.5 million, which represented a 14.0% decrease in comparison with the $379.4 million in 2018. Corporate expenses represented 4.8% of its total revenue in 2019, 0.2 pp less than that of previous year.

2019 – 2018 Depreciation, Amortization and Real Estate Property Leasing

Grupo Posadas had expenses for depreciation, amortization and leasing of real estate for an amount equivalent to $931.8 million in 2019, this represented a marginal decrease compared to the $937.1 million that were expended for this concept in the comparable period of 2018.

2019 – 2018 Operating Results

The operating income of Grupo Posadas consolidates the income of its owned hotel and leased hotels, management, brands and others, Vacation Properties and other business lines and deducts its corporate expenses and expenses for depreciation, amortization, leasing of real estate and deterioration of assets. It is important to note that in the line of Other (income) expenses, net, the profit from the sale of the Fiesta Americana Condesa Cancún hotel was recorded in 2018. Consequently, as a result of the foregoing, the profit from consolidated operations was $469.2 million for 2019 and $2,023.2 million for 2018.

2019 – 2018 Comprehensive Financial Result

Concept *(million pesos)*	2019	2018
Interest Income	(95,412)	(172,765)
Accrued interest	645,357	653,537
Exchange (gain) loss, net	(224,266)	(81,335)
Accrued interest from lease payments	358,681	0
Exchange (gain) loss, from lease payments	(87,874)	0
Other financial costs (products)	75,613	71,616
Other financial expenses	15,010	11,899
Total CFC	**687,109**	**482,952**

The Company's comprehensive financial result was $687.1 million for 2019, an increase when compared to $ 482.9 million in 2018. Interest expenses decreased 1.3% to $645.3 million in 2019, compared to $653.5 million for the period comparable in 2018. The overall exchange gain of $312.1 million in 2019, compares favorably to the exchange gain of $81.3 million in 2018, since the Mexican peso appreciated 4.1% when compared to 2018.

At the end of 2019, the net interest coverage to EBITDA was 1.6 times, the important change with that reported the previous year was due to the fact that the profit obtained from the sale of the Fiesta Americana Condesa Cancun hotel is no longer considered. With the effect of IFRS 16 it is 1.7 times.

2019 – 2018 Revenue from discontinued operations, net income tax

The Company recorded taxes of $66.3 million in 2019 while the previous year was $592.0 million as a result of the sale of the Fiesta Americana Condesa Cancún hotel. This item is described in the ppinion of the external auditors attached, Note 16 and in section 3) Financial Information, c) Relevant Credit Report.

2019 – 2018 Net Majority Result

According to the opinion of our auditors, our financial statements report a consolidated net loss of $79.9 million for 2019 and a profit of $928.7 million for 2018.

2019 – 2018 Financial Situation

The cash balance as of December 31, 2019 was $1,239.5 million (equivalent to US$65.7 million).

The Company’s total assets amount to $20,695.5 million (US$1,096.6 million).

The main uses of cash were, amongst others, capital expenses, interest payments corresponding to the “Senior Notes Due 2022” coupon, and taxes.

Total debt amounted to $7,397 (US$401 million) million net of issuance expenses, while net debt according to IFRS was $6,157 million (US$326 million). The ratio of Net Debt to EBITDA was 7.2 times and 6.6 times including IFRS 16-leases.

The Total Debt mix was as follows: almost 100% long-term, 98% in USD and 100% fixed rate. The average life was 2.5 years and only 2% of the was secured.

As of 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 negative outlook

The rating for the notes “7.875% Senior Notes Due 2022” were: Moody´s: “B2”/ S&P: “B”/Fitch: “B RR4”.

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	4,977,675	5,014,507
Gross profit	2,932,699	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	(15,000)	-
	1,377,413	2,667,470
Income (loss) before income taxes	1,555,286	790,013
Income tax expense (benefit)	591,985	1,262,607
Income (loss) from continuing operations	963,301	(472,594)
Discontinued operations		
Loss from discontinued operations	(31,202)	-
Consolidated income (loss) for the year	932,099	(472,594)
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	(14,750)	3,501
	31,939	(11,364)
Consolidated comprehensive income (loss) for the year	$ 964,038	$ (483,958)

(Continued)

	2018	2017
Consolidated income (loss) for the year attributable to:		
Controlling interest	$ 928,724	$ (483,905)
Non-controlling interest	3,375	11,311
Consolidated income (loss) for the year	$ 932,099	$ (472,594)
Consolidated comprehensive income (loss) for the year attributable to:		
Controlling interest	$ 960,663	$ (495,269)
Non-controlling interest	3,375	11,311
Consolidated comprehensive income (loss) for the year	$ 964,038	$ (483,958)
Earnings (loss) per share:		
From continuing and discontinued operations - Basic and diluted earnings (loss) per common share (in pesos)	$ 1.87	$ (0.98)
From continuing operations - Basic and diluted earnings (loss) per common share (in pesos)	$ 1.94	$ (0.98)
Weighted average number of shares	$ 495,881,988	$ 495,881,988

(Concluded)

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 $	2018 %	2017 $	2017 %	Var %
Total Revenues	7,910.4	100.0	7,830.0	100.0	1.0
Owned and Leased Hotels					
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)
Management					
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)
Vacation Properties					
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
Other Businesses					
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
EBIT	**2,023.2**	**25.6**	**1,221.6**	**15.6**	**65.6**
EBITDA	**2,425.3**	**30.7**	**1,652.3**	**21.1**	**46.8**

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 2018	Total % Var.	Urban 2018	Urban % Var.	Coastal 2018	Coastal % 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	Total		Urban		Coastal	
(Accumulated)	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 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 Aeropuerto.

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
Total	**482,952**	**431,625**

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”.

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*)

	Notes	2017	2016
Continuing operations			
Revenue	22	$ 8,906,990	$ 7,979,349
Cost of sales	22	5,346,489	4,538,947
Gross profit		3,560,501	3,440,402
Administrative expenses	22	1,105,068	982,304
Sale and development expenses	22	272,308	252,243
Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets		906,225	1,040,475
Other expenses, net		55,262	110,921
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 losses of associates		-	-
		2,770,488	4,310,651
Income (loss) before income tax		790,013	(870,249)
Income tax expense (benefit)	16	1,262,607	(174,349)
Loss from continuing operations		(472,594)	(695,900)
Discontinued operations			
Loss from discontinued operations		-	(1,279)
Consolidated loss for the year		(472,594)	(697,179)
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		3,501	7,146
		(11,364)	15,521
Consolidated comprehensive loss for the year		$ (483,958)	$ (681,658)

(Continued)

	2017	2016
Consolidated loss for the year attributable to:		
Controlling interest	$ (483,905)	$ (705,819)
Non-controlling interest	11,311	8,640
Consolidated loss for the year	$ (472,594)	$ (697,179)
Consolidated comprehensive loss for the year attributable to:		
Controlling interest	$ (495,269)	$ (690,298)
Non-controlling interest	11,311	8,640
Consolidated comprehensive loss for the year	$ (483,958)	$ (681,658)
Loss per share:		
From continuing and discontinued operations -		
Basic and diluted loss per common share (in pesos)	$ (0.98)	$ (1.42)
From continuing operations -		
Basic and diluted loss per common share (in pesos)	$ (0.98)	$ (1.42)
Weighted average number of shares	495,881,988	495,881,988

(Concluded)

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.*

Resumen de Resultados – IFRS (millones de pesos)	2017		2016		Var %
	$	%	$	%	
Ingresos Totales	8,907.0	100.0	7,979.3	100.0	11.6
Hoteles Propios y Arrendados					
Ingresos	4,347.1	100.0	4,063.1	100.0	7.0
Costo Directo	3,360.2	77.3	3,161.0	77.8	6.3
Contribución	986.9	22.7	902.0	22.2	9.4
Administración					
Ingresos	1,017.9	100.0	922.2	100.0	10.4
Costo Directo	745.5	73.2	687.8	74.6	8.4
Contribución	272.4	26.8	234.4	25.4	16.2
Propiedades Vacacionales					
Ingresos	2,982.4	100.0	2,605.1	100.0	14.5
Costo Directo	2,101.5	70.5	1,748.7	67.1	20.2
Contribución	880.9	29.5	856.4	32.9	2.9
Otros Negocios					
Ingresos	559.7	100.0	389.0	100.0	43.9
Costo Directo	539.8	96.5	295.3	75.9	82.8
Contribución	19.8	3.5	93.7	24.1	(78.8)
Gastos Corporativos	440.0	4.9	319.4	4.0	37.9
Depreciación y amortización	430.6	4.8	538.3	6.7	(20.0)
Deterioro de activos	0.0	0.0	57.1	0.7	na
Otros (Ingresos) y Gastos	67.7	0.8	117.7	1.5	(42.5)
Otros Ingresos	0.0	0.0	0.0	0.0	na
Utilidad de operación	**1,221.6**	**13.7**	**1,054.4**	**13.2**	**15.9**
EBITDA	**1,652.3**	**18.6**	**1,649.8**	**20.7**	**0.1**

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 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).

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	Total		Urban		Coastal	
(Accumulated)	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	Total		Urban		Coastal	
(Accumulated)	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
Total	**431,625**	**1,924,708**

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.

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, 2019, 2018 and 2017 the financial debt was integrated as follows (interest rates in force to December 31, 2019 – 2017, respectively):

USD (Thousands)	2019	2018	2017
"Senior Notes 2022" fixed interest rate 7.875%	7,233,874	7,620,602	7,569,715
MXN (Thousands)			
Loan at annual rate 9.175%	163,178	188,768	210,000
	7,397,052	**7,809,370**	**7,779,715**
Minus			
Long-term maturities	(25,766)	(23,531)	(11,232)
Long-term debt	**7,371,286**	**7,785,839**	**7,768,483**

To December 31, 2019, 100% of the Company's debt was at a fixed rate. Its nominal weighted interest rate with tax withheld at the close of 2019 was 8.28% in US Dollars.

The long-term debt maturity dates to December 31, 2019 are as follows:

To pay during	Thousands of American dollars	Thousands of Mexican pesos
2021		28,214
2022	392,605	30,895
2023		33,830
2024		46,532
		139,471
Equivalent in thousands of Mexican pesos		
Less - debt issuance costs		(177,701)
		$ 7,371,286

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, 2019:

- Incur additional debt
- Grant guarantees
- Make restricted payments or investments
- Sell assets outside the ordinary course of business or above US$5 million
- Declare dividends
- Make certain inter-company transactions
- Merge with other entities

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.

As of December 31, 2019, and as of the date of issuance of this annual report, the covenants have been met. With this date, the Company has issued a relevant event in which it states that in order to preserve its liquidity and manage the unprecedented challenges that affect the hospitality industry as a result of the COVID-19 pandemic, it will not make the payment of the interest payment corresponding to the coupon of their "7.875% Senior Notes Due 2022" maturing on June 30, 2022.

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.

On October 3, 2019, the merger of Inversora Inmobiliaria Club, S.A. de C.V., took place. which was guarantor of the Indenture of the Senior Notes Due 2022. Currently the Senior Notes are guaranteed by Operadora del Golfo de México, S.A. de C.V. The Indenture imposes customary obligations and restrictions for this type of instrument. The following is a breakdown of the main financial items of the Company plus the guarantor subsidiaries separated from the non-guarantor subsidiaries (some figures may vary due to rounding):

Results (million pesos as of December 31, 2018	Grupo Posadas & Guarantors			Consolidated		
	2019	2018	2017	2019	2018	2017
Total Revenues	8,698	7,877	8,086	9,073	8,326	8,581
Impairment, depreciation and amort.	853	357	380	888	402	431
Leases	44	535	476	44	535	476
(Net Loss)	(48)	937	(484)	(67)	932	(473)
Total Assets	19,850	16,226	15,225	20,696	17,170	16,345
Total Liabilities	17,258	13,630	13,406	17,639	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.

Chain Supply Program

The Company established four chain supply programs, with Banco Santander (México), S.A., Banco Actinver, S.A., BBVA, S.A. and Banco Monex, S.A., for a total amount of up to $280 M. As of December 31, 2019, the Company had the lines drawn at 30%. As of June 24, 2020, the Company had lines for $135 M, drawn at 50%.

Additional Information regarding Financing

As of December 31, 2019, Grupo Posadas' current financial debt does not include mortgage guarantees except for the loan from Inmobiliaria del Sudeste, S.A. de C.V. The Company has also guaranteed obligations with third party clients or suppliers, in the ordinary course of its business.

On June 22, 2017, the subsidiary Inmobiliaria del Sudeste, S.A. de C.V., owner of the Fiesta Americana Mérida hotel, signed a bank loan of $210 million with a seven-year fiduciary guarantee. The funds were used for corporate purposes including the remodeling of public areas of the hotel. On January 23, 2018, the Company prepaid $10 M, reducing the outstanding balance to $200 M. As of December 31, 2019, and March 31, 2020, the outstanding balance amounted to $165 M and $159 M, respectively. On June 18, 2020, the amending agreement was signed in which the bank granted mainly (i) a waiver period to defer the payment of interest and principal from April 2020 to March 2021 and (ii) the possibility that the Shareholders could provide a loan to the subsidiary for up to $15 M for working capital purposes.

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, 2019, 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. These instruments allow the Company to keep liquidity and availability to meet its daily cash flow needs.

Capital Expenses. At the close of December 2019, capital expenses amounted to $501 million; of which 54% was allocated to hotels, 25% to vacation products and 21% 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. As of December 31, 2019, the balance in the trust is $37 million. To the issuance date of this annual report, the balance in the trust is $18 million.

Cambios en las cuentas del balance. For the 2019, 2018 and 2017 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.

Operaciones no registradas. As of December 31, 2019, 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, 2019 are:

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 the Entity act 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, such as the transfer of an enforceable right with regard to third parties, and upon transferring control over real property to membership buyers which have an effect on revenue recognition.

This revenue is considered as a financial lease, since all the risks and benefits inherent in the ownership of the FAVC are transferred to the membership holders, and the right of use is granted for a period similar to the life of the assets.

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.

Receivable for the operation of Vacation Properties - As of December 31, 2019, the reserve for returns of Vacation Properties according to IFRS amounts to $168.5 M.

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

Kivac 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.

4) MANAGEMENT

a) External Auditors

During the last corporate years (2002-2019) 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 2019 corporate year, additional or complementary services during the corporate year concluded on December 31, 2019, represented approximately 29.7% 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.during the 2019 corporate year included: (i) transfer price analysis regarding Grupo Posadas' subsidiaries (ii) Attestation on the reasonable compliance of liabilities due to the IMSS, INFONAVIT and local property taxes, in the opinion of the Audit Committee such additional services do not compromise the external auditor's independence in relation to the financial statements of the Company.

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.

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 2019 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 2019, 2018 and 2017 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 consisting of the supply of pastry and bakery products, rendering hotel service related to consultancy, legal advisory services, rendering of operating services in hotels located in Monterrey, Saltillo and Queretaro, the provision of training services, the provision of Christmas gifts for hotel owners, and the sponsorship of sports facilities. Moreover, it was informed by relevant executives through the corresponding report of the continuity or occurrence of certain unusual or notable operations as a result of the Senior Notes due 2022 repurchase offer.

As of December 31, 2019, 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.

The Board of Directors designated by the Ordinary Shareholders Meeting of the Company, held on June 25, 2020, is composed of 10 permanent directors which are listed hereinbelow:

Members of the Board of Directors:

Member	Age	Occupation	Appointed Date
Pablo Azcárraga Andrade	61	Chairman of the Board of Directors of Grupo Posadas	29-Abr-97
Enrique Azcárraga Andrade	55	Director General, EXIO, S.C.	31-May-91
Fernando Chico Pardo	67	Chairman, Promecap, S.C.	26-Jul-95
José Carlos Azcárraga Andrade	54	Chief Executive Officer of Grupo Posadas	30-Abr-08
Juan Servitje Curzio	62	Chairman of the Board of Directors of Productos Rich S.A. de C.V.	30-Abr-12
Guillermo García-Naranjo Álvarez*	63	Independent Consultant	20-Feb-19
Silvia Sisset de Guadalupe Harp Calderoni	48	Private Investor	05-Abr-10
Carlos Levy Covarrubias	58	Private Investor	27-Abr-06
Luis Alfonso Nicolau Gutiérrez*	58	Independent Consultant	30-Abr-12
Benjamín Clariond Reyes-Retana*	71	Independent Consultant	27-Mar-13

*Consejero Independiente

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 Asesoria 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 "CEO" 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 Tecnologico y de Estudios Superiores de Monterrey*, a certificate in upper-level corporate management from the Industrial Studies Center in Geneve, 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.

Board Meetings Fees

The Shareholders Ordinary General Meeting of Grupo Posadas, S.A.B. de C.V., held on June 25, 2020, agreed not to set any fees for attendance at each Board meeting to any board member and the secretary of the board during 2020, and until the next Annual Ordinary shareholders meeting. Also, the members of the Audit Committee and the Corporate Practices Committee will not receive any remuneration for each committee session they attend.

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 June 25, 2020 and the remaining members will be submitted for designation by the Board of Directors at its next meeting. 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 June 25, 2020), 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 and its ratification will be submitted to the Board of Directors at its next meeting. 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, communiques 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 Azcárraga Andrade	61	Chairman of the Board of Directors	35
José Carlos Azcárraga Andrade	54	Chief Executive Officer of Grupo Posadas	26
Javier Barrera Segura	57	Franchise Vice-President	31
Jorge Carvallo Couttolenc	63	Real Estate Vice-President	26
Arturo Martínez del Campo Saucedo	53	Chief Financial Officer	5
Enrique Calderón Fernández	53	Hotel Operations Vice-President	13
Gerardo Rioseco Orihuela	56	Vacation Properties Vice-President	20

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, 2019, 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 June 17, 2020, (date of the S.D. Indeval S.A. de C.V. report due to the extraordinary and ordinary general shareholders meeting held on June 25, 2020), 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. Blk Acciones Mexico Disc II S.A. de C.V., Variable Income Investment Fund. 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 hold more than 1% and less than 10% to this date: we know that Beatriz, Pablo, Enrique and Jose Carlos Azcarraga Andrade, and Carlos Felipe Levy Covarrubias, jointly hold in aggregate, directly or indirectly, 15.58% 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.

Additionally, in 2019, the company prepared the Integrity Policy, which complies with the provisions of the General Law of Administrative Responsibilities, thereby reinforcing our adherence to the guidelines established by the authority in the fight against corruption in the public and private sector.

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, the Company's Loans to Material Directors Policy and the Related Persons 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 2019 Bloomberg / 2017 Reuters (The daily average volume is based on trading days).

Annual performance in the past 5 years

POSADAS A	2015	2016	2017	2018	2019
Price Max.	41.50	46.97	47.60	42.00	40.00
Price Min.	27.00	41.50	35.00	29.90	35.50
Price at closing	41.50	46.00	38.00	40.00	38.00
Daily operated volume (thousands of shares)	16.43	7.96	113.40	100.85	65.51

Quarterly last 2 years

POSADAS A	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Price Max.	38.60	38.20	42.00	42.00	40.00	38.00	39.00	38.00
Price Min.	30.00	29.90	38.20	34.60	38.00	35.50	38.00	38.00
Price at closing	31.00	38.20	42.00	40.00	38.00	38.00	38.00	38.00
Daily operated volume (thousands of shares)	98.7	22.5	89.3	192.4	236.0	48.3	0.1	0.1

Monthly last 6 months

POSADAS A	jan-20	feb-20	mar-20	apr-20	may-20	jun-20
Price Max.	38.00	38.00	34.00	23.90	23.90	23.80
Price Min.	38.00	34.00	23.00	22.70	22.65	22.61
Price at closing	38.00	34.00	23.00	23.90	22.70	22.61
Daily operated volume (thousands of shares)	0.1	0.5	207.9	0.5	1196.7	44.6

(*Information as of June 23, 2020)

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. José Carlos Azcárraga Andrade	Chief Executive Officer	Grupo Posadas, S. A. B. de C. V.
Ing. Arturo Martínez del Campo Saucedo	Chief Financial Officer (Financial Vice-President)	Grupo Posadas, S. A. B. de C. V.
Lic. Enrique Calderón Fernández	Vice-President Hotel Operations	Grupo Posadas, S. A. B. de C. V.
Ing. Gerardo Rioseco Orihuela	Vice-President Vacation Properties	Grupo Posadas, S. A. B. de C. V.
Lic. Javier Barrera Segura	Vice-President Franchise	Grupo Posadas, S. A. B. de C. V.
Ing. Jorge Carvallo Couttolenc	Vice-President Real Estate	Grupo Posadas, S. A. B. de C. V.
Dra. Olga Gutiérrez Nevárez	Chief of Legal Affairs	Grupo Posadas, S. A. B. de C. V.
C.P. Gabriel Elías Guzmán	Chief Corporate Comptroller and Treasury	Grupo Posadas, S. A. B. de C. V.
C.P. Roberto Álvarez López	Tax director	Grupo Posadas, S. A. B. de C. V.
C.P.C. Carlos Pantoja Flores	External Auditor	Galaz, Yamazaki, Ruiz Urquiza, S.C.

7) ATTACHMENTS

Audited financial statements corresponding to the corporate years ending December 31 of 2019, 2018 and 2017.

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).

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

Consolidated Financial Statements for the Years Ended December 31, 2019, 2018 and 2017, and Independent Auditors' Report Dated February 26, 2020

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

Independent Auditors' Report and Consolidated Financial Statements for 2019, 2018 and 2017

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

Opinion

We have audited the accompanying consolidated financial statements of Grupo Posadas, S.A.B. de C.V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017, the consolidated statements of comprehensive income or 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 as of December 31 2019, 2018 and 2017, 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 audit 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, A.C. (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 audit 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 2019. 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.

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Key Audit Matter ***Vacation Club Revenues***	***Audit procedures performed***
Revenues generated from Vacation Club operations represent approximately 42% the Entity's consolidated revenues. Under International Accounting Standard the Entity recognizes the revenues from the Vacation Club operation as follows: i) Memberships revenue is recognized at the time the contract is signed, because the Entity believes that when it becomes effective, a vacation property 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. 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.	The audit tests applied to revenue 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: 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, including the newly adopted by the Entity, that supports the recording of the Vacation Club operating income; ii) documentation review, based on random sampling, of the integrity of the contracts signed with customers; 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; iv) review of redeemed points 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 v) review and evaluation of historical information on the amount of services contracted and collected, which have not been used before their expiration. Our work also included reviewing the adequacy of the Entity's disclosures on the accounting assumptions and policies for the Vacation Club business revenue recognition, which are included in Note 4t to the accompanying consolidated financial statements.

Key Audit Matter ***Vacation Club Reserve for Returns***	***Audit procedures performed***
The amount of this reserve represents approximately 6% of the total current and long-term Vacation Club notes receivable, which are presented in the consolidated statement of financial position as of December 31, 2019.	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 and hypothesis used in the mathematical calculation model, we discussed it with the Audit Committee members and found that the use of the model is appropriate.

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Key Audit Matter
Vacation Club Reserve for Returns

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.

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.

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.

In addition to probability, recent collection efforts, communications with the members, and experiences of default are taken into account.

Audit procedures performed

Our audit procedures also included, among others:

i) review of the design and implementation and the operating effectiveness of the Entity's controls related to the information used within the model, and utilized to determine the balance of the reserve;
ii) review of the main variables and mathematical model hypotheses used by the Entity, their mathematical accuracy and support based on prior experience. We also performed recalculations and a sensitivity analysis to verify their fairness;

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;
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
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.

Key Audit Matter
Deferred Income Taxes

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.

As of December 31, 2019, the amount of tax loss carryforwards is $5,654 million, which represents a deferred income tax benefit of $1,696 million 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.

Audit procedures performed

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 and administrative management of the Entity.

Our audit procedures included involvement of our tax experts to assess the recognition of benefits from tax loss carryforwards, including:

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Key Audit Matter ***Deferred Income Taxes***	***Audit procedures performed***
International Accounting Standard 12 *Taxes on Income,* 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, 2019, the Entity has not recognized a benefit of $30 million for the uncertainty related to the realization of this asset.	i) evaluate and challenge the assumptions and methodologies used by the Entity; ii) analysis of individual entities' trend of their tax results from previous years; 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 iv) review the progress achieved in the corporate restructuring process that the Entity started in previous years. We believe that the Entity's disclosures in relation to the main captions originating the deferred income tax balances are appropriate in Note 15 to the consolidated financial statements.

Key Audit Matter ***Lease Accounting***	***Audit procedures performed***
As of January 1, 2019, the Entity adopted the new international accounting standard known as IFRS 16, Leases, whereby the distinction between an operating lease and a capital lease is eliminated and the recognition of a right-of-use asset and a lease liability is required at the commencement of all leases, albeit with certain exceptions. The initial effect of the adoption of IFRS 16 was recorded in the Entity's consolidated financial statements on January 1, 2019, without restructuring prior years. The most relevant effects are derived from the leases executed for various hotels in which the Entity acts as principal and which were previously accounted for as operating leases. The effects derived from the adoption of this standard for the year ended December 31, 2019, are shown in Note 3a to the consolidated financial statements; similarly, the consolidated statement of changes in financial position as of December 31, 2019 includes a right-of-use asset of $4,086 million and a long and short-term lease liability of $4,146 million.	Together with Entity's management, we analyzed the adoption methodology, the identification of assets subject to this standard, the variables and hypotheses to be considered for each lease and the mathematical models used for recording purposes. We shared our results with the Audit Committee and reached a conclusion regarding the fairness of the adoption of this standard in these consolidated financial statements. Our audit procedures included, among others: i) review of the design, implementation and operating effectiveness of the Entity's internal controls related to the information input into the model; we also determined adoption and yearend effects; ii) review of the determination of the universe of contracts subject to this recording; assessment of general items to determine whether the Entity acts as an agent or principal; determination of the mandatory terms and the feasibility of their extension; review of the flow projections and discount rate used for each asset type; iii) we recalculated the mathematical accuracy of the model and the adequate input of information thereto with the main variables and hypotheses of the mathematical model used by the Entity; iv) we reviewed adoption effects as of January 1, 2019, together with the figures affecting the income statement for the year ended December 31, 2019 and the final balances at that date; v) we reviewed the completeness of the disclosures required in the notes to the financial statements to determine their compliance with the new standard.

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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.

Deloitte.

- 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 2019 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. Carlos M. Pantoja Flores
February 26, 2020

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

Consolidated Statements of Financial Position

As of December 31, 2019, 2018 and 2017
(In thousands of Mexican pesos)

Assets	Notes	2019	2018	2017
Current assets:				
Cash, cash equivalents and restricted cash	6	$ 1,239,548	$ 2,733,898	$ 1,383,584
Accounts and notes receivable - Net	7	2,999,994	2,693,663	2,645,367
Inventories		27,608	23,188	24,480
Prepaid expenses		118,633	142,918	83,196
Vacation Club inventory	8	294,963	144,782	264,979
Other current assets		217,664	107,566	112,998
Assets classified as held for sale	2	387,406	-	1,481,530
Total current assets		5,285,816	5,846,015	5,996,134
Non-current assets:				
Property and equipment committed for sale	9	-	223,117	307,714
Long-term notes receivable	10	3,891,312	3,219,164	2,649,388
Vacation Club inventory in construction		-	-	104,112
Property and equipment – Net	11	4,513,155	4,936,245	4,601,178
Prepaid expenses		18,018	24,095	119,561
Investment in associates		1,081,694	1,054,631	226,129
Right-of-use asset	12	4,086,055	-	-
Intangible assets and other assets	13	664,051	721,459	725,370
Deferred tax assets	16	1,155,409	1,145,555	1,615,471
Total non-current assets		15,409,694	11,324,266	10,348,923
Total assets		$ 20,695,510	$ 17,170,281	$ 16,345,057

Liabilities and stockholders' equity	Notes	2019	2018	2017
Current liabilities:				
Current portion of long-term debt	15	$ 25,766	$ 23,531	$ 11,232
Trade accounts payable	14	411,345	427,790	436,100
Other liabilities and accrued expenses		1,045,950	1,171,638	1,188,671
Income tax payable	16	343,717	329,286	321,684
Current portion of long-term lease liabilities	12	416,142	-	-
Other tax payable		426,672	368,332	294,303
Deferred income from Vacation Club	4	1,055,430	649,622	508,910
Current portion of long-term value-added tax payable		113,813	109,779	111,899
Total current liabilities		3,838,835	3,079,978	2,872,799
Long-term liabilities:				
Debt	15	7,371,286	7,785,839	7,768,483
Lease liabilities	12	3,730,364	-	-
Accrued liabilities	17	449,893	359,058	360,539
Value-added tax payable		580,650	481,816	394,074
Deferred income from Vacation Club	4t	632,452	932,928	918,687
Liabilities directly associated with property and equipment committed for sale	9	-	-	6,330
Income tax payable	16	1,035,670	1,342,863	1,601,193
Total long-term liabilities		13,800,315	10,902,504	11,049,306
Total liabilities		17,639,150	13,982,482	13,922,105
Stockholders' equity:				
Contributed capital:				
Capital stock	20	495,881	495,881	495,881
Share repurchase reserve		16,856	16,856	16,856
Additional paid-in capital		157,429	157,429	157,429
		670,166	670,166	670,166
Earned capital:				
Share repurchase reserve		535,000	535,000	535,000
Retained earnings		1,634,123	1,713,982	983,611
Accumulated comprehensive earnings		19,491	83,520	51,581
		2,188,614	2,332,502	1,570,192
Total controlling interest		2,858,780	3,002,668	2,240,358
Non-controlling interest		197,580	185,131	182,594
Total stockholders' equity		3,056,360	3,187,799	2,422,952
Total liabilities and stockholders' equity		$ 20,695,510	$ 17,170,281	$ 16,345,057

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income or Loss

For the years ended December 31, 2019, 2018 and 2017
(In thousands of Mexican pesos, except earnings (loss) per share)

	Notes	2019	2018	2017
Continuing operations:				
Revenue	22	$ 9,072,708	$ 8,325,848	$ 8,580,850
Cost of sales	22	6,184,045	5,393,149	5,123,367
Gross profit		2,888,663	2,932,699	3,457,483
Administrative expenses	22	1,063,209	1,151,869	1,105,068
Sale and development expenses	22	252,013	211,992	272,308
Depreciation, amortization, real estate leasing,		925,599	917,575	899,009
Impairment of assets and technology platforms		6,200	19,498	7,216
Other revenue, net	22	(37,170)	(1,391,474)	(47,756)
Interest expense		645,357	653,537	641,173
Interest income		(95,412)	(172,765)	(60,399)
Commissions and financial expenses		449,304	83,516	147,657
Exchange (gain) loss, net		(312,140)	(81,335)	(296,806)
Equity in associate		-	(15,000)	-
		2,896,960	1,377,413	2,667,470
(Loss) income before income tax		(8,297)	1,555,286	790,013
Income tax expense	16	66,304	591,985	1,262,607
(Loss) income from continuing operations		(74,601)	963,301	(472,594)
Discontinued operations				
Income (loss) from discontinued operations	26b	7,191	(31,202)	-
Consolidated (loss) income for the year	¤	(67,410)	932,099	(472,594)
Other comprehensive income (loss)				
Loss on exchange differences from translating foreign operations, which will be reclassified subsequently to profit or loss		(2,162)	(2,478)	(3,195)
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss, - net of income tax		(61,867)	34,417	(8,169)
		(64,029)	31,939	(11,364)
Consolidated comprehensive (loss) income for the year		$ (131,439)	$ 964,038	$ (483,958)

(Continued)

	2019	2018	2017
Consolidated (loss) income for the year attributable to:			
Controlling interest	$ (79,859)	$ 928,724	$ (483,905)
Non-controlling interest	12,449	3,375	11,311
Consolidated (loss) income for the year	$ (67,410)	$ 932,099	$ (472,594)
Consolidated comprehensive (loss) income for the year attributable to:			
Controlling interest	$ (143,888)	$ 960,663	$ (495,269)
Non-controlling interest	12,449	3,375	11,311
Consolidated comprehensive (loss) income for the year	$ (131,439)	$ 964,038	$ (483,958)
Earnings (loss) per share:			
From continuing and discontinued operations -			
Basic and diluted (loss) earnings per common share (in pesos)	$ (0.14)	$ 1.87	$ (0.98)
From continuing operations -			
Basic and diluted (loss) earnings per common share (in pesos)	$ (0.15)	$ 1.94	$ (0.98)
Weighted average number of shares	495,881,988	495,881,988	495,881,988

(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, 2019, 20186 and 2017
(In thousands of Mexican pesos)

	Contributed capital				Earned capital				
	Capital stock	Contributions for future capital increases	Shares repurchase reserve	Additional paid-in capital	Shares repurchase reserve	Retained earnings	Accumulated comprehensive earnings	Non-controlling interest	Total stockholders' equity
Balances at the beginning of 2017	$ 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 for the year	-	-	-	-	-	(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 to controlling interest	-	-	-	-	-	(198,353)	-	-	(198,353)
Change in the value of non-controlling interest	-	-	-	-	-	-	-	(838)	(838)
Consolidated comprehensive income for the year	-	-	-	-	-	928,724	31,939	3,375	964,038
Balance as of December 31, 2018	495,881	-	16,856	157,429	535,000	1,713,982	83,520	185,131	3,187,799
Consolidated comprehensive income for the year	-	-	-	-	-	(79,859)	(64,029)	12,449	(131,439)
Balance as of December 31, 2019	$ 495,881	$ -	$ 16,856	$ 157,429	$ 535,000	$ 1,634,123	$ 19,491	$ 197,580	$ 3,056,360

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, 2019, 2018 and 2017
(In thousands of Mexican pesos)

	2019	2018	2017
Cash flows from operating activities:			
Consolidated (loss) income for the year	$ (67,410)	$ 932,099	$ (472,594)
Adjustments for:			
Income tax expense	66,304	591,985	1,262,607
Depreciation, amortization, cost of disposal and real-state leasing	881,499	382,599	423,419
Asset impairment and technology platforms	6,200	19,498	7,216
Amortization of debt issue expenses	75,613	71,616	72,097
Equity in associates	-	(15,000)	-
Income on sale of non-strategic fixed assets	-	(1,345,750)	(103,017)
(Income) loss on sale of fixed assets	(2,266)	1,351	(2,439)
Interest expense	1,004,038	653,537	641,173
Interest income	(95,412)	(172,765)	(60,399)
Unrealized foreign exchange income	(411,409)	(21,000)	(371,912)
	1,457,157	1,098,170	1,396,151
Transactions in working capital:			
Accounts and notes receivable – Net	(978,479)	(638,661)	(533,807)
Inventories	(4,420)	1,292	339
Prepaid expenses	48,380	23,352	(57,439)
Vacation Club inventory	153,862	120,957	(138,737)
Trade accounts payable	(16,445)	(8,310)	(61,653)
Other liabilities and accrued expenses	(21,963)	114,260	440,160
Vacation Club deferred income	105,332	154,953	151,663
Income tax payments	(343,305)	(325,382)	(816,208)
Net cash generated by operating activities	400,119	540,631	380,469
Cash flows from investing activities:			
Purchase of property and equipment and upgrades	(329,392)	(490,838)	(400,535)
Vacation Club inventory in construction	(116,387)	(147,392)	(67,818)
Intangible assets and other assets	(55,492)	(32,502)	(131,634)
Investments in securities	-	-	450,000
Contributions of investment in associates	(27,063)	(746,502)	(225,000)
Collected interest	95,412	172,765	60,399
Sale of property and equipment	-	4,918	6,983
Cash flows from sales of non-strategic properties	-	2,941,159	435,000
Net cash (used in) generated by investing activities	(432,922)	1,701,608	127,395

(Continued)

	2019	2018	2017
Cash flows from financing activities:			
Lease liabilities payments	(658,553)	-	-
Cash received from debt contracting	-	-	210,000
Loan payments	(163,369)	(21,232)	-
Interest paid	(638,598)	(672,340)	(631,779)
Debt issuance costs	(1,027)	-	(2,706)
Partial payment of convertible debt	-	-	(704)
Payment of dividends	-	(198,353)	-
Payment of dividends to non-controlling interest	-	-	(19,188)
Net cash used in financing activities	(1,461,547)	(891,925)	(444,377)
Net (decrease) increase in cash and cash equivalents	(1,494,350)	1,350,314	63,487
Cash and cash equivalents at the beginning of the year	2,733,898	1,383,584	1,320,097
Cash and cash equivalents at the end of the year	$ 1,239,548	$ 2,733,898	$ 1,383,584

(Concluded)

See accompanying notes to consolidated financial statements.

(In thousands of Mexican pesos)

1. Activities

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

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 as owned, leased and managed hotels. The number of hotels and rooms operated by the Entity as of December 31 are:

Hotels	2019	2018	2017
Owned	12	12	14
Leased	18	15	14
Managed (including lofts)	154	148	134
Operated hotels	184	175	162
Operated rooms	29,851	27,491	25,608

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 vacation property opposable to third parties of "40-year- vacation property right" 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 as of 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 financial performance through marketing strategies such as agreements with institutions, competitive prices and intensive promotion.

The Entity's corporate offices are located in Prolongation Paseo de la Reforma No. 1015, Floor 9, Tower A, Santa Fe, Mexico City.

2. Significant events

a. ***Issuance of "Senior Notes 2022" and prepayment of "Senior Notes 2018"***

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 2017 and the "Senior Notes 2022" program reached a total amount of US $400 million.

In February 2019, the Entity made an offer to repurchase up to $515,000 of its "Senior Notes 2022" at par, plus interest accrued as of the settlement date, using the net surplus derived from its sale of the Fiesta Americana Condesa Cancún hotel. On March 22, 2019, following the expiration of the offer, the Entity paid US$7.4 million to the holders of repurchased bonds, plus interest. After this transaction, the "Senior Notes 2022" program balance was US$392.6 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 it 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. ***Transfer of the Fiesta Americana Grand Los Cabos Hotel to the Vacation Club***

During the second quarter of 2019, due to the positive results of the Vacation Club segment, the Entity decided to transfer the Fiesta Americana Grand Los Cabos hotel, with 249 rooms, to the Vacation Club. This transfer resulted in the reclassification of the asset value of this hotel to the real estate inventory. In accordance with FAVC product sales policies, a sale made in 2019 will necessarily have the first year of usage in 2020. Accordingly, the Entity decided to not reclassify the results of this hotel to the Vacation Club segment at the 2019 yearend, but rather include them in the segment of its owned and leased hotels.

c. ***Sale of non-strategic assets***

Land in Nayarit – In December 2019, the Entity executed a preliminary purchase sale agreement of 29,956 m2 of land in Bahía de Banderas, Nayarit with Inmobiliaria Antia, S. de R.L. de C.V., subject to term and condition precedents. The price was set at $240,000, with the buyer making a down payment of $24,000. The balance is payable on February 24, 2020, upon the execution of the final purchase sale agreement, date on which the Entity believes it will have fulfilled the conditions involving the approval of its corporate entities and the issuance of the respective land deed in its name. For tax purposes, the Entity accrued the full sales price and deducted the restated acquisition cost in 2019 although, for accounting purposes, it believes that it does not fulfill the revenue standard requirement established for recording the sale. Accordingly, as of December 31, 2019, it only recorded the received down payment under "Advances from Customers" and the asset under "Assets available for sale" in the consolidated statement of changes in financial position.

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, which 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 or 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 FibraHotel 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 as of January 2018. The net effect from the sale was $1,345,750, which is presented in the consolidated statement of comprehensive income or 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), in 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 a "Leased Hotel".

d. ***Sale of assets between related parties.***

In December 2019, the Entity acquired two plots of land located in "Condominio Arcano", Ixtapa Zihuatanejo, Guerrero from its subsidiary Desarrollo Arcano, S.A. de C.V. The plots of 4,619.3 m^2 and 1,981.2 m^2, respectively, were given a commercial value of $52,337 and were acquired by the Entity for this amount.

e. ***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 of $155,000 made by FibraHotel of. The Entity simultaneously agreed to sell this hotel and its contents, subject to the deadline and other conditions that should 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 condition precedent compliance date has been extended for an additional 90 days, expiring on March 31, 2020.The value of the hotel and its contents are therefore presented in the short-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 In December 2019, the Entity executed an agreement with FibraHotel to establish a transaction incentive in the event of the purchase-sale taking place, which will be determinable in February 2021, as long as the hotel's average EBITDA during 2020 exceeds the one generated in 2019. If the difference is positive, FibraHotel will pay an incentive by multiplying the difference by 0.7 and applying this amount to a figure equal to 10.06 times EBITDA.

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 the product of 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 as of January 31, 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 fulfilled.

Because of the signing of 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 in "Depreciation, amortization, real estate leasing, and cost of disposal and impairment of assets", in the consolidated statement of comprehensive income or loss. During 2019 and 2018, the Entity updated the impairment study and determined an additional effect of $6,200 and $19,498, recorded in the same line of the consolidated statement of comprehensive income or loss.

In December 2019, the Entity executed an agreement with FibraHotel to establish a transaction incentive in the event of the purchase-sale taking place, which will be determinable in February 2021, as long as the hotel's average EBITDA for the 2017-2020 period exceeds the average of the 2017-2019 period. If the difference is positive, FibraHotel will pay an incentive by multiplying the difference by 0.7 and applying this amount to a figure equal to 10.06 times EBITDA.

As of the 2019 year-end close, management believes that it fulfills the conditions contained in IFRS 5 to reclassify the value of both properties from Non-current assets held for sale and discontinued operations to "Assets available for sale". The accounting cost reflected in the consolidated statement of financial position is lower than the expected transaction value.

f. ***Creation of a Management and Investment Trust***

In order to comply with the Bond Issue Act (Indenture) of the "Senior Notes 2022" program, and after making the repurchase offer to bondholders, the surplus resources obtained from the sale of the Fiesta Americana Condesa Cancún hotel, equal to $223.9 million Mexican pesos and received in February 2018, were deposited in a Management and Investment Trust with Banco Santander México, S.A. in order to respond to various binding obligations in permitted businesses with medium-term maturities. Through this trust created on February 15, 2019, the Entity believes that the investment of the resources is already committed under the terms of the *Indenture*. As of December 31, 2019, the balance is $57,800.

g. ***Renewal and modification of hotel operation contracts***

In May 2019, the Entity executed an amendatory agreement with FibraHotel involving 49 hotels operated under the Fiesta Inn and One brands to amend the expiration dates of the respective hotel operation agreements and the Entity's fee percentage.

For 36 hotels operated under the Fiesta Inn brand, the fee calculated as a percentage of revenues decreases by between 2.0 and 4.8 percent, while for 13 hotels operated under the One brand, the fee percentage decreases by 2.8 percent. Similarly, the original expiration date of the operating agreements executed for all the hotels covered by the agreement was unified and will conclude on December 31, 2040. These agreements may be renewed for five-year periods with the agreement of the parties. This agreement takes effect on January 1, 2020.

On February 2017, the Entity executed 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.

Certain hotel operation agreements executed by the Entity include a minimum performance clause.

h. ***Execution management contracts in the Dominican Republic***

In August 2019, the Entity executed an agreement to operate a hotel under the Live Aqua brand for 15 years in Punta Cana, Dominican Republic, with 345 rooms. The Entity estimates that the hotel will begin operations during the second quarter of 2020.

During September 2017, the Entity executed a contract to operate the Grand Fiesta Americana hotel in Punta Cana, Dominican Republic, with 554 rooms. The estimated start date of operation is the second semester of 2021.

i. ***Incorporation of an affiliate in the Dominican Republic***

With the purpose of fulfilling its hotel operation obligations in the Dominican Republic, the Entity has incorporated an affiliate in that country, which is in the process of being registered with the tax authority of that jurisdiction. The Entity plans to begin operations during the second quarter of 2020.

j. ***Execution of operating contracts 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 m² of gardens, located in Playa Pesquero, Provincia de Holguín, on the eastern coast of Cuba. Both hotels have local investment and started operations in January 2019. The Entity has received a notice from a third party located in the United States expressing its rights to this real property; however, as of the 2019 yearend, the Entity is unaware of any formal claim.

k. ***Termination of operating and licensing agreements and the execution of hotel leases.***

On April 30, 2019, the Entity early terminated the operating and licensing agreements of the Fiesta Americana Grand Puerto Vallarta hotel with Parks Operadora Hotelera, S. de R.L. de C.V. ("Parks") and at the same time executed a lease agreement involving this property for a mandatory ten-year term as of May 1, 2019.

l. ***Termination of operating agreements.***

In 2019, the Entity terminated the operating agreements of the One Reynosa Valle Alto, One Celaya, Fiesta Inn Celaya, One Irapuato and Gamma Torreón hotels. As of December 31, 2019, the Entity reserved the amount of $13,639 for fees and expenses receivable from these hotels.

m. ***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%. In 2019, the Entity contributed an additional $27.1 million to the Trust operating expenses for which it is liable, based on its equity percentage; it also authorized certain amendments to the Trust agreement to enable Trustor A to obtain financing and make its contributions without compromising the property or the Entity's equity based on the payment of this financing, unless a relevant damage occurs and the property is not repaired, in which case the collection of contributions would be subordinated to the payment of the loan.

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 to the Trust US$12 million as a security deposit.

n. ***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. Consequently, the long-term portion is recorded under taxes payable in the consolidated statement of changes in financial position. 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 an 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 $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 2018 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.

o. *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 $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. 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 as of July 2019 the amortization amounts to $2,050, to close December 31, 2019 in $165,237. This amount is presented as "long-term debt" in the consolidated statements of financial position, except for the amount payable in 2020, which is presented as short-term.

p. *Corporate Restructuring*

In September 2019, the Entity merged its subsidiaries Konexo Centro de Soluciones, S. A. de C. V. and Inversora Inmobiliaria Club, S. A. de C. V. The merger did not affect these consolidated financial statements.

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.

q. *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 - International Accounting Standards,) 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 from the exercises that began or after on January 1, 2019,

New and amended IFRS that are effective for the exercises and reporting periods that begins on January 1, 2019

IFRS 16, Leases

The Entity implemented IFRS 16 (issued by the IASB in January 2016), which establishes new or amended lease accounting requirements. It introduces significant changes to the lessee's accounting, thereby eliminating the distinction between an operating lease and a capital lease and requiring the recognition of a right-of-use asset and a lease liability at the start of all leases, except those considered as short-term or involving low-value assets. In contrast to the lessee's accounting, the requirements established for the lessor remain significantly unchanged. The initial effects resulting from the adoption of IFRS 16 on the Entity's consolidated financial statements are described below.

The initial application date of IFRS 16 for the Entity was January 1, 2019.

The Entity has applied IFRS 16 by using the prospective approach; accordingly, it did not reissue comparative information.

(a) Effect of the new lease definition

The modified lease definition primarily refers to the concept of control. IFRS 16 determines whether an agreement includes a lease based on whether the customer has the right to control the use of an identified asset for a given period of time in exchange for a payment. This contrasts with the "risks and rewards" approach of IAS 17 and IFRIC 4.

The Entity applies the lease definition and the related guidelines contained in IFRS 16 to all the agreements executed or modified on or as of January 1, 2019. For its initial adoption of IFRS 16, the Entity utilized an implementation project which indicated that the new lease definition under IFRS 16 does not significantly change the scope of agreements that comply with the lease definition for the Entity.

(b) Effect of accounting as lessee.

(i) Prior operating leases

IFRS 16 changes how the Entity accounts for leases previously classified as operating leases under IAS 17, which were not included in the statement of changes in financial position.

By applying IFRS 16 to all leases (except those mentioned below), the Entity:

(a) Recognizes right-of-use assets and lease liabilities in the consolidated statement of changes in financial position, which were initially measured at the present value of the series of future lease payments.
(b) Recognizes the depreciation of right-of-use assets and interest incurred on lease liabilities in the consolidated income statement.
(c) Presents the total amount of cash paid as principal and interest (presented under financing activities) in the consolidated cash flow statement.

Lease incentives (for example rent-free periods) are recognized in the initial measurement as part of right-of-use assets and lease liabilities while, under IAS 17, they resulted in the recognition of an incentive under leases, applied as a reduction of lease expenses, generally by using the straight-line method.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (with a term of 12 months or less) and those with low-value assets (such as computers, small office furniture items and telephones), the Entity has opted to recognize a lease expense by using the straight-line method, as allowed by IFRS 16. This expense is presented under "other expenses" in the consolidated income statement.

(ii) Prior capital leases

The main differences between IFRS 16 and IAS 17 regarding agreements classified as capital leases is the measurement of the residual value of the guarantees provided by the lessor to the lessee. IFRS 16 requires that the Entity only recognize the amount expected to be paid under a residual value guarantee as part of lease liabilities, as opposed to the maximum guarantee amount required by IAS 17. This change did not have any material effect on the Entity's consolidated financial statements.

(c) Initial financial impact of the adoption of IFRS 16.

The Entity leases three types of assets: computer equipment, vehicles and real property. In the case of computer equipment, the Entity applies the low value exception and continues to record the expense as an operating lease.

Vehicles refer to utility transportation in hotels and vehicles for certain corporate office and hotel personnel. These leases have a 36-month term. The adoption liability amount was $38,368 (plus additional vehicle leases in 2019 of $11,912); the Entity estimates that this liability will maintain this level because, according to its policy, vehicle leases must be renewed at the end of their original term.

Real property refers to corporate offices located in Mexico City and Morelia, as well as certain leased hotels. In the case of the 15 hotel leases in effect at the beginning of 2019, the Entity first determined whether it acts as an agent or principal in each lease, subsequently concluding that, with regard to the Live Aqua Playa del Carmen and Fiesta Americana Condesa Cancún hotels, it acts as an agent because it charges a management commission and does not assume risks related to inventory or credit granted to guests. The other hotel leases, as well as corporate office leases, resulted in the initial recognition of right-of-use assets of $3,470,154 (plus additional hotel leases agreed to in 2019 of $1,066,561) and lease liabilities of $3,470,153. This also resulted in an expense decrease of $698,122, a depreciation increase of $490,825 and an interest expense increase of $356,760.

The discount rate is composed by the US Treasury rate, plus a margin based on the Entity's rating at the start of each lease agreement, adjusted by the real property guarantee in the case of real property. For real property leases with term renewal options, the Entity considers on a case-by-case basis whether it will exercise the renewal option at the end of the initial mandatory term based on the economic benefits it expects to obtain.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 establishes how to determine the tax accounting position when there is uncertainty regarding income taxes. This interpretation requires the following:

- determine whether uncertain tax positions are assessed independently or on a group basis; and
- assess whether it is likely that the tax authority will accept an uncertain tax treatment used or proposed for use by an entity in its income tax returns
  - If it considers that it is likely, the tax accounting position must be determined consistently with the tax treatment used in income tax returns.
  - If it considers that it is unlikely, the effect of this uncertainty must be reflected in the determination of the tax accounting position by using the most probable amount or the expected value method.

Its adoption has not had a material impact on the disclosures or amounts reported in these consolidated financial statements.

New and amended IFRS that are effective for the exercises and reporting periods that begins on January 1, 2018

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:

Assets	December 31, 2017 (reclassified)	Reclassification	December 31, 2017 (previously reported)
Current assets:			
Accounts and notes receivable – Net	$ 2,645,367	$ (58,917)	$ 2,704,284
Total current assets	$ 5,996,134	$ (58,917)	$ 6,055,051
Non-current assets:			
Notes receivable	$ 2,649,388	$ (129,617)	$ 2,779,005
Total non-current assets	$ 10,348,923	$ (129,617)	$ 10,478,540
Liabilities			
Current liabilities:			
Other liabilities and accrued expenses	$ 1,188,671	$ (58,917)	$ 1,247,588
Total current liabilities:	$ 2,872,799	$ (58,917)	$ 2,931,716
Long-term liabilities:			
Accrued liabilities	$ 360,539	$ (129,617)	$ 490,156
Total long-term liabilities	$ 11,049,306	$ (129,617)	$ 11,178,923

- 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 assessing the impact of IFRS 15 on the *Fiesta Americana Vacation Club* and *Live Aqua Residence Club* businesses, the Entity considers that it has fulfilled its performance obligations since the sale took place because it represents the transfer of a "right to a vacation property" to buyers, which is supported by the allocation of the properties to a time sharing scheme registered with the Public Property Registry, which gives buyers an enforceable right with regard to third parties.

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 or loss, to show the gain from the sale of strategic assets in other (revenues) expenses, net, as follows:

	December 31, 2017 (reclassified)	Reclassification Debit	Reclassification Credit	December 31, 2017 (reclassified)
Revenue	$ 8,580,850	$ 435,000	$ -	$ 9,015,850
Costs	5,123,367	-	331,982	5,455,349
Gross profit	3,457,483	-	-	3,560,501
Other expenses (revenue), net	$ (47,756)	$ -	$ 103,018	$ 55,262

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, as it explained in the accounting polices listed below.

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 (%) 2019, 2018 and 2017
Inmobiliaria del Sudeste, S.A. de C.V.	51%
Inversora Inmobiliaria Club, S.A. de C.V. (2)	100%
Konexo Centro de Soluciones, S.A. de C.V. (2)	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. (3)	100%
Administración Digital Conectum, S.A. de C.V., and subsidiaries (4)	100%

(1) Dissolved entity during 2018.
(2) Subsidiary entities merged into Posadas during 2019.
(3) Subsidiary entities merged into Posadas during 2018.
(4) Subsidiary entities merged into Posadas during 2017.

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	2-5
Buildings - Installation, finishing and improvements	5-10
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***

The entity as lessee

The Entity assesses whether an agreement originally includes a lease. The Entity recognizes a right-of-use asset and a lease liability for all the lease agreements in which it acts as the lessee, except for short-term leases (12 months or less) and low-value assets (such as tablets, personal computers, small office furniture items and telephones). For these leases, the Entity recognizes lease payments as an operating expense by using the straight-line method throughout the lease duration, unless another method is more representative of the time pattern of the economic benefits obtained from the consumption of the leased assets.

The lease liability is initially measured at the present value of the lease payments not paid at the commencement date, discounted by the rate implied in the agreement. If this rate cannot be readily determined, the Entity uses incremental rates.

Lease payments included in the lease liability measurement consist of:

- Fixed lease payments (including fixed payments in-kind), less any lease incentive received
- Variable lease payments which depend on an index or rate, initially measured by using the index or rate at the commencement date;
- The amount expected to be paid by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain it will exercise the options; and
- Penalty payments resulting from lease termination if the lease period reflects the exercise of a lease termination option.

The lease liability is presented as a separate item in the consolidated statement of changes in financial position.

The lease liability is subsequently measured with the book value increase to reflect interest accrued by the lease liability (using the effective interest method) and reducing the book value to reflect lease payments made.

The Entity restates the lease liability (and makes the respective adjustment to the related right-of-use asset) when:

- The lease term is modified or there is a significant change in lease circumstances, thereby resulting in a change of the purchase option exercise assessment, in which case the lease liability is measured by discounting restated lease payments based on a restated discount rate.
- Lease payments are amended as a consequence of changes in indexes or rates or a change in the expected payment under a guaranteed residual value, in which case the lease liability is restated by discounting restated lease payments based on the same discount rate (unless the change in lease payments is due to a variable interest rate change, in which case a restated discount rate is used)
- A lease agreement is amended and the lease amendment is not recorded as a separate lease, in which case the lease liability is restated based on the amended lease term by discounting restated lease payments based on a discount rate restated as of the effective amendment date

The Entity did not make any of these adjustments during the periods presented.

Right-of-use assets consist of the initial measurement of the respective lease liability, lease payments made on or before the commencement date, less any lease incentive received and any initial direct cost. The subsequent valuation is based on cost less accumulated depreciation and impairment losses

If the Entity acquires an obligation arising from the costs of dismantling and removing a leased asset, restoring the place where it is located or restoring the asset underlying the condition required by the terms and conditions of the lease, a provision measured in accordance with IAS 37 must be recognized. Insofar as costs relate to a right-of-use asset, they are included in the related right-of-use asset unless they are incurred to generate inventory

Right-of-use assets are depreciated over the shorter of the lease period and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset indicates that the Entity intends to exercise a purchase option, the right-of-use asset will be depreciated over the useful life. Depreciation begins on the lease commencement date.

Right-of-use assets are presented as a separate item in the consolidated statement of changes in financial position.

The Entity applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy Variable rent leases which do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. Related payments are recognized as an expense in the period in which the event or condition generating the payment occurs and are included under "Other expenses" in the consolidated income statement.

As a practical expedient, IFRS 16 offers the possibility of not separating non-lease components and accounting for any lease and its respective non-lease components as a single agreement. The Entity has not applied this practical expedient. In the case of contracts with lease components and one or more lease components or additional non-lease components, the Entity assigns the contract payment to each lease component according to the relative stand-alone selling price method and the aggregate of standalone selling prices for all non-lease components.

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.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of financial liabilities

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the bEntity 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 vacation property 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, 2019, 2018 and 2017, the Entity does not have ordinary shares with potential dilution effects.

y. ***Reclassifications to prior years***

The consolidated comprehensive income statements for the years ended December 31, 2018 and 2017 have been reclassified to make them comparable with the 2019 financial statements. The line items which have been reclassified are income and cost of sales, without affecting gross income or any other line item in that statement. The intention is to show the income of the Vacation Club, while subtracting the virtual movements considered by the Entity to individually measure the results of this business segment. In 2018 and 2017, reclassifications were $415,474 and $108,860, respectively, thereby representing an income and cost of sales increase for the same amount.

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:

a. 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 the Entity act 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.

b. Vacation Club revenue recognition

   Management makes judgments to decide when the performance obligations in the membership contracts of Vacation Club, such as the transfer of an enforceable right with regard to third parties, and upon transferring control over real property to membership buyers which have an effect on revenue recognition.

c. 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.

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

   Kivac 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.

e. 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.

f. 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.

g. 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.

h. 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).

i. 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.

j. 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.

k. The discount rates and terms of the hotels leased by the Entity

The Entity values leased assets and defines which are of low-value. Those for which usage rights are recorded are analyzed to determine contractual terms, renewal possibilities based on economic benefits, committed payment projections and the discount rates used for each asset type to determine the amount to be recorded.

6. Cash, cash equivalents and restricted cash

	2019	2018	2017
Cash	$ 84,545	$ 89,808	$ 74,594
Cash equivalents:			
Overnight investments and restricted cash	1,130,262	2,630,259	1,299,221
Other	24,741	13,831	9,769
Total	$ 1,239,548	$ 2,733,898	$ 1,383,584

As of December 31, 2019 and 2018, the amount of cash equivalents includes $57,800 and $739,000 respectively in restricted cash related to the net proceeds obtained from the sale of the hotel Fiesta Americana Condesa Cancún.

7. Accounts and notes receivable

	2019	2018	2017
Notes receivable from Vacation Club (a)	$ 2,356,762	$ 1,972,000	$ 1,758,342
Other receivables from Vacation Club	179,706	138,065	155,686
Clients and agencies (b)	689,946	737,774	824,303
Officers and employees	-	30,332	62,729
Others	30,787	39,354	71,668
	3,257,201	2,917,525	2,872,728
Less - Allowance for doubtful accounts	(257,207)	(223,862)	(227,361)
	$ 2,999,994	$ 2,693,663	$ 2,645,367

(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 12 months are normally cancelled. However, estimates of the reserve for doubtful accounts are recorded based on the entire portfolio.

Composition of the trading portfolio:

		2019		2018		2017
Maturity of notes receivable from Vacation Club-						
Less than 90 days	$	525,943	$	435,567	$	386,786
Between 91 and 330 days		810,702		681,450		603,833
Between 331 and 365 days		1,020,117		854,983		767,723
	$	2,356,762	$	1,972,000	$	1,758,342

(b). Accounts receivable from clients and agencies

The average credit term related to amounts owed for hotel services is 16 days. The Entity does not charge interest on outstanding amounts. Normally, amounts owed within this portfolio are not aged significantly. During 2019, 2018 and 2017 the Entity identified and wrote-off $21,653, $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.

		2019		2018		2017
Clients and agencies-						
Less than 90 days	$	632,934	$	658,569	$	742,920
Over 90 days		57,012		79,205		81,383
	$	689,946	$	737,774	$	824,303
Allowance for doubtful accounts-						
Clients and agencies	$	(37,766)	$	(32,560)	$	(33,075)
Notes receivable from Vacation Club		(219,441)		(191,302)		(194,286)
	$	(257,207)	$	(223,862)	$	(227,361)

8. Vacation Club inventory

		2019		2018		2017
Vacation Club inventory	$	271,195	$	120,981	$	241,176
Villas and residential lots		23,768		23,801		23,803
	$	294,963	$	144,782	$	264,979

Vacation Club inventories recognized in cost of membership sales during the period in respect of continuing operations was $153,844, $145,467 and $133,641 at December 31, 2019, 2018 and 2017, respectively.

9. Property and equipment committed for sale

		2019		2018
Long-term:				
Property and equipment – Net				
Hotel Fiesta Americana Hacienda Galindo	$	-	$	113,671
Hotel Fiesta Americana Hermosillo		-		109,446
Hotel Ramada Plaza		-		-
Total long-term property and equipment committed for sale	$	-	$	223,117

10. Long-term notes receivable

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

	2019	2018	2017
Long-term notes receivable:			
Vacation Club memberships	$ 3,547,151	$ 3,003,919	$ 2,508,342
Kívac	598,177	425,882	348,694
	4,145,328	3,429,801	2,857,036
Less:			
Reserve for Vacation Club returns	(168,497)	(134,572)	(129,617)
Allowance for Kívac's doubtful accounts	(85,519)	(76,065)	(78,031)
Total	$ 3,891,312	$ 3,219,164	$ 2,649,388

The maturities of the long-term Vacation Club memberships at December 31, 2019 are as follows:

To collect during	Amount
2021	$ 1,217,360
2022	1,033,226
2023	665,763
2024 onwards	630,802
Total long-term notes receivable	$ 3,547,151

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.

11. Property and equipment

	2019	2018	2017
Buildings	$ 4,780,412	$ 5,182,053	$ 5,010,933
Furniture and equipment	1,144,775	1,336,721	1,439,118
Computers	102,817	290,196	385,027
Vehicles	26,649	26,891	31,937
	6,054,653	6,835,861	6,867,015
Less - Accumulated depreciation	(2,866,573)	(3,320,459)	(3,699,960)
	3,188,080	3,515,402	3,167,055
Land	1,087,601	1,250,778	1,251,599
Construction in progress	237,474	170,065	182,524
	$ 4,513,155	$ 4,936,245	$ 4,601,178

	Land	Buildings	Furniture and equipment	Computers	Vehicles	Construction in progress	Total
Cost:							
Balance at the beginning of 2017	$ 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	(132,550)	(526,820)	(49,247)	(39,803)	(6,376)	-	(754,796)
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	(821)	(134,005)	(383,244)	(82,894)	(6,310)	-	(607,274)
Balance as of December 31, 2018	1,250,778	5,182,053	1,336,721	290,196	26,891	170,065	8,256,704
Additions and improvements	-	89,377	119,370	1,241	1,064	203,166	414,218
Transfers to assets classified as held for sale	(163,177)	-	-	-	-	(7,101)	(170,278)
Transfers to real state inventory	-	(325,856)	(146,847)	-	-	-	(472,703)
Transfers of prepayments	-	20,976	11,071	-	-	-	32,047
Transfers from construction in progress	-	32,571	40,362	356	-	(114,889)	(41,600)
Disposals	-	(218,709)	(215,902)	(188,976)	(1,306)	(13,767)	(638,660)
Balance as of December 31, 2019	$ 1,087,601	$ 4,780,412	$ 1,144,775	$ 102,817	$ 26,649	$ 237,474	$ 7,379,728
Accumulated depreciation and impairment							
Balance at the beginning of 2017	$ -	$ (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	-	(2,393,349)	(623,236)	(284,541)	(19,333)	-	(3,320,459)
Depreciation expense	-	(164,364)	(175,983)	(4,345)	(2,437)	-	(347,129)
Transfers to assets classified as held for sale	-	2,460	5,559	82	-	-	8,101
Transfers to real state inventory	-	112,344	59,533	-	-	-	171,877
Disposals	-	37,571	206,157	2,604	1,140	-	247,472
Disposals of assets completely depreciated	-	155,662	32,718	185,185	-	-	373,565
Balance as of December 31, 2019	-	(2,249,676)	(495,252)	(101,015)	(20,630)	-	(2,866,573)
Total net investment at December 31, 2019	$ 1,087,601	$ 2,530,736	$ 649,523	$ 1,802	$ 6,019	$ 237,474	$ 4,513,155

As of December, 31, 2019 certain real estate property has been granted as guarantee of tax credits mentioned in Note 26 a, whose approximate amount is $289,902.

12. The Entity as a lessee

The Entity leases three types of assets: computer equipment, vehicles and real property. In the case of computer equipment, the Entity applies the low value exception and continues to record the expense as an operating lease.

a. Movements of right of use asset.

Right-of-use asset	January 1, 2019	Additions	Disposals	December 31, 2019
Real property	$ 3,470,154	$ 1,066,561	$ -	$ 4,536,715
Vehicles	38,368	11,912	-	50,280
	$ 3,508,522	$ 1,078,473	$ -	$ 4,586,995
Accumulated depreciation	**January 1, 2019**	**Additions**	**Disposals**	**December 31, 2019**
Real property	$ -	$ (490,825)	$ -	$ (490,825)
Vehicles	-	(10,115)	-	(10,115)
	$ -	$ (500,940)	$ -	$ (500,940)
	$ 3,508,522	$ 577,533	$ -	$ 4,086,055

b. Movements of lease liabilities.

	January 1, 2019	Additions	Disposals	Interest	Payments	Currency effects	December 31, 2019
Lease liabilities	$ 3,508,522	$ 1,052,759	$ -	$ 331,652	$ (658,553)	$ (87,874)	$ 4,146,506

c. Lease liabilities expiration analysis

2020	$ 416,142
2021	363,796
2022	352,598
2023	373,832
2024	358,686
Later	2,281,452
Total lease liabilities	$ 4,146,506
Long term	$ 3,730,364
Short term	$ 416,142

13. Intangible assets and other assets

	2019	2018	2017
Kívac's sales commissions	$ 245,451	$ 350,161	$ 367,845
Expenditures for technology projects	236,331	188,722	160,497
Guarantee deposits	51,571	48,610	45,037
Development expenses and other	27,398	28,216	33,785
Other assets	103,300	105,750	118,206
	$ 664,051	$ 721,459	$ 725,370

14. Trade accounts payable

The Entity has lines of credit contracted with Banco Santander (México), S.A., BBVA Bancomer, S.A., Banco Monex, S.A. and until 2017 with Banco Actinver, S.A. up to the amount of $75,000, $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:

	2019	2018	2017
Banco Santander (México), S.A.	$ 6,197	$ 89,651	$ 18,710
BBVA Bancomer, S.A.	11,133	22,103	40,900
Banco Monex, S.A.	62,335	38,739	9,730
Banco Actinver, S.A.	1,452	2,450	-
	$ 81,117	$ 152,943	$ 69,340

15. Debt

a. Long-term debt is as follows:

	2019	2018	2017
US dollar-denominated:			
"Senior Notes 2022", 7.875% fixed rate	$ 7,233,874	$ 7,620,602	$ 7,569,715
Mexican pesos:			
Loan, 9.175% annual rate	163,178	188,768	210,000
	7,397,052	7,809,370	7,779,715
Less - Current portion	(25,766)	(23,531)	(11,232)
Long-term debt	$ 7,371,286	$ 7,785,839	$ 7,768,483

The maturities of long-term debt at December 31, 2019, are as follows:

Payable during	Thousands of US dollars	Thousands of Mexican pesos
2021		$ 28,214
2022	US$ 392,605	30,895
2023		33,830
2024 and therefore		46,532
		139,471
Equivalent in thousands of Mexican pesos		7,548,987
Less - debt issuance costs		(177,701)
		$ 7,371,286

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 an 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 2018" held by the Entity as of December 31, 2014, for which US$1,060 was offered for each $1,000 of the previous issuance. Because of the offering, it was possible to tender US$271.7 million of the "Senior Notes 2018", 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, 2019, 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, 2019, the Entity has complied with the restrictions and covenants.

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

In February 2019, the Entity made an offer to repurchase up to $515,000 of its "Senior Notes 2022" at par plus interest accrued as of the settlement date, by using the net surplus derived from the sale of its hotel Fiesta Americana Condesa Cancún. On March 22, 2019, following the expiration of the offer, the Entity paid US$7.4 million to the holders of repurchased bonds, plus interest. After this transaction, the "Senior Notes 2022" program balance was US$392.6 million.

At the 2019 yearend close, the Entity presents a restricted cash balance of $57,800 within the cash equivalents balance, as discussed in Note 6.

f. Below is detail of key financial items of the Entity and the subsidiary guarantors of the "Senior Notes 2022":

	2019		2018		2017	
	Guarantors	Total consolidated	Guarantors	Total consolidated	Guarantors	Total consolidated
Total revenues	$ 8,697,986	$ 9,072,708	$ 7,876,954	$ 8,325,848	$ 8,085,507	$ 8,580,850
Depreciation, amortization and impairment	853,256	887,699	357,350	402,097	379,944	430,635
Lease expense	44,100	44,100	534,976	534,976	475,590	475,590
Consolidated (loss) income	(48,356)	(67,410)	936,551	932,099	(483,778)	(472,594)
Total assets	19,850,365	20,695,510	16,226,043	17,170,281	15,225,169	16,345,057
Total liabilities	$ 17,257,595	$ 17,639,150	$ 13,629,730	$ 13,982,482	$ 13,405,981	$ 13,922,105

16. Income taxes

The Entity is subject to ISR. Under the ISR Law, the rate for 2019, 2018, and 2017 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 2019, 2018 and 2017.

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, 2018, and beginning 2019 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 recognized in profit or loss:

	2019	2018	2017
Current tax -			
Current ISR	$ 6,229	$ 14,244	$ 49,726
ISR previous years	69,249	97,874	2,169,834
	75,478	112,118	2,219,560
Deferred ISR benefit	(9,174)	479,867	(956,953)
Total income tax	$ 66,304	$ 591,985	$ 1,262,607

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

	2019	2018	2017
Statutory rate	30%	30%	30%
Less:			
Effects of permanent differences and tax effects of inflation	71%	8%	(18)%
Effect of tax loss carryforward benefit	-	-	(137)%
Reserve of individual tax loss carryforward benefit	24%	-	10%
ISR, previous years	-	-	275%
Effective rate	125%	38%	160%

As a result of adopting IFRS 16, earnings before tax include the amount of $61,180 for this adoption; without these effects, earnings before tax would be $52,882, with a 125% effective rate.

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

	2019	2018	2017
Notes receivable	$ (1,280,548)	$ (1,092,966)	$ (947,686)
Allowance for doubtful accounts	152,362	127,614	128,996
Real estate inventory	(35,108)	5,491	(28,589)
Property and equipment	166,174	50,489	(158,635)
Intangible assets and other assets	(117,930)	(118,115)	(49,367)
Reserves and deferred income	738,610	794,070	768,714
Tax loss carryforwards	1,696,255	1,556,900	2,077,692
Tax loss carryforwards reserve	(30,265)	(43,787)	(49,685)
Tax benefits (Conacyt)	-	-	8,172
Unrealized exchange rate fluctuation	(134,141)	(134,141)	(134,141)
Deferred ISR asset	$ 1,155,409	$ 1,145,555	$ 1,615,471

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, 2019, 2018 and 2017, the tax loss carryforwards amounted to $5,654,183, $5,189,666, and $6,925,639, respectively.

e. Tax loss carryforwards

Expiration dates and restated amounts of tax loss carryforwards as of December 31, 2019 are:

Year	Amount
2020	$ 59
2021	1,429,525
2022	241
2023	604,204
2024	1,110,463
2025	2,017,588
2026	16,441
2027	22,563
2028	20,670
2029	432,430
	$ 5,654,184

f. Tax credits

As a result of several agreements reached with SAT in April 2018, the Entity recognized an ISR liability that is being paid according to the following maturities:

Year	Amount
2020	$ 345,223
2021	345,223
2022	345,223
2023	345,223
	1,380,893
Less - current portion of income tax payable	(345,223)
	$ 1,035,670

17. Accrued liabilities

	2019	2018	2017
Employee benefits	$ 202,161	$ 104,421	$ 111,050
Other accrued liabilities	247,732	254,637	249,489
	$ 449,893	$ 359,058	$ 360,539

18. Employee benefits

The Entity sponsors funded defined benefit plans for qualifying employees. The defined benefit plans are administered by an independent Fund that is legally separated from the entity. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the plan. The trustees of the pension fund are responsible for the investment policy with regard to the assets of the fund.

The Entity manages a plan, which also covers seniority premiums, consisting of one payment equal to 12 days' wages for each year worked based on the latest wage, limited to twice the legal minimum wage. The related liability and the annual benefit cost are calculated by an independent actuary in accordance with the bases defined in the plans, using the projected unit credit method.

The Entity has defined benefit plans for its qualifying employees and those of its subsidiaries. In conformity with these plans, employees are entitled to retirement benefits, which range from 40% to 45% of the final wage upon reaching the retirement age of 65 years; similarly, there is an early retirement option under certain conditions. Post-retirement benefits are not granted.

The defined benefit plans do not require contributions from employees.

The plans typically expose the Entity to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate that is determined based on the yields of the high quality corpor bonds; if the return on plan asset is below this rate, it will create a plan defici Currently the plan has a relatively balanced investment in equity securities, d instruments and real estates. Due to the long-term nature of the plan liabilitie: the board of the pension fund considers appropriate that a reasonable portion the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, th will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference the best estimate of the mortality of plan participants both during and after th employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit plan liability is calculated by reference the future salaries of plan participants. As such, an increase in the salary of th plan participants will increase the plan's liability.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2019by independent actuary. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2019 %	2018 %	2017 %
Discount rate(s)	7.50	9.75	7.25
Expected rate(s) of salary increase	4.75	4.75	4.75
Others *(Applies for males and females)*	Early retirement 60 years age and 20 years of service Normal retirement 65years age		

Amounts recognized in comprehensive income in regard to these defined benefit plans are as follows:

	Seniority premium 2019	2018	2017
Service cost:			
Current services cost:	$ 3,446	$ 4,005	$ 3,361
Past service cost:	7,199	-	-
Net interest expense:	2,380	1,882	1,661
Components of defined benefit costs recognized in profit or loss	$ 13,025	$ 5,887	$ 5,022

	Pension plan 2019	2018	2017
Service cost:			
Current services cost:	$ 17,675	$ 17,932	$ 16,250
Net interest expense:	7,399	5,610	5,687
Components of defined benefit costs recognized in profit or loss	$ 25,074	$ 23,542	$ 21,937
Total	$ 38,099	$ 29,429	$ 26,959

	Seniority premium 2019	2018	2017
Remeasurement of the net defined benefit liability:			
Actuarial gains and losses arising from changes in financial assumptions	$ 18,797	$ (6,319)	$ 1,258
Actuarial gains and losses arising from experience adjustments	4,847	1,014	(300)
Defined benefit cost items recognized in other comprehensive income	$ 23,644	$ (5,305)	$ 958

	Pension premium 2019	2018	2017
Remeasurement of the net defined benefit liability:			
Actuarial gains and losses arising from changes in financial assumptions	$ 33,264	$ (36,831)	$ 7,430
Actuarial gains and losses arising from experience adjustments	1,744	7,052	6,768
The return on plan liability (excluding amounts included in net interest expense)	3,214	947	(1,386)
Defined benefit cost items recognized in other comprehensive income	$ 38,222	$ (28,832)	$ 12,812
Total	$ 61,866	$ (34,137)	$ 13,770

The remeasurement of the net defined benefit liability is included in other comprehensive income.

The amount included in the consolidated statement of financial position arising from the entity's obligation in regards to its defined benefit plans is: $202,161, $104,421 y $111,050, as of December 31, 2019, 2018 and 2017, respectively.

Movements in the present value of the defined benefit obligation in the period:

	Seniority premium		
	2019	2018	2017
Opening balance defined benefit obligation	$ 25,535	$ 26,875	$ 22,258
Current service cost	3,446	4,005	3,361
Past service cost losses	7,199	-	-
Interest cost	2,380	1,882	1,661
Remeasurement (gains) losses:			
Actuarial gains and losses arising from changes in financial assumptions	18,797	(6,319)	1,258
Actuarial gains and losses arising from experience adjustments	4,847	1,014	(300)
Liabilities assumed in a business combination	427	-	-
Benefits paid	(2,653)	(1,922)	(1,364)
Defined benefit obligation total before present value	$ 59,978	$ 25,535	$ 26,874

Movements in present value of the plan assets in the period:

	2019	2018	2017
Contributions from the employer	$ 2,653	$ 1,922	$ 1,364
Benefits paid	(2,653)	(1,922)	(1,364)
Total plan assets at fair value	-	-	-
Closing balance defined benefit obligation	$ 59,980	$ 25,535	$ 26,875

Movements in present value of defined benefit obligation in the period:

	Pension plan		
	2019	2018	2017
Opening balance defined benefit obligation	$ 160,337	$ 165,037	$ 127,770
Current service cost	17,675	17,932	16,250
Interest cost	14,691	11,367	9,599
Remeasurement (gains)/losses:			
Actuarial gains and losses arising from changes in financial assumptions	33,264	(36,831)	7,430
Actuarial gains and losses arising from experience adjustments	1,744	7,052	6,768
Benefits paid	(12,274)	(4,221)	(2,780)
Defined benefit obligation total before present value	$ 215,437	$ 160,336	$ 165,037

Movements in present value of the plan assets in the period:

		2019		2018		2017
Opening fair value of plan assets	$	81,451	$	80,862	$	38,344
Interest income		7,292		5,757		3,912
Remeasurement (gains)/losses:						
The return on plan assets (excluding amounts included in net interest expense)		(3,214)		(947)		1,386
Contributions from the employer						40,000
Benefits paid		(12,274)		(4,221)		(2,780)
Total plan assets at fair value	$	73,255	$	81,451	$	80,862
Closing defined benefit obligation	$	142,181	$	78,886	$	84,175
Defined benefit obligation total as of December 31, 2019	$	202,161	$	104,421	$	111,050

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 2019 overall strategy of the Entity has not been changed compared to 2018 and 2017.

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:

		2019		2018		2017
Debt (i)	$	7,397,052	$	7,809,370	$	7,779,715
Leasing		4,146,506		-		-
Cash, banks and investments in securities		1,239,548		2,733,898		1,383,584
Net debt		10,304,010		5,075,472		6,396,131
Stockholders' equity (ii)	$	3,056,360	$	3,187,799	$	2,422,952
Net debt to equity index		3.37		1.59		2.64

(i) Debt is defined as short and long-term borrowings in national and foreign currency, as described in Note 14.

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

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

		2019		2018		2017
Financial assets:						
Cash	$	84,545	$	89,808	$	74,594
Cash equivalents		1,155,002		2,644,090		1,308,990
Account and notes receivable		6,891,306		5,912,827		5,294,755
Financial assets held for sale		-		-		4,312
Financial liabilities:						
Amortized cost	$	12,528,437	$	8,945,739	$	8,882,349

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, 2019, 98% of its debt is denominated in US dollars. Considering the net monetary position in US dollars as of December 31, 2019, 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 $498,414.

The current exchange rates in Mexican pesos are as follows:

		2019		December 31, 2018		2017		February 26, 2020
Mexican pesos per US dollar	$	18.8727	$	19.6829	$	19.7354	$	19.0878

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, 2019 accrue interest at fixed rates. Therefore, an increase in interest rates does not result in a significant risk to the Entity. As of December 31, 2019, 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 2017, 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 table includes interest and main cash flows. The contractual maturity is based on the minimum date on which the Entity must make the payments.

As of December 31, 2019	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	7.875 / 9.175%	$ 24,188	$ 301,541	$ 326,383	$ 8,421,855	$ 88,213	$ 9,162,180
Suppliers		411,345	-	-	-	-	411,345
Leasing		192,193	192,193	371,979	1,348,699	4,130,594	6,235,658
Other liabilities and accrued expenses		678,823	-	-	-	-	678,823
Total		$ 1,306,549	$ 493,734	$ 698,362	$ 9,770,554	$ 4,218,807	$ 16,488,006

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%	$ 25,848	$ 335,845	$ 346,319	$ 1,383,993	$ 8,327,342	$ 10,419,347
Suppliers		427,790	-	-	-	-	427,790
Other liabilities and accrued expenses		718,815	-	-	-	-	718,815
Total		$ 1,172,453	$ 335,845	$ 346,319	$ 1,383,993	$ 8,327,342	$ 11,565,952

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		794,630	-	-	-	-	794,630
Total		$ 1,235,547	$ 331,772	$ 347,656	$ 1,389,429	$ 9,056,176	$ 12,360,580

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.

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 — Except for what is mentioned later, 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, 2019 and 2018, the fair value of the Vacation Club long-term receivables is $3,400,067 and $2,966,149, which is greater than its carrying amount. As of December 31, 2019, 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:

	2019	2018	2017
Thousands of US dollars:			
Senior Notes 2022	US$ 328,974	US$ 330,960	US$ 344,743
Thousands of Mexican pesos			
Senior Notes 2022	$ 6,208,628	$ 6,514,253	$ 6,803,641
Banamex	$ 134,898	$ 151,728	$ 167,885

At December 31, 2019, a portion of the Entity's revenues, generally around 27%, has been directly or indirectly denominated in US dollars. This is because 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 2019, 2018 and 2017
Authorized capital	512,737,588
Less -	
Repurchase of shares	(16,855,600)
	495,881,988

b. As of December 31, 2019, 2018 and 2017, 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, 2019.

e. The Stockholders' Ordinary General Meeting held on March 29, 2019 and April 12, 2018 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, 2019, 2018 and 2017, 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	$ -	$ 3,860,642
Profit for the year up to 2019	$ 707,136	$ -

21. Balances and transactions in foreign currency

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

	2019	2018	2017
Thousands of US dollars:			
Current:			
Monetary assets	72,137	99,738	53,692
Monetary liabilities	(3,653)	(3,646)	(7,859)
	68,484	96,092	45,833
Long-term:			
Monetary assets	60,029	51,180	44,851
Monetary liabilities	(392,605)	(400,000)	(400,000)
	(332,576)	(348,820)	(355,149)
Net liability position	(264,092)	(252,728)	(309,316)
Equivalent in thousands of Mexican pesos	$ (4,984,136)	$ (4,974,423)	$ (6,104,475)

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:***

	2019	2018	2017
Hotel operation	$ 3,735,248	$ 3,403,837	$ 4,347,086
Vacation Club	3,995,805	3,564,166	3,091,245
Management fee, brand and other expenses	1,341,655	1,357,845	1,142,519
	$ 9,072,708	$ 8,325,848	$ 8,580,850

b. ***Cost of sales:***

	2019	2018	2017
Hotel operation	$ 1,817,649	$ 1,585,444	$ 1,959,700
Vacation Club	3,082,386	2,634,632	2,210,381
Management fee, brand and other expenses	1,284,010	1,173,073	953,286
	$ 6,184,045	$ 5,393,149	$ 5,123,367

c. ***Administrative expenses:***

	2019	2018	2017
Salaries, employee benefits and other	$ 491,169	$ 444,409	$ 453,755
PTU	181	194,000	86,052
Electricity	211,857	181,443	198,418
Maintenance	107,376	94,527	112,459
Professional fees	46,393	39,976	66,743
Credit card commissions	56,964	50,855	47,207
Property taxes and duties	31,335	29,379	41,511
Office rentals	7,597	30,233	27,273
Services and supplies	20,505	20,689	17,919
Insurance and bonds	19,008	13,736	12,868
Equipment leasing	22,659	14,792	8,759
Doubtful accounts	14,064	8,378	12,466
Others	34,101	29,452	19,638
	$ 1,063,209	$ 1,151,869	$ 1,105,068

d. ***Sale and development expenses:***

	2019	2018	2017
Marketing and publicity	$ 176,468	$ 142,335	$ 185,373
Salaries, employee benefits and other	69,057	63,899	74,318
Travel expenses	3,996	1,953	7,363
Subscription fees	352	83	146
Others	2,140	3,722	5,108
	$ 252,013	$ 211,992	$ 272,308

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 and $103,017 in 2018 and 2017, respectively, for such item.

23. Related party transactions

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

	2019	2018	2017
Direct, short and long-term benefits	$ 114,503	$ 113,297	$ 108,965

24. Operating 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. In addition, 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, 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.

2019	Hotel operation	Vacation Club	Hotel management, brand and other	Total	Other corporate expenses	Eliminations	Total consolidated
Statement of comprehensive income (loss):							
Total revenues	$ 3,766,350	$ 3,995,805	$ 1,512,722	$ 9,274,877	$ -	$ (202,169)	$ 9,072,708
Cost and general expenses	2,481,585	3,123,075	1,723,100	7,327,760	-	(202,169)	7,125,591
Corporate expenses	-	-	-	-	403,918	-	403,918
Depreciation, and amortization	-	-	-	-	887,699	-	887,699
Other expenses	-	-	-	-	(23,312)	-	(23,312)
Operating income (loss)	$ 1,284,765	$ 872,730	$ (210,378)	$ 1,947,117	$ 1,268,305	$ -	$ 678,812
					Financial expenses, net		687,109
					Equity in associate		-
					Income before income taxes		$ (8,297)

2018	Hotel operation	Vacation Club	Hotel management, brand and other	Total	Other corporate expenses	Eliminations	Total consolidated
Statement of comprehensive income (loss):							
Total revenues	$ 3,431,078	$ 3,564,166	$ 1,568,240	$ 8,563,484	$ -	$ (237,636)	$ 8,325,848
Cost and general expenses	2,634,209	2,687,401	1,627,205	6,948,815	-	(237,636)	6,711,179
Corporate expenses	-	-	-	-	379,439	-	379,439
Depreciation, and amortization	-	-	-	-	402,097	-	402,097
Other expenses	-	-	-	-	1,190,106	-	1,190,106
Operating income (loss)	$ 796,869	$ 876,765	$ (58,965)	$ 1,614,669	$ (1,971,642)	$ -	2,023,239
					Financial expenses, net		482,953
					Equity in associate		15,000
					Income before income taxes		$ 1,555,286

	2017						
	Hotel operation	Vacation Club	Hotel management, brand and other	Total	Other corporate expenses	Eliminations	Total consolidated
Statement of comprehensive income (loss):							
Total revenues	$ 4,374,035	$ 3,091,245	$ 1,441,910	$ 8,907,190	$ -	$ (326,340)	$ 8,580,850
Cost and general expenses	3,129,415	2,309,925	1,398,096	6,837,437	-	(313,604)	6,523,833
Corporate expenses	-	-	-	-	452,682	(12,648)	440,034
Depreciation, and amortization	-	-	-	-	430,635	-	430,635
Other expenses	-	-	-	-	35,202	88	35,290
Operating income (loss)	$ 1,244,620	$ 781,320	$ 43,814	$ 2,069,753	$ (848,115)	$ -	1,221,638
						Financial expenses, net	(431,625)
						Income before income taxes	$ 790,013

25. **Commitments**

a. As of December 31, 2019, 2018 and 2017, 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 18% and 33%. During the years ended December 31, 2019, 2018 and 2017, lease expense was $715,445, $534,976 and $475,590, respectively. The minimum lease estimated for the following years is shown below:

Years	Amount
2019	$ 758,674
2020	730,787
2021	734,627
2022	761,482

b. As of December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017, lease expense amounted to $117,654, $104,331 and $105,974, respectively. The estimated rental payments for the following years is shown below:

Years	Amount
2019	$ 117,654
2020	84,716
2021	41,821
2022	11,277
2023	1,083

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 final result for the Entity. The tax authorities have determined unpaid income tax payments. The Entity therefore filed a proceeding with the Federal Tax Court, which partially overturned the tax liability. As we are currently awaiting a ruling on a writ of injunctive relief and a motion for tax review by the tax authority, the final ruling is, still pending The Entity has provided a guarantee for the restated tax liability for $975,419 that consists of a bond of $672,422 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, 2019, 2018 and 2017, 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.

c. 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.

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

27. Authorization to issue the financial statements

The consolidated financial statements as of December 31, 2018 and 2017 were approved in General Stockholders Meetings held on April 12, 2019 and March 23, 2018, respectively. The accompanying consolidated financial statements as of December 31, 2019 were authorized to be issued on February 26, 2020, 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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