

Consolidated Financial Statements and Report of
Independent Registered Public Accounting Firm

Grupo TMM, S.A.B. and Subsidiaries

December 31, 2019 and 2018

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
Grupo TMM, S.A.B.:

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Grupo TMM, S.A.B. and subsidiaries (“Grupo TMM” or the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of profit or loss, comprehensive income, changes in stockholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2019 and the related notes (collectively referred to as the “financial statements”).

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grupo TMM as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

Change in accounting principle

As discussed in Note 3 to the consolidated financial statements, the Company has changed its method of accounting for operating leases as of January 1, 2019 due to the adoption of IFRS 16, Leases.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.



Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Salles Sainz - Grant Thornton, S.C.

We have served as the Company's auditor since 2005.

Mexico City, Mexico
June 29, 2020

Consolidated statements of financial position

As at December 31, 2019 and 2018

(Amounts in thousands of pesos, except number of shares)

	2019	2018
Assets		
Current		
Cash and cash equivalents (Note 6)	\$ 476,714	\$ 278,842
Restricted cash (Note 6)	36,085	39,313
Trade receivables, net (Note 7)	344,030	248,183
Other accounts receivable (Note 8)	421,770	410,434
Related parties (Note 15)	163,344	207,964
Materials and supplies	60,964	56,621
Prepayments	22,696	24,873
Total current assets	1,525,603	1,266,230
Non-current		
Property, vessels and equipment, net (Note 9)	2,285,420	2,313,437
Right-of-use assets (Note 10)	560,099	-
Intangible assets (Note 12)	141,484	126,437
Concession rights, net (Note 11)	5,676	9,459
Other non-current assets	45,493	65,521
Total non-current assets	3,038,172	2,514,854
Total assets	\$ 4,563,775	\$ 3,781,084
Liabilities		
Short-term		
Short-term portion of the financial debt (Note 14)	\$ 139,189	\$ 223,362
Short-term leases liabilities (Note 10)	60,578	-
Trade payables	262,159	262,090
Accounts payable and accrued expenses (Note 16)	499,529	357,523
Related parties (Note 15)	87,573	18,379
Total short-term liabilities	1,049,028	861,354
Long-term		
Long-term portion of the financial debt (Note 14)	118,737	392,063
Long-term lease liabilities (Note 10)	526,781	-
Accounts payable	46,742	-
Employee benefits (Note 23)	151,481	176,606
Deferred income tax (Note 21)	248,214	226,803
Total long-term liabilities	1,091,955	795,472
Total liabilities	2,140,983	1,656,826
Stockholders' equity (Note 17):		
Share capital (103,760,541 shares authorized and issued)	2,216,733	2,216,733
Treasury shares (1,577,700 shares)	(46,805)	(46,805)
Accumulated losses	(565,526)	(799,818)
Other components of equity	771,958	706,944
Controlling interest	2,376,360	2,077,054
Non-controlling interest	46,432	47,204
Total stockholders' equity	2,422,792	2,124,258
Total liabilities and stockholders' equity	\$ 4,563,775	\$ 3,781,084

The attached notes are part of these consolidated statements.

Consolidated statements of profit or loss

For the years ended December 31, 2019, 2018 and 2017

(Amounts in thousands of pesos, except per share amounts and number of shares)

	2019	2018	2017
Revenue from transportation (Note 18)	\$ 1,475,683	\$ 1,523,066	\$ 2,464,939
Costs and expenses:			
Salaries, wages and employee benefits (Note 23)	343,700	368,614	571,775
Leases (Note 10)	300,466	436,469	622,908
Contracted services	448,217	413,060	545,541
Fuel, materials and supplies	206,820	211,793	317,525
Depreciation, amortization and loss from revaluation	182,880	80,277	562,915
Other costs and expenses	14,740	17,221	22,231
	1,496,823	1,527,434	2,642,895
Transportation loss	(21,140)	(4,368)	(177,956)
Other income, net (Note 19)	233,907	102,625	3,217,746
Operating income	212,767	98,257	3,039,790
Financing cost:			
Interest income	5,100	9,137	24,829
Interest expense and other financial costs (Note 20)	(146,875)	(84,890)	(1,210,486)
Exchange gain (loss), net	24,875	5,844	(7,822)
	(116,900)	(69,909)	(1,193,479)
Profit before taxes	95,867	28,348	1,846,311
Income tax expense (Note 21)	(64,575)	(4,799)	(516,732)
Net profit for the year	\$ 31,292	\$ 23,549	\$ 1,329,579
Attributable to:			
Non-controlling interest	(772)	4,543	1,989
Controlling interest	32,064	19,006	1,327,590
	\$ 31,292	\$ 23,549	\$ 1,329,579
Profit per share for the year (Note 24)			
Profit per share for the year	\$ 0.314	\$ 0.186	\$ 12.992
Weighted average number of shares for the year	102,182,841	102,182,841	102,182,841

The attached notes are part of these consolidated statements.

Consolidated statements of comprehensive income

For the years ended December 31, 2019, 2018 and 2017

(Amounts in thousands of pesos)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net profit for the year	\$ 31,292	\$ 23,549	\$ 1,329,579
Other comprehensive income:			
<i>Items that will not be subsequently reclassified to profit or loss</i>			
Actuarial gains, net (Note 23)	2,354	15,430	319
Revaluation surplus (Note 25)	379,420	(161,411)	941,957
Income tax on other comprehensive income	(114,532)	43,794	(282,683)
Total of other comprehensive income for the year	<u>267,242</u>	<u>(102,187)</u>	<u>659,593</u>
Comprehensive income (loss) for the year	\$ 298,534	\$ (78,638)	\$ 1,989,172
Attributable to:			
Non-controlling interest	(772)	4,543	1,989
Controlling interest	299,306	(83,181)	1,987,183
	<u>\$ 298,534</u>	<u>\$ (78,638)</u>	<u>\$ 1,989,172</u>

The attached notes are part of these consolidated statements.

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2019, 2018 and 2017

(Amounts in thousands of pesos, except number of shares)

	Number of outstanding common shares	Share capital	Treasury shares	Mandatory convertible debentures into shares	Accumulated losses	Other components of equity	Subtotal	Non controlling interest	Total stockholders' equity
Balances as at December 31, 2016	102,182,841	\$ 2,216,733	\$ (46,805)	\$ 724,100	\$ (4,259,984)	\$ 2,263,108	\$ 897,152	\$ 66,838	\$ 963,990
Net income for the year	-	-	-	-	1,327,590	-	1,327,590	1,989	1,329,579
Other comprehensive income	-	-	-	-	2,073,235	(1,413,642)	659,593	-	659,593
Comprehensive income for the year							1,987,183	1,989	1,989,172
Cancellation of mandatorily convertible debentures into shares	-	-	-	(724,100)	-	-	(724,100)	-	(724,100)
Balances as at December 31, 2017	102,182,841	2,216,733	(46,805)	-	(859,159)	849,466	2,160,235	68,827	2,229,062
Net income for the year	-	-	-	-	19,006	-	19,006	4,543	23,549
Other comprehensive income	-	-	-	-	40,335	(142,522)	(102,187)	-	(102,187)
Comprehensive loss for the year							(83,181)	4,543	(78,638)
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(26,166)	(26,166)
Balances as at December 31, 2018	102,182,841	2,216,733	(46,805)	-	(799,818)	706,944	2,077,054	47,204	2,124,258
Net income for the year	-	-	-	-	32,064	-	32,064	(772)	31,292
Other comprehensive income	-	-	-	-	202,228	65,014	267,242	-	267,242
Comprehensive income for the year							299,306	(772)	298,534
Balances as at December 31, 2019	102,182,841	\$ 2,216,733	\$ (46,805)	\$ -	\$ (565,526)	\$ 771,958	\$ 2,376,360	\$ 46,432	\$ 2,422,792

The attached notes are part of these consolidated statements.

Consolidated statements of cash flow

For the years ended December 31, 2019, 2018 and 2017

(Amounts in thousands of pesos)

	2019	2018	2017
Cash flows from operating activities:			
Profit before taxes	\$ 95,867	\$ 28,348	\$ 1,846,311
Adjustments to reconcile the profit with cash used in operating activities:			
Depreciation, amortization and loss from revaluation	182,880	80,277	562,915
Other amortizations	1,679	5,259	84,615
(Gain) loss from the sale of property, vessels and equipment, net	(23,415)	1,849	(330)
Accrued interests	133,768	80,580	1,039,856
Interest income	(5,100)	(9,137)	(24,829)
Gain from the loss of control of subsidiary	-	-	(3,458,467)
Exchange gain	(26,411)	(8,312)	(4,545)
(Gain) loss from the sale of subsidiaries	(279,744)	(111,484)	273,032
Changes in assets and liabilities:			
Accounts receivable	(95,847)	2,454	7,924
Other accounts receivable and related parties	45,287	(98,394)	(150,154)
Materials and supplies	(4,343)	1,440	(38,936)
Prepayments	2,177	(13,346)	3,753
Other accounts payable and accrued expenses	(46,638)	117,065	162,094
Other non-current assets	4,981	(22,685)	42,269
Employee benefits	(25,125)	1,046	11,353
Total adjustments	(135,851)	26,612	(1,489,450)
Cash (used in) from operating activities	(39,984)	54,960	356,861
Cash from investment activities			
Proceeds from sale of property, vessels and equipment	16,233	169,627	7,059
Acquisition of property, vessels and equipment	(48,281)	(86,283)	(80,222)
Sale of subsidiaries, net	600,887	50,331	66,987
Decrease of cash and cash equivalents from the loss of control of subsidiary	-	-	(212,332)
Dividends paid to non-controlling interest	-	(26,166)	-
Interest charged	5,100	9,137	24,829
Cash from (used in) investment activities	573,939	116,646	(193,679)
Cash flow from financing activities			
Proceeds from debt	29,590	124,010	-
Repayment of debt	(189,026)	(397,458)	(172,592)
Repayment of leases	(134,245)	-	-
Interest paid	(36,257)	(40,792)	(409,146)
Cash used in financing activities	(329,938)	(314,240)	(581,738)
Exchange effect on cash	(6,145)	(607)	(20,737)
Increase (decrease) in cash and cash equivalents	197,872	(143,241)	(439,293)
Cash and cash equivalents, beginning of year	278,842	422,083	861,376
Cash and cash equivalents, end of year	\$ 476,714	\$ 278,842	\$ 422,083
Complementary information:			
Income tax caused	\$ 14,512	\$ 4,799	\$ 3,000

The attached notes are part of these consolidated statements.

Notes to the consolidated financial statements

At December 31, 2019 and 2018

(Amounts in thousands of pesos, except number of shares and where otherwise indicated)

1 Nature of operations

Principal activity

Grupo TMM, S.A.B. ('Grupo TMM' or the 'Company') is a Mexican company whose principal activity is providing multimodal transport and logistics services to premium customers throughout Mexico.

The Company's activities are grouped into the following service divisions:

- *Maritime*: includes specialized offshore shipping services, clean oil, and chemical products shipping, tugboat services, bulk carrier and other activities related to the maritime transportation business.
- *Ports and terminals*: includes shipping agency services, inland and seaport terminal services.
- *Logistics*: includes the operations of logistics solutions services and container and railcar maintenance and repair services.
- *Warehousing*: includes bonded warehouse operations and management.

Relevant events

On February 14, 2019, Grupo TMM acquired the shares of Caoba Energía, S. de R.L. de C.V., which held 50% of the shares of Services & Solutions Optimus, S. de R.L. de C.V. ('Optimus'), the joint venture company engaged in the development of storage infrastructure and transportation of hydrocarbons and refined petroleum products, such as gasoline, diesel and jet fuel, in the port of Tuxpan. Following the acquisition, Optimus became a 100% subsidiary of the Company (see Note 5).

In 2019, Grupo TMM sold 100% of the shares of the subsidiaries Bamorau Servicios, S.A.P.I. de C.V. and Snekke, S.A. de C.V. related to the tugboats business to unrelated third parties. The gain from the sale of these subsidiaries was \$279.7 million, which is shown in the "Other income" caption in the consolidated statements of income; the value of the net assets of these subsidiaries at the date of the sale was not significant (see Note 5).

Structure of Grupo TMM

At December 31, 2019 and 2018, Grupo TMM holds the percentage of equity interest in various subsidiaries, the most significant are as follows:

	% of ownership	
	2019	2018
<i>Maritime</i>		
Transportación Marítima Mexicana, S.A. de C.V.	100 %	100 %
Inmobiliaria Dos Naciones, S. de R.L. de C.V.	100 %	100 %
TMM Parcel Tankers, S.A. de C.V.	100 %	100 %
<i>Logistics</i>		
Almacenadora de Depósito Moderno, S.A. de C.V. (Warehouse)	100 %	100 %
Autotransportación y Distribución Logística, S.A. de C.V.	100 %	100 %
TMM Almacenadora, S.A.P.I. de C.V.	100 %	100 %
<i>Ports and terminals</i>		
TMM Logistics, S.A. de C.V.	100 %	100 %
Prestadora de Servicios MTR, S.A. de C.V.	100 %	100 %
Administradora Marítima TMM, S.A.P.I. de C.V.	100 %	100 %
Caoba Energía, S. de R.L. de C.V.	100 %	50 %
Services & Solutions Optimus, S. de R.L. de C.V.	100 %	50 %
Servicios Administrativos API Acapulco, S.A. de C.V.	51 %	51 %
Administración Portuaria Integral de Acapulco, S.A. de C.V.	51 %	51 %
<i>Payroll outsourcing</i>		
Mexschiff Operación de Personal, S.A.P.I. de C.V.	100 %	100 %
Omexmar Operadora Mexicana Marítima, S.A.P.I. de C.V.	100 %	100 %
Perhafen Services Marítimos, S.A.P.I. de C.V.	100 %	100 %
TMM Dirección Corporativa, S.A.P.I. de C.V.	100 %	100 %
Perjomar Operadora, S.A.P.I. de C.V.	44 %	44 %
<i>Property leasing</i>		
Inmobiliaria TMM, S.A. de C.V.	100 %	100 %

The Company's subsidiaries are incorporated in Mexico, where most of their activities take place.

Non-controlling interest in subsidiaries

Grupo TMM holds an equity interest in the subsidiaries Administración Portuaria Integral de Acapulco, S.A. de C.V., Servicios Administrativos API Acapulco, S.A. de C.V., and Perjomar Operadora, S.A.P.I. de C.V., for which there is non-controlling interest; the associated effect on the Company's consolidated financial statements is considered immaterial. These companies are established and conduct their activities in Mexico.

Investments in associates

The Company maintains investments in the following associates:

- (a) In July 2014, Grupo TMM contributed \$40,000 to the capital stock of Almacenes de Jugos Citricos de Mexico, S.A.P.I. de C.V., which represents 21% of the voting shares. Since this entity has not started up operations as of the issue date of the consolidated financial statements, Company Management decided to reserve the investment in its entirety.

- (b) The Company lost control of its subsidiary TMM División Marítima, S.A. de C.V. (TMM DM) in 2017, retaining 15% equity in its capital without exerting significant influence. Accordingly, this investment has been classified as an investment in associate. As of December 31, 2019 and 2018, the value of this investment is nil, since the stockholders' equity of TMM DM is negative. Moreover, in accordance with the statutes of TMM DM, the stockholders only assume obligation in connection with their equity up to the amount thereof.

2 General information and statement of compliance with IFRS

Grupo TMM's head office is located at Avenida de la Cúspide N° 4755, Colonia Parques del Pedregal, Delegación Tlalpan, C.P. 14010, Mexico City. In addition, a significant portion of its maritime division activities is conducted at Calle 55 N° 2 Col. Electricistas C.P. 24120 Cd. del Carmen, Campeche.

Grupo TMM's shares are listed on the Mexican Stock Exchange, where they trade under the symbol TMM A. In the United States, Grupo TMM's shares trade on the "Over-the-Counter" ('OTC') market in the form of American Depositary Shares ('ADSs') under the symbol GTMAY.

Grupo TMM and its subsidiaries prepare their consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board ('IASB'), and these are presented in thousands of Mexican pesos. They have been prepared under the assumption that Grupo TMM operates on a going concern basis.

The Company has decided to present in its consolidated statements of income a subtotal of 'Operating income' which reconciles with the 'Net profit for the year' considering the items of 'Comprehensive financing cost' and 'Income tax expense'; with regard to the subtotal of 'Transportation loss', the latter reconciles with the 'Operating income' considering the item 'Other income'.

3 Changes in accounting policies

3.1 New Standards adopted as of January 1, 2019

Grupo TMM has adopted the new accounting pronouncements that are effective this year, and are as follows:

IFRS 16 'Leases'

IFRS 16 'Leases' replaces IAS 17 'Leases', together with three Interpretations (IFRIC 4 'Determination of whether an Agreement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluation of the Essence of Transactions Adopting the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Company recognizing a right-of-use asset and the related lease liability in connection with all former operating leases, except those identified as low value or with a remaining lease term of less than 12 months from the date of initial application.

The Company adopted this new Standard using the modified retrospective approach, as well as the alternative option of valuing the right-of-use asset in an amount equal to the lease liability as of January 1, 2019, the date of adoption. Pursuant to the foregoing, no effect was required to be recognized for adopting this standard in the opening balance of accumulated losses. Finally, prior periods were not required to be restated.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets Grupo TMM has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 11.1%.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

	Carrying amount at 31 December 2018	Remeasurement	IFRS 16 carrying amount at 1 January 2019
Right-of-use assets	\$ -	\$ 667,230	\$ 667,230
Short-term leases liabilities	-	(62,895)	(62,895)
Long-term lease liabilities	-	(604,335)	(604,335)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The following is a reconciliation of total operating lease commitments at December 31, 2018 (as disclosed in the consolidated financial statements as of 31 December 2018) to the lease liabilities recognized at 1 January 2019:

Total operating lease commitments disclosed at December 31, 2018	\$ 933,885
Leases identified in the assessment under IFRS 16	175,324
	<u>1,109,209</u>
Recognition exemption:	
Leases with a remaining term of less than 12 months	(12,297)
Operating lease liabilities before discounting	1,096,912
Discounted using incremental borrowing rate	(429,682)
Finance lease obligations	667,230
Total lease liabilities recognized under IFRS 16 at January 1, 2019	<u>\$ 667,230</u>

Other Standards and amendments that are effective for the first time in 2019 (for entities with a 31 December 2019 year-end) and are applicable to the Company are:

- IFRIC 23 Uncertainty over Income Tax Treatments
- IFRS 9 Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- IAS 28 Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Annual Improvements to IFRS 2015-2017 Cycle
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

These amendments do not have a significant impact on these financial statements and therefore the disclosures have not been made.

3.2. Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these consolidated financial statements, several new, but not yet effective Standards, amendments to existing Standards, and Interpretations have been published by the IASB, none of which have been adopted in advance by Grupo TMM.

At the date of authorization of these consolidated financial statements, other new standards and amendments that are not yet effective and have not been adopted early by the Company include:

- IFRS 17 Insurance Contracts
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Conceptual Framework for Financial Reporting

These amendments are not expected to have a significant impact on the financial statements in the period of initial application and therefore the disclosures have not been made.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have been disclosed as they are not expected to have a material impact on the Company's consolidated financial statements.

4 Summary of significant accounting policies

The most significant accounting policies are summarized as follows:

4.1 Basis of consolidation

The consolidated financial statements include the accounts of Grupo TMM and those of its subsidiaries. Grupo TMM controls a subsidiary when it is exposed, or has rights, to variable returns resulting from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have the reporting date of "December 31", for all years reported.

The balances and transactions among subsidiaries have been eliminated for the purposes of consolidation, including balances and unrealized gains on transactions between Grupo TMM's companies. Unrealized losses on the sale of assets among the Company are eliminated in the consolidation and the asset involved is also reviewed for impairment from a group perspective. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by Grupo TMM.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interest, presented as part of the stockholders' equity, represents the portion of the subsidiary's profit or loss and net assets that are not held by Grupo TMM. The Company attributes the total comprehensive income or loss of the subsidiaries between the owners of the parent and the non-controlling interest based on their respective ownership interests.

Associates and joint ventures

Associates are all entities over which Grupo TMM has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement having rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted by the equity method and are initially recognized at their acquisition cost.

The carrying amount of investments in associates and joint ventures is increased or decreased to recognize Grupo TMM's share of the profit or loss and other comprehensive income of the associate and joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Company.

Unrealized gains on transactions between Grupo TMM and its associates and joint ventures are eliminated to the extent of the Company's interest on those entities. When unrealized losses are eliminated, the asset involved is also tested for impairment.

4.2 Business combinations

Grupo TMM applies the acquisition method to accounting for business combinations. The consideration transferred by Grupo TMM to obtain control of a subsidiary is calculated as the sum of the fair values on the acquisition-date of the assets transferred, liabilities incurred, and the equity interests issued by Grupo TMM, which includes, accordingly, the fair value of any asset or liability that arises from the contingent consideration arrangement. Acquisition costs are expensed as incurred.

Grupo TMM recognizes identifiable assets acquired and liabilities assumed in the business combination independent of whether these were recognized in acquirer's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair value.

Goodwill is stated after the individual recognition of identifiable intangible assets. It is calculated as the excess of the sum of : a) the fair value of the consideration transferred, b) the amount recognized for any non-controlling interest in the entity acquired, and c) the fair value on the acquisition date of any equity interest in the acquire, over the acquisition-date the fair values of the identifiable net assets. If the fair values of the identifiable net assets exceed the sum calculated above, this excess amount (e.g. gain on a bargain purchase) is immediately recognized in profit or loss.

4.3 Foreign currency translation**Functional and presentation currency**

The consolidated financial statements are reported in Mexican pesos, which is also the functional currency of Grupo TMM.

Foreign currency balances and transactions

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the measurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other highly liquid and short-term investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of change in their value.

4.5 Materials and supplies

Materials and supplies, consisting mainly of fuel and items for the maintenance of property, vessels and equipment, are valued at the lower of the average cost and the net realizable value.

4.6 Prepayments

Represent prepayments for services that will be received in the future and are amortized in the period when said services are received.

4.7 Property, vessels and equipment

Properties and vessels

The properties (land and buildings) are measured at fair value, which are determined by external professional valuers every three years or before if the market factors indicate a significant change in the fair value. The last valuation of these assets was in December 2019.

The vessels are measured at fair value and as of December 31, 2019 and 2018, the revalued amounts were determined using the revenue technique (expected future cash flows). The frequency of the revaluations for this class of assets will be based on the changes of the fair values, meaning when these values significantly differ from their carrying value. The Company has revaluated this class of assets as of December 31, 2019 and 2018.

The revaluation surplus that is derived from the valuation of properties and vessels is recognized as part of 'Other comprehensive income items' and forms part of 'other capital components' in stockholders' investment. A revaluation surplus is credited to income up to an amount equivalent to any revaluation write-down or impairment loss previously recognized income. Any excess is recognized in 'Other comprehensive income items' and in stockholders' equity in the item of 'Revaluation surplus'. Revaluation write-downs or impairment losses are recognized in 'Other comprehensive income items' up to the amount previously recognized on that asset in stockholders' equity in the item of 'Revaluation surplus'.

Any remaining decrease is recognized in income for the year. Any remaining balance of the revaluation surplus in stockholders' equity at the time of disposing of the asset that gave rise thereto is reclassified to retained earnings. Moreover, any remaining balance of the revaluation surplus in stockholders' equity may not be distributed to stockholders.

The depreciation of properties and vessels is recognized using the straight-line method to write down its carrying value less its estimated residual value. As no finite useful life for land can be determined, the related carrying amounts are not depreciated.

Equipment

Equipment is stated at construction or acquisition cost, including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by Grupo TMM's Management. Acquisitions through capital leases or charter arrangements with an obligation to purchase are capitalized based on the present value of future minimum payments, recognizing the related liability. Depreciation of equipment is computed using the straight-line method based on the useful lives of the assets net of the estimated residual value.

Recurring maintenance and repair expenditures are charged to operating expenses as incurred. Major repairs to vessels (docks) are capitalized and amortized over the period in which benefits are expected to be received (two to five years for vessels). The material residual values and the estimated useful life are adjusted as necessary, at least once a year.

Gains or losses from the disposal of property, vessels and equipment are determined as differences between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss as part of 'Other income', accordingly (see Note 19).

Construction in progress

Disbursements attributable to construction of assets that are identifiable and may be controlled by the Company are recognized as assets when they meet the following conditions:

- it is technically possible to complete the construction of the asset so that it can be available to be used;
- management has the intent of completing the asset to use it;
- it can be proven that the asset will generate economic benefits in the future;
- adequate technical, financial or another type of resources are available to complete the asset; and
- the disbursement attributable to the asset during its construction can be determined reliably.

4.8 Intangible assets**Recognition of intangible assets***Concession rights*

Concession rights correspond to payments made for the rights to operate assets under concession, which are stated at cost and are amortized over the terms specified in the corresponding agreements.

Software

Software licenses acquired are capitalized on the basis of costs incurred to acquire and install the specific software.

Trademark

The trademark acquired in a business combination that qualifies for separate recognition is considered an intangible asset and is recorded at its fair value.

Subsequent measuring

All finite-lived intangible assets are accounted for using the cost model by which the net capitalized costs of their residual value are amortized using the straight-line method throughout their estimated useful lives, in the case of the concession rights; these are amortized according to the term specified in the corresponding agreement. The residual values and useful lives are reviewed at each reporting date. The trademark is considered an intangible asset with an indefinite life; therefore it is subject to impairment tests annually as described in Note 13.

The amortization is included in the consolidated statement of operations as part of the depreciation, amortization, and loss on revaluation item. Subsequent expenditures to preserve software and trademarks are expensed as incurred.

4.9 Impairment testing of long-lived assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Trademark is allocated to those cash-generating units that are expected to benefit from synergies of a related business combination and represent the lowest level within the Company at which management monitors the trademark.

Cash-generating units to which trademark has been allocated (determined by the Grupo TMM's Management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

The data used for impairment testing procedures are directly linked to the Grupo TMM's latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect current market assessments of the time value of money and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

With the exception of the trademark, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

4.10 Leased assets

As described in Note 3, Grupo TMM has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. This means comparative information is still reported under IAS 17.

Accounting policy applicable from 1 January 2019

The Company as lessee

For any new contract entered into on or after January 1, 2019, the Company considers whether a contract is or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for a consideration'. To apply this definition, Grupo TMM assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly by specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct the 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of measurement of the lease liability.

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date of the lease to the end of the useful life of the right-of-use asset or the end of the lease term, whichever is less. The Company also evaluates the impairment of the right-of-use asset when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments and payments based on an index or rate.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right of use asset or in results if the right of use asset has already been reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to the lease are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, rights-of-use assets have been included in a separate line just after the item of property, vessels and equipment, and lease liabilities have been included in a separate line item shown in the short and long term.

The Company as lessor

The Company's accounting policy under IFRS 16 has not changed from the comparative period.

As lessor, the Company classifies its leases as operating or financial.

A lease is classified as a financial lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, or classified as an operating lease if it does not.

Accounting policy applicable before January 1, 2019

Financial leases

Management applies judgment in considering the substance of a lease agreement. The economic ownership of the leased asset is transferred to the leaseholder if they substantially assume all the risks and rewards related to the ownership of the leased asset.

The corresponding asset is then recognized at the start of the lease at the fair value of the leased asset, or if lower, at the present value of the lease payments. A corresponding amount is recognized as a liability for financial leasing, independent of whether some of the lease payments are settled in advance of the lease start date.

The corresponding liability decreases by the lease payments net of the financial expenses. The interest component in the lease payment represents a portion of the capital balance outstanding and is recognized in operations as financial costs over the lease period.

Notes 4.7 above and 9 describe the depreciation methods and estimated useful lives, respectively, for assets under financial leases.

Operating leases

All other leases were treated as operating leases. Payments on operating lease agreements were recognized as an expense on a straight-line basis over the lease term. The associated costs, such as maintenance and insurance, are expensed as incurred.

4.11 Financial instruments

Recognition and derecognition

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

Financial assets are derecognized when the contractual rights to the cash flow from a financial asset expire, or when the financial asset and all the substantial risks and benefits have been transferred. A financial liability is derecognized as extinguished, discharged, canceled, or expired.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value, adjusted by transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorized as FVTPL or FVOCI.

The classification is determined by both:

- the Company's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within financial costs and income; except for impairment of trade receivables which is presented in the heading of 'Other costs and expenses'.

Subsequent measurement of financial assets***Financial assets at amortized cost***

Financial assets are measured at amortized cost if the assets meet the following conditions:

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

After initial recognition, these are measured at amortized cost using the effective interest method. The financial assets of the Company are not discounted since it is not material. The Company's cash and cash equivalents, trade receivables and part of the other accounts receivable fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included mainly trade receivables, contract assets recognized and measured under IFRS 15, other accounts receivables and accounts receivable from related parties.

Recognition of credit losses considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Grupo TMM makes use of a simplified approach in accounting for trade and other accounts receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assess impairment of trade receivables based on the characteristics of the business segment, when appropriate this assessment is made on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 26, for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

Classification and measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

All interest-related charges are included within finance costs or finance income.

4.12 Provisions, contingent liabilities and contingent assets

Provisions are recognized when the present obligations resulting from a past event will probably lead to an outflow of the Company economic resources and the amounts can be reliably estimated. Timing or amount of the outflow may still be uncertain. A present obligation arises from a presence of a legal or constructive commitment that has resulted from past events. Provisions are not recognized for future operating losses.

Provisions are the estimated amounts required to be expended to settle the present obligation based on the most reliable evidence available at the date of the consolidated financial statements, including the risks and uncertainties associated with the present obligation. Provisions are discounted at their present value, where the time value of money is material.

All provisions are reviewed on the issuance of the financial statements and adjusted to reflect the current best estimate. When an outflow of economic resources for present obligations is not probable, this is not recognized as a liability, unless it was assumed in the course of a business combination. Such cases are disclosed as contingent liabilities unless the outflow of resources is remote.

Possible inflows of the Company's economic benefits, which do not yet meet the criteria for recognition of an asset, are considered as contingent assets.

4.13 Taxes on earnings

Calculation of current income tax is based on tax rates and tax laws that have been enacted or substantially enacted to the reporting date of the consolidated financial statements.

Deferred income tax is determined using the liability method, based on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Determination of deferred income tax has considered tax rates that will be effective at the time of reversion of the temporary differences.

The income tax expense in the statement of profit or loss includes the sum of the deferred tax, which has not been recognized in other comprehensive income or directly in stockholders' equity, and the current income tax for the year.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit against which temporary differences can be utilized will be available (see Note 21).

This is assessed based on the Company's forecast of future operating results, adjusted for significant items that are reconciled for the taxable income and the limits on the use of tax losses and other tax asset carryforwards.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

4.14 Statutory employee profit sharing

The statutory employee profit sharing is determined applying the rate of 10% on taxable income, adjusted as provided for by the Income Tax Law. The statutory employee profit sharing accrued is considered an ordinary expense associated with employee benefits.

4.15 Post-employment benefits and benefits for short-term employees

Post-employment benefits

Defined benefit plans

The seniority pension to which employees are entitled after 15 years of service and after having retired at the age of 60, are expensed in the years in which the services are rendered (see Note 23).

In addition, the Company has pension plans for certain employees who retire after the age of 65 (or early retirement at 60 or 55), in addition to having completed a minimum 15 years of service, which are expensed in the years in which the services are rendered (see Note 23).

Under the defined benefits plan, the pension amount an employee will receive upon retirement is determined in reference to the time of service and salary determined for each case based on the plan. The legal obligation of the benefits lies with Grupo TMM, even if the plan's assets to finance the defined benefits plan are separate. The plan's assets may include assets specifically designated in a long-term benefit fund.

The liability recognized in the consolidated statement of financial position for the defined benefits plans is the present value of the defined benefits obligation (DBO) as of the reporting date less the fair value of the plan assets.

Management estimates the DBO annually with the assistance of independent actuaries, based on the standard inflation rate, the salary growth rates, and the mortality rate. The discount factors are determined near the close of each year in reference to the high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and which have maturities similar to the terms of the corresponding pension liability.

The net cost for the defined benefits liability period is included in the item 'Salaries, wages and employee benefits' in the consolidated statements of profit or loss.

Indemnifications

Indemnifications that are not substitutive of retirement, paid to personnel who leave the company due to restructuring or any other reason, are charged to the operations for the period when incurred or provisions are created when there is a present obligation of these events, with a probability of an outflow of resources and this obligation can be reasonably estimated.

Short-term employee benefits

Short-term employee benefits, including vacation entitlement, are current liabilities included in 'Accounts payable and accrued expenses', measured at the amount Grupo TMM expects to pay as a result of time not taken; as these liabilities are short-term, they were not discounted as their effect is considered immaterial.

4.16 Stockholders' equity

Common shares are classified as equity. Grupo TMM does not have other equity instruments in addition to its common shares.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of taxes, from the proceeds. Incremental costs directly attributable to the issue of new shares or options are included in the cost of acquisition as part of the purchase consideration.

The accumulated losses include the profit (loss) for the year and previous periods.

Other components of equity capital include:

- revaluation surplus, including gains and losses from the revaluation of vessels and properties;
- statutory reserve corresponds to the separation of earnings withheld for this reserve;
- additional paid-in capital is equivalent to the amount received in excess of the par value of the shares;
- translation result represents the cumulative effect of the change in functional currency in previous years; and
- actuarial gains and losses include experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and the effects of changes in actuarial assumptions.

4.17 Recognition of revenue, costs and expenses, and financing costs

Revenues

Company's revenue arises mainly from services of maritime transportation, logistics and warehousing. To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

The Company does not carry out transactions that involve different contracts and on which their characteristics must be combined in accordance with IFRS. Moreover, transactions are not usually carried out that involve different services as part of the same contract; therefore, the total price of the transaction for a contract in all cases is allocated to a single performance obligation, based on their relative independent sales prices. The transaction price for contracts does not consider variable payments, except for certain service payments that are not considered significant in connection with the total revenues of the Company, nor are payments in kind, nor amounts collected on behalf of third parties and nor contemplate a financing component.

All revenues are recognized over time, as the Company meets performance obligations by transferring the services promised to its customers.

When the Company meets a performance obligation before receiving the payment, the Company already recognizes either a contract asset or a receivable in its consolidated statement of financial position, depending upon if something else is required than only passage of time before the consideration becomes due. The Company generally does not receive payments in advance in connection with performance obligations; therefore, contractual liabilities are not required to be recognized.

In obtaining these contracts, the Company incurs immaterial incremental costs. Since the amortization period of these costs would be less than one year, if capitalized, and also that those costs are immaterial, the Company makes use of the practical expedient in IFRS 15.94 and expenses them as they incur.

Parcel vessels and bulk carriers

These revenues are derived from the transportation of merchandise through the Company's own shipments or third parties, usually in periods ranging between 7 and 30 days. The rate is fixed and it is set at the beginning of the contract, based on the space or capacity required by the customer. The performance obligation is met as the merchandise is transported from the point of origin to the destination. Revenues are recognized over time on a straight-line basis during the term of each contract. Given that the costs required for rendering the service under these contracts do not vary significantly, that method provides a reasonable representation of the services transferred. The amounts that remain unbilled at the end of the reporting period are presented in the consolidated statement of financial position as contractual assets, since something additional is required in addition to time elapsed in order for those amounts to become due and payable.

The Company generally does not receive advances that exceed the amount of obligations met; therefore, contract liability balances are not generated.

Maritime administration services

They correspond to revenues for services rendered for contracting, operating, and managing shipments, mainly offshore service providers. The rate for these services is determined by applying a 2.85% profit margin to the costs incurred by the Company for rendering services.

This percentage is reviewed annually, and it can be increased under certain circumstances, but by applying it beginning the year subsequent to its modification, these services are considered a single performance obligation. Accordingly, the consideration is totally allocated; revenues are recognized over time as the related costs are incurred by applying the corresponding profit margin. The amounts are billed monthly, in accordance with these referred to above; therefore, neither asset balances nor contract liabilities are generally generated.

Ship repair services (shipyard) and containers

They correspond to revenues for minor and major repairs and maintenance to ships made at the facilities of the Company (shipyard), as well as containers of shipping companies and others such as wharfage. The consideration for the services is fixed, and it is determined in the contract based on the work ordered, including materials and replacement parts, which must be realized in an estimated period for the work, which ranges from 2 days up to 60 days for ships, and from 1 day up to 6 days for containers. Wharfage depends on the considerations of the ship from 1 to 365 days, due to the high degree of interdependence among the various elements of these services. They are recorded in the accounting as a single performance obligation. These revenues are recognized over time in conformity with the completion of the services agreed upon.

The Company measures its completion toward total compliance of the performance obligation by comparing real hours invested up to the date with the total estimated hours required to perform the repair or maintenance, including related costs. This base reasonably represents services transferred to each customer, by virtue of the ability of the Company to make reliable estimates based on its significant historical experience in rendering these services. The amounts that remain unbilled at the end of the reporting period are presented in the consolidated statement of financial position as contractual assets, since something additional is required in addition to time passed in order for those amounts to become due and payable. The Company generally does not receive advances that exceed the amount of obligations met; therefore, liabilities balances are not generated.

Other services

The Company obtains revenues for other services such as tugboats, suppliers, negotiations, port formalities, among other things. Most of these services are considered single performance obligations in the terms of the respective contracts, and the consideration is entirely allocated to those performance obligations. Revenues are recognized over time, since customers receive and consume the benefits as the Company renders the services, that is, as the performance obligations are met. The Company does not generate asset balances or contract liabilities for most of these services. The Company acts as an agent for the specific case of agency services and, therefore, it recognizes the revenues corresponding to the profit margin generated net of the costs incurred.

Costs and expenses

The costs and expenses for maritime, and also those related to other logistics operations, are recognized in operations when the services are rendered, materials are consumed or as incurred.

Financing income and costs

Interest income and expense are reported as accrued using the effective interest method and are reported as part of the comprehensive financing cost.

4.18 Information by segments

The Company has four operating segments: maritime division, logistics division, ports and terminals division and warehousing division. These operating segments are monitored by the Company's Management, who are responsible for making strategic decisions, which are made based on adjusted operating segment results.

In identifying its operating segments, Management follows Grupo TMM's service lines, which represent the main services provided by the Company.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at market prices.

The accounting policies Grupo TMM uses for segment reporting are the same as those used in its consolidated financial statements, with the exception that corporate assets which are not directly attributable to the business activities of any operating segment are not allocated. In the financial periods presented, this primarily applies to the Grupo TMM's head office.

4.19 Significant management judgment in applying accounting policies and estimation uncertainty

When preparing the consolidated financial statements, Management considers a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

Significant management judgment

The reporting judgments made by Management as to the application of the accounting policies of the Company that would have a material effect on the consolidated financial statements are described following.

Evaluation of control, significant influence, and joint control

Management evaluates the terms of voting power with respect to its investees, the power to govern, decisions, contractual and legal agreements, upon determining if there is control, significant influence, and joint control. Significant judgment is required by evaluating some of these characteristics that can be modified over time (see Note 4.1).

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided below; actual results may be substantially different.

Impairment of long-lived assets

On assessing impairment, Management determines the recoverable value of each asset or cash generating unit based on the expected future cash flows and determines an adequate interest rate to be able to calculate the present value of these cash flows. The uncertainty in the estimate is related to the assumptions regarding results of future operations and the determination of suitable discount rate.

Useful lives of depreciable assets

Management reviews the useful lives of the depreciable assets on each reporting date, based on the expected use of each asset. The uncertainty in these estimates is derived from the technical obsolescence that could change the expected use of vessels and other equipment.

Defined benefits obligation

Management's estimate of the DBO is based on a number of critical assumptions, such as inflation rates, mortality rates, discount rate, and a consideration for future salary increases. The variances in these assumptions can impact the amount of the DBO and the corresponding annual expense for defined benefits (the analysis is provided in Note 23).

Measures of fair value

Management uses valuation techniques to measure the fair value of its vessels and properties. This results in Management preparing estimates and assumptions based on market information and using observable data that could be used by market participants to assign a price to the asset, however these are not always available. Moreover, other valuation techniques based on expected future cash flows are used for certain assets, and an interest rate is determined to calculate their present value. These fair value estimates for these non-financial assets can vary from the actual prices obtained on operations at market value on the reporting date, as well as future results and the discount rate (see Note 25).

5 Acquisitions and disposals**Year 2019****Disposal of subsidiaries**

Grupo TMM sold 100% of the shares of the subsidiaries Bamorau Servicios, S.A.P.I. de C.V. and Snekke, S.A. de C.V. (tugboats) to unrelated third parties in 2019.

At the date of sale, the value of the assets of those subsidiaries and the consideration received was as follows:

	Snekke, S.A. de C.V. (a)	Bamorau Servicios, S.A.P.I. de C.V.	Total
Current assets			
Other accounts receivable	\$ 27,786	\$ -	\$ 27,786
Other current assets	5,388	-	5,388
Total current assets	<u>33,174</u>	<u>-</u>	<u>33,174</u>
Non-current assets			
Property	339,038	-	339,038
Total assets	<u>\$ 372,212</u>	<u>-</u>	<u>\$ 372,212</u>
Short-term liabilities			
Other accounts payable	\$ 25,243	-	\$ 25,243
Total short-term liabilities	<u>25,243</u>	<u>-</u>	<u>25,243</u>
Long-term liabilities			
Deferred income tax	58,920	-	58,920
Total liabilities	<u>\$ 84,163</u>	<u>-</u>	<u>\$ 84,163</u>
Total net assets	<u>\$ 288,049</u>	<u>-</u>	<u>\$ 288,049</u>
Consideration transferred	543,184	24,609	567,793
Gain on the disposition of subsidiaries	<u>\$ 255,135</u>	<u>\$ 24,609</u>	<u>\$ 279,744</u>

In December 2019, in connection with the sale of Snekke, S.A. de C.V., and with the prior authorization of the Administración Portuaria Integral de Manzanillo, the Company transferred the rights to its concession to provide tugboat services in the port of Manzanillo in favor of the buyer, following which the Company stopped operating its tugboat business (see Note 11).

These divestitures form part of the business plan and financial restructuring of Grupo TMM, which contemplates focusing its resources and operation in the specialized maritime and ports and terminals, through a more efficient operating structure.

Acquisition of subsidiaries

On February 14, 2019, the Company acquired the remaining 50% of the shares of Servicios & Solutions Optimus, S. de R.L. de C.V., giving Grupo TMM 100% of the shares of the entity and control as of that date. The purpose of this acquisition is to continue to the develop hydrocarbon and refined oil product storage and transportation infrastructure, such as gasoline, diesel and jet fuel in the port of Tuxpan.

The details of this business combination are as follows:

	<u>2019</u>
Fair value of the consideration transferred	\$ 51,126
Recognized amounts of identifiable net assets	
Cash and cash equivalents	671
Other current assets	8,703
Land	122,481
Construction in progress	23,595
Total identifiable assets	155,450
Accounts payable	113,777
Other liabilities	373
Total liabilities assumed	114,150
Identifiable net assets	\$ 41,300
Goodwill on acquisition	\$ 9,826
Consideration transferred settled in cash	\$ 51,126
Cash and cash equivalents acquired receive on acquisition	(671)
Net cash outflow on acquisition	\$ 50,455

Goodwill of \$ 9,826 is mainly related to growth expectations, expected future profitability that the management of Grupo TMM estimated at the acquisition date. As of December 31, 2019, Grupo TMM's management decided to impair goodwill in view that the operations will not generate cash flows for the next two years as the project continued as construction in progress. The impairment is presented in the consolidated statement of profit or loss as part of the item "Other income" (see Note 19).

Year 2018**Disposal of subsidiaries**

Grupo TMM sold 100% of the shares of the subsidiaries Impact Engine, S.A. de C.V., Talocaan Services, S.A. de C.V., and Ditermax Corporate, S.A. de C.V. to an unrelated third party in 2018. These divestitures form part of the business plan of Grupo TMM, which contemplates focusing its resources and operation in the specialized maritime segment.

The gain on the sale of these subsidiaries amounted to \$111,484, which is shown in the item of 'Other income' in the consolidated statements of profit or loss (see Note 19). The value of the net assets of those subsidiaries was immaterial as of the date of the sale.

Year 2017**Disposal of subsidiaries**

As at December 21, 2017, pursuant to the General Extraordinary Stockholders' Meeting of TMM DM, subsidiary to 100% of Grupo TMM at that date, the stockholders approved a variable capital increase in the amount of \$35, equivalent to 42,500,000 Class II Series B registered common shares with no par value expressed. This increase was subscribed for and issued in cash by Intercam Banco, S.A., Institución de Banca Multiple, Intercam Grupo Financiero ('Intercam'), on behalf of Management Trust number F/3192 ('Trust F/3192'), formed by Value Automotriz, S. A. de C. V., in the capacity of Trustor and Intercam as Trustee. Trust F/3192 was created based on the resolutions of the trust certificates Holders' Meeting held on November 28, 2017, wherein the Holders resolved to transfer 85% of the shares of TMM DM in benefit of the Holders of those trust certificates.

Derived from the above, the participation of Grupo TMM was diluted to 15% as of that date, which accounted for the loss of control of that subsidiary. Therefore, beginning on that date, the assets, liabilities, and profit or loss of this subsidiary were no longer included in the consolidated financial statements of Grupo TMM.

Finally, since Grupo TMM retains significant influence over TMM DM, the remaining 15% investment is accounted for as an investment in associate.

Additionally, during 2017, Grupo TMM sold the subsidiaries Dibacar Servicios, S.A.P.I. de C.V., Darcot Services, S.A. de C.V., Logistica Asociada a su Negocio, S.A. de C.V., STK Logistics, S.A. de C.V., Logistica en Administracion, and Construcciones EDAC, S.A. de C.V. for 100% of its stock, all to an unrelated party. These divestitures form part of the business plan of Grupo TMM, which contemplates focusing its resources and operation in the specialized maritime segment.

As at the date of the sale, the carrying value of net assets and the consideration received were as follows:

	<u>TMM DM</u>	<u>Other subsidiaries</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 212,332	\$ -	\$ 212,332
Trade receivables	537,808	-	537,808
Other current assets	142,956	-	142,956
Total current assets	<u>893,096</u>	<u>-</u>	<u>893,096</u>
Non-current			
Vessels and equipment, net	7,442,415	-	7,442,415
Other non-current assets	8,530	340,019	348,549
Total assets	<u>\$ 8,344,041</u>	<u>\$ 340,019</u>	<u>\$ 8,684,060</u>
Short-term liabilities			
Trust certificates	\$ 709,589	-	\$ 709,589
Other short-term liabilities	439,265	-	439,265
Total short-term liabilities	<u>1,148,854</u>	<u>-</u>	<u>1,148,854</u>
Long-term liabilities			
Trust certificates	9,731,357	-	9,731,357
Other long-term liabilities	922,297	-	922,297
Total liabilities	<u>11,802,508</u>	<u>-</u>	<u>11,802,508</u>
Total net assets	<u>\$ (3,458,467)</u>	<u>340,019</u>	<u>\$ (3,118,448)</u>
Consideration transferred	<u>-</u>	<u>(66,987)</u>	<u>(66,987)</u>
Investment retained by Grupo TMM	<u>-</u>	<u>-</u>	<u>-</u>
(Gain) loss on the disposition of subsidiaries	<u>\$ (3,458,467)</u>	<u>\$ 273,032</u>	<u>\$ (3,185,435)</u>

The gain derived from the loss of control of TMM DM is shown in the item of 'Other income' in the consolidated statement of profit or loss (see Note 19); due to the stockholders' equity deficit of TMM DM, the fair value of the investment in an associate retained by Grupo TMM was determined nil, which is consistent with the subsequent valuation under the equity method.

The loss on the sale of other subsidiaries amounted to \$273,032, which is shown in the line of 'Other income' in the consolidated statements of profit or loss (see Note 19).

6 Cash and cash equivalents

Cash and cash equivalents as of December 31, 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Cash on hand	\$ 902	\$ 864
Cash at banks	126,972	123,950
Short-term investments (a)	348,840	154,028
	<u>\$ 476,714</u>	<u>\$ 278,842</u>

- (a) Includes fix-term deposits (promissory notes) and repurchase/resell agreements with terms up to 3 days.

Restricted cash

As of December 2019 and 2018, restricted cash represents the amount required to guarantee payments according to the obligations arising from the debt agreements for the acquisition of vessels and guarantee found for the sale of Terminal Marítima de Tuxpan, S.A. de C.V.

7 Trade receivables

Trade receivables as of December 31, 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
<i>Maritime</i>		
Shipyard	\$ 34,325	\$ 18,897
Tugboats	19,406	26,149
Parcel tankers	18,217	12,350
Offshore vessels	4,737	13,542
Bulk carrier	906	1,017
Others	173	182
<i>Ports and terminals</i>		
Shipping agencies	128,300	39,877
Port services	10,732	8,843
Commercial leases	93	233
<i>Logistics, warehousing and other businesses</i>		
Warehousing	44,820	47,695
Repair of containers	28,986	31,142
Automotive services	1,112	446
Other businesses	1,165	1,163
Total trade receivables	<u>292,972</u>	<u>201,536</u>
Contract assets	65,443	68,950
Allowance for doubtful accounts	<u>(14,385)</u>	<u>(22,303)</u>
	<u>\$ 344,030</u>	<u>\$ 248,183</u>

All amounts are short-term. The net carrying value of trade accounts receivables is considered a reasonable approximation to fair value.

The activity in the allowance for doubtful accounts is presented below:

	<u>2019</u>	<u>2018</u>
Balance as of January 1	\$ 22,303	\$ 28,310
Receivables written off during the year	(1,847)	(468)
Allowance cancelation recognized during the year	(6,071)	(5,539)
Balance as of December 31	<u>\$ 14,385</u>	<u>\$ 22,303</u>

Note 26 includes disclosures related to credit risk exposures and the analysis related to the allowance for expected credit losses. In 2019 and 2018 the impairment loss was calculated applying the expected credit loss model in accordance with IFRS 9.

8 Other accounts receivable

Other accounts receivable as of December 31, 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Recoverable taxes	\$ 306,327	\$ 183,927
Services for port, maritime and other operations	93,692	161,037
Employees	4,698	4,466
Insurance claims	773	12,286
Others	16,280	48,718
	<u>\$ 421,770</u>	<u>\$ 410,434</u>

9 Property, vessels and equipment

Property, vessels and equipment as of December 31, 2019 and 2018 are summarized as follows:

	<u>2019</u>						Estimated
	Net balances at beginning of year	Additions	Disposals	Transfers and others	Depreciation / loss from revaluation	Net balances at year end	useful lives (years)
Vessels	\$ 782,673	\$ -	\$ 200,119	(a) and (h) \$ (337,211)	(b) \$ 30,405	\$ 214,938	25
Shipyard	275	-	-	-	43	232	40
Major vessel maintenance	41,611	1,753	12,317	(1,979)	13,888	15,180	2.5
Buildings and facilities	238,901	4,891	-	67,484	(c) 11,616	299,660	20 & 25
Warehousing equipment	255	419	-	-	469	205	10
Computer equipment	581	249	-	-	374	456	3 & 4
Terminal equipment	7,390	280	-	20,345	1,980	26,035	10
Ground transportation equipment	5,366	1,621	602	36	1,394	5,027	4,5 & 10
Other equipment	7,079	446	-	4,663	1,296	10,892	
	<u>1,084,131</u>	<u>9,659</u>	<u>213,038</u>	<u>(246,662)</u>	<u>61,465</u>	<u>572,625</u>	
Lands	1,146,252	-	-	451,671	(c) -	1,597,923	
Constructions in progress	83,054	38,622	(d) -	(6,804)	-	114,872	
	<u>\$ 2,313,437</u>	<u>\$ 48,281</u>	<u>\$ 213,038</u>	<u>\$ 198,205</u>	<u>\$ 61,465</u>	<u>\$ 2,285,420</u>	

	2018						Estimated useful lives (years)
	Net balances at beginning of year	Additions	Disposals	Transfers and others	Depreciation / loss from revaluation	Net balances at year end	
Vessels	\$ 1,118,250	\$ 260	\$ 125,019	(f) \$ (162,962)	(e) and (h) \$ 47,856	\$ 782,673	25
Shipyard	318	-	-	-	43	275	40
Major vessel maintenance	12,608	38,142	-	4,064	13,203	41,611	2.5
Buildings and facilities	242,204	5,732	-	604	9,639	238,901	20 & 25
Warehousing equipment	647	-	9	-	383	255	10
Computer equipment	556	459	-	47	481	581	3 & 4
Terminal equipment	6,885	2,252	-	(125)	1,622	7,390	10
Ground transportation equipment	3,751	2,052	1,153	1,940	1,224	5,366	4,5 & 10
Other equipment	7,641	361	-	313	1,236	7,079	
	1,392,860	49,258	126,181	(156,119)	75,687	1,084,131	
Lands	1,184,427	-	45,295	(g) 7,120	-	1,146,252	
Constructions in progress	46,248	37,025	-	(219)	-	83,054	
	<u>\$ 2,623,535</u>	<u>\$ 86,283</u>	<u>\$ 171,476</u>	<u>\$ (149,218)</u>	<u>\$ 75,687</u>	<u>\$ 2,313,437</u>	

All the amounts for depreciation and for loss from revaluation are included as part of the depreciation, amortization, and loss from revaluation on the consolidated statements of profit or loss.

The accumulated depreciation on property, vessels and equipment at December 31, 2019 and 2018 is \$261,862 and \$365,264, respectively. The decrease in accumulated depreciation in the amount of \$ 103,402 is due to: i) the cancellation of the accumulated depreciation for the revaluation of the vessel and, ii) the disposal of the offshore vessel 'Subsea 88'. (see subsection h below)

- (a) On August 30, 2019, the sale of the vessel SMR Manzanillo to Bricor Servicios Portuarios Mexicanos, S.A. de C.V. by Transportación Marítima Mexicana, S.A. de C.V., a subsidiary of Grupo TMM, was complete for an amount of \$15,703, generating a profit of \$ 4,410.
- (b) It is comprised mainly of disposal of the TMM Colima vessel in the divestiture of Snekke, S.A. de C.V. of Grupo TMM for \$339,038, which is partially offset by the revaluation surplus of \$1,827.
- (c) Includes the surplus for revaluation of lands and properties for \$310,833 and \$66,518, respectively.
- (d) Corresponds to the construction of infrastructure for various projects related to the storage and transportation of hydrocarbons and refined petroleum products.
- (e) Includes the loss for revaluation of the year for \$161,411.
- (f) On May 7, 2018, TMM Parcel Tankers, S.A. de C.V., subsidiary of Grupo TMM, completed the sale of the chemical tanker Maya to Yangzijiang Express Shipping PTE. LTD.
- (g) The sale agreement of the land located in Santiago Tlaltepoxco in the Municipality of Huehuetoca, State of Mexico, between Comercializadora Columbia, S.A. de C.V. and Inmobiliaria TMM, S.A. de C.V., a subsidiary of Grupo TMM, was entered into on March 27, 2018.

- (h) During 2018, the offshore vessel ‘Subsea 88’ suffered a major mishap in one of its areas and for which it stopped operating. As of December 31, 2018, Grupo TMM was making the corresponding insurance claims without a final settlement having been issued on the mishap as of that date. Since the repair of the ship requires a substantial time that affects future cash flows, Management recognized a loss in fair value in the amount of \$206,076.

Subsequently, in June 2019 the insurer declared the vessel ‘Subsea 88’ as a total loss. Given the result, the Company recognized the loss of the vessel for a total of \$ 191,377, which was its book value as of that date.

If the cost model had been used, the revalued carrying amounts for vessels, land and properties as of December 31, 2019 and 2018, would be as follows:

	<u>2019</u>	<u>2018</u>
Vessels	\$ 108,414	\$ 400,098
Lands	715,616	715,616
Properties	147,747	152,249
	<u>\$ 971,777</u>	<u>\$ 1,267,963</u>

The revalued amounts include a revaluation surplus of \$1,140,744 and \$899,863 in 2019 and 2018, respectively, before taxes, which is not available for distribution to stockholders.

Fair value measurement

See Note 25 regarding the measuring of fair value for vessels and properties.

Guarantees

As of December 31, 2019 and 2018, the vessel ‘Olmeca’ was securing financial debt with ‘ACT Maritime, LLC’ (see Note 14).

At the end of 2019, there were three properties securing various bank loans, while at the end of 2018 there were two properties under guarantee. Likewise, as of December 31, 2019, there was an RTG crane under guarantee with ‘PNC Bank, N.A.’.

As of December 31, 2018, the vessel ‘SMR Manzanillo’ was under guarantee, as well as the vessel TMM Colima was securing financial debt with ‘B.V. Scheepswerf Damen Gorinchem’ and the vessel ‘Subsea 88’ guaranteed the financial lease with FTAI Subsea 88, Ltd.

10 Leases

As of December 31, 2019 and December 31, 2018, the information on leases is summarized below:

	2019	
	Short-term	Long-term
<u>Payable in Mexican pesos</u>		
Warehouse	\$ 32,673	\$ 14,094
Cranes	963	-
Courtyards	10,285	41,248
Major vessel maintenance	2,269	-
<u>Payable in US dollars</u>		
Corporate building	14,388	471,439
	\$ 60,578	\$ 526,781

As of December 31, 2019, Grupo TMM leased its corporate office building, warehouses for the storage service, cranes for the logistics services and a major vessel maintenance. With the exception of short-term leases and low-value underlying assets, each lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company.

Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term.

Grupo TMM is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and warehouses, Grupo TMM must keep those properties in a good state of repair and return the properties. Further, Grupo TMM must insure items of leases assets and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of Grupo TMM's leasing activities by type of right-of-use asset recognized in the consolidated statement of financial position:

Right-of-use asset	No. of right-of-use assets leased	Range of remaining term (years)	No. of leases with extension options	No. of leases with purchase option	No. of leases with variable payments linked to an index	No. of leases with termination options
Corporate building	1	9	-	-	1	-
Warehouse	6	1 - 4	2	-	6	-
Courtyards	5	1 - 5	5	-	5	-
Cranes	1	1	-	-	-	-
Major vessel maintenance	1	1	-	-	-	-

Lease liabilities are secured with related underlying assets. Future minimum lease payments at 31 December 2019 were as follows:

	<u>Within the 1st year</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>After 5 years</u>	<u>Total</u>
Balance at December 31, 2019					
Lease payments	\$ 121,847	\$ 185,494	\$ 198,259	\$ 427,355	\$ 932,955
Financial charges	<u>(61,269)</u>	<u>(108,101)</u>	<u>(87,429)</u>	<u>(88,797)</u>	<u>(345,596)</u>
Present values, net	<u>\$ 60,578</u>	<u>\$ 77,393</u>	<u>\$ 110,830</u>	<u>\$ 338,558</u>	<u>\$ 587,359</u>

	<u>Within the 1st year</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>After 5 years</u>	<u>Total</u>
Balance at December 31, 2018					
Lease payments	\$ 133,870	\$ 215,631	\$ 200,489	\$ 546,922	\$ 1,096,912
Financial charges	<u>(70,975)</u>	<u>(121,445)</u>	<u>(102,513)</u>	<u>(134,749)</u>	<u>(426,682)</u>
Present values, net	<u>\$ 62,895</u>	<u>\$ 94,186</u>	<u>\$ 97,976</u>	<u>\$ 412,173</u>	<u>\$ 667,230</u>

Lease payments not recognized as a liability

The Company has elected not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	2019
Short-term leases (a)	<u>\$ 296,770</u>
Leases of low-value assets	<u>3,696</u>
	<u>\$ 300,466</u>

(a) Corresponds to the leasing of parcel and bulk carrier vessels.

At December 31, 2019, Grupo TMM was committed on short-term leases and total commitment at that date was \$121,847.

At December 31, 2019 Grupo TMM had no lease commitments that had not yet started.

Total cash outflow for leases for the years ended December 31, 2019 and 2018 were \$434,710 and \$ 436,469, respectively.

Additional information on right-of-use assets by class of assets in as follows:

	<u>Carrying amount</u>	<u>Depreciation expense</u>	<u>Financial cost</u>
Corporate building	\$ 464,020	\$ 49,716	\$ 55,221
Warehouse	43,756	40,212	8,751
Courtyards	49,241	10,794	5,377
Cranes	915	2,197	221
Major vessel maintenance	2,167	8,667	655
Total right-of-use assets	\$ 560,099	\$ 111,586	\$ 70,225

Financial leases as of December 31, 2018

As of December 31, 2018, the Company held a financial lease for the vessel 'Subsea 88', which started in November 2013 and was scheduled to end in October 2023. The financial lease agreement 'Subsea 88' included monthly lease payments and a purchase option at the end of the term.

The restricted cash balance derived from this contract as of December 31, 2018 was \$ 3,353. As of December 31, 2018, the net book value of the vessel was \$ 191,377.

Due to the mishap described in Note 9 subsection (h), in June 2019 the insurer Allianz México, S.A. declared the vessel 'Subsea 88' as a total loss. As part of the agreements, the insurer made the payment of the line of credit on behalf of the Company in August 2019 (see Note 14).

11 Concession rights

As of December 31, 2019 and 2018, the concession rights are as follows:

	<u>2019</u>	<u>2018</u>	<u>Years to amortize</u>
Administración Portuaria Integral de Acapulco (a)	\$ 94,607	\$ 94,607	10
Transportación Marítima Mexicana (b)	-	30,266	-
	94,607	124,873	
Accumulated amortization	(88,931)	(115,414)	
Concession rights, net	\$ 5,676	\$ 9,459	

- (a) As of December 31, 2019 and 2018, the Company holds concession to operate the cruise and vehicle terminal at the port of Acapulco, Guerrero. Under this concession agreements, the Company is obliged to keep the facilities included in the concession in good condition, as well as making monthly payments (fixed and variable), related to the operation (see Note 28).

At the end of the concession in 2021, these facilities will revert to the federal government.

At December 31, 2019 and 2018, the Company was in compliance with its obligation to maintain the concession facilities in good condition.

The amortization of the concession rights was \$3,784 for the years ended December 31, 2019 and 2018. Monthly payments to the Administración Portuaria Integral de Acapulco were \$7,536 and \$7,179 in 2019 and 2018, respectively.

- (b) As of December 31, 2018, the Company maintained the concession rights to operate the tug services in the Port of Manzanillo, Colima. This concession was renewed in October 2014, expiring on January 16, 2023, with the possibility of being renewed for another eight years.

In connection with the December 2019 sale of Snekke, S.A. de C.V. and with the prior authorization of the Administración Portuaria Integral de Manzanillo, the Company transferred the rights of this concession in favor of the buyer (see Notes 1 and 5). As of the date of this sale, the total value of the concession rights, which amounted to \$30,266, had been fully amortized.

12 Intangible assets

Intangible assets as of December 31, 2019 and 2018, are summarized as follows:

		2019					
		Net balances at beginning of year	Additions (Disposals)	Transfers and others	Amortization	Net balances at year end	Estimated useful life (years)
Software		\$ 909	\$ 19,048	\$ -	\$ 4,001	\$ 15,956	3 and 5
Trademark (a)		125,528	-	-	-	125,528	Indefinite
		<u>\$ 126,437</u>	<u>\$ 19,048</u>	<u>\$ -</u>	<u>\$ 4,001</u>	<u>\$ 141,484</u>	
		2018					
		Net balances at beginning of year	Additions (Disposals)	Transfers and others	Amortization	Net balances at year end	Estimated useful life (years)
Software		\$ 2,362	\$ -	\$ -	\$ 1,453	\$ 909	3 and 5
Trademark (a)		125,528	-	-	-	125,528	Indefinite
		<u>\$ 127,890</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,453</u>	<u>\$ 126,437</u>	

- (a) Corresponds to the rights on the Marmex trademark associated with the specialized maritime division segment, specifically the offshore vessels operation. This trademark is subject to annual impairment testing (see Note 13).

The accumulated amortization of intangible assets as of December 31, 2019 and 2018, is \$7,096 and \$4,236, respectively.

13 Impairment of long-lived assets

As of December 31, 2019 and 2018, Grupo TMM had performed annual impairment tests. The recoverable amounts of the cash generating units were determined based on calculations of the value in use and fair value less costs of sale as follows:

Vessels and trademark

Vessels are identifiable assets that individually generate cash flows which are largely independent from the flows from other assets or groups of assets. The trademark is considered an asset that does not generate flows independently, therefore this was grouped with the vessels as a cash-generating unit (specialized maritime division segment) together with other long-lived assets in this segment.

The recovery value for these assets was determined as the higher between their value in use and their market value, less selling costs. As of December 31, 2019 and 2018, no impairment losses were determined for these assets.

Properties

The recoverable value of properties was determined as their fair value less costs of sale, which are considered immaterial in terms of the fair value. The determination of fair value is described in Note 25. At December 31, 2019 and 2018, no impairment losses were determined for these assets.

Corporate assets and other long-lived assets

These assets are not identified with any cash-generating unit, therefore these were evaluated at the Grupo TMM level. The recoverable amount of these assets was determined as their value in use. At December 31, 2019 and 2018, no impairment losses were determined for these assets.

The recoverable amounts for cash-generating units were determined based on calculations of the value in use, covering a detailed three-year projection, followed by an extrapolation of the cash flows expected for the useful lives remaining for the assets using the growth rates determined by Management.

The present value of the cash flows expected for each segment was determined applying an appropriate discount rate.

	2019		2018	
	Growth rate	Discount rate	Growth rate	Discount rate
Vessels	2.00%	7.19%	2.00 %	7.18 %

Growth rates

The growth rates reflect the long-term average for these rates for the specialized maritime segment (all publicly available).

Discount rates

The discount rate reflects adequate adjustments associated with the market risk and the specific risk factors.

Cash flow assumptions

The key assumptions of Management for the specialized maritime segment include stable profit margins, which have been determined based on experience in this market. Grupo TMM Management considers this to be the best information available to forecast this market. The cash flow projections reflect stable profit margins achieved before the period covered by said projections. No consideration has been given to efficiency improvements and prices and salaries reflect the inflation projected for the industry, which are publicly available.

In addition to the considerations described above for determining the value in use of assets and the cash-generating units described above, Management is currently not aware of any other probable change that could require changes in their estimate. However, the estimate for the recoverable amount for the specialized maritime segment is particularly sensitive to the discount rates. If the discount rate used increases 1%, the value in use would decrease up to 4.91% in terms of the value determined, the value that continues to exceed the carrying value of the aforementioned assets.

14 Financial assets and liabilities

Categories of financial assets and liabilities

The financial assets and liabilities as of December 31, 2019 and 2018, are summarized as follows:

	<u>2019</u>	<u>2018</u>
Financial assets		
<i>Valued at amortized cost</i>		
Cash and cash equivalents	\$ 476,714	\$ 278,842
Restricted cash	36,085	39,313
Trade receivables	278,587	179,233
Other accounts receivable	115,443	226,507
Related parties	<u>163,344</u>	<u>207,964</u>
Total current financial assets	<u>\$ 1,070,173</u>	<u>\$ 931,859</u>
Financial liabilities		
<i>Valued at amortized cost</i>		
Short-term portion of the financial debt	\$ 139,189	\$ 223,362
Trade payables	262,159	262,090
Accounts payable and accrued expenses	461,889	346,505
Related parties	<u>87,573</u>	<u>18,379</u>
Total short-term portion of the financial debt	<u>950,810</u>	<u>850,336</u>
Long-term financial debt	<u>118,737</u>	<u>392,063</u>
Total financial liabilities	<u>\$ 1,069,547</u>	<u>\$ 1,242,399</u>

As of December 31, 2019 and 2018, the carrying value of the financial assets and liabilities at amortized cost is considered similar to their fair value.

Financial debt

The information for financing as of December 31, 2019 and 2018 is summarized as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>
<u>Payable in Mexican pesos</u>				
<i>Daimler Financial Services México, S. de R.L. de C.V.</i>	\$ 9,504	\$ 9,074	\$ 8,191	\$ 18,579

Recognition of debt and substitution of debtor for \$40.9 million at a fixed rate of 12%, with monthly payments of principal and interest and maturing in November 2019.

In order to improve the profile of the schedule of payments, a new debt recognition was formalized on October 11, 2018, in the amount of \$28 million at a 12.9% fixed rate, with monthly payments on principal and interest, due October 2021.

	2019		2018	
	Short-term	Long-term	Short-term	Long-term
<i>Banco Autofin México, S.A. Institución de Banca Múltiple</i>	\$ 23,319	\$ 28,478	\$ 23,342	\$ 52,036
Five lines of credit with mortgage surety for \$45.8, \$34.6, \$25.5, \$21.6, and \$8.4 million at a variable rate of the 28-day TIIE plus 450 basis points, with monthly payments of principal and interest, maturing September 2021.				
On November 26, 2018, a new line of credit was drawn down in the amount of \$20 million at a variable rate at 28-day TIIE, plus 550 base points, due November 2023.				
<i>INPIASA, S.A. de C.V. (a)</i>	1,566	1,044	1,566	2,610
Contract for line of credit, the first for \$15.7 million at a variable rate of the 28-day TIIE plus 450 basis points, with monthly payments of principal and interest, and maturing August 2021.				
<i>Banco del Bajío, S.A. (a)</i>	-	-	1,304	-
\$8.5 million line of credit at a variable rate of the 28-day TIIE plus 250 points, with monthly payments of principal and interest, and maturing November 2019. On December 2, 2019, the entire line was paid as stipulated in the contract.				
<i>HSBC, S.A. (a)</i>	1,629	543	1,629	2,173
\$9.77 million line of credit at a variable rate of the 28-day TIIE plus 300 points, with monthly payments of principal and interest, and maturing April 2021.				
<i>Banco del Bajío, S.A. (a)</i>	842	-	1,264	842
\$9.36 million line of credit at a variable rate of the 28-day TIIE plus 250 points, with monthly payments of principal and interest, and maturing August 2020.				
<i>Banco del Bajío, S.A. (a)</i>	23,227	-	-	-
\$24.0 million line of credit at a variable rate of the 28-day TIIE plus 600 points, with monthly payments of principal and interest; maturity in March 2020.				
Interest payable	410	-	264	-
Total financial debt in Mexican pesos	\$ 60,497	\$ 39,139	\$ 37,560	\$ 76,240

	2019		2018	
	Short-term	Long-term	Short-term	Long-term
<u>Payable in US dollars</u>				
<i>ACT Maritime, LLC (b)</i>	\$ 15,843	\$ 57,349	\$ 15,330	\$ 81,452
A line of credit at 5 years was contracted in September 2018 in the amount of \$5.52 million dollars with a variable Libor rate at 90 days plus 750 points, with quarterly payments of principal and interest, due September 2023. The total credit line that it had with DVB Bank America NV was totally liquidated with the proceeds of this line.				
<i>DEG-Deutsche Investitions</i>	-	-	35,382	-
US\$8.5 million line of credit with pledge surety at 8.01% fixed rate, with semiannual payments of principal and interest on outstanding balances, with a two-year grace period on the principal and maturing July 2014.				
On September 2, 2016, the restructuring of the outstanding balance amounting to \$4.1 million dollars by extending the due date up to December 2019, with quarterly payments on principal and interest on the unpaid balance at a variable Libor rate at 90 days plus 550 points for the first 4 quarters, 650 points for the next 4 quarters, 750 points for the net 4 quarters, and finally 900 points for the last 2 quarters.				
In order to have a better payment profile, during 2019 the Company was in negotiations with the bank to extend the credit term by 2 years.				
Following the negotiations, the Company obtained a discount of 25% of the principal as long as the total debt was settled in December 2019. On December 20, 2019, the entire principal and interest was paid, therefore the line of credit was settled.				
<i>Others</i>	56,618	-	88,455	-
Unsecured credits were contracted, each one amounting to \$3 million dollars at a fixed rate of 11.25%, with semiannual payments of principal and interest, originally due January 2016.				
Both credits were contracted again in January 2017, and \$1 million dollars on one of them was paid and both were due in July 2017.				

	2019		2018	
	Short-term	Long-term	Short-term	Long-term
The payment rescheduling and outstanding balance amounting to \$5 million dollars were formalized in July 2017, with a fixed rate of 11.25% with monthly payments on interest and principal, due July 2018.				
A new rescheduling of payments and unpaid balance amounting to \$4.5 million dollars was formalized in July 2018, with an 11.25% fixed rate with monthly interest payments. The principal amounting to \$500 thousand dollars was paid in July 2018, and the balance of \$4.5 million dollars is due in July 2019.				
In order to improve the amortization profile, the Company continued its negotiations with creditors to define a new amortization schedule. On December 20, 2019, the payment of \$ 1.0 million dollars was made. As of the date of issuance of the consolidated financial statements, the Company continues negotiations to improve the payment profile of the remaining loan for \$ 3.0 million dollars; interest on outstanding balances continues to be paid monthly.				
<i>Hewlett Packard</i>	2,354	9,263	-	-
Two lines of credit for \$607.8 dollars and \$201.6 dollars, at a fixed rate of 6.84% and 6.13%, monthly payments of principal and interest on unpaid balances and maturing in March and October 2024, respectively.				
<i>PNC, Bank, N.A.</i>	3,246	12,986	-	-
Line of credit with collateral for \$860 thousand dollars, at a fixed rate of 4.40%, semiannual payments of principal and interest on unpaid balances and maturity in July 2024.				
<i>FTAI Subsea 88 Ltd</i>	-	-	14,755	\$ 157,986
US\$10.8 million line of credit through financial leasing, at 15.92% fixed rate with monthly payments of principal and interest on outstanding balances and maturing November 2023.				
Due to the incident suffered by the vessel in November 2018, the insurer confirmed the total loss of the vessel. In August 2019 and as part of the agreements, the insurer made the full payment of the credit line on behalf of Grupo TMM.				
Interest payable	631	-	6,537	-
Total financial debt in US dollars	\$ 78,692	\$ 79,598	\$ 160,459	\$ 239,438

	2019		2018	
	Short-term	Long-term	Short-term	Long-term
<u>Payable in euros</u>				
<i>B V Scheepswerf Damen Gorinchem</i>	\$ -	\$ -	\$ 25,343	\$ 76,385
Opening line of credit amounting to \$7.58 million euros (approximating \$159.2 million), at a 7.0% fixed rate with semi-annual payments on principal and interest on unpaid balances and due November 2022.				
It was entirely liquidated on December 5, 2019.				
Total financial debt in euros	\$ -	\$ -	\$ 25,343	\$ 76,385
Total financial debt	\$ 139,189	\$ 118,737	\$ 223,362	\$ 392,063

- (a) They correspond to judicial and private agreements signed for the debt recognition with respect to Deposit Certificates secured and backed by Almacenadora de Depósito Moderno, S.A. de C.V. (ADEMSA), a related party.
- (b) The total line was prepaid in the original amount of \$25 million dollars on May 17, 2018. The Company was awarded an extension of the due date of the second line, which originally amounted to \$27.5 million dollars up to September 19, 2018, date on which the line with DVB Bank America, NV was entirely paid. This payment was made with the proceeds of a new line of credit with ACT Maritime, LLC. (subsidiary of Alterna Capital Partners, LLC.) in the amount of \$5.52 million dollars at a 5-year term.

Covenants

Some of the agreements related to the abovementioned loans contain certain covenants including the observance of certain financial ratios, restrictions on dividend payments, and sales of assets, among others. As of December 31, 2019 and 2018, Grupo TMM and subsidiaries complied with the covenants set forth in those contracts.

The interest expense on the financial debt was \$69,796 and \$80,580 for the periods of twelve months ended December 31, 2019 and 2018, respectively.

The maturity of the long-term financial debt as of December 31, 2019 and 2018 is as follows:

Maturity	2019	2018
2020	\$ -	\$ 99,363
2021	57,017	95,243
2022	31,861	72,985
2023	25,427	124,472
2024	4,432	-
	\$ 118,737	\$ 392,063

15 Balances and transactions with related parties

The accounts payable and transactions with related parties as of December 31, 2019 and 2018 are summarized as follows:

	2019		2018	
	Receivable	Payable	Receivable	Payable
TMM División Marítima, S.A. de C.V. (a)	\$ 163,344	\$ -	\$ 148,866	\$ -
SSA México, S.A. de C.V. (b)	-	87,573	-	18,379
Services & Solutions Optimus, S.de R.L. de C.V.	-	-	59,098	-
	<u>\$ 163,344</u>	<u>\$ 87,573</u>	<u>\$ 207,964</u>	<u>\$ 18,379</u>

- (a) The accounts receivable are related to the maritime services provided to TMM DM by TMM Dirección Corporativa, S.A. de C.V., a Grupo TMM subsidiary.
- (b) The accounts payables to SSA México, S.A. de C.V. are largely due to subagency services that this related party provides to Grupo TMM.

The most relevant transactions with related parties as of December 31, 2019, 2018 and 2017 are summarized as follows:

	2019	2018	2017
Revenue:			
Maritime services (a)	\$ 159,772	\$ 187,426	\$ -
Shipping agency services (b)	758	-	-
Leases (c)	-	66	788
	<u>\$ 160,530</u>	<u>\$ 187,492</u>	<u>\$ 788</u>
Costs:			
Sub-agency commissions (d)	\$ 264,743	\$ -	\$ -
Expenses:			
Other expenses (e)	\$ 391	\$ 366	\$ 415

- (a) Maritime services between TMM Dirección Corporativa, S.A. de C.V, subsidiary of Grupo TMM, and TMM DM.
- (b) Shipping agency services between Administradora Marítima TMM, S.A.P.I. de C.V., subsidiary of Grupo TMM, and TMM DM.
- (c) Grupo TMM, S.A.B. leasing operation with SSA México, S.A. de C.V. in Acapulco, Guerrero.
- (d) Shipping agency services provided by SSA México, S.A. de C.V. to Administradora Marítima TMM, S.A.P.I. de C.V.

- (e) Management consulting provided by SSA México, S.A. de C.V. to Administración Portuaria Integral de Acapulco, S.A. de C.V.

Transactions involving executive personnel for the years ended December 31, 2019, 2018 and 2017, include the following expenses:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Short-term benefits			
Salaries	\$ 40,851	\$ 33,790	\$ 31,065
Social security costs	497	462	471
	<u>\$ 41,348</u>	<u>\$ 34,252</u>	<u>\$ 31,536</u>

16 Accounts payable and accrued expenses

Accounts payable and accrued expenses at December 31, 2019 and 2018, are shown as follows:

	<u>2019</u>	<u>2018</u>
General expenses	\$ 212,595	\$ 149,621
Operating expenses	96,004	45,187
Purchased services	95,470	92,176
Taxes payable	37,637	11,018
Salaries and wages	3,256	1,404
Others	54,567	58,117
	<u>\$ 499,529</u>	<u>\$ 357,523</u>

17 Stockholders' equity

Capital stock

As of December 31, 2019 and 2018, the Company's capital stock is comprised of 102,182,841 shares outstanding, registered, without par value, and with voting rights, which may be held by Mexican nationals, investors, or companies that include in their bylaws the exclusion of foreigners clause. Foreigners may acquire economic rights in the Company's common shares through ordinary participation certificates ('CPOs'), with each CPO corresponding to one common share.

In the United States, the Company's ADSs, each representing five CPOs, trade on the OTC market under the symbol GTMAY. The underlying TMM common shares for the ADSs are traded on the Mexican Stock Exchange under the listing code TMM A.

Net tax profit account (CUFIN)

As of December 31, 2019 and 2018, the restated balance of the Net Taxable Income Account (CUFIN for its acronym in Spanish) of the Parent Company amounts to \$3,613,359 and \$3,514,258, respectively, which was generated up to December 31, 2013. No new balances have been generated in this account thereafter.

Dividends or earnings distributed to stockholders that are paid out of the CUFIN balance generated up to December 31, 2014 will not be subject to income tax until that balance is exhausted.

Dividends not drawn from the CUFIN, in addition to the above, will continue to be subject to income tax, paid by the entity, based on the general rate set by law, which is definitive and may be credited against the income tax for this and the next two years. The balance in these accounts is susceptible to adjustment to the distribution date using the Mexican Consumers' Price Index (INPC).

Capital decreases

As of December 31, 2019 and 2018, the current balance in the Capital Contribution Account (CUCA for its acronym in Spanish) is \$4,720,020 and \$4,590,566, respectively. In the event of capital reimbursement or decreases in favor of stockholders, the surplus for said reimbursement on this amount will be treated as a distributed earning.

In the event the equity capital exceeds the balance in the CUCA, the difference will be considered a dividend or distributed earning subject to the payment of income tax. If the earnings in reference come from the CUFIN, there will be no corporate tax due for the capital decrease or reimbursement. Otherwise, these will be treated as dividends or distributed earnings.

Other components of equity

Details of other components of equity as of December 31, 2019 and 2018, as follows:

	Statutory reserve	Defined benefit plan	Premium on convertible obligations	Translation result	Revaluation surplus	Total
Balance as of December 31, 2017	\$ 216,948	\$ (136,218)	\$ 77,106	\$ (247,668)	\$ 939,298	\$ 849,466
Revaluation of assets	-	-	-	-	(161,411)	(161,411)
Defined benefit plan	-	15,430	-	-	-	15,430
Reclassification from disposal of properties and depreciation	-	-	-	-	(40,335) (a)	(40,335)
Total before taxes	-	15,430	-	-	(201,746)	(186,316)
Tax expense	-	(4,629)	-	-	48,423	43,794
Total net of taxes	-	10,801	-	-	(153,323)	(142,522)
Balance as of December 31, 2018	\$ 216,948	\$ (125,417)	\$ 77,106	\$ (247,668)	\$ 785,975	\$ 706,944
	Statutory reserve	Defined benefit plan	Premium on convertible obligations	Translation result	Revaluation surplus	Total
Revaluation of assets	\$ -	\$ -	\$ -	\$ -	\$ 379,420	\$ 379,420
Defined benefit plan	-	2,354	-	-	-	2,354
Reclassification from disposal of properties and depreciation	-	-	-	-	(202,228) (a)	(202,228)
Total before taxes	-	2,354	-	-	177,192	179,546
Tax expense	-	(706)	-	-	(113,826)	(114,532)
Total net of taxes	-	1,648	-	-	63,366	65,014
Balance as of December 31, 2019	\$ 216,948	\$ (123,769)	\$ 77,106	\$ (247,668)	\$ 849,341	\$ 771,958

- (a) It corresponds to the reclassification of the revaluation surplus to accumulated losses from the sale of properties and disposals of vessels, as well as the depreciation for the period of revaluation of properties and vessels.

18 Revenues

The revenues as of December 31, 2019, 2018 and 2017, are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Maritime</i>			
Parcel tankers	\$ 287,140	\$ 312,305	\$ 298,631
Maritime administration services	159,772	187,426	-
Shipyard	164,917	138,517	65,429
Bulk carrier	162,897	144,664	40,693
Tugboats	81,707	70,037	270,225
Offshore vessels	12,072	56,506	826,264
Tankers	-	-	450,078
<i>Ports and terminals</i>			
Port services	90,144	101,688	67,937
Shipping agencies	79,695	64,283	66,259
<i>Logistics, warehousing and other businesses</i>			
Repair of containers	211,171	234,534	183,966
Warehousing	171,867	160,991	149,894
Intermodal terminal	49,157	47,581	40,677
Automotive services	5,144	4,534	4,886
Total consolidated revenue	<u>\$ 1,475,683</u>	<u>\$ 1,523,066</u>	<u>\$ 2,464,939</u>

The Company's revenues do not show any particular grouping characteristic, such as by type of customer (government and private), geographic zone, etc. The main grouping is shown based on the type of revenue for each segment. Moreover, as discussed in Note 4.17, all of the Company's revenues are recognized over time.

19 Other income

Other income (expenses) as of December 31, 2019, 2018 and 2017, is summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gain (loss) from the sale of subsidiaries (see Note 5)	\$ 279,744	\$ 111,484	\$ (273,032)
Other, net	(472)	664	1,554
Recoveries of taxes paid in prior years, net of expenses for recovery	(16,595)	(3,919)	43,884
Cancellation of projects	(18,944)	(5,604)	(13,127)
Gain from loss of control of subsidiary TMMDM (see Note 5)	-	-	3,458,467
Goodwill impairment (see Note 5)	(9,826)	-	-
	<u>\$ 233,907</u>	<u>\$ 102,625</u>	<u>\$ 3,217,746</u>

20 Interest expense and other financial costs

This line at December 31, 2019, 2018 and 2017, is comprised as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest on financial debt	\$ 69,796	\$ 80,580	\$ 97,590
Interest expense on leasing arrangements	70,225	-	-
Other financial expenses	5,303	2,146	3,802
Amortization of transaction cost associated with financial debt	1,551	2,164	4,137
Interest on trust certificates	-	-	942,266
Transaction cost of mandatory convertible debentures into shares	-	-	87,482
Amortization of trust certificate transaction cost	-	-	75,209
	<u>\$ 146,875</u>	<u>\$ 84,890</u>	<u>\$ 1,210,486</u>

21 Income tax and tax loss carryforwards**Income Tax*****Results for the year***

Grupo TMM and Subsidiaries incurred combined tax (losses) profits for the years ended December 2019 and 2018, in the amounts of \$(397,746) and \$157,448, respectively. Most of the companies that generated taxable income fully offset them against tax losses from prior years. Income tax recognized in profit or loss corresponds to subsidiaries that generated taxable income of \$48,373 and \$15,997, respectively.

The difference between taxable and book income is due primarily to the net effect of the gain or loss on inflation recognized for tax purposes, the difference between tax and book amortization and depreciation, non-deductible expenses, gain from loss of control of subsidiary, as well as certain temporary differences reported in different periods for financial and tax purposes.

In accordance with the currently enacted Income Tax Law, the rate for 2017, 2018, 2019, and subsequent years is 30%.

The provision for income tax recognized in the statement of profit or loss for the years ended December 31, 2019, 2018 and 2017, is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income tax	\$ (14,512)	\$ (4,799)	\$ (3,000)
Income tax (agreement) (a)	(85,196)	-	-
Deferred income tax	35,133	-	(513,732)
Total income tax expense	<u>\$ (64,575)</u>	<u>\$ (4,799)</u>	<u>\$ (516,732)</u>

- (a) During 2019, Grupo TMM agreed with the Tax Administration Service to resolve the Company's outstanding tax liabilities for the fiscal year 2010 through payment of 2.6 million pesos over a period of 36 months beginning in November 2019.

The reconciliation between the provision for income tax based on the statutory income tax rate and the provision recorded by the Company at December 31, 2019, 2018 and 2017, is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Profit before taxes	\$ 95,867	\$ 28,348	\$ 1,846,311
Income tax	(28,760)	(8,504)	(553,893)
Increase (decrease) from:			
Difference in depreciation and amortization	(180,395)	(56,356)	503,479
Revaluation surplus	113,826	(48,424)	265,723
Income recognized in advance	-	(62)	(1,678)
Materials and supplies	(31,073)	(19,888)	5,503
Inflationary and currency exchange effects on monetary assets and liabilities, net	1,236	(26,686)	(203,983)
Tax losses – net	19,277	206,485	(1,255,433)
Provisions and allowance for doubtful accounts	54,214	(44,609)	(183,963)
Difference between the tax and book value for the sale of assets	(13,133)	(15,551)	(435)
Difference between the tax and book value for the sale of shares of subsidiaries	97,284	20,800	956,613
Non-deductible expenses	(11,855)	(12,004)	(48,665)
Income tax (agreement)	(85,196)	-	-
Provision for income tax	<u>\$ (64,575)</u>	<u>\$ (4,799)</u>	<u>\$ (516,732)</u>

The components of deferred tax liability at December 31, 2019 and 2018, are comprised as follows:

	<u>2019</u>	<u>2018</u>
Concession rights and property, vessels and equipment	\$ (638,089)	\$ (580,703)
Portion of tax loss carryforwards for subsequent years	338,218	308,380
Inventories and provisions – net	51,657	45,520
Total deferred tax liability	<u>\$ (248,214)</u>	<u>\$ (226,803)</u>

As of December 31, 2019, the Company's Management carried out the evaluation of the amount of tax losses that will be recoverable and determined based on projections that the effect of the deferred tax asset determined in the year will be realized at 15% based on the information available at the date of issuance of the consolidated financial statements.

Tax loss carryforwards

As of December 31, 2019, Grupo TMM and its subsidiaries, report the following cumulative tax losses, which are restated applying the National Consumer Price Index (NCPI) factors in accordance with Mexican law.

<u>Year in which the loss was incurred</u>	<u>Amounts</u>	<u>Year of expiration</u>
2010	\$ 150,900	2020
2011	79,858	2021
2012	187,262	2022
2013	231,773	2023
2014	152,954	2024
2015	67,392	2025
2016	400,607	2026
2017	100,826	2027
2018	212,973	2028
2019	477,113	2029
	<u>\$ 2,061,658</u>	

22 Segment reporting

The Company operates in the following segments: i) specialized maritime transportation, ii) logistics, and iii) ports and terminals, iv) warehousing. Specialized maritime transportation operations ('Specialized Maritime Division') include transportation of bulk liquid products, materials, and provisions for drilling platforms, as well as towing services for ships. Logistics solution service operations ('Logistics Division'). Operations at ports and terminals ('Port and Terminal Division') include loading and unloading, storage at maritime port terminals, and shipping agency operations. Storage operations ('Storage Division') include storage and management of the facilities and bonded warehouses.

There are no changes in the measuring methods used to calculate the earnings reported for each segment. The information for each operating segment is as follow:

<u>December 31, 2019</u>	<u>Specialized maritime division</u>	<u>Logistics division</u>	<u>Ports and terminal division</u>	<u>Warehousing division</u>	<u>Other businesses and shared accounts</u>	<u>Total consolidated</u>
Revenue	\$ 868,505	\$ 265,472	\$ 169,839	\$ 171,867	\$ -	\$ 1,475,683
Costs and expenses	(652,157)	(232,386)	(122,882)	(132,792)	(620)	(1,140,837)
Corporate expenses	-	-	-	-	(173,106)	(173,106)
Depreciation and amortization	(66,306)	(19,474)	(15,186)	(41,516)	(40,398)	(182,880)
Transportation profit (loss)	<u>\$ 150,042</u>	<u>\$ 13,612</u>	<u>\$ 31,771</u>	<u>\$ (2,441)</u>	<u>\$ (214,124)</u>	<u>\$ (21,140)</u>
Costs, expenses and revenue not allocated						52,432
Net profit for the year						<u>\$ 31,292</u>
Total assets by operating segment	\$ 2,034,872	\$ 1,069,482	\$ 1,092,314	\$ 386,418	\$ -	\$ 4,583,086
Shared assets	-	-	-	-	(19,311)	(19,311)
Total assets	<u>\$ 2,034,872</u>	<u>\$ 1,069,482</u>	<u>\$ 1,092,314</u>	<u>\$ 386,418</u>	<u>\$ (19,311)</u>	<u>\$ 4,563,775</u>
Total liabilities by operating segment	\$ 431,893	\$ 158,203	\$ 262,108	\$ 181,416	\$ -	\$ 1,033,620
Shared liabilities	-	-	-	-	1,107,363	1,107,363
Total liabilities	<u>\$ 431,893</u>	<u>\$ 158,203</u>	<u>\$ 262,108</u>	<u>\$ 181,416</u>	<u>\$ 1,107,363</u>	<u>\$ 2,140,983</u>
Total capital expenditures by segment	\$ 12,048	\$ 598	\$ 24,086	\$ 494	\$ -	\$ 37,226
Shared capital expenditures	-	-	-	-	11,055	11,055
Total capital expenditures	<u>\$ 12,048</u>	<u>\$ 598</u>	<u>\$ 24,086</u>	<u>\$ 494</u>	<u>\$ 11,055</u>	<u>\$ 48,281</u>

December 31, 2018	Specialized maritime division	Logistics division	Ports and terminal division	Warehousing division	Other businesses and shared accounts	Total consolidated
Revenue	\$ 909,455	\$ 286,649	\$ 165,971	\$ 160,991	\$ -	\$ 1,523,066
Costs and expenses	(727,535)	(248,364)	(106,993)	(165,388)	(473)	(1,248,753)
Corporate expenses	-	-	-	-	(198,404)	(198,404)
Depreciation and amortization	(59,451)	(2,772)	(9,616)	(1,305)	(7,133)	(80,277)
Transportation profit (loss)	<u>\$ 122,469</u>	<u>\$ 35,513</u>	<u>\$ 49,362</u>	<u>\$ (5,702)</u>	<u>\$ (206,010)</u>	<u>\$ (4,368)</u>
Costs, expenses and revenue not allocated						27,917
Net profit for the year						<u>\$ 23,549</u>
Total assets by operating segment	\$ 2,641,105	\$ 55,586	\$ 1,766,631	\$ 238,740	\$ -	\$ 4,702,062
Shared assets	-	-	-	-	(920,978)	(920,978)
Total assets	<u>\$ 2,641,105</u>	<u>\$ 55,586</u>	<u>\$ 1,766,631</u>	<u>\$ 238,740</u>	<u>\$ (920,978)</u>	<u>\$ 3,781,084</u>
Total liabilities by operating segment	\$ 887,042	\$ 19,055	\$ 255,460	\$ 66,515	\$ -	\$ 1,228,072
Shared liabilities	-	-	-	-	428,754	428,754
Total liabilities	<u>\$ 887,042</u>	<u>\$ 19,055</u>	<u>\$ 255,460</u>	<u>\$ 66,515</u>	<u>\$ 428,754</u>	<u>\$ 1,656,826</u>
Total capital expenditures by segment	\$ 42,745	\$ 592	\$ 13,176	\$ 582	\$ -	\$ 57,095
Shared capital expenditures	-	-	-	-	29,188	29,188
Total capital expenditures	<u>\$ 42,745</u>	<u>\$ 592</u>	<u>\$ 13,176</u>	<u>\$ 582</u>	<u>\$ 29,188</u>	<u>\$ 86,283</u>
December 31, 2017	Specialized maritime division	Logistics division	Ports and terminal division	Warehousing division	Other businesses and shared accounts	Total consolidated
Revenue	\$ 1,951,320	\$ 229,529	\$ 134,196	\$ 149,894	\$ -	\$ 2,464,939
Costs and expenses	(1,386,282)	(193,826)	(112,771)	(180,356)	(1,123)	(1,874,358)
Corporate expenses	-	-	-	-	(205,622)	(205,622)
Depreciation and amortization	(541,030)	(1,660)	(11,143)	(1,205)	(7,877)	(562,915)
Transportation profit (loss)	<u>\$ 24,008</u>	<u>\$ 34,043</u>	<u>\$ 10,282</u>	<u>\$ (31,667)</u>	<u>\$ (214,622)</u>	<u>\$ (177,956)</u>
Costs, expenses and revenue not allocated						1,507,535
Net profit for the year						<u>\$ 1,329,579</u>
Total assets by operating segment	\$ 5,617,173	\$ 38,833	\$ 1,904,928	\$ 153,196	\$ -	\$ 7,714,130
Shared assets	-	-	-	-	(3,589,918)	(3,589,918)
Total assets	<u>\$ 5,617,173</u>	<u>\$ 38,833</u>	<u>\$ 1,904,928</u>	<u>\$ 153,196</u>	<u>\$ (3,589,918)</u>	<u>\$ 4,124,212</u>
Total liabilities by operating segment	\$ 849,416	\$ 19,425	\$ 256,121	\$ 56,296	\$ -	\$ 1,181,258
Shared liabilities	-	-	-	-	713,892	713,892
Total liabilities	<u>\$ 849,416</u>	<u>\$ 19,425</u>	<u>\$ 256,121</u>	<u>\$ 56,296</u>	<u>\$ 713,892</u>	<u>\$ 1,895,150</u>
Total capital expenditures by segment	\$ 64,054	\$ -	\$ 9,034	\$ 42	\$ -	\$ 73,130
Shared capital expenditures	-	-	-	-	7,092	7,092
Total capital expenditures	<u>\$ 64,054</u>	<u>\$ -</u>	<u>\$ 9,034</u>	<u>\$ 42</u>	<u>\$ 7,092</u>	<u>\$ 80,222</u>

23 Employee benefits

Expense for employee benefits

The expenses recognized for employee benefits are:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salaries, benefits and inherent	\$ 320,827	\$ 347,403	\$ 550,491
Pensions – defined benefit plans	<u>22,873</u>	<u>21,211</u>	<u>21,284</u>
	<u>\$ 343,700</u>	<u>\$ 368,614</u>	<u>\$ 571,775</u>

The long-term liabilities recognized for pensions and other employee remunerations in the consolidated statement of financial position are comprised as follows:

	<u>2019</u>	<u>2018</u>
Long-term:		
Pensions and seniority premium	\$ 141,014	\$ 151,002
Termination of employment	<u>10,467</u>	<u>25,604</u>
	<u>\$ 151,481</u>	<u>\$ 176,606</u>

The short-term liabilities for employee benefits, are included in the line ‘Accounts payable and accrued liabilities’ in the consolidated statements of financial position, which at December 31, 2019 and 2018, amount to \$3,256 and \$1,404, respectively.

Remunerations on the termination of employment

The seniority premiums and the retirement plan (‘pensions’) obligations are based on actuarial calculations using the projected unit credit method. Pension benefits are based mainly on years of service, age, and salary level upon retirement.

The amounts charged to operations include the amortization of the cost of past services over the average time of service remaining. The Company continues with its policy of recognizing actuarial losses and gains for seniority premiums and pensions in the consolidated statement of operations, the actuarial (loss) gain net of taxes for 2019 and 2018 was \$1,648 and \$10,801, respectively.

The plan exposes Grupo TMM to such risks as interest rate, investment, mortality, and inflation.

Interest rate risk

The present value of the defined benefits obligation is calculated using a discount rate making reference to the market performance of high-quality corporate bonds.

The estimated term for the bonds is consistent with the estimated term for the defined benefits obligation and is denominated in pesos. A decrease in the market performance of high-quality corporate bonds will increase the defined benefits obligation of the Company, although this is expected to be partially compensated by an increase in the fair value of certain of the plan’s assets.

Investment risk

The plan assets are predominantly capital and debt instruments traded on the Mexican Stock Exchange which are considered low risk.

Mortality risk

The Company provides benefits for life to those who are covered by the defined benefits liability. An increase in the life expectancy of such persons will increase the defined benefits liability.

Inflation risk

A significant proportion of the defined benefits obligation is linked to inflation. An increase in the inflation rate will increase the Company's obligation.

The details of the net cost for the period for seniority premiums and termination of employment, and also the basic actuarial estimates for the calculation of these labor obligations is shown as follows:

	2019		2018	
	Pensions and seniority premiums	Termination of employment	Pensions and seniority premiums	Termination of employment
Current service cost	\$ 4,709	\$ 2,178	\$ 4,114	\$ 1,858
Interest cost	13,643	2,343	12,994	2,245
Net cost for the period	<u>\$ 18,352</u>	<u>\$ 4,521</u>	<u>\$ 17,108</u>	<u>\$ 4,103</u>

At December 31, 2019 and 2018, the reserve for pensions and seniority premiums, and also for the termination of employment, is comprised as follows:

	2019		2018	
	Pensions and seniority premiums	Termination of employment	Pensions and seniority premiums	Termination of employment
Defined benefit obligations	\$ 144,044	\$ 10,467	\$ 154,128	\$ 25,604
Plan assets	(3,030)	-	(3,126)	-
Total reserve	<u>\$ 141,014</u>	<u>\$ 10,467</u>	<u>\$ 151,002</u>	<u>\$ 25,604</u>

As of December 31, 2019 and 2018, the defined benefit obligations (DBO) for pensions and seniority premiums, and also for the reserve for termination of employment, are comprised as follows:

	2019		2018	
	Pensions and seniority premiums	Termination of employment	Pensions and seniority premiums	Termination of employment
DBO at beginning of period	\$ 154,128	\$ 25,604	\$ 153,572	\$ 24,687
Current service cost	4,709	2,178	4,114	1,858
Interest cost	13,643	2,343	12,994	2,245
Benefits paid	(338)	-	(165)	(214)
Benefits paid from plan assets	(7,617)	-	(8,840)	-
Miscellaneous	(304)	-	300	(18)
Past service cost	(16,822)	(21,365)	-	-
Actuarial gain or losses	(3,355)	1,707	(7,847)	(2,954)
DBO at end of period	<u>\$ 144,044</u>	<u>\$ 10,467</u>	<u>\$ 154,128</u>	<u>\$ 25,604</u>

The plan assets as of December 31, 2019 and 2018 are comprised as follows:

	<u>2019</u>	<u>2018</u>
Value of the fund at beginning of year	\$ 3,126	\$ 2,699
Expected return on assets	310	202
Plan contributions	7,617	8,840
Benefits paid	(7,617)	(8,840)
Interests on plan assets	208	225
Miscellaneous	(614)	-
Found value at end of the year	<u>\$ 3,030</u>	<u>\$ 3,126</u>

The changes in the pension plan, seniority premium, and termination of employment plan as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Reserve for obligations at the beginning of the period	\$ 176,606	\$ 175,560
Cost for the period	22,873	21,211
Interest income	(208)	(225)
Contributions to the plan	(7,617)	(8,840)
Benefits paid on pension plan	(338)	(379)
Miscellaneous	-	80
Actuarial gain or losses	(1,648)	(10,801)
Past service cost	(38,187)	-
Reserve for obligations at the end of the period	<u>\$ 151,481</u>	<u>\$ 176,606</u>

The significant actuarial assumptions used for the valuation are:

	<u>2019</u>	<u>2018</u>
Discount rate	8.50%	9.25%
Salary increase rate	4.00%	4.00%
Inflation rate	3.50%	3.50%
Average working life expectancy	18.30	19.30

These assumptions were prepared by Management with the assistance of independent actuaries. The discount factors are determined near the end of each year making reference to the market performance of high-quality corporate bonds denominated in the currency in which the benefits will be paid and which have similar maturities to the terms for the pension obligation corresponding. Other assumptions are based on actual reference parameters and Management's historical experience.

At December 31, 2019 and 2018, approximately 17% of the Company's employees work under collective work contracts that are subject to annual salary reviews and biannually for other compensations. As of December 31, 2019 and 2018, Grupo TMM has 1,099 and 1,676 employees, respectively.

The significant actuarial assumptions to determine the defined benefits obligation are the discount rate, the salary increase rate, and the average life expectancy. The calculation of the defined benefits obligation is sensitive to these assumptions.

The following table summarizes the effects of changes to these actuarial assumptions on the defined benefits obligations at December 31, 2019:

	<u>1.0% increase</u>	<u>1.0% decrease</u>
Discount rate		
(Decrease) increase in the defined benefits obligation	\$ (4,573)	\$ 4,867
	<u>1.0% increase</u>	<u>1.0% decrease</u>
Salary increase rate		
Increase (decrease) in the defined benefits obligation	\$ 3,439	\$ (1,191)
	<u>One year Increase</u>	<u>One year Decrease</u>
Average life expectancies		
Increase (decrease) in the defined benefits obligation	\$ 2,971	\$ (3,899)

The present value of the defined benefits obligation and also the defined benefits obligation recognized in the consolidated statement of financial position are calculated using the same method (projected unit credit). The sensitivity analyses are based on a change in one assumption without changing the others. This sensitivity analysis may not be representative of the real variance in the defined benefits obligation, as it is unlikely that the change to the assumptions would occur on its own, as some of the assumptions may be correlated.

24 Earnings per share

As of December 31, 2019, 2018 and 2017, earnings per share was determined based on the weighted average number of shares outstanding during the year. There are no potentially dilutive instruments outstanding, therefore basic and diluted earnings per share are the same.

25 Fair value measurement

Fair value measures for non-financial assets

The non-financial assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. The three levels are defined based on the observability of relevant data for the measuring, as follows:

- Level 1: quoted prices (without adjustment) in active markets for identical assets and liabilities.
- Level 2: data other than the quoted prices included in Level 1 that are observable for the asset and liability, either directly or indirectly;
- Level 3: non-observable data for the asset or liability.

As of December 31, 2019 and 2018 non-financial assets measured at fair value are classified in Level 3 of this hierarchy, as described below:

	<u>2019</u>	<u>2018</u>
Level 3		
Vessels	\$ 214,938	\$ 782,673
Buildings	299,660	238,901
Land	<u>1,597,923</u>	<u>1,146,252</u>
	<u>\$ 2,112,521</u>	<u>\$ 2,167,826</u>

As of December 31, 2019, the values of the Company's land, buildings and facilities were estimated based on appraisals performed by independent, professionally qualified property valuers.

As of December 31, 2019 and 2018, the revalued amounts for all the vessels were determined using the revenue technique.

The important information and assumptions are prepared in close collaboration with Management. The valuation processes and changes in the fair value are reviewed by the Administration and Finance Department on the financial reporting date. Additional information on fair value measurement is as follows.

Vessels (Level 3)

The fair values for the offshore vessels, and parcel tankers are estimated based on revenue that capitalizes the estimated revenue cash flows from the leasing of vessels net of operating costs projected, using an appropriate discount rate that reflects the required performance for similar assets. Cash flows are calculated based on the average of international charter rates and operating costs (including maintenance), and also the historical utilization level. The value of vessels is sensitive to changes in these variables.

The most significant information, which is not observable, is the value of the estimated daily rates, the assumptions for the percentage of utilization and the discount rate. The fair value increases if the estimated daily rates and the percentage of utilization increase or if the discount rate (market yields) decreases. The appraisals in general are sensitive to these three assumptions.

Management believes that the range of reasonably possible alternatives is greater for the value of the rates and the percentage of use, and also that there is a correlation between these factors.

The information used for the measurement of fair value as of December 31, 2019 was:

	<u>Offshore vessels</u>	<u>Parcel tankers</u>
Daily rate or fee	4,570 USD	8,985 USD
Average percentage of utilization	78%	78%
Discount rate	7.19%	7.19%

Buildings and land (Level 3)

The valuation was prepared based on a market focus that reflects the prices observed on recent market transactions involving similar properties and incorporates adjustments for factors specific to the property in question, including land size, location, liens, and current use.

The most significant information used, which is not observable, is the adjustment for factors specific to the properties in question. The magnitude and direction of this adjustment depends on the characteristics of observable market transactions for similar properties used as the end point for the valuation. Although this information is subjective, Management considers that the global valuation will not be materially affected by reasonably possible alternatives.

As of December 31, 2019 and 2018, the reconciliation between the carrying amounts of non-financial assets classified within Level 3 is as follows:

	<u>Vessels</u>	<u>Buildings and Facilities</u>
Balance as of January 1, 2019	\$ 782,673	\$ 1,385,153
<i>Amount recognized in other comprehensive income:</i>		
Revaluation surplus of vessels	41,026	377,593
<i>Amount recognized in statements profit or loss:</i>		
Loss on revaluation of vessels	(39,199)	-
	<u>1,827</u>	<u>377,593</u>
Additions and disposals, net	(569,562)	134,837
Balance as of December 31, 2019	\$ 214,938	\$ 1,897,583
Balance as of January 1, 2018	\$ 1,118,250	\$ 1,426,631
<i>Amount recognized in other comprehensive income:</i>		
Revaluation surplus of vessels	(161,411)	-
<i>Amount recognized in statements profit or loss:</i>		
Loss on revaluation of vessels	-	-
	<u>(161,411)</u>	<u>-</u>
Additions and disposals, net	(174,166)	(41,478)
Balance as of December 31, 2018	\$ 782,673	\$ 1,385,153

As of December 31, 2019 and 2018, there were no effects from unrealized gains from fair value measurements.

26 Financial instruments risk

Risk management objectives and policies

Grupo TMM is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 14. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated at its headquarters, in close cooperation with the board of directors, and focuses on actively securing short to medium-term cash flows by minimizing the exposure to volatile financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risk to which the Company is exposed are described below:

Market risk***Currency risk***

The monetary position for Grupo TMM may be materially affected by variances in the exchange rate between the US dollar and the Mexican peso due to the Company's significant operations in Mexico. The Company does not cover this exposure. Grupo TMM minimizes its exposure effects in foreign currency by contracting financial debt in Mexican pesos.

Grupo TMM also faces transactional currency exposure. This exposure derives from sales and acquisitions made in currencies other than Mexican pesos, Grupo TMM's functional currency. As of December 31, 2019 and 2018, approximately 45% of Grupo TMM's sales are denominated in US dollars, while approximately 25% of the costs and expenses for both years are denominated in US dollars.

As of December 31, 2019 and 2018, the Company held monetary assets and liabilities denominated in foreign currencies other than the Mexican peso, translated at the corresponding interbank exchange rate as related to the Mexican peso, as follows:

	2019		2018	
	US dollar	Other currencies	US dollar	Other currencies
Assets	\$ 547,320	\$ 1,093	\$ 484,443	\$ 1,108
Liabilities	(1,042,661)	(1,641)	(637,953)	(103,096)
	<u>\$ (495,341)</u>	<u>\$ (548)</u>	<u>\$ (153,510)</u>	<u>\$ (101,988)</u>

As of December 31, 2019 and 2018, the exchange rate was Ps 18.8727 and Ps 19.6566 per US dollar, respectively.

As of June 29, 2020, release date of the consolidated financial statements, the net position in US dollars, unaudited, was similar to that as of December 31, 2019, and the exchange rate was \$22.9715 (per dollar).

Sensitivity analysis

The following table shows for the years ended December 31, 2019 and 2018, the sensitivity in profit or loss related to the financial assets and liabilities of Grupo TMM and the exchange rate; United States dollar (USD) / peso 'considering that the rest of the conditions remain the same', assumes a change of +/- 22.10% for 2019 and +/- 0.04% for 2018 in the peso / USD exchange rate.

This percentage was determined based on the volatility of the average exchange rate market over the past 12 months. The sensitivity analysis is based on financial instruments in foreign currency held by Grupo TMM on the reporting date.

If the peso had strengthened or weakened against the USD by 22.10% for 2019 and 0.04% for 2018, this would have had the following impact on the monetary position:

	2019		2018	
	22.10% Increase in the exchange rate	22.10% Decrease in the exchange rate	0.04% Increase in the exchange rate	0.04% Decrease in the exchange rate
Assets in US dollars	\$ 120,944	\$ (120,944)	\$ 155	\$ (155)
Assets in other currencies	242	(242)	(204)	204
Liabilities in US dollars	(230,401)	230,401	(33)	33
Liabilities in other currencies	(363)	363	-	-
	<u>\$ (109,578)</u>	<u>\$ 109,578</u>	<u>\$ (82)</u>	<u>\$ 82</u>

The exposure to exchange rates varies during each year, depending on the volume of overseas operations or in foreign currency; however, the above analysis is considered representative of Grupo TMM's exposure to currency risk.

Interest rate risks

Grupo TMM's exposure to the risk of changes in market interest rates is related principally to the long-term debt obligations of Grupo TMM at a variable interest rate.

Grupo TMM's policy is to obtain fixed rated instruments on its loans and, when a loan has a variable interest rate, the Company's policy is to obtain all needed derivative financial instruments in order to fix this rate. At December 31, 2019, the Company has \$103.0 and \$159.1 million pesos of debt contracted on fixed and variable rates, respectively. At December 31, 2018, the debt contracted on fixed and variable rates was \$288.0 and \$327.4 million pesos, respectively.

Sensitivity analysis

The following table illustrates the sensitivity in profit or loss at December 31, 2019 and 2018 to a reasonably possible change in the interest rates of +/- 7.05% and 1%, respectively. These changes are considered to be reasonably possible based on the current market conditions. The calculations are based on a variance in the average market interest rate for each period and the financial instruments on the reporting date that are sensitive to variances in the interest rates. The rest of the variables remain constant.

	2019		2018	
	+7.05% Variance	-7.05% Variance	+1% Variance	-1% Variance
Profit or loss for the year	\$ (1,698)	\$ 1,698	\$ (1,439)	\$ 1,439

The impact shown in the above sensitivity is considered the same both in the results of profit or loss and in stockholders' equity.

Concentration of risk

For the year ended December 31, 2019, the Company obtained revenues from TMM DM (related party), Helmsley Management and Celanse Operations Mexico, representing 17%, 11% and 7%, respectively. None of the remaining customers represent more than 4% of its total revenues. For the year ended December 31, 2018, the Company obtained revenues from TMM DM (related party), Grupo Celanese and Helmsley Management, representing 17%, 10%, and 9%, respectively. None of the remaining customers represents more than 4% of the total revenues.

Credit risk

Credit risk is managed on a group basis, based on the credit risk management policies and procedures of Company.

Credit risk with respect to cash balances maintained in banks and sight deposits is managed through diversification of bank deposits that are only made with high credited financial institutions. For other receivables, other than trade accounts receivable and contractual assets, the balances are considered immaterial and whose risk of default is null.

The Company continuously monitors the creditworthiness of customers, based on its experience and customer profiles defined by Management. The Company's policy is to deal only with creditworthy counterparties. Credit terms range between 30 and 90 days. Credit terms negotiated with customers are subject to an internal approval process that considers the experience and profile of the customer. Current credit risk is managed by a periodic review of the accounts receivable aging analysis, together with credit limits per customer.

Trade accounts receivable consist of a large number of customers in various industries and geographical areas.

Guarantees (collateral)

The Company does not maintain any guarantee on its trade accounts receivable. In addition, the Company does not have guarantees related to other financial assets (i.e., other receivables, cash and cash equivalents held in banks).

Trade accounts receivable

Grupo TMM applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

Expected credit loss rates are based on the sales payment profile over the last 48 months prior to December 2019 and 2018, respectively, as well as the corresponding historical credit losses during that period.

Historical rates are adjusted to reflect current and future macroeconomic factors that affect the customer's ability to liquidate the unpaid balance.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Company on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery. However, industry and client's practices could generate balances with more than 180 days of aging, for which conclusion is that those balances will be collected.

Pursuant to the foregoing, the expected credit loss for trade accounts receivable as of December 31, 2019 and 2018 was determined as follows:

	Trade accounts receivable days in arrears				Total
	Current	More than 30 days	More than 60 days	More than 90 days	
As of December 31, 2019					
Expected credit loss rate	0.0%	0.0%	2.3%	27.4%	
Gross carrying value	\$ 214,850	\$ 18,398	\$ 7,976	\$ 51,748	\$ 292,972
Expected credit losses during the lifetime	-	-	185	14,200	14,385
As of December 31, 2018					
Expected credit loss rate	0.0%	0.0%	0.6%	27.4%	
Gross carrying value	\$ 100,116	\$ 11,275	\$ 11,168	\$ 78,977	\$ 201,536
Expected credit losses during the lifetime	-	-	645	21,658	22,303

Liquidity risk

The goal of Grupo TMM is to maintain a balance between the continuity of loans and flexibility through the use of bank loans and securitizations. As of December 31, 2019 and 2018, only 24% and 36%, respectively, of Grupo TMM's financial liabilities are due within the next 12 months.

As of December 31, 2019 and 2018, the financial liabilities of Grupo TMM have contractual maturities (including interest payments as applicable) are summarized as follows:

	Current		Non-Current	
	In 6 months	6 to 12 months	1 to 4 years	More than 4 Years
At December 31, 2019				
Trade payables	\$ -	\$ 262,159	\$ -	\$ -
Accounts payable and accrued expenses	-	499,529	46,742	-
Leasing liabilities	34,908	25,670	130,238	396,543
Financial debt	55,139	84,050	113,288	5,449
	<u>\$ 90,047</u>	<u>\$ 871,408</u>	<u>\$ 290,268</u>	<u>\$ 401,992</u>
At December 31, 2018				
Trade payables	\$ -	\$ 262,090	\$ -	\$ -
Accounts payable and accrued expenses	-	357,523	-	-
Financial debt	83,185	140,177	392,063	-
	<u>\$ 83,185</u>	<u>\$ 759,790</u>	<u>\$ 392,063</u>	<u>\$ -</u>

The above amounts reflect the contractual cash flows without discount, which may differ from the values registered in the liabilities on the reporting date.

27 Capital management policies and procedures

Grupo TMM's capital management goal is to ensure the capacity of Grupo TMM to continue as a going concern and to provide its stockholders with an appropriate return on their investment. The Company monitors capital based on the carrying value plus its financial debt.

The Company sets its capital amount proportionate to its overall financing structure, meaning, the capital and financial liabilities that are not loans. Grupo TMM manages the capital structure and makes adjustments in light of changes in the economic conditions and the associated risks of the underlying assets. In order to maintain or adjust the capital structure, Grupo TMM may adjust the amount of capital reimbursements to stockholders, or issue new shares or sell assets to reduce its financial debt.

As of December 31, 2019 and 2018, the capital management is summarized as follows:

	<u>2019</u>	<u>2018</u>
Stockholders' equity	\$ 2,422,792	\$ 2,124,258
Cash and cash equivalents	(512,799)	(318,155)
Stockholders' equity, net	<u>1,909,993</u>	<u>1,806,103</u>
Total financial debt	257,926	615,425
Leasing liabilities	<u>587,359</u>	<u>-</u>
Overall financing	<u>\$ 845,285</u>	<u>\$ 615,425</u>
Capital-to-overall financing ratio	<u>2.26</u>	<u>2.93</u>

28 Commitments and contingencies

Commitments

a) Concession fees

Pursuant to the concession to operate the cruise and automobile terminal in the Port of Acapulco, Guerrero, the Company must make fixed and variable monthly payments. These payments totaled \$ 7,536 and \$ 7,139 in the years of 2019 and 2018, respectively.

Contingencies

a) RPS Claim

On August 7, 2007, Transportación Marítima Mexicana, S.A. de C.V. ('TMM') filed a claim for arbitration against Refined Product Services ("RPS") for US\$50 thousand, for various expenses incurred by TMM due to the delay of the re-delivery of the tanker vessel Palenque.

On October 19, 2007, RPS filed a countersuit for US\$3.0 million, for alleged faults and lack of maintenance involving the tanker vessel Palenque, and also consequential damages for having lost a contract while the vessel was being repaired. The consolidated financial statements did not present any significant claims for payments of loss (RPS) during 2018, 2019 and up to the authorization date hereof.

The Company's Management and its legal advisors consider the position against this countersuit is strong, as there are sufficient elements and arguments for defense, also the amount claimed by RPS would appear to be excessive and for non-supported issues.

b) Mutual loans between WWS y TMM

In December 2007, TMM and Worldwide Services, Ltd. (“WWS”) filed mutual claims; TMM for \$394 thousand dollars, claiming fuel and low return on the performance of the tanker ship Veracruz A, and WWS in the amount of \$938 thousand dollars, primarily claiming a presumed over-performance of the same ship.

As of the date of the authorization of the consolidated financial statements, total claims against TMM amount to \$2.4 million dollars. However, those claims are considered weak.

TMM filed an appeal to have the case dismissed, claiming that the Court has no jurisdiction since the arbitration proceedings were started with the name of the incorrect plaintiff, a partial ruling was handed down in which the case was not dismissed in January 2017. The final ruling will be handed down in the forthcoming months of the authorization of the consolidated financial statements.

Company Management believes it has strong arguments to support the claim and to defend its position on the arbitration that is being carrying out.

c) ADEMSA secured Certificates of Deposit

During 2011 and 2010, ADEMSA issued secured Certificates of Deposit in favor of various financial institutions, goods and/or amounts consigned thereto, which, as a result of the defaults by the producers and on exercising the right conferred by the Certificates, filed claim against ADEMSA for compliance with the obligations to deliver goods covered or payment of the amounts secured.

At December 31, 2019 and 2018, the Company held a reserve of \$2,461, to settle the ADEMSA obligations, and also in these years, payments were made to financial institutions for \$2,893, respectively. As of December 31, 2019 and 2018, the reserve is included in ‘Accounts payable and accrued expenses’.

d) Tax liabilities determined on TMM

Suit filed by TMM against the rulings handed down on which various tax liabilities were determined for presumed omitted income tax, corresponding to tax year 2005.

On November 5, 2012, the appeal for annulment was allowed to proceed before the former Federal Court of Tax and Administrative Justice. That appeal for annulment was forwarded for study and resolution to the Metropolitan Regional First Division of the Federal Court of Tax and Administrative Justice.

On January 30, 2018, TMM was notified of the decision whereby the matter was forwarded to the Full Federal Tax Court of Administrative Justice sitting in Mexico City, and in February 2020, a favorable judgment was issued for the interests of the Company.

e) Motions for Annulment against various tax provisions

During 2017 and 2016, Grupo TMM filed Motions for Annulment with the Federal Court of Administrative Justice against various decisions of the Tax Administration Service (SAT), on the rejection of deductions (tax year 2007), modifications to the Consolidation Regime for controlled companies (tax year 2005), deferred income tax on consolidation (tax year 2010), and the termination of the consolidation regime (tax year 2013), on which rulings have not been handed down by the courts with competent jurisdiction.

f) Other legal proceedings

The Company is party to various other legal proceedings and administrative actions, all of which are of an ordinary or routine nature and incidental to its operations. Although it is impossible to predict the outcome of any legal proceeding, in the opinion of the Company's management, such proceedings and actions should not, individually or in the aggregate, have a material adverse effect on the Company's financial condition, results of operations or liquidity.

g) Operations with related parties

Under the Income Tax Law, companies that conduct operations with related parties, nationals or nonresidents, are subject to fiscal limitations and obligations regarding the determination of the prices negotiated, as these must be comparable to those that would be used with or between independent parties on similar operations.

In the event the tax authorities were to review the prices and reject the amounts determined, they may demand, in addition to the taxes and accessory charges corresponding (adjustments and surcharges), fines on omitted taxes, which could be for up to 100% of the adjusted tax amount.

The Company has significant transactions and relations with related parties, for which the Company holds documentation that confirms the terms of these transactions were conducted in 2018 similarly to transactions between unrelated parties. The Company and its subsidiaries are in the process of completing this study for 2019.

h) Other legislation

Grupo TMM and Subsidiaries are subject to the laws and ordinances of other countries, as well as international regulations governing maritime transportation and the observance of safety and environmental regulations.

29 Subsequent events to the reporting date

On March 11, 2020, the World Health Organization ('WHO') declared COVID-19 a pandemic. Governments worldwide, including Mexico, have implemented a series of policies and actions to combat it. At the date of authorization of the consolidated financial statements, the scope of the impact of COVID-19 for world economies, Mexico and the Company is uncertain and cannot be determined yet.

As of June 29, 2020, release date of the consolidated financial statements, the Company's revenues, mainly in the Ports and Terminals segment, have decreased. To date, the Company has taken different actions to improve its financial structure, such as deferring payments to suppliers and creditors, reducing compensations to personnel and non-essential expenses, among others. As part of these efforts, Grupo TMM has decided to change corporate offices, which will generate significant savings in corporate costs. The Company's plans are to continue to provide health benefits to employees on temporary leave until the end of the pandemic.

Management will continue to monitor the development of the pandemic and its impact on the Company, including its operations, income and costs, loan agreements and its obligations, credit losses, deterioration conditions in its long-term assets, amount of assets measured at fair value, as well as other estimates included in its consolidated financial statements and its corresponding notes.

30 Authorization of the consolidated financial statements

The consolidated financial statements of the Company were authorized by Carlos Pedro Aguilar Mendez on June 29, 2020, in his capacity as Director of Administration and Finance, as well as by the Board of Directors on the same date, to be issued and subsequently approved by the General Stockholders' Meeting, which has the authority to modify the accompanying consolidated financial statements.