ANNUAL REPORT 2015

15

# IT'S TIME TO...

POSADAS®

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IT'S TIME TO...


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## DEAR BOARD MEMBERS AND INVESTORS

### 2015 WAS A YEAR OF EXTRAORDINARY RESULTS FOR POSADAS

These results have led us to be able to report six straight quarters surpassing the EBITDA numbers guidance. We closed 2015 with EBITDA of $1.362 billion pesos, a 43% increase with a 3 percentage point growth in the margin, year-over-year.

Also, we opened 14 new hotels this year adding to the Posadas portfolio, to total 141 hotels and more than 23,200 rooms.

Our brand portfolio continues to grow, and our most recent brand, Lat20 by Live Aqua, was launched as a new alternative in luxury accommodation in the 5ª Avenida de Playa del Carmen. Also, we opened Grand Fiesta Americana Puerto Vallarta all-inclusive, adults only, a new icon in our portfolio of resorts; Fiesta Inn continues its evolution with the remodeling of 14 hotels under the 2.10 concept, to total 31 hotels fully renovated; one year after its launch, Fiesta Inn Loft has opened 2 new hotels; the Gamma brand has 9 hotels, representing more than 1,300 rooms, and, lastly, the One Hotels brand reached 37 properties.

José Carlos Azcárraga Andrade
**CEO**

Our vacation properties (Provac) continue to post impressive results for Posadas; the membership business reported net sales of over $1.20 billion pesos, representing a year-over-year increase of 28%. With these results, Provac exceeds the US$1.00 billion sales milestone, since this business was started.

This represents more than 31,000 Fiesta Americana Vacation Club members and over 26,000 Kivac travelers, creating a new community that's growing at an exceptional rate.

**Financial Results**

Our 2015 sales increased 18% over 2014, to $6.901 billion pesos. Cost controls have improved our operating margin by 3 percentage points, resulting in a 43% growth in EBITDA.

Our EBITDA, being our primary source of cash, has allowed us to invest more than $600 million pesos in the maintenance and refurbishment of our hotels, to meet our financial and fiscal commitments and to generate a free cash flow of $450 million. Our cash balance totaled $1.214 billion pesos.

Our total assets grew 3% to $13.77 billion. Our leverage ratio, measured as Net Debt to EBITDA improved, as it decreased from 4.6 times to 3.7 times.

Regarding macroeconomic events over which we have no control, the Mexican peso depreciated 16.9% against the US dollar, affecting our position in dollars (debt, primarily), which resulted in a net loss of $470 million pesos.

The company successfully implemented an ongoing liability management program to meet our strategic goal of strengthening our capital structure.

On June 25, 2015, a 7-year US$350 million note was issued (NC4) at an annual rate of 7.875% ("7.875% Senior Notes due 2022"). The offering was oversubscribed 2.4 times, with more than 100 institutional investors. This is the largest offering at the lowest annual interest rate in the history of Posadas. The funds were allocated to:

- US$295 million to a repurchase, through a tender offer, of 87.6% of the Senior Notes due 2017, interest, and related expenses.
- US$50 million for Euro Commercial Paper (paid on maturity, November 18, 2015).
- US$5 million for corporate purposes.

As a result, the average life of our debt was extended to 6.0 years at 2015 end of period. We have no debt maturing in the next 23 months. In November 2017, 10% of our total debt comes due and the remaining balance (90%) at mid 2022.

The projections show that we'll continue to be selective in allocating the use of the cash we generate, while looking for opportunities that make sense for the business and which are aligned with our strategic goals.

Our financial situation at the end of 2015 is detailed in Appendix 1 of this report, fully explaining and classifying the company's results for the year. In addition, this appendix shows the changes in financial position and the changes in our equity in 2015. The notes that accompany and clarify the information contained in the financial statements are also detailed in the appendix, including the Independent Auditor's Report and the 2013, 2014 and 2015 consolidated financial statements for Grupo Posadas S.A.B. de C.V. and Subsidiaries audited by Galaz, Yamazaki, Ruiz Urquiza S.C. (Deloitte).

**Growth and Development**

As of December 31, 2015, we hold agreements to operate 34 new hotels with 5,049 rooms, noting the growth seen in all categories and brands in our portfolio (2 Live Aqua, 8 Fiesta Americana and Grand Fiesta Americana, 11 Fiesta Inn, 12 One Hotels, and 1 The Front Door).

2015 was also a great year. Signing 19 new hotel contracts supports our accelerated growth rhythm towards the goal of having more than 250 properties in operation by 2020.

Additionally, we acquired land in the development of Cabo del Sol in Los Cabos, Baja California, to build The Front Door Los Cabos, which will have 35 residences, adding to our current offering. The development is expected to be completed in 2017.

**Operating Results**

Hotel revenue increased 14% year-over-year. The urban hotels, representing 79% of the total rooms operated at the system level, continue to report good performance with an increase in the RevPAR of 6.3%. The coastal hotels reported an increase in the RevPAR of 17.5%, including the recent openings of Grand Fiesta Americana Puerto Vallarta and Lat20 in Playa del Carmen.

The 2015 Gross Operating Profit grew 26% over the previous year, with improvements in the margins for all our brands.

We've been working tirelessly to create memorable experiences for our guests, backed by an extensive training program for more than 3,000 collaborators.

In 2015, we sent out over 500,000 satisfaction surveys to our guests and over 80% said they would definitely recommend staying with us, 11 points above the industry average.

Meanwhile, the VIAJA (travel) campaign was held for the sixth year in a row, delivering nearly 900,000 gift certificates, 10 luxury cars, and 5 million airline vouchers, generating 25% more room nights compared with 2014.

Continuing with these impressive results, our Call Center, Konexo increased reservations, improving the conversion rate by 2.9 percentage points compared with last year (calls received/reservations) and reported 16.6% more revenue than for 2014.

For Posadas, human capital management is one of our highest priorities. In 2015, we held more than 650 reviews to identify the talent with the greatest potential and we designed individual development plans for this group of collaborators.

Also, Posadas continued working on the company's restructuring project, which will substantially reduce the number of subsidiaries and simplify operations.

**Social Responsibility**

In 2015, for the third year in a row, Posadas was recognized as a Socially Responsible Company. Thanks to the company's good practices in economic, social, and environmental aspects, Posadas was ranked 24th by the publication Expansión in its 2015 list of responsible companies, 31st in the national ranking of benefactors and 24th in the Forbes magazine ranking of companies with a strong commitment to the environment.

Without a doubt, the results and achievements for 2015 confirm that we're on the right track. On one hand, they support the strategic plan set in 2012 in terms of direction and investment, which was achieved thanks to our fantastic team of collaborators. On the other, they are an incentive to continue to progress towards 2020 with new plans and strategies. These results are a starting point (and an excellent one at that) to continue to move forward and consolidate as the Mexican group offering the best hotel brands in the most relevant and best situated destinations in Mexico.

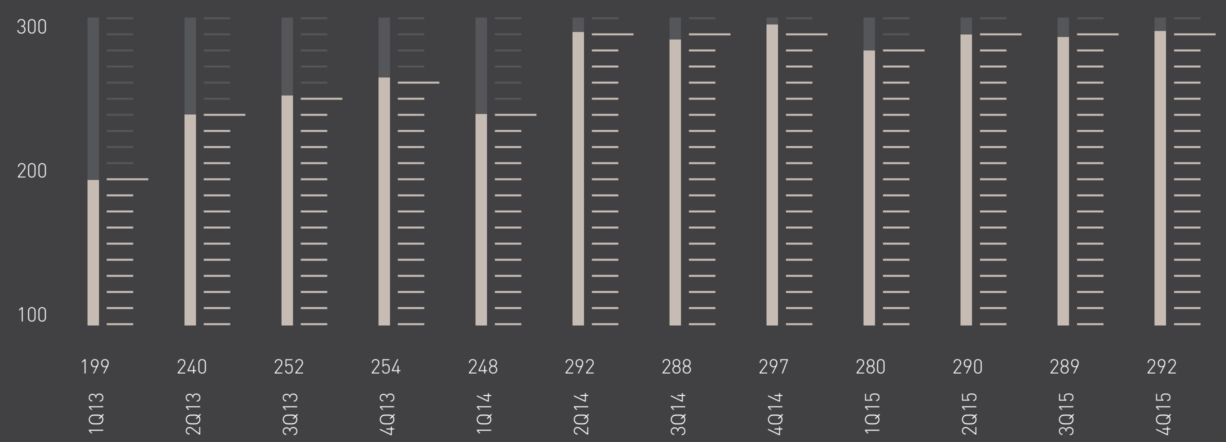
With all these reasons to celebrate, I am deeply appreciative of the confidence placed in me and my team. I am certain that our leadership and growth in all areas of the business in 2015 are the result of this confidence and our commitment to continue to build the best hotel company in Mexico.

**JOSÉ CARLOS AZCÁRRAGA**
CEO

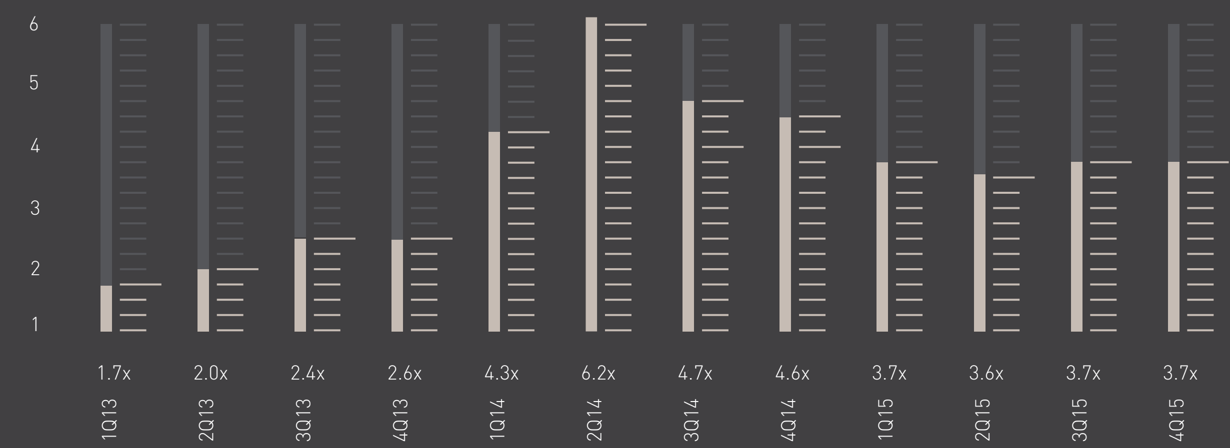
February 2016

## FINANCIAL HIGHLIGHTS

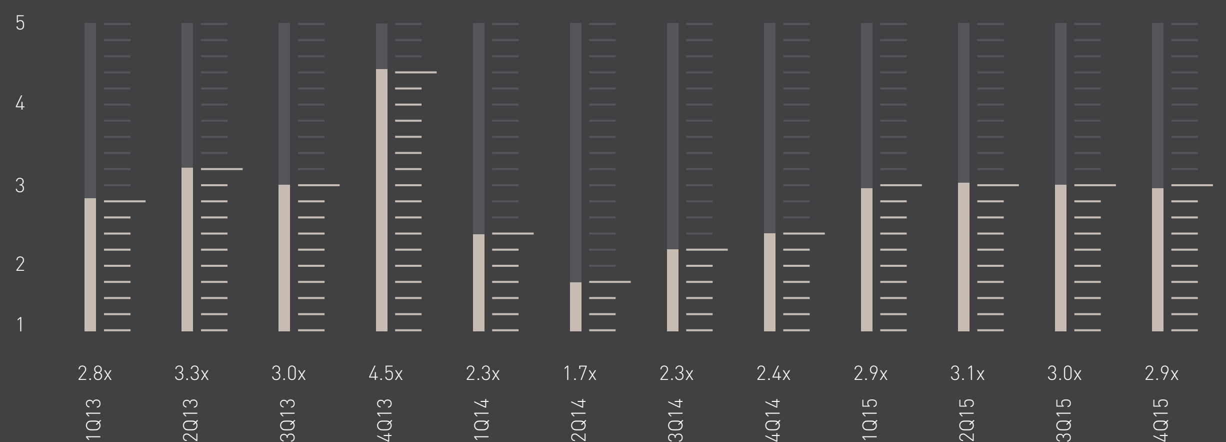
### NET DEBT (US$M)

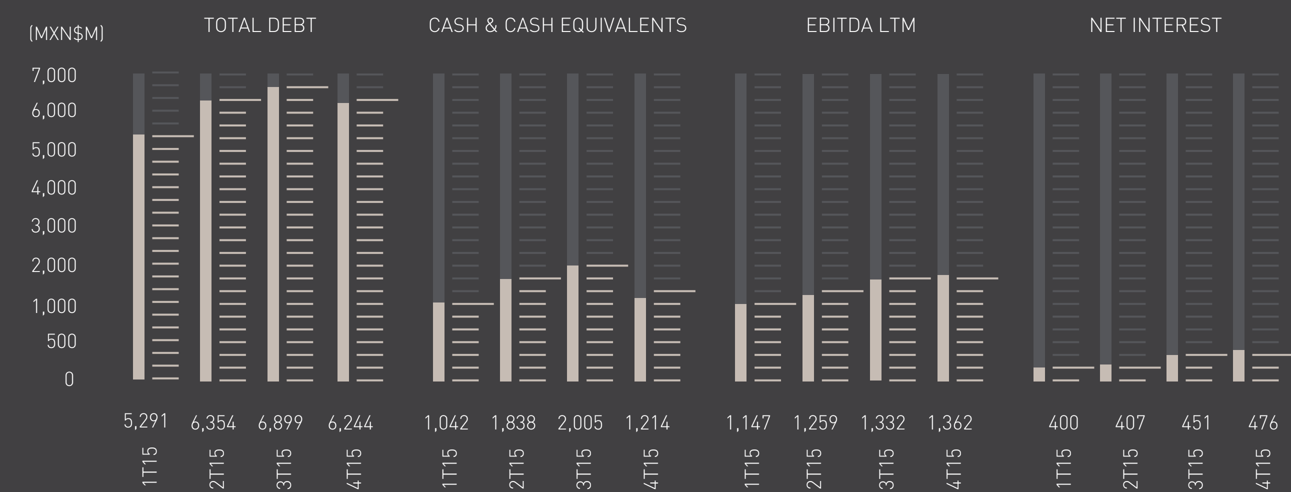



### NET DEBT / EBITDA




### NET INTEREST COVERAGE



## DEBT MIX 2015

### TENOR


- Long Term 100%
- Short Term 0%

### CURRENCY


- USD 100%
- MXN 0%

### GUARANTY


- Unsecured 100%
- Secured0%

### RATE


- Fixed 100%
- Variable 0%

# PUTTING OUR BEST FOOT FORWARD

CLOSING 2015

WITH EBITDA OF

$1.362 BILLION PESOS,

REPRESENTING A

43% INCREASE

YEAR-OVER-YEAR.



## FINANCES

### IN 2015, WE ISSUED THE LARGEST OFFERING AT THE LOWEST ANNUAL INTEREST RATE IN THE HISTORY OF GRUPO POSADAS.

The results for 2015 report growth over the last year. Total revenue was $6.901 billion pesos and EBITDA was $1.362 billion, representing year-over-year increases of 18% and 43%, respectively.

At the system level, measured by rates and occupancy, this year showed continuity and recorded improved operational performance. The average rate increased 5.4% and occupancy rose 2.1 percentage points ("pp"), resulting in a growth of the revenue per available room (RevPAR) of 8.8%.

The favorable trend remained present in both the urban and coastal hotel segments. In terms of the urban hotels, which represent approximately 80% of the total rooms operated throughout the system, there was continuity in improvement, with a 6.3% increase in the RevPAR. Regarding the coastal hotels, it's important to recall that these experienced an even better performance, with a RevPAR increase of 17.5%.

Live Aqua Mexico City Hotel & Spa

OUT-
STANDING

Regarding our capital structure and to meet the strategic goal of strengthening this, the company successfully carried out its ongoing liability management program. On June 25, 2015, a 7-year US$350 million note was issued (NC4), at an annual rate of 7.875% ("7.875% Senior Notes Due 2022"). The offering was oversubscribed 2.4 times, with more than 100 institutional investors. This is the largest offering at the lowest annual interest rate in the history of Grupo Posadas.

The funds were allocated to:

- US$295 million for the tender offer of 87.6% of the Senior Notes Due 2017, interest, and related expenses.
- US$50 million for Euro Commercial Paper (paid on maturity, November 18, 2015).
- US$5 million for corporate use purposes.

As of December 31, 2015, the average life of the company's debt was 6 years.

The net loss in 2015 was $470 million pesos, due primarily to exchange loss as a result of the 16.9% depreciation of the peso (MXN) against the US dollar (USD).

The cash balance at December 31, 2015 was $1.214 billion (US$70.5 million at the closing exchange rate of $17.2065/dollar) and the company's total assets were $13.777 billion (US$800.7 million).

The details of our 2015 financial situation are in Appendix 1 of this report, which contains the Independent Auditors' Report and also the 2013 and 2014 consoliudated financial statements for Grupo Posadas S.A.B. de C.V. and Subsidiaries, audited by Galaz, Yamazaki, Ruiz Urquiza S.C. (Deloitte). It should be noted that this report fully explains and classifies the company's results for the year and also presents the changes in the financial position and variances in equity occurring in 2015, and also the notes that accompany and clarify the information contained in the financial statements.

Grand Fiesta Americana Puerto Vallarta

On March 15, 2016, the Extraordinary and Ordinary Company Stockholders' Meeting amended the fifth article of the company bylaws, to adjust this text to satisfy various legal amendments applicable.

Meanwhile, the company continued its restructuring project, which will substantially reduce the number of subsidiaries and improve the efficiency of our transactions.

## WE CONSOLIDATED THE LEADERSHIP

OF GRUPO POSADAS,

OPENING 14 HOTELS IN 2015,

A FIRM STEP

TOWARDS ACHIEVING

OUR GOALS

IN ALL CATEGORIES.

Fiesta Inn Loft Ciudad del Carmen

## PROPERTY

### OUR RESULTS ARE HELPING US TO ACHIEVE THE GOAL OF CONSOLIDATING THE LEADERSHIP OF GRUPO POSADAS IN ALL CATEGORIES.

Numbers don´t lie: 14 hotels were opened in 2015. Of particular note was the opening of the 445-room Grand Fiesta Americana All-Inclusive in Puerto Vallarta and the launch of a new boutique lifestyle hotel concept: the Lat20 in Playa del Carmen, under the Live Aqua brand. To these we add the opening of hotels under other brands, with 4 One, 3 Fiesta Inn —including 2 under the new concept of extended stays, Fiesta Inn Loft—, and 5 Gamma, to solidify its position as one of the most important franchise brands in Mexico.

At 2015 close, we hold 35 signed contracts (5,049 rooms) to develop new hotels with different capital and institutional investors. These include 2 Aqua, 8 Fiesta Americana, 11 Fiesta Inn, 12 One, and 1 The Front Door. These projects represent an estimated investment of over $8.0 billion pesos, noting the following hotels that will open their doors in 2016: Fiesta Americana Parque Toreo, in Mexico City, developed by Fibra Inmobiliaria Danhos; Fiesta Americana Pabellón Guadalajara, in the Andares area, and Fibra Hotelera developing the Fiesta Americana Pabellón M in downtown Monterrey, and in the Valle Oriente area, also in Monterrey, Grand Fiesta Americana and Live Aqua will also open their doors as part of the Trebol mixed development.

# OUR GROWTH IN 2015

THIS WAS A GREAT YEAR FOR SIGNING NEW CONTRACTS, TO MAINTAIN OUR ACCELERATED GROWTH RHYTHM HEADING TOWARDS THE GOAL OF MORE THAN 250 HOTELS OPENING IN 2020.

**WE CONSOLIDATED THE LEADERSHIP OF GRUPO POSADAS IN ALL CATEGORIES, AS SEEN IN OUR 2015 RESULTS.**



# WE'RE GROWING AND GROWING

OUR PORTFOLIO OF BRANDS CONTINUES TO EXPAND AND OUR MOST RECENT BRAND, Lat20 BY LIVE AQUA, WAS BORN AS AN ALTERNATIVE IN LUXURY ACCOMMODATION.

## LIVE AQUA

### INVESTMENT IN LUXURY AND SOPHISTICATION

The Live Aqua experience maximizes enjoyment for all the senses.

Our resorts offer subtle luxury and a perfect atmosphere to see and be seen. A Caribbean playground or a seductive getaway in the heart of the city. These are the Live Aqua Cancún, Live Aqua Mexico City, and Live Aqua Monterrey Valle resorts. Each resort offers distinguished accommodations, sophisticated ambiance and charming details that delight guests at every turn.

### AWARDS

**Live Aqua Cancún**

Rated the second best hotel in Cancún and 12th best in all of Mexico by TripAdvisor. Live Aqua was also a TripAdvisor Travelers' Choice 2015 winner.

On TripAdvisor:

No. 1 in spa hotels in Cancún

No. 2 in beach hotels in Cancún

No. 2 in luxury hotels in Cancun

**Live Aqua Mexico City**

On TripAdvisor:

No. 3 in romantic hotels in Mexico City

No. 3 in family hotels in Mexico City

No. 3 in spa hotels in Mexico City

Both hotels were TripAdvisor Travelers' Choice 2015 winners.

Worldwide, Live Aqua is ranked 17th in the All-Inclusive category and 6th in the national ranking.

An agreement was signed in 2015 with the financing firm Bighorn Capital, Inc. to introduce the Live Aqua brand to the US market. The launch of Live Aqua in the US is the first international expansion for the brand.

Live Aqua Mexico City Hotel & Spa

Under the agreement, Bighorn Capital will invest US$450 million in the initial development of five hotels under the Live Aqua brand, situated in the metropolitan areas of Chicago, Los Angeles, Miami, Houston, and Washington, DC. These cities have significant Hispanic populations and draw international and Latino tourists, a key market for the brand, particularly because of their affinity for the luxury and sophistication of Live Aqua.

## LAT20 BY LIVE AQUA

At the end of 2015, we opened Lat20 by Live Aqua, in Playa del Carmen. Lat20 is a lifestyle boutique hotel, under the luxury all-inclusive concept, aimed at the Millennial Generation. With this new concept, Posadas extends its brand portfolio and will seek increased recognition among the younger markets.


Grand Fiesta Americana Puerto Vallarta All Inclusive Adults Only

Fiesta Americana Cozumel All Inclusive

## GRAND FIESTA AMERICANA

Grand Fiesta Americana HOTELS & RESORTS

**SUBTLE LUXURY AND ABSOLUTE COMFORT**

Grand Fiesta Americana is an exclusive hotel concept set in a sophisticated, iconic and innovative space that brings together unparalleled Mexican hospitality with gracious and personal attention for travelers who value feeling appreciated, recognized and successful. The perfect balance between what guests are looking for and what we have to offer.

Grand Fiesta Americana makes guests' wishes a reality, providing comfort, subtle details, and unique amenities. The hotels, located in Mexico's most spectacular destinations, offer unique spaces and the ideal environment for a memorable experience with the highest standards of quality and service in the world.

The Grand experience begins the moment the guest arrives. Our cutting-edge check-in system offers a personal and friendly welcome. The Lobby Lounge harmoniously combines each space, including the restaurant, bar and terrace, providing comfort and inviting social interaction. Our guests will find the rest they deserve in our magnificent suites.

As with Fiesta Americana, its mother brand, Grand Fiesta Americana continues to expand its presence with additional avant-garde and luxury hotels. The recent opening of Grand Fiesta Americana Puerto Vallarta All-Inclusive Adults Only marks a new path in the adults-only segment. During 2016, the brand will gain presence in Puebla, with Grand Fiesta Americana Puebla Angelópolis, and in Monterrey, with Grand Fiesta Americana Monterrey Valle. With these openings, our inventory will total more than 2,000 rooms.

This is Grand Fiesta Americana, a subtle encounter with luxury, with personal service, and warm hospitality.

## FIESTA AMERICANA

Fiesta Americana HOTELS & RESORTS

**SERVING OUR GUESTS IS A PLEASURE**

Fiesta Americana is the leading hotel chain in Mexico, offering our guests unforgettable stays at the best destinations in the country. The hotels are ideal for travelers who value feeling appreciated and recognized, and at Fiesta Americana properties, guests know they will receive exceptional service with the warm Mexican hospitality that characterizes the brand.

Whether traveling for business or for pleasure, guests at Fiesta Americana hotels always leave with a good story to tell. The hotels are known for their contemporary Mexican architecture and their ability to adapt to the lifestyles of each guest. They offer spaces where freedom and openness are part of the experience, creating an environment that is casual and relaxed, yet inspiring. Fiesta Americana offers personal service and guests find our hotels to be the perfect backdrop for a memorable trip.

Our flagship brand continues its successful growth in Mexico. Over the next two years, Fiesta Americana will move into cities like Monterrey, Guadalajara, and San Luis Potosí, to mention a few, with inventories of over 3,600 rooms. This will allow us to offer more options to travelers in Mexico's major cities.

Supporting this growth, the brand wants to reach all of Mexico through its *"Quédate"* (stay here) campaign, inspired by living in the moment and the power of this phrase. We want our guests to take away something that goes beyond a simple stay. We want to create memories for our guests, stories they'll want to tell. We want to for them to stay with us –and for the experience to stay with them.

At Fiesta Americana, we want our guests to have memorable experiences that will keep them coming back again.

## FIESTA INN

**PRESENTS TWO ADDITIONAL BRANDS TO MEET THE NEW NEEDS OF MODERN BUSINESS TRAVELERS**

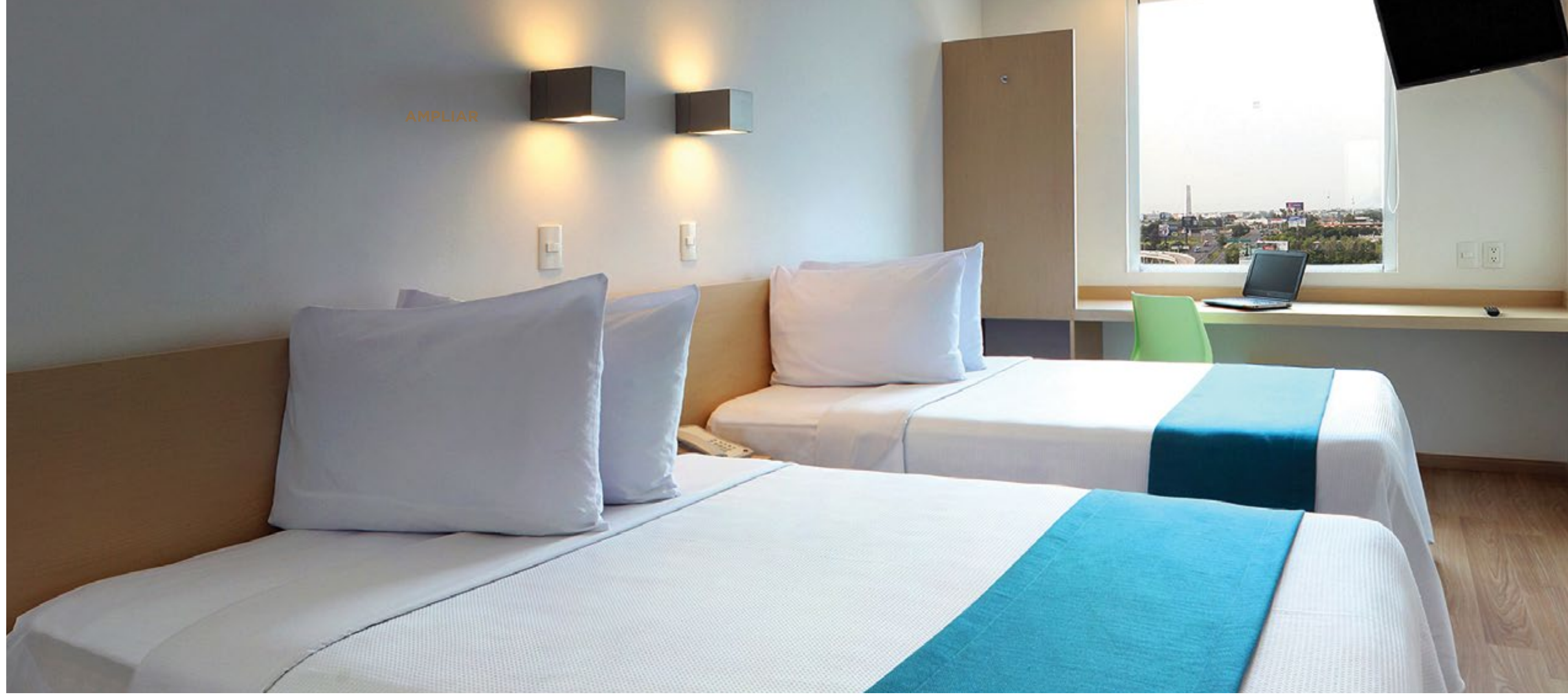
During 2015, Fiesta Inn, the leading brand in the Business Class category, created two hotel concepts to respond to our guests' needs: Fiesta Inn Loft and Fiesta Inn Express.

Fiesta Inn Loft is the ideal space for business travelers who need to stay for longer periods of time to achieve their business goals. Fiesta Inn Express is a "limited services" concept that offers business travelers a comfortable and successful stay with basic services.

The Fiesta Inn evolution continues. We've remodeled 32 hotels under the new concept, for a total of 62; and just one year since its launch, Fiesta Inn Loft has 4 hotels in operation.

We also continued our *"Tiburón 2"* advertising campaign, building on the excellent positioning and recall we achieved with the *"Tiburón 1"* ad —launched in the second half of 2013 with this same concept.

This year, our expansion plans are to open 5 Fiesta Inn hotels—in Pachuca, Bajio, Salamanca, Playa del Carmen, and Los Mochis. For 2017, we're projecting the opening of 6 more propertie—in Chihuahua, Puerto Vallarta, Mexico City, Acapulco, Juriquilla, and Monterrey.



One Celaya

## ONE

**DEVELOPMENT AND EXPANSION OF ONE HOTELS**

One Hotels opened four new properties in 2015. It's important to note that the brand is expecting to have 50 hotels in operation by mid-2017, with presence in 40 major Mexican cities.

With the concept of *"Hazlo tú mismo"* (do it yourself), One hotels offer the business or vacation traveler just what they need for their stay, backed by the leading hotel chain in Mexico. One offers guests safety, reliability, quality, and practicality at a reasonable price.

In 2015, this brand had 37 properties in 27 Mexican destinations. For, 2016, the goal is to reach an inventory of more than 40 hotels nationwide.


## GAMMA

### CONTINUED EXPANSION AND PRESENCE IN MEXICO

Gamma is the brand of hotels with a true sense of place, each with its own local charm that delights guests like no outside hotel ever could.

This is the only Posadas brand that operates under a franchise model, with both Posadas and independently operated establishments.

There were five openings in 2015:

- Five franchises in Campeche, Merida, Monterrey, Ixtapa and Xalapa

Through 2015, there were 9 Gamma hotels, representing more than 1,300 rooms, with more than 35 properties in the process of being converted in strategic cities.

The #EstoEsAquí digital media campaign was launched in November 2015, to make Gamma a recognized brand among business and vacation travelers in Mexico.

Viaja Campaign

## MARKETING

### VIAJA

The VIAJA (travel) promotion campaign undertook important initiatives in 2015. One of these was *"VIAJA por todo México con Fiesta Americana, Fiesta Inn y One"*, the most relevant promotion for the Mexican tourism sector. 2015 was the sixth year for the campaign, involving important commercial partners, such as Aeromexico, Audi, Banco Santander, our hotel loyalty program, and the Yucatan state government.

The prizes included more than 850,000 gift certificates, and gifts for all guests during the summer season at our hotels, as well as 10 Audi cars, more than 10,000 vouchers to fly with Aeromexico with values ranging from $500.00 pesos to full round-trip airfare to Mexican and international destinations; food and beverage discount certificates, free additional nights, and 6 million Fiesta Rewards program points.

The *VIAJA* promotion with the best deals held 13 special offers throughout the year, resulting in growth of more than 260% in sales over last year, exceeding $300 million pesos.

FIESTA REWARDS.

## LOYALTY PROGRAMS

In 2015, 38% of our total hotel occupancy was represented by members of our loyalty programs: Fiesta Rewards, Apreciare and Motiva, generating 1,884,506 room nights. Also, we enrolled 81,000 new members, for a total of 259,000 active members during the year; redeeming 177,585 rewards, 61% of which were for hotel nights.

The Santander Fiesta Rewards Clásica card was launched, strengthening the portfolio of cards operated in partnership with Banco Santander. Thanks to this effort, we attracted new customer segments to the hotels and the Fiesta Rewards program. During the year, 26,897 new credit cards were issued, for a total 133,000 cards in circulation.

We were present at special events, such as Cirque du Soleil and Formula 1, among others, to thank our Santander Fiesta Rewards members for their preference.

The Explorean Cozumel All Inclusive

# WE’RE CELEBRATING AND WE’RE EXCITED

BY HAVING ACHIEVED
$6.901 BILLION PESOS
IN SALES THIS YEAR,
AN 18% INCREASE
OVER LAST YEAR.



## HOTELERA POSADAS

### OUR GOP GREW 22% COMPARED WITH 2014, AND IN 2015 WE DOUBLED OUR 2009 GOP.

2015 was a record year for Hotelera Posadas. Most of our indicators also experienced increases, occupancy grew 3 pp and the RevPAR, 12%.

There were also improvements in the operating margins for all our brands, compared with the previous year: Fiesta Americana +3pp, Fiesta Inn +1pp, One +2pp, Gamma +1pp, particularly highlighting our resort hotels, reporting +5pp.

Commercially, 2015 was the best year in international group sales. We saw a 13% growth in room rates and consolidated partnerships with the industry's top wholesalers, achieving a growth in the wholesale segment of 44%.

Fiesta Inn Periférico Sur

CONGRA-
TULATIONS

We signed a contract with GHS (Global Hospitality Services), global agent for all Posadas brands and the whole portfolio of hotels, to generate greater international business (primarily from the US), improving our rates.

Additionally, we were named the number one chain Top Producer in Mexico by hotelbeds and booking.com. Also, we were recognized as a Preferred Partner by major international consortiums such as AMEX, CWT, BCD, and Travel Centre. With this, Grupo Posadas is the number one chain in sales in Mexico through Expedia, receiving the certificate of excellence for our hotels, by OTAs such as Expedia and booking.com.

In terms of recognition for our brands, Live Aqua was recognized in the Travellers' Choice Top 25 (12th in Mexico and 24th worldwide) and for the fourth time, we were the Global Traveler Best Hotel Chain Mexico 2015.

**POSADAS PEOPLE**
**OUR BUSINESS GROWTH ENGINE**

A year that's as successful as 2015 was in terms of results is only achieved thanks to the talent, effort, commitment, and PASSION of the Posadas people. And we highlight passion, because this is what characterizes us best and what drives us to give that something "extra" that we need today to stand out in an industry as competitive as ours.

**What did we do in 2015 to attract, develop and retain the best talent?**

1. Understanding that the best companies to work for in Mexico and around the world look for outside institutions to endorse and certify their company practices in terms of Organizational Climate and Culture, this year we turned to The Great Place To Work Institute (GPTW) to join us in the process of reviewing our workplace climate. This is the first year we've implemented this survey completely electronically, offering surety and certainty in the confidentiality of the responses received from more than 12,000 collaborators at our hotels nationwide.

   We're the first company with over 5,000 collaborators that was listed in the GPTW ranking in their first year participating, which fills us with pride and makes it clear to us that we still face an enormous challenge in the short and medium term: continuing to convert our improvement plans into realities that will impact the personal and professional lives of the members of our team and their families.

   We know that being the best company to work for in Mexico will help us to attract outside talent who wants to work at our hotels, to consolidate and maximize the talent we've identified internally, and to give everyone the opportunity to succeed, providing memorable experiences for our guests and customers. This fills us with satisfaction in every sense.

2. Attitude, Magic & Action (AMA), our culture of customer service is not only one of the strategic pillars for the growth of our business, it's also the platform that offers our collaborators the opportunity to create real emotional ties with guests, customers, vendors, and colleagues.

   An "AMA moment" goes beyond what's expected, it strives to surprise whoever receives it so that their experience at our hotels is unique and unforgettable, positively impacting both their satisfaction and their loyalty to our brands. This is how we ensure our future business. During 2015, more than 2,500 collaborators participated in 60 AMA courses, generating approximately 4,000 "AMA moments".

3. Our nearly 50-year experience in the industry has made us experts in operating hotels, and this is accompanied by a solid effort to ensure the quality of our processes. Once again, it's the Posadas people who raise this important indicator to new levels of high quality standards, achieving the prestige and positioning of our brands, and the satisfaction of our guests. This result is largely due to the following factors:

   a) We've improved and expanded the OPERATIONAL TRAINING platforms available at our hotels, making it easier for new personnel to effectively and efficiently join the operation of our properties. In 2015, more than 8,000 man hours of training were provided to collaborators through the CapaCita program.
   b) We have a strong STANDARD ASSESSMENT program to identify deviations and correct these quickly.
   c) Our OPERATING MANUALS are current and stored on platforms for quick and easy access by all our collaborators, offering a reliable training tool.
   d) The LEADERS at each hotel understand that the success of their establishment depends on doing things right the first time, to high standards of quality, focused on satisfying the needs of their guests. This helps to make the right decisions that will directly impact the experience of those who choose our brands for their stays during their business trips, vacations, etc.

Live Aqua Mexico City Hotel & Spa

4. Lastly, our talent identification and development programs help us to ensure our best talent grows with the company and becomes the solid base that Posadas needs to continue its ambitious growth strategy in Mexico. We note the following results:
   a) In 2015, we reviewed more than 500 executives in management positions at our hotels, who will receive individual development programs to help them improve their managerial skills looking towards 2020.
   b) We are also proud to have promoted more than 150 collaborators in key positions, who through the current development platforms, took advantage of the opportunity for professional growth offered to them in 2015, taking prosperity home to their families.

Being one of our Posadas People is synonym of being passionate, satisfied, and happy. And happy people always achieve great results. If we continue to invest in and care for our collaborators, they, in turn, will ensure our guests are cared for, solidifying the business cycle that every enterprise strives to consolidate. At Posadas, we've understood this and we'll continue to bank on our People, the tireless growth engine of our company.

**QUALITY**

The responses to our satisfaction surveys confirm that we're still on the right track, receiving better and better results.

The responses to our surveys show a percentage of satisfaction of 20% in 2015, compared with 9% in 2014.

Additionally, 6 out of every 10 guests left congratulatory comments, which encourages us to hold onto their trust so they will continue to respond to surveys, helping us to easily identify the actions needed to improve our service, really listening to our guests.

In 2015, we received an NPS (Net Promoter Score, which measures customer loyalty) of 59% (11 points above the industry average).

To improve the experience of our guests and to gain greater loyalty, we've precisely identified the moments that have the greatest impact during a stay, to develop initiatives that will help us to maintain and improve our good results and to eliminate complaints. We note that two of the moments best evaluated are "Friendliness at the reception desk" and "Quick service at the reception desk".

The results in terms of evaluating Service show us that two of our brands improved in 2015: Fiesta Inn, with an increase of 4.75%, and Fiesta Americana beach, with 5.22%. This means we're better at monitoring our standards and meeting the needs and preferences of our guests.

**SUPPORT AND MONITORING SYSTEMS**

During 2015, the 14 new hotels under different brands were integrated into the standard technological platforms of Grupo Posadas. With this, we leveraged in these brands the growth forecast for the years to come.

The ANA mobile application was launched, with improved functionality, for All-Inclusive hotels, allowing the guest to interact with the different areas of the hotel directly and efficiently through notifications and promotions received on their smartphone.

We also launched the AQUA brand mobile application, with its own design making reference to the brand's image, reinforcing the presence of this brand in the most popular online stores, Google Store and Apple Store.

In 2015, we undertook many PMS-related projects (INNSIST), although most involved tax obligations, supports for the loyalty programs, and electronic billing, etc., providing the support and monitoring needed by the different areas of the Group.

The Explorean Kohunlich, Chetumal

# FANTASTIC RESULTS

FROM THE LAUNCH OF THE PROGRAM *"SENTIDO PROVAC"*, THE GOAL OF WHICH WAS TO IMPROVE THE POSITIONING OF MEMBERSHIP WITH OUR GUESTS, ACHIEVING A 22% INCREASE OVER LAST YEAR.



## VACATION PROPERTIES (PROVAC)

### PROVAC CONFIRMS A SOLID STRUCTURE IN PRODUCT, SALES & PROMOTION.

The Sentido Provac program was launched in 2015 to improve the positioning of membership with our guests at Posadas hotels. As a result, net sales increased 22% over the previous year, also improving marketing costs by 2 percentage points (pp).

In 2015, our technological platform was strengthened to simplify the administrative and collection management processes, resulting in a record year in account recovery, in addition to maintaining our optimal levels in creating reserves.

Villa occupancy grew 2.5 pp; food and beverage revenue increased 68%, and revenue from room rental increased 54% vs. 2014.

The Explorean Cozumel All Inclusive

EXTRA-
ORDINARY

Fiesta Americana Villas Acapulco

**FAVC, A MORE FLEXIBLE, COMPETITIVE PRODUCT**

During 2015, Fiesta Americana Vacation Club (FAVC) changed some of its product characteristics to improve its competitiveness, passing more benefits on to members, adding greater flexibility, and making the membership easier to use. Also, important improvements were implemented to better serve our members, by doubling the size of the Call Center and obtaining its certification.

We focused on better communication with our members through concise and periodical digital media messages, and also the development of an online transaction website.

FAVC has 31,000 members and, in 2015, generated more than 150,000 room nights, becoming the second most important account for Posadas, after Expedia.

We experienced a 13% growth in sales over 2014, reporting US$60 million in net sales. Also, the FAVC properties generated $537 million pesos in hotel revenue, a 64% increase over last year.

**KIVAC, TRAVEL PROGRAM**

This pioneering point based prepayment plan for hotel nights has innovated the marketing of hotel spaces during off-season, and also responds to the travel needs and budget of a customer segment that presents interesting opportunities to maximize growth in this business.

With KIVAC, month to month, our customers reserve more than 8,000 room/nights. In this sense, 2015 was a record year, with over 100,000 room/nights redeemed; more than 75% of which are incremental rooms, meaning inventory that is typically not used.

During 2015, a 360° strategy was implemented at KIVAC, based on the travel experience of users, to build the community of KIVAC travelers. This includes a new website, digital campaigns, a promotional campaign, and increased online activity and on the social networks. Also, new incentives were developed for the use of points, which in 2015 increased 16 percentage points.

At the end of the year, KIVAC had 27,000 members and more than 2.5 million room/nights waiting to be used, representing 10% of the rooms currently used. Net sales in 2015 exceeded $500 million pesos. We're expecting double digit growth for the next 3 years.

**THE FRONT DOOR, CONSOLIDATION**

As a result of good relationships with our members over 15 years and to continue to pamper our members, "The Front Door" was launched in mid-2013 as a residential-type product in the vacation property market. Thanks to the wide acceptance the brand has received in the market and with our members ready for an upscale product, we closed 2015 with 400 new members in the program, helping us to consolidate this brand.

The Front Door started operations in 2013 with 16 residences, acquired at the Puerto Vallarta Marina, and its travel opportunities have been enriched by strategic alliances with exchange program entities such as "Registry Collection" and the affiliation of various developments at upmarket destinations and the best ski resorts in the US. This product offers the possibility to travel and stay at more than 200 developments around the world, adding to the opportunities offered by the infrastructure of the best suites and rooms operated by Grupo Posadas nationwide.

"The Front Door" club has allowed members to enjoy memorable experiences at spectacular destinations, and in luxury, with expert and personal service through an independent Member Customer Service Center, so that guests don't need to worry about anything other than enjoying every minute of their trip.

We closed the year with an inventory sold of nearly 5 million points and net sales of US$18 million, exceeding the sales expected.

Additionally, member stays have had a concentration of 65% at establishments operated by the group, which also represents an additional economic spillover in the consumption of food, beverages, and the various services the Posadas hotels offer.

In 2015, land was also purchased to build the TFD Los Cabos development, which will have 35 one, two, three and four bedroom residences situated next to Grand Fiesta Americana Los Cabos. The estimates for this new development forecast total sales of $1.382 billion pesos, which will ensure the sales inventory for the next 18 months, with wide acceptance among our US customers.

The Front Door Nima Bay. Puerto Vallarta

# OUR GOOD PRACTICES

IN ECONOMIC, SOCIAL AND ENVIRONMENTAL ASPECTS, BOTH IN AND OUTSIDE THE COMPANY, EARNED US THE SOCIALLY RESPONSIBLE COMPANY DISTINCTION FOR THE THIRD YEAR IN A ROW.

# SHARE

SOCIAL RESPONSIBILITY

06



## SOCIAL RESPONSIBILITY

**WE OPERATE COMMUNITY AND ENVIRONMENTAL PROGRAMS AND TRAIN OUR PERSONNEL IN ENVIRONMENTAL AND SOCIAL SUSTAINABILITY AND RESPONSIBILITY.**

During 2015, Posadas was recognized as a Socially Responsible Company for the third consecutive year, thanks to our good practices in economic, social, and environmental aspects, both in and outside the company.

As part of our business strategy, Posadas responds to the identified needs of our focus groups (employees, vendors, guests, the community, authorities), seeking to also benefit the generations to come.

Thanks to all our Social Responsibility actions, Posadas was ranked 24th by the publication Expansión in its 2015 list of responsible companies, 31st in the national ranking of benefactors and 24th in the Forbes magazine ranking of companies with a strong commitment to the environment.

*"Hoy Escucho Mejor"* program

COMMIT-
MENT

## QUALITY OF LIFE IN THE COMPANY

- We offer training and personal development programs focusing on sustainability and offering opportunities for professional growth.
- We foster a sense of belonging and teamwork.
- We promote healthy work practices in a clean and safe workplace environment.
- Among our collaborators, there are 35 differently abled persons employed at 18 of our hotels, in an environment that does not discriminate.

## LINKAGE WITH THE COMMUNITY

Through Fundación Posadas, which is present in 29 Mexican states, we promote programs that contribute to the development of Mexico and to improving the quality of life of people living in vulnerable situations, particularly addressing the areas of health, education, housing, and support for victims of natural disasters.

## HEALTH

Thanks to the support of Fundación Posadas, more than 730 children and youth benefited in 2015 from the following actions:

- Financing for major and urgent surgeries or treatments for children who do not receive the medical care they need from the public health services.
- 1,500 hours of therapy each year for children that suffer from an illness or disability.
- Eye exams and low-cost glasses under the program *"Para Verte Mejor"*.
- Detection of hearing difficulties and medical assistance, tests, and hearing aids under the program *"Hoy Escucho Mejor"*.
- Help for children with cancer through the Asociación Mexicana de Ayuda a Niños con Cáncer.

## EDUCATION

Thanks to the program *"Una Oportunidad para Estudiar"*, in 2015, integral educational support was given to 480 children and youth in low-income areas.

## SUPPORT FOR VICTIMS OF NATURAL DISASTERS

Fundación Posadas provided building materials for victims of the flooding from Hurricane Patricia.

## VOLUNTEERING

With its volunteer program, Fundación Posadas promotes a culture of helping both in and outside the company.

- Visits were made to the Casa Hogar San José and to the Fundación Familiar Infantil, benefiting more than 100 children.
- 5,000 trees were planted at the Salazar Lagoon in Estado de México, in partnership with Fundación Grupo México.

*"Cumpliendo Sueños"* program

- Guests supported the work of Fundación Posadas through cash donations, to continue the work of building a brighter future for Mexican children and youth.

## OTHER PROGRAMS

The program *"Comunidades Sustentables"* (sustainable communities) provided comprehensive support to 19 indigenous children.

Also, under the program *"Cumpliendo Sueños"* (making dreams come true), we took 7 children with cancer to see and enjoy the ocean.

Fundación Posadas has also provided benefits to approximately 3,500,000 people through collaboration with other foundations, donating more than 800 room nights and over 8,500 linens from our hotels.

## ENVIRONMENTAL CARE & CONSERVATION

Grupo Posadas has a Sustainable Tourism model, positioning the company as a leader in environmental matters.

Our construction and operating manuals help to protect and care for the environment, including the use of specific materials, finishes, systems, and installations, and also policies and procedures aimed at minimizing the impact on the natural and social environments.

Grupo Posadas intends to certify all its hotels with the PROFEPA in "Environmental Quality in Tourism". This certification requires the implementation of various control measures and process evaluations, which include inventories of fossil fuel, power, and water consumption.

**GREEN HOTELS**

+ green actions at hotels

Measures taken for handling waste:

- Temporary storage of organic and inorganic waste, training, signage according to the Official Mexican Standard, collection and final disposal certified by the PROFEPA.
- Temporary storage of hazardous waste, signage according to the Official Mexican Standard, training, collection and final disposal certified by the PROFEPA.
- Measures implemented to handle chemical products and solvents.
- Temporary storage of chemical products and solvents, signage according to the Official Mexican Standard, and training.
- Collection and final disposal of used vegetable oil to produce biofuel.

Our green actions have earned Grupo Posadas the following recognitions:

- Certificate of Environmental Quality in Tourism (given by the PROFEPA)
- Water Sustainable Hotel (award given by Fundación Helvex)
- Environmental Leadership for Competitiveness (PROFEPA and SEMARNAT)
- Fire, alarm and detection systems (certificate given by the company F-Tech)
- Company Public Safety Program (certification given by Protección Civil)

## EXECUTIVE BOARD

JOSÉ CARLOS AZCÁRRAGA ANDRADE
Chief Executive Officer

FRANCISCO JAVIER BARRERA SEGURA
Vice-President, Franchise

ENRIQUE CALDERÓN FERNÁNDEZ
Vice-President, Hotelera Posadas

ARTURO MARTÍNEZ DEL CAMPO SAUCEDO
Vice-President, Finances

JORGE CARVALLO COUTTOLENC
Vice-President, Posadas Real Estate

GERARDO ALONSO RIOSECO ORIHUELA
Vice-President, Vacation Properties

## BOARD OF DIRECTORS

**Sitting Members**
Pablo Azcárraga Andrade
Chairman

José Carlos Azcárraga Andrade
Enrique Azcárraga Andrade
Fernando Chico Pardo
Juan Servitje Curzio
Silvia Sisset de Guadalupe Harp Calderoni
Carlos Levy Covarrubias
Jorge Mario Soto y Gálvez
Benjamín Clariond Reyes Retana
Luis Alfonso Nicolau Gutiérrez

**Secretaries to the Board of Directors**
Olga Patricia Gutiérrez Nevárez
Secretary

Víctor Ángel Bohon Devars
Alternate Secretary

**Alternate Board Members**
Charbel Christian Francisco Harp Calderoni
Alfredo Loera Fernández

**Audit Committee**
Jorge Mario Soto y Gálvez
Chairman

Luis Alfonso Nicolau Gutiérrez
Benjamín Clariond Reyes Retana

**Company Practices Committee**
Luis Alfonso Nicolau Gutiérrez
Chairman

Benjamín Clariond Reyes Retana
Jorge Mario Soto y Gálvez

**Executive Planning and Finance Committee**
Pablo Azcárraga Andrade
Enrique Azcárraga Andrade
Fernando Chico Pardo
Carlos Levy Covarrubias

Executive Board.
From Left to Right, Standing: Jorge Carvallo Couttolenc, Gerardo Alonso Rioseco Orihuela, Arturo Martínez del Campo Saucedo.
Sitting: José Carlos Azcárraga Andrade, Francisco Javier Barrera Segura and Enrique Calderón Fernández.

## GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2015, 2014 AND 2013

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## INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF GRUPO POSADAS, S. A. B. DE C. V.

We have audited the accompanying consolidated financial statements of Grupo Posadas, S. A. B. de C. V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2015, 2014 and 2013, and the consolidated statements of comprehensive (loss) income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Independent Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Posadas, S. A. B. de C. V. and Subsidiaries as of December 31, 2015, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

*Other matters*

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

GALAZ, YAMAZAKI, RUIZ URQUIZA, S.C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. CARLOS M. PANTOJA FLORES

February 17, 2016

## GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015, 2014 AND 2013
(IN THOUSANDS OF MEXICAN PESOS)

| Assets | Notes | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Current assets:** | | | | |
| Cash and cash equivalents | 6 | $ 763,810 | $ 997,792 | $ 706,365 |
| Investments in securities | 7 | 450,000 | 519,073 | 525,351 |
| Accounts and notes receivable - Net | 8 | 2,496,491 | 2,627,080 | 2,251,204 |
| Inventories | | 33,750 | 34,068 | 35,803 |
| Prepaid expenses | | 158,797 | 133,311 | 121,866 |
| Vacation Club inventory | 9 | 198,485 | 286,968 | 105,996 |
| Other current assets | | 62,085 | 27,733 | 35,383 |
| Assets classified as held for sale | 10 | 59,184 | 50,910 | - |
| Total current assets | | **4,222,602** | **4,676,935** | **3,781,968** |
| | | | | |
| **Non-current assets:** | | | | |
| Long-term notes receivable | 11 | 2,285,534 | 1,726,722 | 1,513,309 |
| Long-term accounts receivable | 12 | - | - | 396,679 |
| Vacation Club inventory in construction | | 403,262 | 303,150 | 239,944 |
| Property and equipment - Net | 13 | 6,285,962 | 6,267,293 | 6,337,625 |
| Investment in associates | 14 | 1,129 | 1,879 | 35,437 |
| Other assets | 15 | 404,920 | 269,362 | 214,415 |
| Deferred tax assets | 18 | 173,554 | 72,610 | - |
| Total non-current assets | | **9,554,361** | **8,641,016** | **8,737,409** |
| **Total assets** | | **$ 13,776,963** | **$ 13,317,951** | **$ 12,519,377** |

See accompanying notes to consolidated financial statements.

| Liabilities and stockholders' equity | Notes | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **Current liabilities:** | | | | |
| Current portion of long-term debt | 17 | $ 1,399 | $ 1,449,957 | $ 2,498 |
| Trade accounts payable | 16 | 438,432 | 400,101 | 348,327 |
| Other liabilities and accrued expenses | | 1,100,236 | 805,688 | 769,125 |
| Income tax payable | 18 | 240,885 | 280,272 | 597,538 |
| Deferred income of Vacation Club | | 253,639 | 65,822 | 60,875 |
| Current portion of long-term value added tax | | 95,726 | 133,539 | 101,703 |
| Liabilities directly associated with assets classified as held for sale | 10 | 6,384 | 6,423 | - |
| Total current liabilities | | **2,136,701** | **3,141,802** | **1,880,066** |
| **Long-term liabilities:** | | | | |
| Debt | 17 | 6,242,282 | 4,432,316 | 4,555,080 |
| Accrued liabilities | 19 | 436,767 | 343,898 | 276,050 |
| Value added tax payable | | 319,932 | 248,719 | 165,051 |
| Deferred income of Vacation Club | | 703,538 | 508,858 | 394,198 |
| Income tax payable | 18 | 310,240 | 533,148 | 702,233 |
| Deferred income tax | 18 | **-** | **-** | **1,158,482** |
| Total long-term liabilities | | **8,012,759** | **6,066,939** | **7,251,094** |
| Total liabilities | | **10,149,460** | **9,208,741** | **9,131,160** |
| **Stockholders' equity:** | | | | |
| Contributed capital: | | | | |
| Capital stock | 22 | 495,881 | 495,937 | 495,937 |
| Contributions for future capital increases | | 4,828 | 12,516 | 12,516 |
| Share repurchase reserve | | 16,856 | 16,800 | 133,509 |
| Shares held in trust | | - | - | (3,322) |
| Additional paid-in capital | | 157,429 | 157,429 | 157,429 |
| | | **674,994** | **682,682** | **796,069** |
| Earned capital: | | | | |
| Share repurchase reserve | | 535,556 | 535,556 | 559,371 |
| Retained earnings | | 2,172,779 | 2,645,031 | 1,776,394 |
| Other items of comprehensive income | | 47,424 | 27,244 | 25,982 |
| | | **2,755,759** | **3,207,831** | **2,361,747** |
| Total controlling interest | | 3,430,753 | 3,890,513 | 3,157,816 |
| Non-controlling interest | | 196,750 | 218,697 | 230,401 |
| Total stockholders' equity | | **3,627,503** | **4,109,210** | **3,388,217** |
| **Total liabilities and stockholders' equity** | | **$ 13,776,963** | **$ 13,317,951** | **$ 12,519,377** |

## GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(IN THOUSANDS OF MEXICAN PESOS, EXCEPT (LOSS) EARNINGS PER SHARE)

| **Continuing operations** | Notes | **2015** | 2014 | 2013 |
|---|---|---|---|---|
| Revenue | 24 | $ 6,901,221 | $ 5,848,278 | $ 8,550,358 |
| Cost of sales | 24 | 4,209,784 | 3,667,834 | 5,953,657 |
| Gross profit | | **2,691,437** | **2,180,444** | **2,596,701** |
| | | | | |
| Administration expenses | 24 | 815,126 | 745,305 | 703,104 |
| Sale and development expenses | 24 | 126,879 | 105,726 | 110,563 |
| Depreciation, amortization, real estate leasing and impairment of assets | | 801,646 | 739,026 | 1,641,401 |
| Other expenses, net | | 479 | 45,669 | 183,213 |
| Interest expense | | 508,840 | 417,669 | 393,659 |
| Interest income | | (34,457) | (22,509) | (113,084) |
| Commissions and financial expenses | | 100,080 | 60,763 | 57,711 |
| Exchange loss, net | | 708,553 | 427,934 | 29,996 |
| Equity in losses of associates | | 750 | 12,595 | 4,863 |
| | | **3,027,896** | **2,532,178** | **3,011,426** |
| Loss before income tax | | (336,459) | (351,734) | (414,725) |
| | | | | |
| Income tax expense (benefit) | 18 | 131,334 | (1,061,257) | 1,161,883 |
| (Loss) profit from continuing operations | | **(467,793)** | **709,523** | **(1,576,608)** |
| | | | | |
| **Discontinued operations** | | | | |
| (Loss) profit from discontinued operations | | (2,612) | 8,718 | (181,206) |
| Consolidated (loss) income for the year | | **(470,405)** | **718,241** | **(1,757,814)** |
| | | | | |
| **Other comprehensive income (loss)** | | | | |
| Exchange differences on translating foreign operations | | 7,516 | 10,844 | 2,049 |
| Remeasurement of defined benefit obligation | | 12,664 | (9,582) | 8,795 |
| | | 20,180 | 1,262 | 10,844 |
| | | | | |
| Consolidated comprehensive (loss) income for the year | | **$ (450,225)** | **$ 719,503** | **$ (1,746,970)** |

| **Consolidated (loss) income for the year attributable to:** | Notes | **2015** | 2014 | 2013 |
|---|---|---|---|---|
| Controlling interest | | $ (470,208) | $ 716,817 | $ (1,753,264) |
| Non-controlling interest | | (197) | 1,424 | (4,550) |
| | | | | |
| Consolidated (loss) income for the year | | **$ (470,405)** | **$ 718,241** | **$ (1,757,814)** |
| | | | | |
| Consolidated comprehensive (loss) income for the year attributable to: | | | | |
| Controlling interest | | $ (450,028) | $ 718,079 | $ (1,742,420) |
| Non-controlling interest | | (197) | 1,424 | (4,550) |
| | | | | |
| Consolidated comprehensive (loss) income for the year | | **$ (450,225)** | **$ 719,503** | **$ (1,746,970)** |
| | | | | |
| (Loss) earnings per share: | | | | |
| From continuing and discontinued operations - | | | | |
| Basic and diluted (loss) earnings per common share (in pesos) | | $ (0.95) | $ 1.45 | $ (3.57) |
| From continuing operations - | | | | |
| Basic and diluted (loss) earnings per common share (in pesos) | | $ (0.94) | $ 1.43 | $ (3.20) |
| | | | | |
| Weighted average shares | | **495,929,856** | **495,937,601** | **492,496,017** |

## GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(IN THOUSANDS OF MEXICAN PESOS)

| | Contributed capital | | | | | Earned capital | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Contributions for future capital increases | Shares repurchase reserve | Shares held in trust | Additional paid-in capital | Shares repurchase reserve | Retained earnings | Other items of comprehensive income | Non-controlling interest | Total stockholders' equity |
| **Beginning balance as of January, 2013** | **$ 489,427** | **$ 17,523** | **$ 133,509** | **$ (3,322)** | **$ 25,451** | **$ 559,371** | **$ 3,609,315** | **$ 15,138** | **$ 376,485** | **$ 5,222,897** |
| Capital increase by issuing shares in trust | 6,510 | - | - | - | 131,978 | - | - | - | - | 138,488 |
| Dividends paid | - | - | - | - | - | - | (73,520) | - | - | (73,520) |
| Dividends paid to non-controlling interest | - | - | - | - | - | - | - | - | (43,608) | (43,608) |
| Partial payment of convertible debt | - | (5,007) | - | - | - | - | - | - | (2,170) | (7,177) |
| Acquisition of non-controlling interest and stock purchase surplus | - | - | - | - | - | - | (6,137) | - | (95,756) | (101,893) |
| Consolidated comprehensive loss | - | - | - | - | - | - | (1,753,264) | 10,844 | (4,550) | (1,746,970) |
| **Balance as of December 31, 2013** | **495,937** | **12,516** | **133,509** | **(3,322)** | **157,429** | **559,371** | **1,776,394** | **25,982** | **230,401** | **3,388,217** |
| Capital increase by issuing shares in trust | - | - | - | 3,322 | - | 7,669 | - | - | - | 10,991 |
| Decrease shares repurchase reserve | - | - | (116,709) | - | - | (31,484) | 148,193 | - | - | - |
| Dividends paid to non-controlling interest | - | - | - | - | - | - | - | - | (8,000) | (8,000) |
| Acquisition of non-controlling interest and stock purchase surplus | - | - | - | - | - | - | 3,627 | - | (5,128) | (1,501) |
| Consolidated comprehensive income | - | - | - | - | - | - | 716,817 | 1,262 | 1,424 | 719,503 |
| **Balance as of December 31, 2014** | **495,937** | **12,516** | **16,800** | **-** | **157,429** | **535,556** | **2,645,031** | **27,244** | **218,697** | **4,109,210** |
| Repurchase of shares | (56) | - | 56 | - | - | - | (2,044) | - | - | (2,044) |
| Partial payment of convertible debt | - | (7,688) | - | - | - | - | - | - | - | (7,688) |
| Change in the value of non-controlling interest | - | - | - | - | - | - | - | - | (21,750) | (21,750) |
| Consolidated comprehensive loss | - | - | - | - | - | - | (470,208) | 20,180 | (197) | (450,225) |
| **Balance as of December 31, 2015** | **$ 495,881** | **$ 4,828** | **$ 16,856** | **$ -** | **$ 157,429** | **$ 535,556** | **$ 2,172,779** | **$ 47,424** | **$ 196,750** | **$ 3,627,503** |

See accompanying notes to consolidated financial statements.

## GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(IN THOUSANDS OF MEXICAN PESOS)

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Consolidated (loss) income for the year | $ (470,405) | $ 718,241 | $ (1,757,814) |
| Adjustments for: | | | |
| Income tax expense (benefit) | 131,334 | (1,061,257) | 1,161,883 |
| Depreciation, amortization and asset impairment | 414,677 | 409,265 | 1,314,888 |
| Equity in losses of associated | 750 | 12,595 | 4,863 |
| Loss (income) on sale of fixed assets | 88,134 | - | (565,170) |
| Interest income | (34,457) | (22,509) | (110,875) |
| Unrealized foreign exchange loss | 984,461 | 586,751 | 23,789 |
| Discontinued operations | - | - | 181,206 |
| Interest expense | 508,840 | 417,669 | 393,659 |
| Change in the value of non-controlling interest | (21,750) | - | - |
| | **1,601,584** | **1,060,755** | **646,429** |
| **Transactions in working capital:** | | | |
| Accounts and notes receivable - Net | (442,161) | (192,610) | (326,828) |
| Inventories | 318 | 1,735 | 8,572 |
| Prepaid expenses | (25,486) | (11,445) | (44,496) |
| Vacation Club inventory | 88,483 | (180,972) | (35,601) |
| Other assets | (184,766) | (81,940) | (98,034) |
| Trade accounts payable | 38,331 | 51,774 | (33,028) |
| Other liabilities and accrued expenses | 484,463 | 176,246 | (203,615) |
| Deferred income of Vacation Club | 382,497 | 119,607 | 154,001 |
| Income taxes paid | (466,581) | (595,188) | (268,946) |
| Net cash generated by (used in) operating activities | **1,476,682** | **347,962** | **(201,546)** |
| **Cash flows from investing activities:** | | | |
| Purchases of property and equipment | (612,400) | (437,373) | (1,154,237) |
| Investments in securities | 69,073 | 6,278 | (477,241) |
| Interests collected | 33,066 | 22,509 | 76,672 |
| Sale of property and equipment | 5,664 | - | - |
| Cash flow from sales of non-strategic properties | - | 26,197 | 2,326,298 |
| Net cash (used in) generated by investing activities | **(504,597)** | **(382,389)** | **771,492** |

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from financing activities:** | | | |
| Cash received from debt issuance | 1,219,441 | 740,159 | 88,134 |
| Debt payment | (1,542,844) | - | - |
| Interest paid | (573,282) | (427,114) | (375,654) |
| Debt issuance costs | (339,538) | - | - |
| Repayment of convertible debts | - | - | (900,000) |
| Partial payment of convertible debt | (7,688) | - | (7,177) |
| Repurchase of shares | (2,044) | - | - |
| Derivative financial instruments | - | - | (22,007) |
| Capital increase by issuing shares in trust | - | 10,991 | 138,488 |
| Non-controlling interest dividends paid | - | (8,000) | (43,608) |
| Dividends paid | - | - | (73,520) |
| Acquisition of non-controlling interest | - | (1,501) | (101,893) |
| Net cash (used in) generated by financing activities | **(1,245,955)** | **314,535** | **(1,297,237)** |
| Net (decrease) increase in cash and cash equivalents | (273,870) | 280,108 | (727,291) |
| Cash and cash equivalents at the beginning of the year | 997,792 | 706,365 | 1,431,867 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | 39,888 | 11,319 | 1,789 |
| Cash and cash equivalents at the end of the year | **$ 763,810** | **$ 997,792** | **$ 706,365** |

See accompanying notes to consolidated financial statements.

(IN THOUSANDS OF MEXICAN PESOS)

## 1. Activities

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

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

| Hotels | 2015 | 2014 | 2013 |
|---|---|---|---|
| Owned | 17 | 17 | 17 |
| Leased | 14 | 14 | 15 |
| Managed | 110 | 96 | 78 |
| **Total hotels operated** | **141** | **127** | **110** |
| **Total rooms operated** | **23,259** | **21,094** | **18,795** |

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

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

Since 2012, the Entity began restructuring its business with a focus towards ownership of strategic assets and the growth of its hotel management business and FAVC. As part of this strategy, the Entity has sold several hotels and other non-strategic assets (see Notes 2f and 2h), and the date of the consolidated financial statements, the Entity continues with the organizational restructuring to significantly reduce the number of legal entities that compose it.

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

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

## 2. Significant events

a. *Issue of "Senior Notes 2022"*

On June 30, 2015 the Entity completed a debt issue for US$350 million in notes known as "Senior Notes 2022" through the Luxembourg Stock Exchange. The initial intention was to substitute the issue of US$310 million known as "Senior Notes 2017" which the Entity held as of December 31, 2014 and for which US$1,060 was offered for each US$1,000 of the previous issue.

As a result of the offering it was possible to buy back US$271.7 million of "Senior Notes 2017", equivalent to 87.63% of principal, and the remaining balance of this program decreased to US$38.3 million, while the notes representing the remaining balance were held outstanding; also, the funds that were not used for such buyback were applied by the Entity mainly for the payment of the commercial euro paper at maturity. The "Senior Notes 2022" generate interest of 7.875% a year with maturity of principal on June 30, 2022. The interest is payable semiannually in the months of June and December, beginning as of December 30, 2015.

The amount of the issue expenses was $339,538, which is being amortized based on the life of the new issue using the effective interest rate method, which includes US$16.1 million of premium for prepayment of the previous issue.

b. *Additional issue of "Senior Notes 2017" and payment of "Senior Notes 2015"*
On February 20, 2014 the Entity completed an additional issue of US$35 million of the "Senior Notes 2017" program at a rate of 7.875% a year, maturing in 2017. The "Senior Notes 2017" were issued based on a private swap for US$31.6 million of the principal amount of certain notes denominated "Senior Notes 2015". With the additional issue, the "Senior Notes 2017" reached a total amount of US$310 million. As previously discussed, a significant portion of the "Senior Notes 2017" were repurchased during 2015.

As a result of the cancellation of the "Senior Notes 2015" which were swapped, the remaining principal amount of "Senior Notes 2015" was US$51.7 million, which was paid at maturity on January 15, 2015 with the resources obtained from the commercial euro paper as discussed in the following subsection.

c. *Issuance of Euro-Commercial Paper*
On November 28, 2014, the Entity obtained US$47.2 million through a program known as "Euro-Commercial Paper", which bear interest at a rate of 6% annually and matured on November 18, 2015. On November 17, 2015, the Entity made the payment of the commercial euro paper for the amount of US$50 million, which includes principal and interest accrued as of that date.

d. *"Gamma" brand*
During May 2014, the Entity launched its new "Gamma" brand, geared to owners of independent hotels with less than 100 rooms, operating under the franchise model through two options: i) an operating and licensing scheme, in which Posadas absorbs the operation of the hotels, or ii) the pure franchise scheme, in which Posadas offers the know-how of its Fiesta Americana and Fiesta Inn brands.

e. *Hurricane Odile*
Due to the land fall of hurricane "Odile" on the Baja California peninsula during September 2014, the facilities of the hotels owned by the Entity suffered significant damage. These hotels have insurance policies which cover damages to real estate and consequential damages. The hotels were reopened on November 15, 2014, after having been totally repaired and remodeled for operations.

On December 17, 2015, the Entity received the payment for the claims submitted with the insurance company for an amount, net of the deductible, of US$10.6 million, of which US$8.6 million refers to damages to real estate property and US$2 million to consequential losses.

f. *Assets available for sale*
On December 9, 2014, the Entity signed an agreement with I Ram Moneytree, Ltd., to sell the hotel "Holiday Inn Laredo" located in Laredo, Texas, U.S.A., for a maximum amount of US$8.6 million. The sale transaction was subject to certain conditions established in the agreement, which were not totally fulfilled by October 2015; consequently, the sale of the real property was not completed. At the date of the consolidated financial statements, the Entity remains in negotiations with different investors to carry out such transaction.

As all the accounting criteria required for assets available for sale have been fulfilled as of December 31, 2014, the real estate and equipment of the hotel subject to sale have been presented as "assets held for sale" in the consolidated statements of financial position as of December 31, 2015 and 2014, which amount $59,184 and $50,910, respectively. Also, the liabilities and the effects of deferred taxes related to these assets have been presented as "liabilities directly associated with assets held for sale", because they are directly related to the assets that will be transferred, which amount to $6,384 and $6,423, respectively.

Furthermore, given that the hotel available for sale does not represent an important line of business, as established in International Financial Reporting Standards, the transaction has not been considered as a discontinued operation in the consolidated statements of comprehensive (loss) income.

g. *Acquisition of minority interest*
During 2014, based on a share purchase-sale contract, the Entity acquired the non-controlling interest in the capital stock of Hotelera Inmobiliaria de Monclova, S.A. de C.V. and DA Expansión HLD, S.A. de C.V., for the amounts of $2,023 and $189, respectively. This transaction generated a difference between the book value of the shares and the purchase price of $3,627, which was recorded in the consolidated statement of changes in stockholders' equity, because these investments have always been consolidated.

h. *Sale of non-strategic assets*
On December 20, 2013, through the sale of shares of some subsidiaries, the Entity sold a series of non-priority assets, including a plot of land in Chemuyil, Quintana Roo, whose book value was

$1,299,744 as of December 31, 2012. The selling price of the transaction was set at $677,000 for the sale of shares and $3,000 for a real property located in Cancun, Quintana Roo. Of the first amount, $390,000 was paid on December 30, 2013, $185,000, on January 10, 2014 and the remaining $102,000 was received between January 15 and December 15, 2015, accruing interest at TIIE plus 5%.

Because of the sale, the Entity recorded an impairment in the value of the Chemuyil land of approximately $763,869, in the 2013 consolidated statement of comprehensive (loss) income.

This transaction resulted in a loss which was recorded in the 2013 consolidated statement of comprehensive (loss) income as follows:

| | |
|---|---|
| Selling price | $ 677,000 |
| Less - | |
| Net book value of the plot of land in Chemuyil | (535,875) |
| Working capital to repay [1] | (143,395) |
| Other | (281) |
| | |
| Loss | $ (2,551) |

[1] The working capital was paid to the buyer on January 7, 2014.

The Chemuyil land was acquired in 1998 through the execution of an Irrevocable Trust contract with Instituto del Patrimonio Inmobiliario de la Administración Pública del Estado de Quintana Roo (IPAE), whereby ownership of the land was transferred to the Entity in exchange for a payment of US$10.4 million, subject to certain obligations, including the construction of 250 hotel rooms and their respective shared facilities, at an estimated cost of US$97.4 million. Subsequently, several amendment agreements were executed to extend the original compliance term until June 30, 2013. The new extension included a clause whereby the Entity was obligated to pay the IPAE a contractual penalty of US$10 million in the event of default. It also established a guarantee trust in favor of the IPAE, to which as of December 31, 2012 the Entity had contributed 8,799,000 Series "A" to cover the contractual penalty amount.

On June 30, 2013, the IPAE considered that the commitments had not been fulfilled by the Entity, and the guarantee trust sold 5,803,976 shares for $138,488 of which $6,510 is recorded as common stock and $131,978 as additional paid in capital. The trust paid the IPAE $127,321 as a contractual penalty. Consequently, the Entity recorded in 2013 an expense of $144,225, which includes related costs under "other expenses" in the consolidated statement of comprehensive (loss) income.

i. *Tax effects of 2013*

i. Up to December 31, 2012, there were several tax lawsuits originated from 2004 to 2008, in which Posadas and its subsidiaries acted as plaintiffs or defendants, whose outcomes could not be assured as of that date. The tax authorities alleged the non-payment of federal taxes, mainly income tax, value-added tax, and asset tax. The amount claimed added up to $1,120,965, including restatement, penalties, and surcharges as of the date of the tax liability assessment. In addition to the proceedings for annulment filed, sureties had been granted through joint obligations and foreclosures of real property, for the equivalent of the amount claimed plus the applicable restatement and surcharges. The lawsuits were in different stages and the Entity had filed several administrative procedures and annulment proceedings against the tax authority's claims.

   During the first half of 2013, the Entity applied for the forgiveness benefits established in various rules and criteria published in the Federal Income Law, better known as "tax amnesty". Consequently, there were several rulings in favor of the Entity forgiving all of the amounts claimed in exchange for a sole payment of $142,908, of which $125,585 is recorded in the consolidated statement of comprehensive (loss) income under "income taxes" and refers to income tax and $17,323 is recorded under "other expenses", and is associated to local and value-added taxes. The above actions concluded the aforementioned lawsuits.

ii. Under the new Income Tax Law (LISR) in effect in 2014, the tax consolidation scheme was eliminated and, therefore, Posadas became obligated to pay the deferred tax up to December 31, 2013, during the following five years beginning in 2014. This tax on deconsolidation was determined by the Entity's management and recognized in the consolidated statement of comprehensive (loss) income as of December 31, 2013, under the heading of income tax expense, for the amount of $882,262; also, the short and long-term liability as of December 31, 2015 is $219,650 and $310,240, respectively. The determination of such tax is subject to review by the tax authorities.

iii. Similarly, the 2014 LISR eliminates the incentive that allowed for the contribution of real property to Real Estate Companies (SIBRAS) and the accrual of the gain on sale of these properties at the time the shares of such companies were sold. Consequently, if the above assumptions for accrual of the gain have not been fulfilled as of December 31, 2016, it must be accrued on that date. The liability for this gain was not fully recorded previously because the Entity had no plans to sell the shares or the assets. Consequently, due to the change in circumstances, the Entity recorded a deferred tax in the consolidated statement of financial position of $1,297,422 as of December 31, 2013. Due to a series of additional analyses and considering the tax attributes of the Entity, during 2014 tax losses of $304,090 were carried forward. As of December 31, 2015, the liability derived from this gain is $1,006,396 (see Note 18c.)

j. *Assets available for sale - FibraHotel*

During the third quarter of 2012, a trust called FibraHotel was established mainly to acquire, own, and develop hotels of various categories in Mexico. In late November 2012, FibraHotel acquired 12 hotels of the Entity of which, 10 were owned by Fondo Inmobiliario Posadas, S.A. de C.V., Sociedad de Inversión de Capitales (SINCA).

The execution of the sale was subject to the fulfillment of certain conditions, that were subsequently fulfilled on January 21, 2013 and 11 of the Entity's hotels were sold for $1,486,594; generating a profit of approximately $331,103, which was recorded in January 2013.

Three more hotels were sold during February, April, and June 2013, as part of secondary offers of FibraHotel, at a selling price of $406,696, generating profit of $115,632 recorded in 2013, practically with the same sale conditions used for the first 12 hotels.

Prior to the sale of the three hotels the Entity acquired, through a share purchase and sale contract, the percentage relative to the non-controlling interest in the equity of those entities, for the amount of $101,893. This transaction generated a spread between the book value of the shares and the purchase price of $6,137, which was recorded in the consolidated statement of changes in stockholders' equity, because these investments were already being consolidated.

k. *Corporate office sale and leaseback*

The Entity executed a purchase-sale agreement for its corporate property located in Mexico City with Fibra Uno on June 27, 2013 at a selling price of US$14.9 million and a book value of $86,226 at the selling date, resulting in a favorable difference of $108,169.

l. *Discontinued operations - South America's segment*

On July 16, 2012, the Entity announced that it had reached an agreement with Accor, S.A. (Accor), to sell its operations in South America.

On October 10, 2012, the sale was completed, upon fulfillment the conditions. A portion of the sale price remained subject to adjustment for certain variables referred to in the sale contract, and on that date the Entity received proceeds in the amount of US$238.7 million. In order to ensure possible damages as a result of the sale, the remaining amount of the sale a balance of US$32 million remained in an escrow account in which Accor was the primary beneficiary. These funds would be released to the Entity on various dates from 2014 through 2019, only when certain precedent conditions, established in the sale contract, had been met. On December 31, 2013, the Entity estimated that it would recover approximately US$22.6 million, equivalent to $294,679, which was presented under the heading of "long-term account receivables" in the consolidated statement of financial position.

On August 29, 2014, the Entity reached agreement with Accor on the final selling price, which generated additional revenue of $8,718 due to different adjustments to the price and funds previously released. Such revenue was recorded as income from discontinued operations in the consolidated statement of comprehensive (loss) income. Of the US$32 million in the guaranteed deposit account, the Entity recovered approximately US$22 million, and the difference was released to Accor.

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

a. *Application of new and revised International Financing Reporting Standards (IFRS or IAS) and interpretations that are mandatorily effective for the current year*

In the current year, the Entity has applied a number of amendments to IFRS and new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2015.

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

The Entity has applied the amendments for the first time in the current year. Prior to the amendments, the Entity accounted for discretionary employee contributions to defined benefit plans as a reduction of the service cost when contributions were paid to the plans, and accounted for employee contributions specified in the defined benefit plans as a reduction of the service cost when services are rendered. The amendments require the Entity to account for employee contributions as follows:

- Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans.

- Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the Entity recognizes the reduction in the service cost in the period in which the related services are rendered.

The application of these improvement has had no material impact on the disclosures or the amounts recognized in the Entity's consolidated financial statements.

**Annual Improvements to IFRS 2010 - 2012 Cycle and 2011 - 2013 Cycle**

The Entity has applied the amendments to IFRS included in the Annual Improvements to IFRS 2010-2012 Cycle and 2011 - 2013 Cycle for the first time in the current year. One of the annual improvements requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8 Operating Segments.

The application of these improvement has had no impact on the disclosures or amounts recognized in the Entity's consolidated financial statements.

b. *New and revised IFRS in issue but not yet effective*

The Entity has not applied the following new and revised IFRS that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | *Financial Instruments*[2] |
| IFRS 15 | *Revenue from Contracts with Customers*[2] |
| IFRS 16 | *Leases*[3] |
| Amendments to IAS 1 | *Disclosure Initiative*[1] |
| Amendments to IFRS | *Annual Improvements to IFRS 2012-2014 Cycle*[1] |

[1] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

The Entity will begin in 2016 assessing the effects on its consolidated financial statements the adoption of these will and revised IFRS.

c. *Presentation of the consolidated statement of comprehensive (loss) income*

The consolidated statements of comprehensive (loss) income for the years ended December 31, 2014 and 2013, have been modified to conform to the 2015 presentation based on their function, according IAS 1 Presentation of financial statements.

## 4. Significant accounting policies

a. *Statement of compliance*

The consolidated financial statements have been prepared in accordance with IFRS released by IASB.

b. *Basis of preparation*

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

i. Historical cost

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

ii. Fair value

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

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

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

- Level 3 inputs are unobservable inputs for the asset or liability.

c. *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of Posadas and of the entities which controls. Control is achieved when Posadas:

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

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

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

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

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

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

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

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

| Entity | 2015 and 2014 | 2013 |
|---|---|---|
| Promotora Inmobiliaria Hotelera, S. A. de C. V. and Subsidiaries | 100 | 100 |
| Controladora de Acciones Posadas, S. A. de C. V. and Subsidiaries | 100 | - |
| Administración Digital Conectum, S. A. de C. V. and Subsidiaries | 100 | 100 |
| Posadas USA, Inc. and Subsidiaries | 100 | 100 |
| Hoteles y Villas Posadas, S. A. de C. V. | 100 | 100 |
| Inversora Inmobiliaria Club, S. A. de C. V. | 100 | 100 |
| Gran Inmobiliaria Posadas, S. A. de C. V. | 100 | 100 |
| Soluciones de Lealtad, S. A. de C. V. | 100 | 100 |
| Konexo Centro de Soluciones, S. A. de C. V. | 100 | 100 |
| Inmobiliaria del Sudeste, S. A. de C. V. | 51 | 51 |

All intragroup amounts and transactions between members of the Entity are eliminated in full on consolidation.

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

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

When the Entity loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

d. *Financial instruments*

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

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

e. *Financial assets*

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

1. Effective interest method

   The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

   Income is recognized on an effective interest basis for debt instruments other than those financial assets classified at FVTPL.

2. Financial assets at FVTPL

   Financial assets are classified as of FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated at FVTPL.

   A financial asset is classified as held for trading if:
   - It has been acquired principally for the purpose of selling it in the near term; or
   - On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
   - It is a derivative that is not designated and effective as a hedging instrument.

   A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated at FVTPL upon initial recognition if:
   - Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
   - The financial asset forms part of a group of financial assets or financial liabilities

or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other income (expenses) - net" line item in the consolidated statement of comprehensive (loss) income.

3. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Entity has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to maturity investments are measured at amortized cost using the effective interest method less any impairment.

4. Financial assets classified as available-for-sale (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Entity that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Entity also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the Entity's management consider that fair value can be reliably measured). Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of assets classified as held for sale are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Entity's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

5. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including accounts and notes receivables, and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

6. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Entity's past experience of collecting payments in the portfolio exceed the maximum credit period of 11 months, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7. Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Entity retains an option to repurchase part of a transferred asset), the Entity allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

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

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

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

g. *Inventories*

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

h. *Vacation Club inventory*

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

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

i. *Property and equipment*

Certain assets (land and buildings) related to hotels were revalued at fair value at January 1, 2011 (date of transition to IFRS). The remaining assets and subsequent acquisitions are carried at acquisition cost.

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

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

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

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

| | (%) |
|---|---|
| Buildings - Construction | 1 to 5 |
| Buildings - Installation, finishing and improvements | 5 to 10 |
| Furniture and equipment | 10 |
| Vehicles | 25 |
| Computer | 30 |
| Operating equipment | 33 |

Land is not depreciated.

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

The assets held under capital lease are depreciated based on their estimated useful life, in the same way as owned assets. However, when there is no reasonable certainty that ownership will be obtained at the end of the lease, the assets are amortized in the shorter of the effective lease term and their useful life.

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

j. *Other assets*

This item includes all direct costs, primarily commissions on Kívac sales, which are reflected in other assets and recognized in the consolidated statement of comprehensive (loss) income, once the service is rendered and accordingly revenue is recognized. An estimate of short-term operations is presented as other current assets; related with the part that is expected to be used during the next 12 months.

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

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

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

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

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

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

Derecognition of intangible assets

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

k. *Impairment of tangible and intangible assets*

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

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

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

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

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

l. *Assets classified as held for sale*

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

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

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

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

m. *Investments in associates*

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

n. *Leasing*

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

- The Entity as lessee

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

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

o. *Foreign currencies transactions*

In preparing the financial statements of each entity, transactions in currencies other than the Entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

| Country | Recording and functional currencies |
|---|---|
| United States of America | American dollar |

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used.

p. *Employee benefits*

Retirement benefits costs from termination benefits

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

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

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

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

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

Short-term and other long-term employee benefits

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

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

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

Statutory employee profit sharing (PTU)

As result of the tax reform, as of December 31, 2015 and 2014, PTU is recorded in the results of the year in which it is incurred and is presented in administration expenses line item in the consolidated statement of comprehensive (loss) income.

As result of the 2014 Income Tax Law, as of December 31, 2015 and 2014, PTU is determined based on taxable income, according to Section I of Article 10 of such Law.

q. *Income taxes*

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

1. Current tax

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

2. Deferred income tax

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

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

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

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

3. Current and deferred tax for the year

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

4. Effect of income tax due to the tax reform of 2010

On December 7, 2009, amendments were published to the Income Tax Law (LISR) applicable from 2010 in which it was established that: a) the payment of income tax related to tax consolidation benefits obtained in the years 1999 to 2004 should be paid in installments from 2010 to 2014, and b) the tax related to tax benefits in fiscal consolidation in 2005 and following years will be paid from the sixth to the tenth year following that in which the benefit was obtained.

5. ISR effect as a result of the 2014 Tax Reform

Given that the LISR in effect up to December 13, 2013 was repealed, the tax consolidation regime was eliminated, so Posadas is required to pay the deferred tax determined as of that date during the five subsequent years beginning in 2014.

6. Tax on assets

The tax on assets (IMPAC) expected to be recoverable is recorded as a tax credit and is presented in the consolidated statement of financial position in the deferred taxes line item.

r. *Provisions*

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

1. Restructurings

A restructuring provision is recognized when the Entity has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

2. Reserve for returns related to the Vacation Club
   The Entity performs an analysis of sales of Vacation Club memberships to identify sales whose collectability is uncertain. Under IAS 18, Revenue, a reserve for returns is recognized based on the historical experience of the Entity, calculated based on the estimated future cash flows expected to be received from the sale.

s. *Financial liabilities and equity instruments*
   1. Classification as debt or equity
      Debt and equity instruments issued by the Entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

   2. Equity instruments
      An equity instrument is any contract that evidences a residual interest in the assets of the Entity after deducting all of its liabilities. Equity instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

      Repurchase of the Entity's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Entity's own equity instruments.

   3. Financial liabilities
      Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

   4. Other financial liabilities
      Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.

      The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

t. *Derivative financial instruments*
   The Entity enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in Note 21c.

   Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

u. *Revenue recognition*
   The Entity recognizes its revenues as follows:
   i. From the hotel operation, which includes the operation of proprietary hotels and leased hotels, are recognized as the hotel services are rendered to the guests, which include the rental of guestrooms and rooms for events, sale of food and beverages, etc.;

   ii. From the operation of the Vacation Club, are recognized as leasing revenue, where the rental which refers to the land is recognized as a deferred liability, and the part allocated to the construction is recognized as revenue from capital leasing;

   iii. From the sale of Kívac points, are recognized once the hospitality service is rendered, plus an estimate of those points which will not be used by the program members at their expiration date. The amount of the unused services contracted is presented under the heading "Deferred income of Vacation Club", as short-term and long-term in the consolidated statement of financial position;

   iv. From management and brand fees, are recognized as they are accrued based on a percentage of the revenues and the profit from hotel operation, as established in the respective contracts; and

v. Revenues derived from loyalty programs with third parties, are recognized when the management service of the programs is rendered or due to the redemption of prizes in conformity with the contracts signed.

v. *Classification of costs and expenses*

Costs and expenses presented in the consolidated statements of comprehensive (loss) income were classified according to their function.

w. *Statements of cash flows*

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

Interest paid is usually classified as financing activities and interest and dividends received are usually classified as investing activities.

x. *Loyalty programs*

The fair value of the awards is recognized as a reduction to revenues and recognized as deferred income until the benefits are delivered to the client, and the liability is presented under the heading of "Other liabilities and accrued expenses" in the consolidated statement of financial position.

y. *(Loss) earnings per share of the controlling interest*

Basic (loss) earnings per share are calculated by dividing the net (loss) attributable to the controlling interest by the weighted average shares outstanding during the period. The diluted (loss) earnings per share is determined by adding 1) to the net (loss) earnings utilized in the numerator of the basic earnings per common share computation, interest and exchange rate fluctuation recorded in earnings attributable to voluntarily convertible loans and 2) to the weighted average shares outstanding in the denominator of the computation, the weighted average of outstanding obligations converted to shares based on the conversion factor established in the convertible loan agreements. As of December 31, 2015, 2014 and 2013, the Entity does not have ordinary shares with potential dilution effects.

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

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

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

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

i. The reserve for doubtful accounts and returns related to the Vacation Club
ii. Revenue recognition of Vacation Club
iii. The presentation of deferred revenues and other Kívac assets, short and long-terms
iv. Financial projections for asset impairment
v. The use of tax losses
vi. The effects of the contingencies faced by the Entity
vii. Labor obligations
viii. Redemption of loyalty program points
ix. The useful life and residual value of properties
x. Classification criteria of the operating segments of the Entity
xi. The estimated amount of investments in securities other than cash equivalents

## 6. Cash and cash equivalents

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Cash | $ 109,345 | $ 85,792 | $ 137,917 |
| Cash equivalents: | | | |
| Overnight investments | 654,465 | 912,000 | 150,000 |
| Dual structure notes investments | - | - | 418,448 |
| | | | |
| **Total** | **$ 763,810** | **$ 997,792** | **$ 706,365** |

## 7. Investments in securities

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Trading: | | | |
| Overnight investments | $ 450,000 | $ 487,294 | $ 479,060 |
| Others | - | 31,779 | 46,291 |
| | **$ 450,000** | **$ 519,073** | **$ 525,351** |

## 8. Accounts and notes receivable

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Notes receivable from Vacation Club | $ 1,218,342 | $ 1,022,035 | $ 824,516 |
| Other receivable from Vacation Club | 279,720 | 250,742 | 86,748 |
| Clients and agencies | 624,403 | 531,821 | 659,397 |
| Other taxes recoverable, net | 401,983 | 805,284 | 629,092 |
| Account receivable from sale of non- strategic assets | - | 102,000 | 185,000 |
| Others | 204,640 | 156,795 | 108,738 |
| | **2,729,088** | **2,868,677** | **2,493,491** |
| Less - Allowance for doubtful accounts | (232,597) | (241,597) | (242,287) |
| | **$ 2,496,491** | **$ 2,627,080** | **$ 2,251,204** |

a. *Notes receivable from Vacation Club*

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

Composition of the trading portfolio

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Maturity of notes receivable from Vacation Club- | | | |
| Less than 90 days | $ 100,703 | $ 311,336 | $ 331,156 |
| Between 91 and 330 days | 597,692 | 334,537 | 290,211 |
| Between 331 and 365 days | 519,947 | 376,162 | 203,149 |
| | **$ 1,218,342** | **$ 1,022,035** | **$ 824,516** |

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Clients and agencies- | | | |
| Less than 90 days | $ 552,853 | $ 410,312 | $ 400,525 |
| Over 90 days | 71,550 | 121,509 | 258,872 |
| | $ 624,403 | $ 531,821 | $ 659,397 |
| Allowance for doubtful accounts- | | | |
| Clients and agencies | $ (122,902) | $ (120,340) | $ (129,704) |
| Notes receivable from Vacation Club | (109,695) | (43,123) | (34,449) |
| Others | - | (78,134) | (78,134) |
| | **$ (232,597)** | **$ (241,597)** | **$ (242,287)** |

b. *Accounts receivable from clients and agencies*

The average credit term related to amounts owed for hotel services is 22 days. The Entity does not charge interest on outstanding amounts. Normally, amounts owed within this portfolio are not aged significantly. During 2015, 2014 and 2013 the Entity identified and wrote-off $2,122, $9,364 and $67,710, respectively, of the reserve for doubtful accounts, since it was determined that such amounts did not have possibility of being recovered.

## 9. Vacation Club inventory

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Vacation Club inventory | $ 177,397 | $ 268,552 | $ 89,342 |
| Villas and residential lots | 21,088 | 18,416 | 16,654 |
| | | | |
| | **$ 198,485** | **$ 286,968** | **$ 105,996** |

Vacation Club inventories recognized in cost for sale of memberships during the period in respect of continuing operations was $87,923, $83,453 and $75,893 at December 31, 2015, 2014 and 2013, respectively.

## 10. Assets classified as held for sale

| | 2015 | 2013 |
|---|---|---|
| Assets classified as held for sale in Holiday Inn Laredo transaction: | | |
| Cash and cash equivalents | $ 2,642 | $ 5,595 |
| Accounts and notes receivable - Net | 1,046 | 1,193 |
| Inventories | 259 | 154 |
| Prepaid expenses | 359 | 288 |
| Property and equipment - Net | 54,878 | 43,680 |
| | | |
| Total assets classified as held for sale | **$ 59,184** | **$ 50,910** |
| | | |
| Liabilities directly associated with assets held for sale: | | |
| Other liabilities and accrued expenses | **$ (6,384)** | **$ (6,423)** |

## 11. Long-term notes receivable - Net

The balance corresponds to the long-term portion of accounts receivable from sales of Vacation Club memberships, as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Long-term notes receivables: | | | |
| Vacation Club membership | $ 2,211,196 | $ 1,556,054 | $ 1,346,394 |
| Kívac | 108,309 | 247,156 | 221,701 |
| | **2,319,505** | **1,803,210** | **1,568,095** |
| Less: | | | |
| Allowance for doubtful accounts of Kívac | (33,971) | (76,488) | (54,786) |
| | | | |
| **Total** | **$ 2,285,534** | **$ 1,726,722** | **$ 1,513,309** |

The maturities of the long-term notes receivable at December 31, 2015 are as follows:

| To collect during | Amount |
|---|---|
| 2017 | $ 759,524 |
| 2018 | 602,851 |
| 2019 | 441,231 |
| 2020 and thereafter | 515,899 |
| Total long-term notes receivable | **$ 2,319,505** |

## 12. Long-term accounts receivable

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Escrow account for sale of South America´s segment | $ - | $ - | $ 294,679 |
| Receivable account for sale of Chemuyil | - | - | 102,000 |
| | | | |
| **Total** | **$ -** | **$ -** | **$ 396,679** |

## 13. Property and equipment

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Buildings | $ 6,603,406 | $ 6,563,629 | $ 6,653,027 |
| Furniture and equipment | 1,227,058 | 1,481,450 | 1,422,265 |
| Computers | 417,977 | 433,202 | 435,244 |
| Vehicles | 30,132 | 35,139 | 37,236 |
| | **8,278,573** | **8,513,420** | **8,547,772** |
| | | | |
| Less - Accumulated depreciation | (4,375,084) | (4,511,623) | (4,285,629) |
| | **3,903,489** | **4,001,797** | **4,262,143** |
| | | | |
| Land | 1,837,597 | 1,837,597 | 1,853,792 |
| Construction in progress | 544,876 | 427,899 | 221,690 |
| | | | |
| | **$ 6,285,962** | **$ 6,267,293** | **$ 6,337,625** |

| | Land | Buildings | Furniture and equipment | Computers | Vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Beginning balance as of January, 2013 | **$ 2,783,231** | **$ 6,681,311** | **$ 1,466,370** | **$ 385,210** | **$ 24,796** | **$ 124,706** | **$ 11,465,624** |
| Additions | 374,450 | 369,308 | 235,403 | 60,999 | 17,093 | 96,984 | 1,154,237 |
| Disposals | (1,303,889) | (397,592) | (279,508) | (10,965) | (4,653) | - | (1,996,607) |
| | | | | | | | |
| Balance as of December 31, 2013 | 1,853,792 | 6,653,027 | 1,422,265 | 435,244 | 37,236 | 221,690 | 10,623,254 |
| Additions | 1,249 | 18,156 | 136,457 | 5,602 | 6,494 | 206,209 | 374,167 |
| Disposals | (11,228) | - | - | (7,644) | (7,325) | - | (26,197) |
| Reclassified as held for sale | (6,216) | (107,554) | (77,272) | - | (1,266) | - | (192,308) |
| | | | | | | | |
| Balance as of December 31, 2015 | **1,837,597** | **6,563,629** | **1,481,450** | **433,202** | **35,139** | **427,899** | **10,778,916** |
| Additions | - | 74,703 | 113,194 | 13,736 | 5,058 | 305,597 | 512,288 |
| Transfers from construction in progress | - | 109,943 | 78,546 | 131 | - | (188,620) | - |
| Disposals | - | (144,869) | (74,613) | (7,913) | (4,677) | - | (232,072) |
| Derecognition of depreciated assets | - | - | (371,519) | (21,179) | (5,388) | - | (398,086) |
| | | | | | | | |
| Balance as of December 31, 2015 | **$ 1,837,597** | **$ 6,603,406** | **$ 1,227,058** | **$ 417,977** | **$ 30,132** | **$ 544,876** | **$ 10,661,046** |

| | Land | Buildings | Furniture and equipment | Computers | Vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment** | | | | | | | |
| Beginning balance as of January, 2013 | **$ -** | **$ (2,820,068)** | **$ (962,305)** | **$ (345,360)** | **$ (19,748)** | **$ -** | **$ (4,147,481)** |
| Impairment losses recognized in profit or loss | (763,869) | (130,962) | - | - | - | - | (894,831) |
| Disposals of assets | 763,869 | 141,678 | 207,376 | 10,535 | 4,010 | - | 1,127,468 |
| Depreciation expense | - | (162,691) | (161,522) | (39,996) | (6,576) | - | (370,785) |
| Balance as of December 31, 2013 | - | (2,972,043) | (916,451) | (374,821) | (22,314) | - | (4,285,629) |
| Depreciation expense | - | (208,270) | (134,751) | (27,163) | (4,438) | - | (374,622) |
| Reclassified as held for sale | - | 106,793 | 41,648 | - | 187 | - | 148,628 |
| Balance as of December 31, 2014 | **-** | **(3,073,520)** | **(1,009,554)** | **(401,984)** | **(26,565)** | **-** | **(4,511,623)** |
| Depreciation expense | - | (178,648) | (189,558) | (26,659) | (4,956) | - | (399,821) |
| Disposals of assets | - | 54,189 | 73,799 | 6,655 | 3,631 | - | 138,274 |
| Derecognition of depreciated assets | - | - | 371,519 | 21,179 | 5,388 | - | 398,086 |
| Balance as of December 31, 2015 | **$ -** | **$ (3,197,979)** | **$ (753,794)** | **$ (400,809)** | **$ (22,502)** | **$ -** | **$ (4,375,084)** |
| **Total property and equipment - net** | **$ 1,837,597** | **$ 3,405,427** | **$ 473,264** | **$ 17,168** | **$ 7,630** | **$ 544,876** | **$ 6,285,962** |



## 14. Investment in associates

| | Activity | % interest at 2015 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Inmobiliaria Hotelera Las Animas, S. A. de C. V. | Hotels in Xalapa | 25.0 | $ - | $ - | $ 27,571 |
| Inmobiliaria Hotelera de Yucatán, S. A. de C. V. | Hotels in Merida | 9.2 | 1,129 | 1,129 | 6,450 |
| Others | | - | - | 750 | 1,416 |
| | | | **$ 1,129** | **$ 1,879** | **$ 35,437** |

## 15. Other assets

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Kívac´s sales commissions | $ 317,852 | $ 215,970 | $ 144,407 |
| Guarantee deposits | 44,537 | 39,719 | 56,110 |
| Development expenses and others | 42,531 | 13,673 | 13,898 |
| | **$ 404,920** | **$ 269,362** | **$ 214,415** |

## 16. Suppliers

The Entity has lines of credit contracted with Banco Santander (México), S.A., BBVA Bancomer, S.A., Banco Monex, S.A. and Banco Actinver, S.A. up to the amount of $70,000, $70,000, $50,000, and $95,000, respectively. The purpose of these credit lines is to carry out financial factoring transactions with Entity´s suppliers over a maximum payment term of 180 days. For each financial factoring transaction, interest is accrued at a fixed rate agreed between the Entity and the financial institutions.

As of December 31, 2015, 2014 and 2013, the amount of the invoices of suppliers which agreed to for the financial factoring is composed as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Banco Santander (México), S.A. | $ 65,249 | $ 59,373 | $ 94,292 |
| BBVA Bancomer, S.A. | 57,578 | 33,386 | - |
| Banco Monex, S.A. | 36,297 | 25,923 | 43,645 |
| Banco Actinver, S.A. | 14,229 | 2,438 | 282 |
| | | | |
| | **$ 173,353** | **$ 121,120** | **$ 138,219** |

## 17. Long-term debt

a. *Long-term debt is as follows:*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| U.S. dollar-denominated: | | | |
| "Senior Notes 2022", fixed rate of 7.875% | $ 5,593,072 | $ - | $ - |
| "Senior Notes 2017", fixed rate of 7.875% | 649,210 | 4,432,316 | 3,474,406 |
| "Senior Notes 2015", fixed rate of 9.25% | - | 756,517 | 1,080,674 |
| Euro-Commercial Paper, fixed rate of 6% | - | 691,179 | - |
| Other loans, at variable rates average of 3.32% | 1,399 | 2,261 | 2,498 |
| | **6,243,681** | **5,882,273** | **4,557,578** |
| Less - Current portion | (1,399) | (1,449,957) | (2,498) |
| | | | |
| Long-term debt | **$ 6,242,282** | **$ 4,432,316** | **$ 4,555,080** |

The maturities of long-term debt at December 31, 2015, are as follows:

| Payable during | Thousands of American dollars |
|---|---|
| 2017 | 38,332 |
| 2022 | 350,000 |
| | **388,332** |
| | |
| Equivalent in thousands of Mexican pesos | $ 6,681,835 |
| Less - debt issuance costs | (439,553) |
| | |
| | **$ 6,242,282** |

b. On June 30, 2015 the Entity completed a debt issue for US$350 million in notes known as "Senior Notes 2022" through the Luxembourg Stock Exchange. The intention was to substitute the issue of US$310 million known as "Senior Notes 2017" held by the Entity as of December 31, 2014, for which US$1,060 was offered for each $1,000 of the previous issue.

As a result of the offering it was possible to tender US$271.7 million of the "Senior Notes 2017", equivalent to 87.63% of principal. The "Senior Notes 2022" generate interest at the annual rate of 7.875%, with principal maturing on June 30, 2022. The interest is payable semiannually, beginning on December 30, 2015.

c. On November 28, 2014, the Entity obtained US$47.2 million through a program known as "Euro-Commercial Paper", which bore annual interest at a rate of 6% and matured on November 18, 2015. Interest was recognized in the consolidated statement of comprehensive (loss) income as accrued, and was paid on November 18, 2015, due date of the principal.

d. On November 30, 2012, the Entity issued a bond for US$225 million known as the "2017 Senior Notes", which mature on November 30, 2017 and bear interest at an annual 7.875% fixed rate. On November 30, 2013, the Entity issued a supplement for US$50 million of "Senior Notes 2017", with the same characteristics mentioned above, resulting in a total debt of US$275 million.

On February 20, 2014, the Entity made an additional issue of "2017 Senior Notes" for US$35 million, which mature on November 30, 2017 and bear interest at an annual 7.875% fixed rate. The "2017 Senior Notes" were issued based on a private exchange of US$31.6 million of the "2015 Senior Notes". The additional issued was performed with the same terms as the first, resulting in a total debt of US$310 million. As a result of the issue of the notes known as "Senior Notes 2022", the outstanding balance was decreased, and as of December 31, 2015 represented US$38.3 million.

e. On January 15, 2010, the Entity issued debt securities for US$200 million under a Senior Notes program, due on January 15, 2015 ("2015 Senior Notes"). The securities bore interest at an annual rate of 9.25%, with semiannual coupons. The remaining balance of the program was reduced by the additional issue of "Senior Notes 2017", resulting

f. The most significant restrictions and obligations contained in debt agreements at December 31, 2015, prohibit the Entity from:

- Incurring additional indebtedness
- Granting guarantees
- Making payments or restricted investments
- Selling assets
- Declaring dividends
- Making certain intercompany transactions
- Merging with other companies

At December 31, 2015, restrictions and obligations have been satisfied.

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

| | 2015 Garantes | 2015 No garantes | Total consolidated |
|---|---|---|---|
| Total revenues | $ 6,247,866 | $ 653,355 | $ 6,901,221 |
| Depreciation and amortization | 359,332 | 55,345 | 414,677 |
| Lease expense | 386,969 | - | 386,969 |
| Consolidated (loss) income | (622,716) | 152,311 | (470,405) |
| **Total assets** | **12,257,339** | **1,519,624** | **13,776,963** |
| **Total liabilities** | **$ 9,011,409** | **$ 1,138,051** | **$ 10,149,460** |

h. Below is detail of key financial items of the Entity and the subsidiary guarantors of the "Senior Notes 2017":

| | Guarantors | | | Non-guarantors | | | Total consolidated | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | **2015** | 2014 | 2013 | **2015** | 2014 | 2013 |
| Total revenues | $ 6,676,420 | $ 5,553,097 | $ 5,589,003 | $ 224,801 | $ 295,181 | $ 2,961,355 | $ 6,901,221 | $ 5,848,278 | $ 8,550,358 |
| Impairment, depreciation and amortization | 365,943 | 370,047 | 1,217,558 | 48,734 | 39,218 | 97,330 | 414,677 | 409,265 | 1,314,888 |
| Lease expense | 386,969 | 329,761 | 326,513 | - | - | - | 386,969 | 329,761 | 326,513 |
| Consolidated (loss) income | (442,520) | 926,686 | (1,162,965) | (27,885) | (208,445) | (594,849) | (470,405) | 718,241 | (1,757,814) |
| **Total assets** | **13,347,403** | **12,829,671** | **12,023,808** | **429,560** | **488,280** | **495,569** | **13,776,963** | **13,317,951** | **12,519,377** |
| **Total liabilities** | **$ 9,438,168** | **$ 8,409,564** | **$ 7,965,883** | **$ 711,292** | **$ 799,177** | **$ 1,165,277** | **$ 10,149,460** | **$ 9,208,741** | **$ 9,131,160** |

## 18. Income taxes

The Entity is subject to ISR, which current rate is 30%

The Entity incurred ISR on a consolidated basis until 2013 with its Mexican subsidiaries. As a result of the 2013 Tax Law, the tax consolidation regime was eliminated, and Posadas has the obligation to pay the deferred income tax benefit calculated as of that date over a five-year period beginning in 2014, as illustrated below.

While the 2014 Tax Law repealed the tax consolidation regime, an option was established, which allows groups of entities to determine a joint calculation of ISR (tax integration regime). The new regime allows groups of consolidated entities that share common direct or indirect ownership of more than 80%, certain benefits in the tax payment (when within the Entity include both profit and loss entities in the same period), which can be deferred over three years and paid, as updated, at the filing date of the tax return corresponding to the tax year following the completion of the aforementioned three-year period.

The Entity and its subsidiaries elected to join the new scheme, so determined income tax for the year 2015, as it was described before.

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

IETU - IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The respective rate was 17.5%. Due to the abolishment of the IETU law, the Entity cancelled in 2013 deferred IETU previously recorded.

As of 2008, the Asset Tax Law was eliminated, allowing under certain conditions to recover the amount of this tax paid in the 10 years immediately prior to that in which ISR is first paid may be recovered in accordance with applicable tax provisions.

Taxation in the United States - The subsidiaries operating in that country are subject to the payment of income tax at a rate of 35%.

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

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Current tax -** | | | |
| Current ISR | $ 120,397 | $ 169,835 | $ 416,308 |
| ISR previous years | 111,881 | - | - |
| Long-term ISR tax deconsolidation | - | - | 882,262 |
| Expense tax amnesty | - | - | 125,585 |
| | **232,278** | **169,835** | **1,424,155** |
| **Benefit deferred -** | | | |
| ISR | (100,944) | (1,231,092) | (262,167) |
| IETU | - | - | (105) |
| | **(100,944)** | **(1,231,092)** | **(262,272)** |
| | | | |
| **Total income tax (benefit)** | **$ 131,334** | **$ (1,061,257)** | **$ 1,161,883** |

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

| | 2015 | 2013 |
|---|---|---|
| Statutory rate | 30% | 30% |
| Less: | | |
| Effect of activation of tax loss carryforwards | 53% | 304% |
| Reserve of individual tax loss carryforwards | (70)% | - |
| Effects of permanent differences and effects of tax inflation | (52)% | (21)% |
| | | |
| Effective rate | **(39)%** | **313%** |

The effective rate for the year 2013 differs from the statutory rate, mainly due to the effects of deconsolidation described in Note 2i.

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Notes receivable | $ (732,510) | $ (266,234) | $ (397,128) |
| Allowance for doubtful accounts | 88,811 | 95,425 | 92,475 |
| Real state inventory | (59,339) | (73,097) | (16,594) |
| Property and equipment | (156,132) | (230,681) | (265,057) |
| Other assets | (54,088) | (127,735) | (157,832) |
| Reserves and deferred income | 651,687 | 341,961 | 327,708 |
| Benefit of tax loss carryforwards | 2,820,609 | 2,363,880 | 1,883,246 |
| Reserve of tax loss carryforwards | (1,389,165) | (1,030,229) | (1,309,717) |
| Recoverable IMPAC | - | 3,528 | 3,528 |
| Tax benefits (Conacyt) | 10,077 | (10,876) | (21,689) |
| Tax effect of SIBRAS | (1,006,396) | (993,332) | (1,297,422) |
| | **$ 173,554** | **$ 72,610** | **$ (1,158,482)** |

d. The benefits of restated tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and tax credit, respectively, have been partially recognized, can be recovered subject to certain conditions. At December 31, 2015, 2014 and 2013, the tax loss carryforwards amounted to $9,402,030, $7,879,600 and $6,277,487, respectively.

e. *Tax loss carryforwards*

Expiration dates and restated amounts of tax loss carryforwards as of December 31, 2015, for which an asset for deferred tax has been partially recognized, are:

| Year | Amount |
|---|---|
| 2016 | $ 48,736 |
| 2017 | 61,411 |
| 2018 | 102,308 |
| 2019 | 2,644,105 |
| 2020 | 536,079 |
| 2021 | 143,397 |
| 2022 | 1,807,876 |
| 2023 | 113,977 |
| 2024 | 766,591 |
| 2025 | 1,479,808 |
| 2026 | 1,697,742 |
| | **$ 9,402,030** |

f. *Tax consolidation*

ISR liability as of December 31, 2015 related to the effects for benefits and tax deconsolidation is being paid as follows:

| Year | Amount |
|---|---|
| 2016 | $ 219,650 |
| 2017 | 159,143 |
| 2018 | 151,097 |
| | **529,890** |
| Less - current portion | (219,650) |
| | |
| | **$ 310,240** |



## 19. Long-term accrued liabilities

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Return reserve for Vacation Club | $ 157,394 | $ 144,307 | $ 132,464 |
| Employee benefits | 66,924 | 58,840 | 16,290 |
| Other accrued liabilities | 212,449 | 140,751 | 127,296 |
| | | | |
| | **$ 436,767** | **$ 343,898** | **$ 276,050** |

In "other liabilities and accrued expenses" in the consolidated statement of financial position a current portion of the return reserve for Vacation Club has been recorded, amounting as of December 31, 2015, 2014 and 2013, $81,739, $69,780 and $81,623, respectively.

## 20. Employee benefits

The net period cost for obligations under the pension plan and related seniority premiums amounted to $22,357, $17,131 and $16,089 as of December 31, 2015, 2014 and 2013, respectively. Other disclosures required by accounting rules are not considered material.

## 21. Financial instruments

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

a. *Capital risk management*

The Entity manages its capital to ensure that it will continue as a going concern, while maximizing the return to stockholders through the optimization of debt and equity structure. The overall strategy of the Entity has not been changed compared to 2014 and 2013.

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

The Entity's management, on a monthly basis, reviews the net debt and accrued interest and its relation to the EBITDA (earnings before taxes, interest, currency fluctuations, depreciation and amortization). This review is carried out when the Entity's financial projections are presented as part of the business plan to the Board of Directors and stockholders of the Entity.

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

Debt index

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Debt [i] | $ 6,243,681 | $ 5,882,273 | $ 4,557,578 |
| Cash, banks and investments in securities | 1,213,810 | 1,516,865 | 1,231,716 |
| Net debt | **5,029,871** | **4,365,408** | **3,325,862** |
| | | | |
| Stockholders' equity [ii] | **$ 3,627,503** | **$ 4,109,210** | **$ 3,388,217** |
| Index of net debt to equity | **1.39** | **1.06** | **0.98** |

[i] Debt is defined as long and short-term borrowings in foreign currency, as described in Note 17.

[ii] Stockholders' equity includes all capital stock and reserves that are managed as capital.

b. *Categories of financial instruments*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Financial assets** | | | |
| Cash | $ 109,345 | $ 85,792 | $ 137,917 |
| Held for trading | 1,104,465 | 1,399,294 | 1,047,508 |
| Investments held to maturity | - | 31,779 | 46,291 |
| Account and notes receivable | 4,380,042 | 3,548,518 | 3,135,421 |
| Financial assets held for sale | 3,688 | 6,788 | - |
| | | | |
| **Financial liabilities** | | | |
| Amortized cost | 7,455,990 | 6,772,772 | 5,681,277 |



c. *Market risk*

The activities performed by the Entity expose it mainly to financial risks due to variations in the exchange rates. Periodically, depending on prevailing market conditions, the Entity subscribes financial derivatives to handle its exposure to exchange risk, including foreign currency forward contracts to cover the exchange risk derived from liabilities in foreign currency with short-term maturities. As of December 31, 2015, the only financial derivative is presented under the heading "Cash and cash equivalents" in the consolidated statement of financial position.

The characteristics of the forward contracted as of December 31, 2015 are shown in the following table:

| | Notional amount (thousands of American dollars) | Agreement date | Due date | Notional amount | Fair value |
|---|---|---|---|---|---|
| Forward | US$ 14,000 | 15/Dec/15 | 11/Jan/16 | $ 242,788 | $ 1,391 |

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

d. *Foreign currency risk management*

The Entity believes that the risk is material because as of December 31, 2015, 100% of its debt is in US dollars. Considering the net monetary position in US dollars as of December 31, 2015, a 10% appreciation (or appreciation) of the Mexican peso against the US dollar would cause an exchange loss or (gain) in results and in the stockholders' equity of the Entity of approximately $470,966.

The current exchange rates in Mexican pesos are as follows:

| | December 31, | | | February 17 |
|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2016 |
| Pesos per U.S. dollar | $ 17.2065 | $ 14.7180 | $ 13.0765 | $ 18.8148 |

e. *Interest rate risk management*

The Entity is exposed to low market risks related to fluctuations in interest rates, because their securities and bank loans at December 31, 2014 bear interest at a fixed rates, therefore, the increase in interest rates not could cause a higher risk to the provided maturity date. As of December 31, 2015, the 2022 and 2017 Senior Notes issued in US dollars represent practically 100% of the debt of the Entity, and bears interest at fixed rate.

f. *Credit risk management*

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

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

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

g. *Liquidity risk management*

It does not exist a liquidity risk over short-term debt of the Entity as of December 31, 2015. The Entity liquidated debt maturing shorter-term with the resources obtained through of program known as "Senior Notes 2022".

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

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

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

The amounts included in the debt with credit institutions refer to fixed interest rate instruments.

| As of December 31, 2015 | Weighted average effective interest rate | 3 months | 6 months | 1 year | 1 and 3 years | 3 + years | Total |
|---|---|---|---|---|---|---|---|
| Debt | 7.875 % | $ - | $ - | $ 1,399 | $ 659,560 | $ 6,022,275 | $ 6,683,234 |
| Suppliers | - | 438,432 | - | - | - | - | 438,432 |
| Other liabilities and accrued expenses | - | 334,324 | - | - | - | - | 334,324 |
| Total | | **772,756** | **-** | **1,399** | **659,560** | **6,022,275** | **7,455,990** |
| | | | | | | | |
| Cash, cash equivalents and investments securities | - | 1,213,810 | - | - | - | - | 1,213,810 |
| Accounts receivable and other receivables | - | 653,556 | 71,550 | 1,335,431 | 1,362,375 | 957,130 | 4,380,042 |
| | | | | | | | |
| **Total** | | **1,867,366** | **71,550** | **1,335,431** | **1,362,375** | **957,130** | **5,593,852** |
| | | | | | | | |
| **Net** | | **$ 1,094,610** | **$ 71,550** | **$ 1,334,032** | **$ 702,815** | **$ (5,065,145)** | **$ (1,862,138)** |

| As of December 31, 2014 | Weighted average effective interest rate | 3 months | 6 months | 1 year | 1 and 3 years | 3 + years | Total |
|---|---|---|---|---|---|---|---|
| Debt | 7.875 % | $ 760,450 | $ - | $ 697,490 | $ 4,562,580 | $ - | $ 6,020,520 |
| Suppliers | - | 400,101 | - | - | - | - | 400,101 |
| Other liabilities and accrued expenses | - | 352,151 | - | - | - | - | 352,151 |
| **Total** | | **1,512,702** | **-** | **697,490** | **4,562,580** | **-** | **6,772,772** |
| | | | | | | | |
| Cash, cash equivalents and investments securities | - | 1,516,865 | - | - | - | - | 1,516,865 |
| Accounts receivable and other receivables | - | 721,648 | 121,509 | 902,151 | 1,043,077 | 760,133 | 3,548,518 |
| | | | | | | | |
| **Total** | | **2,238,513** | **121,509** | **902,151** | **1,043,077** | **760,133** | **5,065,383** |
| **Net** | | **$ 725,811** | **$ 121,509** | **$ 204,661** | **$ (3,519,503)** | **$ 760,133** | **$ (1,707,389)** |

| As of December 31, 2013 | Weighted average effective interest rate | 3 months | 6 months | 1 year | 1 and 3 years | 3 + years | Total |
|---|---|---|---|---|---|---|---|
| Debt | 7.875 % | $ - | $ - | $ 2,498 | $ 1,088,893 | $ 3,596,038 | $ 4,687,429 |
| Suppliers | - | 348,327 | - | - | - | - | 348,327 |
| Other liabilities and accrued expenses | - | 645,521 | - | - | - | - | 645,521 |
| **Total** | | **993,848** | **-** | **2,498** | **1,088,893** | **3,596,038** | **5,681,277** |
| | | | | | | | |
| Cash, cash equivalents and investments securities | - | 1,231,716 | - | - | - | - | 1,231,716 |
| Accounts receivable and other receivables | - | 731,681 | 258,872 | 576,773 | 1,039,047 | 529,048 | 3,135,421 |
| | | | | | | | |
| **Total** | | **1,963,397** | **258,872** | **576,773** | **1,039,047** | **529,048** | **4,367,137** |
| **Net** | | **$ 969,549** | **$ 258,872** | **$ 574,275** | **$ (49,846)** | **$ (3,066,990)** | **$ (1,314,140)** |



The amounts included in debt with credit institutions are represented for instruments of a fixed interest rate.

The Entity expects to fulfill its obligations with the cash flows from operations and any resources received from the maturity of financial assets. Additionally, as of December 31, 2015 the Entity has access to a committed line of credit with an undisposed balance of $200,000.

h. *Fair value of financial instruments:*

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

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

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

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Thousands of US dollars:** | | | |
| 2022 Senior Notes | US$ 320,655 | US$ - | US$ - |
| 2017 Senior Notes | 33,627 | 272,164 | 243,637 |
| 2015 Senior Notes | - | 51,668 | 80,360 |
| Euro-Commercial Paper | - | 42,335 | - |
| | | | |
| | US$ 354,282 | US$ 366,167 | US$ 323,997 |

*Financial derivatives* - As of December 31, 2015, a portion of the Entity's revenues, generally around 25%, has been directly or indirectly denominated in US dollars. This is because the prices of the guestrooms in the beach hotels (principally Cancún and Los Cabos) maintain rates in US dollars and also because, historically, a portion of the sales and financing of the Vacation Club memberships have been expressed in US dollars.

Given that some of the revenues are denominated directly or indirectly in US dollars, to minimize the exposure to exchange rates in Mexican pesos, the Entity's policy has been to maintain a significant portion of the debt in US dollars. This has been achieved through loans obtained in US dollars when market conditions so permit.

## 22. Stockholders' equity

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

| | Number of shares | | |
|---|---|---|---|
| | **2015** Serie "A" | 2014 Serie "A" | 2013 Serie "A" |
| **Authorized capital** | 512,737,588 | 512,737,588 | 576,888,619 |
| | | | |
| Less - | | | |
| Repurchase of shares | (16,855,600) | (16,799,600) | (18,899,099) |
| Shares in trust assigned to executives | - | - | (25,166,702) |
| Treasury stock | - | - | (33,890,206) |
| Chemuyil trust shares | - | (2,995,024) | |
| | **(16,855,600)** | **(16,799,600)** | **(80,951,031)** |
| | | | |
| | **495,881,988** | **495,937,988** | **495,937,588** |

b. At December 31, 2015, the share capital is composed solely of Series "A" free subscription.

c. During a Stockholders' Ordinary General Meeting held on March 25, 2014, an associate entity declared dividends of $16,000, in which a non-controlling equity of 50% is held. Such dividend was paid in the same year and is recognized in the consolidated statement of changes in stockholders' equity under "dividend paid to non-controlling interest".

d. During a Stockholders' Extraordinary General Meeting held on March 19, 2014 the cancellation of repurchase fund of 2,099,099 ordinary nominative shares was approved, representing Series "A" shares of the Entity, because the Entity's management had no plans to re-place such shares.

e. During a Stockholders' Extraordinary General Meeting held on March 19, 2014 it was approved to cancel the Trusts which were right holders of the treasury stock, the shares in the Chemuyil trust and the shares held in trust assigned to executives, because as of that date there were no any obligations guaranteed with shares of the Entity, which were part of the assets of the aforementioned Trusts. As a result of the cancellation of the Trusts, a remanent was generated for the Entity in the amount of $10,991, which is presented as earned capital.

f. As discussed in Note 2h, during 2013, 5,803,976 shares were sold in the stock market as part of the Chemuyil contractual penalty, resulting in a capital increase of $138,488.

g. During a Stockholders' Ordinary and Extraordinary General Meeting held on March 15, 2013, the stockholders declared dividends of $83,698, which were paid beginning on April 18, 2013. The consolidated statement of changes in stockholders' equity shows this amount net of reimbursed dividends of $10,178, due to the release of shares from the different trusts discussed above.

h. During Stockholders' Ordinary Meetings held on March 11, and August 15, 2013, associated entities declared dividends of $85,184 and $4,065, in which non-controlling equity of 50% and 25%, respectively, is held. Such transaction is recognized in the consolidated statement of changes in stockholders' equity under "dividend paid to non-controlling interest" of $43,608.

i. At December 31, 2015, the legal reserve, presented within retained earnings, amounts to $99,187 (nominal value) and represents 20% of the nominal capital. This reserve may not be distributed to shareholders except in the form of dividends.

j. Stockholders' equity, except for restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years. As of 2014 there is an additional 10% rate on dividends.

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

## 23. Balances and transactions in foreign currency

Significant monetary position in foreign currencies at December 31, is:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Thousands of US dollars:** | | | |
| **Current:** | | | |
| Monetary assets | 62,918 | 80,238 | 57,470 |
| Monetary liabilities | (11,078) | (107,107) | (10,087) |
| | | | |
| | **51,840** | **(26,869)** | **47,383** |
| | | | |
| **Long-term:** | | | |
| Monetary assets | 62,859 | 87,762 | 86,657 |
| Monetary liabilities | (388,413) | (310,000) | (358,271) |
| | | | |
| | **(325,554)** | **(222,238)** | **(271,614)** |
| | | | |
| Net liability position | (273,714) | (249,107) | (224,231) |
| | | | |
| Equivalent in thousands of Mexican pesos | **$ (4,709,656)** | **$ (3,666,359)** | **$ (2,932,161)** |

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

## 24. Revenue, cost of sales and operating expenses

a. *Revenue:*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Hotel operation | $ 3,103,775 | $ 2,691,647 | $ 2,673,704 |
| Vacation Club | 2,619,816 | 1,996,686 | 1,894,629 |
| Administration fee, brand and other expenses | 1,123,243 | 1,107,921 | 1,200,437 |
| Sales of non-strategic properties | - | 26,197 | 2,781,588 |
| Other income | 54,387 | 25,827 | - |
| | | | |
| | **$ 6,901,221** | **$ 5,848,278** | **$ 8,550,358** |

b. *Cost of sales:*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Hotel operation | $ 1,106,447 | $ 1,004,529 | $ 1,007,563 |
| Vacation Club | 1,993,289 | 1,520,736 | 1,429,250 |
| Administration fee, brand and other expenses | 1,110,048 | 1,116,372 | 1,300,426 |
| Sales of non-strategic properties | - | 26,197 | 2,216,418 |
| | | | |
| | **$ 4,209,784** | **$ 3,667,834** | **$ 5,953,657** |

c. *Administration expenses:*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Salaries, defined benefits and others | $ 399,619 | $ 354,390 | $ 319,429 |
| Electricity | 149,763 | 159,352 | 160,266 |
| Maintenance | 88,538 | 75,587 | 77,856 |
| Professional fees | 39,395 | 36,252 | 43,240 |
| Credit card commissions | 35,841 | 34,115 | 33,723 |
| Property taxes and duties | 33,063 | 24,778 | 25,363 |
| Office rentals | 22,273 | 9,572 | 5,182 |
| Services and supplies | 14,469 | 16,130 | 13,525 |
| Insurance and bonds | 11,813 | 13,242 | 11,627 |
| Equipment leasing | 6,175 | 5,346 | 5,170 |
| Doubtful accounts | 3,759 | - | 146 |
| Others | 10,418 | 16,541 | 7,577 |
| | | | |
| | **$ 815,126** | **$ 745,305** | **$ 703,104** |

d. *Sale and development expenses:*

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Salaries, defined benefits and others | $ 59,516 | $ 50,729 | $ 53,201 |
| Marketing and publicity | 52,754 | 43,279 | 45,103 |
| Travel expenses | 10,259 | 10,179 | 10,443 |
| Subscriptions fees | 2,651 | 60 | 219 |
| Others | 1,699 | 1,479 | 1,597 |
| | | | |
| | **$ 126,879** | **$ 105,726** | **$ 110,563** |

## 25. Related party transactions

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Short and long-term benefits | $ 101,543 | $ 91,643 | $ 102,911 |
| | | | |
| Termination benefits | $ 2,092 | $ 5,574 | $ - |

## 26. Information by business segments

The operating segment information is presented according to the criteria of the Entity's management.



Information by reportable segment for the year ended December 31, 2015 is as follows:

| | Hotel operation | Vacation Club | Hotel management, brand and other | Corporate | Total | Eliminations | Total consolidated |
|---|---|---|---|---|---|---|---|
| **Statement of comprehensive (loss) income:** | | | | | | | |
| Total revenues | $ 3,133,685 | $ 2,619,816 | $ 1,948,043 | $ 54,387 | $ 7,755,931 | $ (854,710) | $ 6,901,221 |
| Cost and general expenses | 2,626,431 | 2,080,891 | 1,365,002 | - | 6,072,324 | (854,710) | 5,217,614 |
| Corporate expenses | - | - | - | 321,144 | 321,144 | - | 321,144 |
| Depreciation, and amortization | - | - | - | 414,677 | 414,677 | - | 414,677 |
| Other expenses, net | - | - | - | 479 | 479 | - | 479 |
| Operating income (loss) | **$ 507,254** | **$ 538,925** | **$ 583,041** | **$ (681,913)** | **$ 947,307** | **$ -** | **$ 947,307** |
| | | | | | | | |
| Financial expenses and other expenses net | | | | | | | (1,283,766) |
| Loss before income taxes | | | | | | | **$ (336,459)** |

Information by reportable segment for the year ended December 31, 2014 is as follows:

| | Hotel operation | Vacation Club | Hotel management, brand and other | Corporate | Sale of non-strategic assets | Total | Eliminations | Total consolidated |
|---|---|---|---|---|---|---|---|---|
| **Statement of comprehensive (loss) income:** | | | | | | | | |
| Total revenues | $ 2,746,820 | $ 1,970,489 | $ 1,822,798 | $ 25,827 | $ 26,197 | $ 6,592,131 | $ (743,853) | $ 5,848,278 |
| Cost and general expenses | 2,350,664 | 1,565,046 | 1,394,370 | - | 26,197 | 5,336,277 | (743,853) | 4,592,424 |
| Corporate expenses | - | - | - | 256,202 | - | 256,202 | - | 256,202 |
| Depreciation and amortization | - | - | - | 409,265 | - | 409,265 | - | 409,265 |
| Other expenses, net | - | - | - | 45,669 | - | 45,669 | - | 45,669 |
| Operating income (loss) | **$ 396,156** | **$ 405,443** | **$ 428,428** | **$ (685,309)** | **$ -** | **$ 544,718** | **$ -** | **544,718** |
| Financial expenses and other expenses net | | | | | | | | (896,452) |
| Loss before income taxes | | | | | | | | **$ (351,734)** |

Information by reportable segment for the year ended December 31, 2013 is as follows:

| | Hotel operation | Vacation Club | Hotel management, brand and other | Corporate | Sale of non-strategic assets | Total | Eliminations | Total consolidated |
|---|---|---|---|---|---|---|---|---|
| **Statement of comprehensive (loss) income:** | | | | | | | | |
| Total revenues | $ 2,708,706 | $ 1,776,043 | $ 2,043,439 | $ - | $ 2,781,588 | $ 9,309,776 | $ (759,418) | $ 8,550,358 |
| Cost and general expenses | 2,351,678 | 1,440,589 | 1,597,414 | - | 2,216,417 | 7,606,098 | (759,418) | 6,846,680 |
| Corporate expenses | - | - | - | 247,157 | - | 247,157 | - | 247,157 |
| Depreciation, impairment and amortization | - | - | - | 1,314,888 | - | 1,314,888 | - | 1,314,888 |
| Other expenses, net | - | - | - | 183,213 | - | 183,213 | - | 183,213 |
| Operating income (loss) | **$ 357,028** | **$ 335,454** | **$ 446,025** | **$ (1,745,258)** | **$ 565,171** | **$ (41,580)** | **$ -** | **(41,580)** |
| Financial expenses and other expenses net | | | | | | | | (373,145) |
| Loss before income taxes | | | | | | | | **$ (414,725)** |

## 27. Commitments

a. At December 31, 2015, 2014 and 2013, the Entity has entered into long-term contracts to lease hotel and corporate properties, which generally have terms of 10 years. Lease payments are calculated based on percentages applied to income generated from hotel operations, varying between 12% and 25%. During the years ended December 31, 2015, 2014 and 2013, lease expense was $386,969, $329,761 and $326,513, respectively. The minimum rent estimated for the following years is shown below:

| Years | Amount |
|---|---|
| 2016 | $ 370,682 |
| 2017 | 366,286 |
| 2018 | 373,126 |
| 2019 | 379,422 |

b. At December 31, 2015, 2014 and 2013, the Entity has entered into rental contracts for computer equipment, which usually have a term of three years. Rental payments are based on the value of the rented equipment and vary in function with the requirements of the operational departments of the Entity. For the years ended December 31, 2015, 2014 and 2013, rental expense amounted to $60,128, $54,767 and $45,937, respectively. The estimated rental payments for the following years is shown below:

| Years | Amount |
|---|---|
| 2016 | $ 49,236 |
| 2017 | 29,408 |
| 2018 | 13,561 |
| 2019 | 3,158 |



## 28. Contingencies

a. There is a tax lawsuit for the year 2006, for an unpaid liability assessed by the International Tax Inspection Office of the Tax Administration Service (SAT) in the amount of $767,248, for which at the date of issuance of the consolidated financial statements, it is not possible to determine a result for the Entity. The tax authorities have alleged nonpayment of ISR, for which reason the Entity filed a motion for reconsideration with the SAT, which has yet to be resolved. According to the Entity's management and its external advisors in this matter, there are sufficient legal arguments to obtain a favorable result from such lawsuit.

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

c. As of December 31, 2015, 2014 and 2013, the Entity has established a reserve to cover contingencies, which is recorded under the long-term liability heading "Accrued liabilities" in the consolidated statement of financial position.

## 29. Authorization to issue the financial statements

The consolidated financial statements were authorized to be issued on February 17, 2016, by Ing. Arturo Martínez del Campo Saucedo, Corporate Chief Financial Officer and the Audit Committee; consequently they do not reflect events after this date, and are subject to the approval of the Ordinary Stockholders Meeting of the Entity, who may modify them in accordance with the provisions of the General Corporate Law.