Lead
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ship

ANNUAL
REPORT 2017

POSADAS®

Growth and positive trends: Posadas® in 2017.

Grand Fiesta Americana Puebla Angelópolis

Letter from the CEO

Dear board members and shareholders:

I am proud to be able to report that in 2017 we fulfilled our commitments, consolidating sustainable growth for the company and maintaining industry leadership.

The year 2017 marked our company's 50th anniversary, and I am pleased to reaffirm that we are moving in the right direction. Lining up all the areas with the strategy outlined a few years back is producing results, combined with the growth and consolidation trend in the Mexican tourism sector, with over 38.3 million international tourist arrivals and 9% annual growth. Last year, the U.S. government travel warning affected American tourist arrivals somewhat, yet very early in 2017, the previous year's warnings were lifted for the tourist destinations of Cancún and Los Cabos.

ACCELERATED GROWTH

As for new hotel development, we opened 11 properties, thereby totaling 162 and more than 25,000 rooms in over 60 destinations. Furthermore, we signed long-term renovation plans for 13 hotels.

We have signed 55 agreements for hotel openings in all our brands over the next three years, representing approximately 10,000 rooms.

We also formalized our participation as investors and operators of a project in the Riviera Maya, for which two hotels will be built: a Fiesta Americana with 515 rooms and a Live Aqua with 340. Both will be operated by Posadas® and are slated to open in early 2021.

Elsewhere, Live Aqua Residence Club now has its second vacation property, located next to the hotel Grand Fiesta Americana Los Cabos All Inclusive Golf & Spa, with 109 units and a total investment of $434 million pesos.

As part of the Caribbean region expansion plan, we signed two agreements to operate hotels in Cuba: Fiesta Americana All Inclusive Punta Varadero, with 633 rooms, and Fiesta Americana All Inclusive Holguín Costa Verde, in Playa Pesquero, with 749 rooms. Both are local investments and are expected to start operating in 2018.

THANKS TO THE COMMITMENT, TALENT AND EFFORT OF ALL OF US AT POSADAS, 2017 HAS BEEN EXTREMELY POSITIVE FOR THE COMPANY.

Similarly, we signed an agreement to operate a 554-room Grand Fiesta Americana hotel in Punta Cana, Dominican Republic, for 15 years. We estimate this local investment project to be running in 2020.

SIGNIFICANT EXPERIENCES

Furthermore, we want to maintain our client focus by offering comprehensive services in line with the needs of guests, as well as market trends. That is why we create new brands while our consolidated brands continue to evolve.

This is how Posadas® puts together its portfolio of LatinoAmerican brands, a new hotel concept that provides a novel accommodation category, Urban-(G) Local Hotels, adapting to hypermodern, laid back travelers who move about in a globalized world.

We also welcome Re_Set, an exclusive discount plan with which families and groups of friends will have the freedom of traveling more right when they want, in Mexico and abroad. It emerged out of the need to connect with new consumers and lifestyles, and in response to market trends and technological changes.

Consequently, our results show that we are well suited to our clients, who constantly put their trust in Posadas®, because what we offer convinces them.

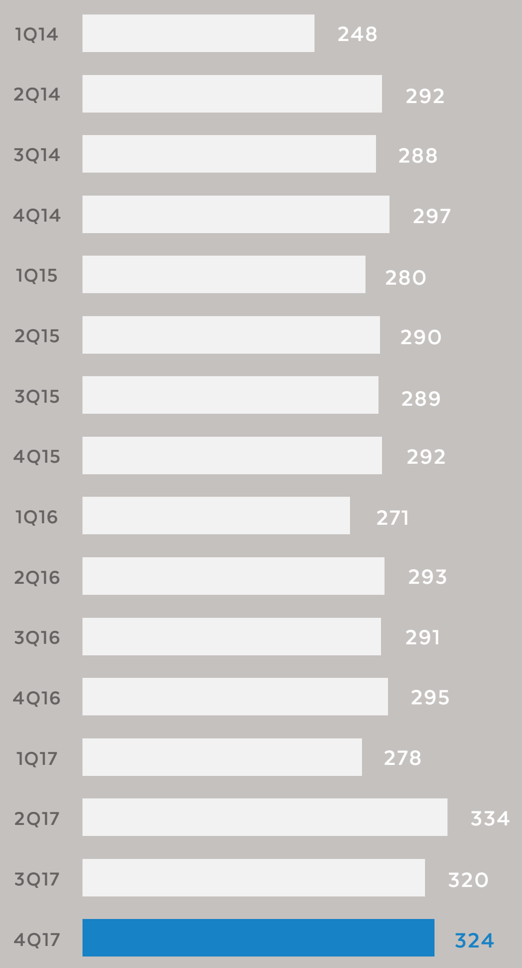
PROFITABILITY BY SCALE

In 2017, revenue from chain-operated hotels went up 14.3%:

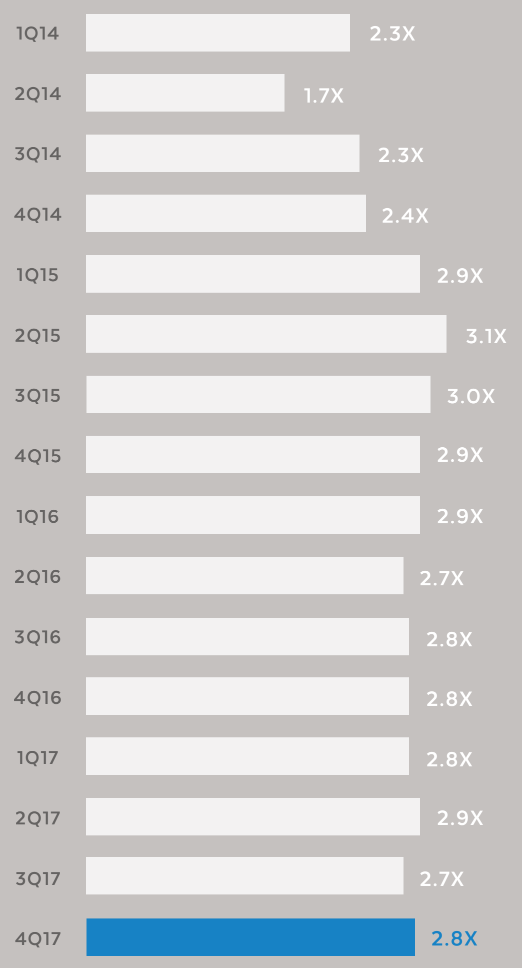
- City hotels[1] continue performing well, with an effective rate increase of 6.8%, including 10 hotel openings.

FINANCIAL HEALTH

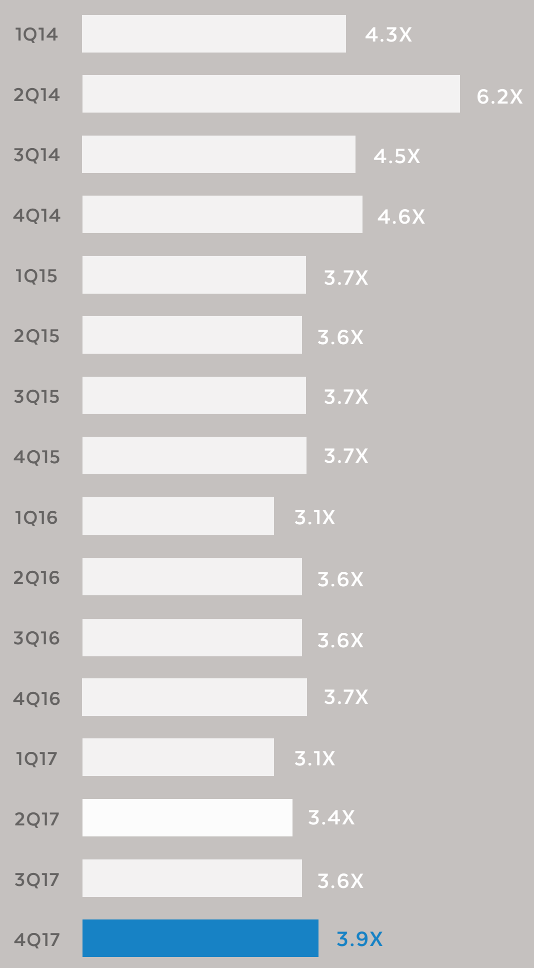
Net Debt (US$M)



Net Debt / EBITDA



Net Debt / EBITDA



(Figures in millions)	4Q17		BE4Q17	
	US$ Notional	IFRS MXN	US$ Notional	IFRS MXN
FX eop		19.7354		20.6640
EBITDA LTM		1,652		1,650
Cash		1,384		1,770
Indebtedness				
Senior Notes 2022	400	7,894	400	8,266
Subsidiary	11	210		
Issuance expenses (IFRS)		**(324)**		**(394)**
Total	411	7,780	400	7,872
Net Debt to EBITDA	**3.9**	**3.9**		**3.7**

The positive trend stayed strong in both *the city and resort hotel segments.*


Grand Fiesta Americana Puerto Vallarta All Inclusive Adults Only

- Moreover, resort hotel[2] performance was outstanding, with an effective 11.3% rate increase.

Growth in operation profit was 14% over the previous year, in addition to an improvement in margins for our top category brands (Grand Fiesta Americana and Fiesta Americana).

All our segments continued to show growth in sales:

- For Corporate Accounts, we sold over 895 million pesos, 11% more than in 2016.
- In OTAs (Online Travel Agencies), we achieved an 18% increase in rooms and 14% in revenue.
- In the wholesale segment, 16% more in rooms and 20% in revenue.

Beyond the figures, we have reached our goals with a sustainable business model, producing a positive impact on each segment.

Furthermore, the promotional campaign VIAJA por todo México (TRAVEL all over Mexico) was run for the eighth consecutive year and is still the most successful in the domestic tourism sector, producing 35,779 room nights and $23.6 million pesos in revenue, 92% above the previous year.

In 2017, we introduced a new Fiesta Rewards image, to celebrate the 30th anniversary of the program that invites and rewards members. We currently have over 65,000 Fiesta Rewards, Apreciare and Motiva members, producing 1,854,917 room nights (32% of total occupancy).

As for the Fiesta Americana Vacation Club, it closes the year with over 30,000 members and 18% growth in revenue compared to the previous year. Kívac is the community of travelers that currently has 40,000 members traveling and generating 160,000 room nights.

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[1] Stable hotels that have been operating for over 12 months, in nominal pesos.

[2] The resort hotels are: Live Aqua Beach Resort Cancún, Live Aqua Boutique Resort Playa del Carmen, Grand Fiesta Americana All Inclusive Parks Vallarta, Grand Fiesta Americana Coral Beach Cancún, Grand Fiesta Americana Los Cabos All Inclusive Golf & Spa, Fiesta Americana Condesa Cancún, Fiesta Americana Puerto Vallarta.

In gross membership sales, we reached $1.978 billion pesos, up 7% from the prior year; and total revenue from vacation products is now approximately three billion pesos. Our vacation club is second only to Expedia in generating room nights for Posadas®.

In the area of real estate, we transferred the Fiesta Inn Aeropuerto hotel, with 327 rooms, to Fibra UNO in 2017 and now lease the hotel. We further agreed with Fibra Hotel that the sale will go through in 2020. In the meantime, the hotel has been leased to Fibra Hotel to be commercially run under its brand, with remodeling constraints and with Posadas® its operator. Finally, we agreed on the sale of the Fiesta Americana Condesa Cancún hotel, with 507 rooms. The closing will be in the first quarter of 2018, and Posadas® will operate it under a leasing agreement for a total of 15 years.

As a result of these operations, we have been able to invest in hotel maintenance and remodeling (mainly Fiesta Americana Condesa Cancún and Fiesta Americana Guadalajara), as well as in the technological infrastructure of Posadas®.

With our internal simplification process, we continue to improve efficiency in transactionality, control and management of the group, reducing the number of subsidiaries from 136 at the close of 2013 to 23 today. This year, we successfully merged six Posadas® subsidiaries with the issuer, among them real estate and payroll companies, and thus took over all their assets and debts. As a result of the mergers, the companies Inversora Inmobiliaria Club, S.A. de C.V. and Operadora del Golfo de México, S.A. de C.V. remain guarantors of the issue of 7.875% Senior Notes due in 2022.

FINANCIAL RESULTS

This year closed with $1.652 million pesos in EBITDA. Our main source of cash, it allowed us:

- To invest over $800 million pesos in hotel maintenance and remodeling.
- To invest $351 million in projects (Riviera Maya) and to rely on key money for renewing operation agreements for applicable hotels.

CONSOLIDATED REVENUE *GREW 12%*

- As well as to fulfill our financial and fiscal commitments, resulting in a cash balance of $1.384 billion pesos at the close of 2017.

In 2017, major financial indicators increased in organic terms. Consolidated revenue went up 12%, driven by the increase in hotel occupancy and new vacation club memberships.

The improvement in company operating performance has contributed to maintaining the net leverage ratio, which was 3.9 times EBITDA for 2017.

Net loss in 2017 was $484 million pesos, due mainly to the agreement reached with the Servicio de Administración Tributaria (Tax Administration Service, SAT) regarding compliance with fiscal regulations for tax years 2007 to 2013.

We continue to strengthen our balance sheet, with total assets at $16.534 billion pesos, 8.3% higher than the previous year.

The financial situation at the close of the 2017 tax year is detailed in the financial statements in this report, with company results duly explained and classified. Also presented are changes in the financial situation during the year, showing the changes in line items comprising the corporate equity during the 2017 tax year. The notes needed to complete and clarify the information contained in the financial statements are also detailed in the Independent Auditor's Report and the 2015, 2016 and 2017 consolidated financial statements for Grupo Posadas® S.A.B. de C.V. y Subsidiarias, issued by Galaz, Yamazaki, Ruiz Urquiza S.C. (Deloitte).

DEVELOPING AND RELYING ON TOP TALENT

The value of our company is not solely due to how we operate within the industry but also to the talent of our people. And that is reflected in the fact that for the second year in a row we were certified as a Great Place to Work and rose to 8th place among the best companies to work in Mexico 2016 with over 5,000 employees.

Ongoing training for our team is extremely important to us, which is why in 2017 we managed to give over 13,000 employees a range of different courses: Attitude, Magic and Action (AMA), Leadership, Harvard Top Talent Transformation, etc.

"RATES AND OCCUPANCY REFLECTED GROWTH *AND BETTER OPERATIONAL PERFORMANCE.*"

COMMITTED TO SOCIETY

Equally important as reaching our goals is the way we accomplish them. We are sure that the future lies in promoting a responsible business model that instills trust in our clients, investors, employees, shareholders and society as a whole.

That is why at Fundación Posadas® we are involved with 14 programs that provide support for different needs. Among the most noteworthy this year was the aid given to 100 families affected by tropical storm Lidia in Los Cabos and the September 7 and 19 earthquakes. We granted more than 600 scholarships for childhood education, and our 2,800 volunteers have assisted more than 9,000 people.

Furthermore, all the hotels operated by Posadas® have received Green Key international certification, awarded by The Foundation for Enviromental Education, which attests to our commitments in the field of environmental responsibility and the sustainable operation of our hotels. We are also proud to have been found deserving of the 2017 “Gilberto Rincón Gallardo” Inclusive Company award, granted by the Ministry of Labor and Social Welfare, in recognition of our policies and good labor inclusion practices that benefit workers in vulnerable conditions or situations.

Without question, it is thanks to the commitment, talent and effort of all of us who work at Posadas® that 2017 has been extremely positive for the company. While it is a great responsibility, it also makes me very proud to work with everyone every day, and we are grateful for their confidence in us as we continue to build together the best hotel company in Mexico.

José Carlos Azcárraga
CEO

Finances

Grand Fiesta Americana Coral Beach Resort & Spa Cancún

$16.5336
BILLION

TOTAL COMPANY ASSETS.

In 2017, rates and occupancy showed system-wide continuity and improved operational performance. The average rate was up 6.9% and occupancy 0.4 percentage points (pp), resulting in RevPAR (revenue per available room) growth of 7.6%.

This positive trend was evident in both city and resort hotel segments. The former, which represents 83% of rooms operated in the entire system, reported RevPAR growth of 6.8%, while the latter performed even better, posting 11.3% growth.

The Riviera Maya hotel project, which was formalized in April, will be built in the state of Quintana Roo via a trust, in which Posadas®, as trustee, will have an initial share of 6%, potentially increasing to 12.5%.

The respective land divisions, cash amounts and assets will be put up via the trust, with the Posadas® contribution amounting to $450 million, of which $225 million has already been paid. The initial phase will include two hotels with up to 855 rooms, which will be built and operated by Posadas® under operating and licensing agreements. To this end, Posadas® will pay the trust US$10 million or the equivalent in Mexican pesos during the construction of this resort development.

In 2017, Posadas® entered into agreements for the sale of the following properties:

- As announced on April 27, 2017, Fiesta Inn Aeropuerto Ciudad de México was sold. This hotel continues to be operated by Posadas® under a 15-year lease agreement, with a renewal option for two additional five-year periods, as well as an option for early termination in the event the lessor decides to go ahead with a new project for a 170-room hotel that would be operated by Posadas®. In August 2017, the company closed the sale of this 327-room hotel for $435 million pesos.
- A lease agreement was signed with Fiesta Americana Hacienda Galindo, which will be renovated in phases throughout 2017. Likewise, Posadas® entered into a purchase and sale agreement for this hotel, the terms and conditions of which need to be ratified by December 2019 at the latest, with a price being agreed upon and paid in 2020. This price will be a multiple equivalent to 10.06x the property's EBITDA in 2019, minus investments and leases. After the sale is completed, Posadas® will manage the property under an operating agreement.
- As announced on August 15, 2017, Posadas® entered into a purchase and sale agreement with FibraHotel ("FIHO") for the sale of land, buildings, equipment, furnishings, rights and concessions of the 507-room Fiesta Americana Condesa Cancún. The total sale price for the assets comes to $2.892 billion. The Company and FIHO will invest approximately $60 million each in the renovation of public areas in 2017 and 2018, without affecting the hotel inventory. As part of the purchase and sale

agreement, Posadas® will enter into a long-term leasing agreement with FIHO, under which the Company will continue to operate the hotel as lessee. The leasing will go into effect on January 1, 2018.

As a result of these transactions, Posadas® has been able to invest over $3 billion pesos in the maintenance and renovation of its properties (namely Fiesta Americana Condesa Cancún and Fiesta Americana Guadalajara), channel distribution technology and technological infrastructure over the last three years.

In the interest of greater operational and financial certainty, on April 7, 2017, Posadas® announced a series of agreements with the Tax Administration Service (SAT) as a proactive means of resolving differences of opinion regarding compliance with certain tax provisions.

These agreements are specifically related to aspects of brand amortization, SIBRAS tax treatment and the termination of the tax consolidation regime Posadas® adhered to between 2007 and 2013, all of which have come under scrutiny by SAT.

These agreements called for:

The elimination of the loss reported in 2013 on the sale of shares from the calculation of the termination of the tax consolidation regime. This required Posadas® to:

a. Recognize an additional payment of $2.463 billion pesos, including taxes, interest and fines due over different periods. Posadas® paid $612 million pesos of this amount in 2017, and the balance will be settled in annual installments of approximately $309 million pesos a year between 2018 and 2023, subject to updating.

b. Report a one-time loss of $930 million pesos in 2017, due to the increase in its long-term tax liabilities.

c. Ratify its right to carry forward accumulated tax losses of approximately $7.75 billion pesos through 2013.

These measures satisfactorily concluded and covered all issues surrounding audits, tax credits and SAT observations related to the tax periods from 2007 through 2013.

Posadas® will use operating cash flows to make these payments, which will be factored into its budgets so as not to affect projects and investments scheduled for the periods in question or debt servicing.

Concerning the tax credit granted in 2006, which was publicly announced in 2015, Posadas® and SAT are currently negotiating a definitive solution.

On June 22, 2017, Inmobiliaria del Sudeste, S.A. de C.V., the subsidiary that owns Fiesta Americana Mérida, secured a $210 million credit line, backed by a seven-year fiduciary guarantee. The funds are being used for corporate purposes, including renovation of the hotel's public areas.

$1.384

BILLION

CASH BALANCE AT DECEMBER 31, 2017.

In 2017, revenues totaled $8.907 billion pesos, reflecting 12% growth, while EBITDA came in at $1.652 billion.

Net losses stood at $484 million pesos in the period, attributable mainly to the aforementioned SAT agreements.

As of December 31, 2017, the Company's cash balance stood at $1.384 billion pesos (US$70 million at an exchange rate of $19.7354 Mexican pesos to the US dollar), while total assets were valued at $16.5336 billion pesos (US$838 million).

The financial leverage index was 3.87x in 2017, which was within a similar range to that reported in 2016. As of December 31, 2017, the average life of total company debt is 4.6 years.

Posadas® stockholders held two meetings in 2017, one on March 15 and the second on August 31. Amongst other matters, results for 2017 and the naming of board members were approved at these meetings. At the August 31 meeting, Posadas® shareholders agreed to:

(i) Merge several subsidiaries with the issuer remaining as the surviving entity

(ii) Modify the fifth clause of the bylaws referring to its corporate purpose, so that the Company can directly act as a travel agent or intermediary and render the tourism services formerly provided by one of its merged subsidiaries. Once this merger is completed, Inversora Inmobiliaria Club S.A. de C.V. and Operadora del Golfo de México, S.A. de C.V. will remain only as guarantors of obligations under the June 30, 2015 indenture agreement.

(iii) Sell the FACC hotel.

The aforementioned mergers and similar corporate measures are part of an internal simplification process intended to substantially reduce the number of subsidiaries and make Posadas® more efficient in terms of transactions, control and management.

$1.652

BILLION PESOS

EBITDA

12%

GROWTH IN

CONSOLIDATED REVENUE

$8.907

BILLION PESOS

TOTAL REVENUE

Live Aqua Urban Resort Monterrey Valle

EXECUTIVE BOARD

JOSÉ CARLOS AZCÁRRAGA ANDRADE
CHIEF EXECUTIVE OFFICER

FRANCISCO JAVIER BARRERA SEGURA
VICE PRESIDENT, FRANCHISE

ENRIQUE CALDERÓN FERNÁNDEZ
VICE PRESIDENT, HOTEL OPERATIONS

ARTURO MARTÍNEZ DEL CAMPO SAUCEDO
VICE PRESIDENT, FINANCES

JORGE CARVALLO COUTTOLENC
VICE PRESIDENT, DEVELOPMENT

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

Fiesta Americana Condesa Cancún All Inclusive

DESIGN: Arterisco | designcenter ™

Leadership

ANNUAL REPORT 2017

POSADAS.COM

Growing

ANNUAL
REPORT 2017

POSADAS®

Our Goal: To Consolidate Posadas® Leadership.


Live Aqua Private Residences Los Cabos

Real Estate

POSADAS® 2017: *A GREAT YEAR*

EXPANSION AND CONSOLIDATION IN MEXICO

- 11 HOTEL OPENINGS
- 55 CONTRACTS SIGNED
- ALMOST 10,000 ROOMS

PRESENCE IN DOMINICAN REPUBLIC AND CUBA

The year 2017 was a milestone for the real estate division in terms of major expansion and consolidation of our brands in Mexico. It was also when we introduced our first Caribbean properties, specifically in the Dominican Republic and Cuba.

The opening of 11 hotels (1,406 rooms) and the signing of 30 new contracts and 2 letters of intent (6,366 rooms) meant double-digit growth with respect to number of rooms in 2016. We also renewed 13 strategic contracts (2,490 rooms), extending their terms by an average of 16 years.

In 2017, we focused on expanding our properties in beach destinations, with excellent results. Seven new all-inclusive resort contracts were signed in the period, consolidating Live Aqua, Grand Fiesta Americana, Fiesta Americana and The Explorean brands as leaders in the Lifestyle Luxury, Classic Luxury and Upper segments.

All this was possible through efforts to shore up our strategic relationships and growth with both institutional and private equity investors, efforts that led to the signing of 55 contracts (almost 10,000 rooms) for new hotel development by the end of 2017. Approximately $27 billion pesos will be allocated to these projects, which span all our brands and are slated to open over the next three years.

Posadas® Hotels

Live Aqua Urban Resort Ciudad de México

14.3% *CHAIN HOTEL REVENUE GROWTH:*

10 NEW CITY HOTELS
OUTSTANDING PERFORMANCE BY RESORTS

POSADAS® HOTELS

In 2017, our chain hotels reported 14.3% growth in revenue:

- The city hotels[1] continued to perform well, with 6.8% revPAR growth, including ten new hotel openings.
- The resort hotels[2] had an outstanding performance, with 11.3% revPAR growth.

Gross operating profit (GOP) was up 14% compared to the previous year, with our higher-category brands (Grand Fiesta Americana and Fiesta Americana) reporting improved margins.

We achieved double-digit sales growth in all our segments, mainly in corporate accounts, OTAs (Online Travel Agencies) and the wholesale segment.

We got two strategic initiatives off the ground:

- Development and strengthening of new markets (in Asia, South America and Europe) for greater market penetration and to create business bases for our resort and city hotels, as well as to secure these markets for our hotels in Cuba and, in the near future, the Dominican Republic.
- The launch of the BLEISURE strategic initiative will enable us to generate incremental business at city hotels on slower days.

Furthermore, we consolidated our wedding packages, registering significantly higher room night conversion through our website La Colección Resorts by Fiesta Americana.

Finally, our social media and TripAdvisor rankings have improved substantially, showing that we are well suited to our clients, who constantly put their trust in Posadas®, convinced by the value and services we offer.

[1] Stable hotels that have been operating for over 12 months, in nominal pesos.

[2] The resort hotels are: Live Aqua Beach Resort Cancún, Live Aqua Boutique Resort Playa del Carmen, Grand Fiesta Americana All Inclusive Parks Vallarta, Grand Fiesta Americana Coral Beach Cancún, Grand Fiesta Americana Los Cabos All Inclusive Golf & Spa, Fiesta Americana Condesa Cancún, Fiesta Americana Puerto Vallarta.

POSADAS® PEOPLE

The Posadas® community continues to grow steadily. Today, more than 17,700 employees share the Posadas® culture, enabling us to remain true to our commitment to promoting initiatives that have a positive impact on our employees' quality of life.

We continue to take part in the evaluation conducted by the Great Place to Work Institute, because we are interested in hearing what our people have to say and getting greater insight into their views on the topics they care about and those that create areas of opportunity. We are proud that in 2017 we climbed two positions on the Great Place to Work ranking, to number 8 in Mexico. Likewise, we were selected as one of the Best Companies for Millennials.

This reflects our leaders' commitment to designing and implementing simple, concrete and effective action plans that can lead to tangible change in the workplace. A case in point is the award given to our CEO José Carlos Azcárraga as one of the most trusted CEOs in Mexico.

The Posadas® DNA

Today our identity is strong, because we have a solid culture and share the same DNA, the Posadas® DNA.

We encourage all our employees to take our values and competencies to heart, to take them beyond the workplace and make them part of their very essence, as we steer our strategic course towards 2020.

LEADERSHIP, SERVICE, DEVELOPMENT AND SALES SCHOOLS: *EVERYTHING TO TRANSFORM POSADAS®*.

WE ARE STILL A *GREAT PLACE TO WORK.*

VALUES:

Respect
Integrity
Passion
Simplicity
Good humor

COMPETENCIES:

Creating experiences
Personal development
Collaboration
Business mindset
Excellence in execution

On Development Day, we organized a series of conferences aimed at transmitting to our employees the concepts and guiding principles of the competencies that make up the Posadas® DNA.

Employee Development Is a Priority

We continue to place great emphasis on employee training. For instance, our Top Talent Transformation program, backed by Harvard Business Publishing, targets the executive committees of our hotels. This was the second year of the program, with the 550-plus executives who took part in it going on to positively impact their work teams. This development model forms part of the Business School.

With its two core modules, the Service School has been a major pillar of our employee training strategy, helping promote our philosophy of creating memorable experiences for our partners, clients and guests, as well as for employees. Over 12,000 employees at our hotels, salesrooms, corporate headquarters and offices in Morelia have been through the program.

The Leadership School has trained more than 300 people in management skills, while the Sales Certificate Program organized by the Sales School targets the Vacation Properties team, now totaling 680 individuals.

BRAND ARCHITECTURE 2017

	CLASSIC LUXURY	LIFESTYLE RESORTS	DISCOVERY	URBAN (G) LOCAL	SIGNATURE	BUSINESS CLASS	UNIQUE PERSONALITY	PRACTICITY
DELUXE	Grand Fiesta Americana Hotels & Resorts	Live Aqua Resorts & Residence Club						
UPPER			The Explorean by Fiesta Americana	LatinoAmerican® Urban-(G)local Hotels	Fiesta Americana Hotels & Resorts			
MIDDLE						Fiesta Inn. Hoteles Business Class	Gamma. Hoteles	
ECONOMY								one hoteles
TRAVEL MEMBERSHIP PROGRAMS	Live Aqua Residence Club			Fiesta Americana. Vacation Club		Re_set		Kivac. sueña · vive · viaja

OVER

17,700

EMPLOYEES

#8

IN THE RANKING OF

GREAT PLACES TO WORK

AWARD TO

JOSÉ CARLOS AZCÁRRAGA

AS ONE OF THE MOST

TRUSTED CEOS IN MEXICO

“WE ARE POSADAS®:
PEOPLE WITH A PASSION FOR CREATING GREAT EXPERIENCES.”

Posadas® Careers / New Opportunities

Our expansion plan clearly offers employees growth opportunities, in addition to attracting external talent. With this in mind, we have launched Posadas® Careers, a website that consolidates employment opportunities at each of our work centers.

Posadas® Careers and our social media efforts are vehicles for transmitting our culture, so we can continue to be an aspirational company.

LINK: http://careers.posadas.com/

The Value of Diversity and Inclusion

We come from different generations yet belong to communities that have the same mindsets and lifestyles. And the idea of sharing new ways of seeing the world is something we find appealing.

In 2017, Posadas® was awarded the "Gilberto Rincón Gallardo®" Inclusive Company Award based on the practices of respect and inclusion implemented at our hotels, salesrooms and offices. We celebrate diversity and respect for those in vulnerable situations, because we are not just coworkers—we are one big family.

The "Gilberto Rincón Gallardo®" Inclusive Company Award certifies all our work centers, including hotels opened between now and 2020.

At Posadas®, We Leave a Mark

This year, our focus is on promoting a culture that acknowledges the work done every day by each of our employees.

The initiative is intended to do away with the idea of waiting for an extraordinary achievement and recognize efforts every day, making people feel more valued for their daily contributions.

The challenge of separating the idea of recognition from that of a reward is accomplished through a constant practice aimed at recognizing, valuing and showing gratitude. We thus understand that feedback and/or direct, timely recognition are highly valued and produce personal pride.

Grand Fiesta Americana All Inclusive Golf & Spa Los Cabos

POSADAS® DNA

Values

RESPECT

INTEGRITY

PASSION

SIMPLICITY

GOOD HUMOR

Competencies

CREATING EXPERIENCES

PERSONAL DEVELOPMENT

COOPERATION

BUSINESS MINDSET

EXCELLENCE IN EXECUTION

New *Openings*

FIESTA INN

1. FIESTA INN PUERTO VALLARTA ISLA
2. FIESTA INN SILAO AEROPUERTO DEL BAJÍO
3. FIESTA INN CHIHUAHUA FASHION MALL
4. FIESTA INN BUENAVISTA

GAMMA HOTELES

5. GAMMA TORREÓN
6. GAMMA CUERNAVACA PUERTA PARAÍSO

one hoteles

7. ONE MEXICALI
8. ONE GUADALAJARA EXPO
9. ONE LEÓN ANTARES
10. ONE PUEBLA SERDÁN
11. ONE CHIHUAHUA FASHION MALL

A TOTAL OF

209,212

GUESTS TOOK OUR SURVEY, AND WE LISTENED
TO 350,000 OF THEIR COMMENTS.

QUALITY ASSURANCE SYSTEMS

Our satisfaction surveys have yielded increasingly positive results, confirming that we are on the right track.

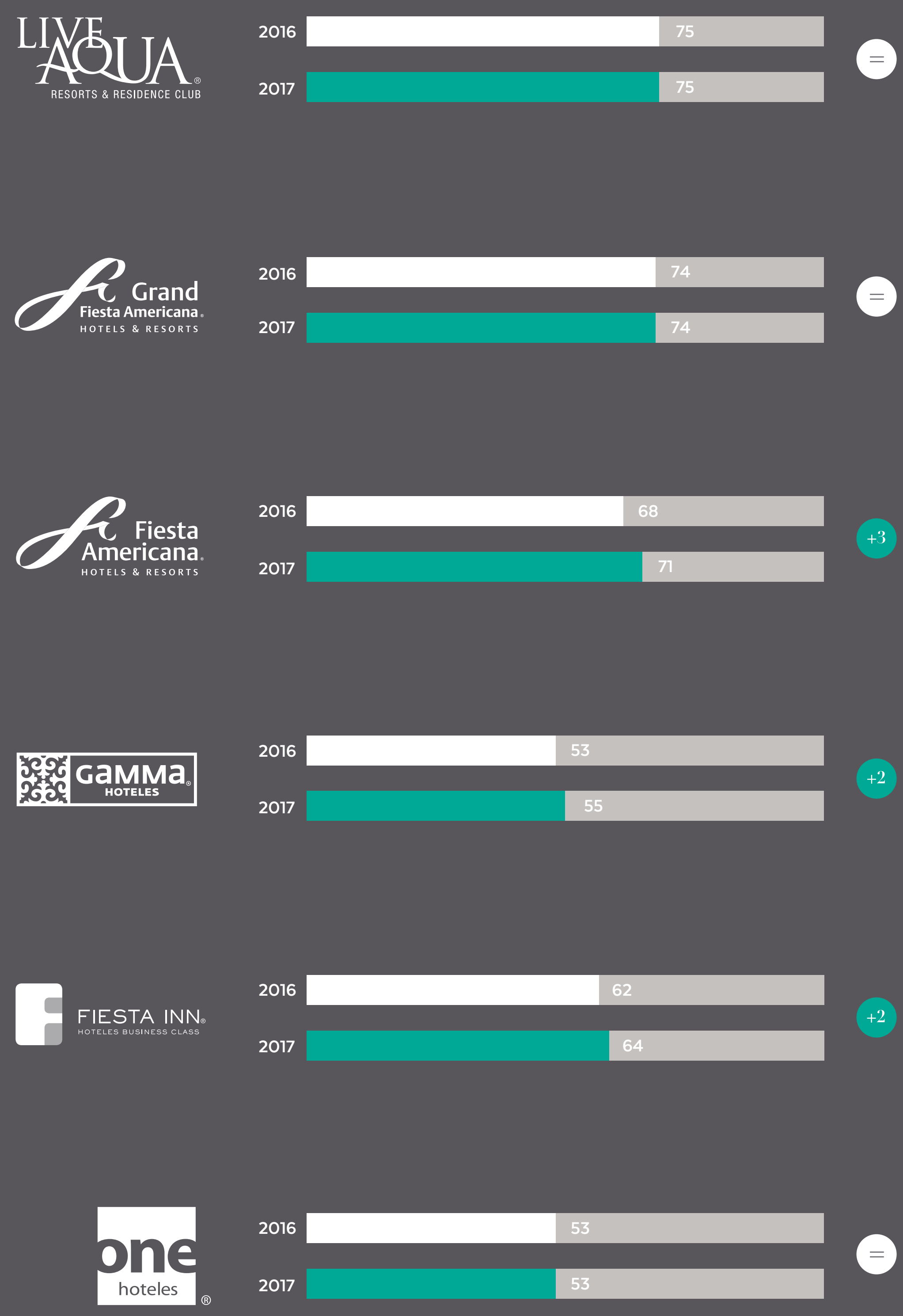
The response rate remained steady at 18%, 13 points above the desirable minimum. A total of 209,212 guests took our survey, and we listened to 350,000 of their comments.

In terms of customer satisfaction, 8 out of every 10 guests are satisfied with the service provided at our hotels. Likewise, 6 out of every 10 leave us congratulatory comments, further motivating us to retain their loyalty so that they continue answering the surveys and we can easily identify improvements to be made. In other words, we really listen to our guests.

A total of 91% of our general managers follow up on guest comments.

In 2017, our Net Promoter Score (NPS), which measures client loyalty, was 70.5 percentage points higher than in 2016 (53% is the hotel industry mean, and we were 17 points above that).

Based on these surveys, we are able to precisely identify the times during their stay that have the greatest impact on guests and thus develop initiatives for maintaining and improving successful strategies and eliminating complaints. The whole idea is to provide our guests with a better experience, thereby encouraging greater loyalty.



THE NUMBER OF TRIPADVISOR REVIEWS WE RECEIVED *INCREASED* 46% AND 79 OF OUR HOTELS BOAST THE TRIPADVISOR CERTIFICATE OF EXCELLENCE.

The two areas in which we received the best scores were friendly reception and room cleanliness.

Clearly, we are doing a better job at following up on standards and catering to the needs and preferences of our guests.

All changes in hotel standards are endorsed by our guests and based on the opinions they express via LINC or our new "Ask Now" tool, which enables us to assess the impact of pilots/initiatives, so we know what it is our guests really need and want.

TripAdvisor

In 2017, we conducted 30 studies that led to changes in our processes and standards designed to improve the experience of our guests, in all Posadas® brands. One of the success stories was the NPS impact analysis on ONE rooms and bathrooms, which sparked the reengineering of the entire brand. Surveys also give us better insight into the profile of our guests and their reasons for choosing each of the Posadas® brands, enabling our corporate teams to better focus their efforts in the right areas.

Without a doubt, this year is going to be a historic one for LINC, which will take the form of a much more visually attractive survey tailored to each brand which will completely change the way we listen to our guests. The new system will make it possible to evaluate more key moments throughout the guest's "journey", so we can get to the core of their overall experience and find out what is impacting our brands, both positively and negatively, thereby ensuring they fulfill their promise to guests. The three main areas that have been detailed so as to provide more information are food and beverages, problem solving and evaluation of public areas in accordance with what each brand offers.

Finally, one of the most significant changes we made was switching to NPS as the main indicator for assessing LINC customer satisfaction results.

The second important aspect of the brand study is the product. One of the Posadas® goals is to ensure that its properties maintain or increase their value, while continuing to meet the needs of guests, comply with standards and fulfill the brand promise of each of our hotels. Thanks to our "Zero Tolerance" program, guests can now relax in the knowledge that they are safer at our properties than they are in their own homes.

In 2017, 90% of our hotels met the Zero Tolerance goal. This indicator reported an improvement of 80% compared to the first half of the same year, while the 2017 *Prometeo Fisico* evaluation to assess compliance with physical standards was up one percentage point over 2016. The two main indicators of this standard compliance evaluation are STPS (91%) and Distintivo H (96%).

Prometeo Brand Results

With the help of our Brands, Standards and Quality teams, in 2017 we began evaluating brand icons and the standards they presuppose, to ensure they fulfill their promises to guests.

This first year, we can say that 7 out of every 10 hotels comply with brand standards and 8 out of every 10 with cleanliness standards.

AMONG THE TOP COMPANIES *FOR MILLENIALS.*

SUPPORT AND FOLLOW-UP SYSTEMS

In 2017, we were able to incorporate standard hardware and software platforms at Posadas® hotels, two GAMMA hotels, four ONE hotels, four FI hotels and one Live Aqua Residence Club. In the latter, mobile technology-based processes were implemented, streamlining business and customer services for the specific needs of the type of guests drawn to the concept.

Posadas® upholds its promises to its investors, which it demonstrated in 2017 by complying with mandatory e-invoicing (CFDI 3.3, payment complement, payroll complement 1.2) requirements applicable to all corporations nationwide. We were the first corporation to fulfill these requirements, ahead of schedule, employing cutting-edge technology in the interests of greater efficiency.

Likewise, to improve the quality of the services we offer our guests and their general level of satisfaction, we hired Alice to support the Zeus project. This tool is especially useful to general managers, as it facilitates more efficient, focused operations. In 2017, the project was implemented at all FI hotels, and in 2018 it will be incorporated into the rest of the brands.

Fiber to the Room (FTTx) was introduced as a standard feature at FA, GFA, Aqua and LARC brands. Because voice, data, video and other services travel on a single network, investment and maintenance costs are reduced. This model was installed at FACA, FACU, FALC and FAHG hotels.

Finally, viability studies for the integration of the hotel platform and LG smart televisions were concluded, resulting in the development of applications to manage My Stay (in-room digital services via the television) and Posadas® Cast (the transmission of contents from personal mobile devices to in-room televisions). They will be set up at new hotels and existing ones that have the necessary infrastructure.

One Puebla Angelópolis Periférico

Grand Fiesta Americana All Inclusive Golf & Spa Los Cabos

DESIGN: Arterisco | designcenter ™

Growing

ANNUAL REPORT 2017

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Inno va tion

ANNUAL REPORT 2017

POSADAS®

Heading for Plan 2020: innovation and well-aimed strategies to duplicate the Posadas® experience.

Live Aqua Urban Resort Monterrey

Brands

LIVE AQUA

An inspiring atmosphere to stimulate the senses

Live Aqua is the Urban, Beach and Boutique Resorts brand for chic pleasure-seekers who live and breathe art and design. Every nook and cranny of these properties invites guests to sit back and relax, to go where their desires take them. Every detail is engineered to adapt to the guest's lifestyle, to enhance the pleasure of simply being and being seen. The sensations are infinite; the experience, unique.

The year 2017 was one of consolidation and expansion for Live Aqua. We provided guests with an enriched experience at each of our four resorts, positioning them as the trendiest in each destination. This has enabled us to plan four new resorts in Mexico and the Caribbean. The first of these, scheduled to open in the final quarter of 2018, will be in San Miguel de Allende, named the best city in the world to visit.

GRAND FIESTA AMERICANA

Luxury and exclusivity that enrich every moment

Grand Fiesta Americana is a luxury chain that offers guests an exclusive, personalized experience in a refined atmosphere of classic luxury, together with outstanding amenities that have come to captivate travelers looking for a brand synonymous with prestige, success, presence and decorum.

These are the strengths we transmit to our investors and that instill in them the confidence to back our expansion plans for new properties and ambitious projects like Grand Fiesta Americana Oaxaca, Grand Fiesta Americana Ciudad de México Santa Fe and Grand Fiesta Americana Los Corales Punta Cana.

Los Corales Punta Cana, in the Dominican Republic, is the brand's first stepping stone to an international presence and a foretaste of the course we have mapped out with our Plan 2020, whose goal is to double current capacity.

An exclusive concept whose quality and service standards rank among the highest in the world, there can be no denying Grand Fiesta Americana is headed in the right direction. Simply grandiose!

LATINOAMERICAN URBAN-(G)LOCAL HOTELS®

Where global meets local

Created for today's carefree, hyper-connected travelers who appreciate individuality and originality, this brand caters to guests who have a thirst for all things new.

LatinoAmerican Urban-(G)local Hotels® comprise a whole new category of hotels that have democratized luxury and embraced the digital continuum. Urban refers to their architecture and design, which tend to meld with the surrounding cityscape, while (g)local denotes the type of guest who likes to get a taste of the local lifestyle on their world travels, preferably in the iconic urban districts where these properties are located.

An alternative to leasing, LatinoAmerican® combines all the conveniences of today's globalized world with the chance to participate in local artistic and cultural happenings.

The brand maximizes prime urban real estate by dividing its hotels into several units close enough to each other to share amenities and staff. Each unit has a minimum of 40 rooms (the prototype unit has 80), a BOH area and a zone for socializing. An active participant in the collaborative economy, some services are rendered by local suppliers, such as sports facilities, specialty and signature restaurants, trendy bars and hip clubs, while others have been substituted with more convenient apps.

FIESTA AMERICANA

Where guests are left with nothing but memorable moments

Fiesta Americana offers its guests memorable moments and unequaled hospitality in some of the most magnificent destinations in the country.

To maintain its position as Mexico's leading hotel chain, the brand has evolved on a par with travelers' needs, guaranteeing they come away with nothing but unforgettable experiences.

This has been achieved with the opening of new properties; between now and 2020, Fiesta Americana plans to open seven new hotels in strategic locations throughout Mexico: Mexico City and Mexico State (Viaducto Churubusco and Satélite), Veracruz, Huatulco and two in the Riviera Maya. The brand will also be making an incursion into the international market with two hotels in Cuba, in the beach destinations of Varadero and Holguín.

The goal is to double our capacity over the next two years, and to get there we are all implementing the sound strategies mapped out in our Plan 2020. Fiesta Americana has some amazing moments in store, and we can't wait to experience them!

Fiesta Americana México Toreo

THE EXPLOREAN

Fascinating experiences in natural settings

Unleash your imagination and prepare to tune into your senses, because The Explorean is an experiential resort where you can forget about routines and embark on a fascinating voyage of self-discovery. Guests enjoy outdoor activities in beautiful natural surroundings, all within the safety and comfort of a world-class resort that bears the Fiesta Americana seal of quality.

The Explorean Cozumel is an all-inclusive, 56-room resort set in the spectacular natural scenery of the Mayan jungle—the perfect place to find yourself as you lie back and take in the Caribbean waters or relax in the privacy of your own room. Vibrant Mexican-style architecture at once inspires and soothes with its distinctive colors and textures, while expansive, environmentally friendly spaces create a sense of harmony. Each new day is a chance to try something different, and every moment is unrepeatable. Visit a heavenly beach, El Cielo; admire the Dzul-Ha Reef; fall in love all over again on a nighttime trip to La Pasión Island, or practice paddle boarding and snorkeling.

The Explorean Kohunlich is tucked deep in the heart of the Mayan rainforest in Chetumal, Quintana Roo—an unbeatable location if you're looking to reconnect with nature, observe the region's flora and fauna and learn more about Mayan culture. The resort has 40 lodges that offer guests total privacy, so they can relax in peace and tranquility. Visit the Kohunlich archeological site or explore the Bacalar Lagoon by kayak or catamaran. Other fun activities include bicycling through the jungle and sailing on Chakanbakán Lagoon at night.

In 2018, The Explorean Celestún will add 33 breathtaking ocean-view lodges to this collection. The resort's exceptional landscape is part of the Celustún Special Biosphere Reserve, a UNESCO world heritage site and idyllic eco-tourism destination in the state of Yucatán.

FIESTA INN

Maintaining its leadership in the business class category

Fiesta Inn has consolidated its leadership in the Business Class category in Mexico, where it is number one in customer service and hospitality. In 2017, the brand registered steady growth, expanding to destinations that demand services targeting businessmen and women, who, in turn, want a chain hotel that recognizes and understands their needs. Last year boasted the opening of:

- Fiesta Inn Puerto Vallarta Isla
- Fiesta Inn Silao Aeropuerto del Bajío
- Fiesta Inn Chihuahua Fashion Mall
- Fiesta Inn Ciudad de México Forum Buenavista

The brand has continued to develop very successfully, as illustrated by its ambitious goals for 2018, which include the opening of:

- Fiesta Inn Ciudad del Carmen Laguna de Términos
- Fiesta Inn Tuxtla Fashion Mall
- Fiesta Inn Aguascalientes Patio
- Fiesta Inn Celaya Galerías

The Explorean Celestún by Fiesta Americana

Furthermore, the Fiesta Inn family will be launching a new brand designed to round out the alternatives open to the business-class traveler. Operations will begin with three openings this year and a fourth in 2019.

Fiesta Inn's ongoing mission is to look after travelers-at-work and provide them with the best possible business-class experience.

GAMMA

Hotels with unique personality: Exponential growth. 19 new properties.

Gamma is a collection of four- and five-star hotels that operate as franchises. ***We convert existing hotels to our brand*** so they can benefit from Posadas® sales channels and promotional platforms. ***Converted hotels retain their own style and personality*** without undergoing design or décor changes.

This is our only brand operated by Posadas® under the franchise model, with independent management.

In 2017, Gamma signed up seven hotels that will open throughout the course of 2018 in:

- Chapala, Jalisco
- Tampico
- Boca del Río, Veracruz
- Monterrey Rincón de Santiago, Nuevo León
- Orizaba, Veracruz
- Guadalajara, Centro Histórico
- Laguna de Coyuca, Guerrero

It has been four years since we launched Gamma, and in this time we have opened 12 hotels, which means over 1,650 rooms. And if we factor in the seven hotels scheduled to open in 2018, this makes Gamma the fastest-growing Posadas® brand. And the conversion of over 40 properties in strategic cities throughout the country is currently being negotiated.

In 2017, the brand's main promotional vehicle was the #EstoEsAquí digital media campaign. The goal was to turn Gamma into a brand recognized by leisure and business travelers in Mexico, and the result was a more than 120% increase in the number of people we reached via social media—over 3 million— with brand recognition by 2 out of every 10 travelers in Mexico.

TRAVEL
all over Mexico

8 YEARS PROMOTING DOMESTIC TOURISM.

- **1 MILLION** GIFT CERTIFICATES
- **455,000** EXTRA NIGHT CERTIFICATES
- **434,000** FOOD AND BEVERAGE DISCOUNT CERTIFICATES
- **5 MILLION PESOS** IN FLIGHT CERTIFICATES
- **45 ROUND-TRIP,** ROUND THE WORLD FLIGHTS
- **5 MILLION FIESTA REWARDS** PROGRAM POINTS
- RAFFLE OF **12 DELUXE CARS**
- **35,779 ROOM NIGHTS**
- EARNINGS: **$23.6 MILLION PESOS**

one

A new lease on life

one has posted rapid, constant growth in recent years. In 2017 alone, the following hotels were opened:

- one Mexicali
- one Guadalajara Expo
- one León Antares
- one Puebla Serdán
- one Chihuahua Fashion Mall

The brand's expansion plans for 2018 include the addition of more new properties: CDMX La Raza, Monterrey Tecnológico, Puebla Periférico, Acapulco Diamante, Tuxtla Gutiérrez, Tapachula, Hermosillo and Tijuana Otay.

one is known for listening to its guests and responding to their needs in the best possible way. In 2017, research into guests' preferences, the competition and current market trends resulted in a new target: to develop a more personalized experience, revitalize the brand's room concept and design friendlier public spaces.

In 2018, this research will be reflected in the complete overhaul of every room, amenity and strategy, ensuring one remains the best travel companion every guest could wish for.

Promotion

“E-COMMERCE AND SOCIAL MEDIA PRESENCE: *ARENAS TO GET CLOSER TO USERS AND CONTINUE TO CONSTANTLY INNOVATE AT POSADAS®.”*

VIAJA

The **VIAJA por todo México** promotional campaign (Live Aqua, Fiesta Americana, Fiesta Inn, Gamma and one) remains the most successful in the Mexican tourism industry. Now into its eighth consecutive year, it has, to date, distributed 1 million gift certificates, over 455,000 extra night certificates, 434,000 food and beverage discount certificates, 5 million pesos in flight certificates, 45 round-trip worldwide flight certificates and 5 million Fiesta Rewards points, while a raffle for 12 deluxe automobiles generated sales of 35,779 room nights and revenues of $23.6 million pesos.

Having Ana Brenda Contreras on board as the campaign ambassador for the second year in a row made all the difference. The spot received over 6 million hits on social media and was broadcast over 2,300 times on national cable television.

Regular advertising in digital and print media for our corporate promotions—VIAJA Negocios, VIAJA de Fin de Semana, VIAJA a la Playa and our opportunity sale sponsored by VIAJA—resulted in 63% revenue growth in 2017 compared to 2016, with sales coming in at $709 million pesos.

To get more exposure for our promotions and brands, we collaborate with business partners like Santander, UBER, American Express and Banamex on specific offers and come up with initiatives like Viernes de Gamma (Gamma Friday), Desayuno Incluido (Breakfast Included), Lunes de VIAJA (VIAJA Monday) and VIAJA con one (VIAJA with one) to meet specific segment needs.

1,854,917

ROOM NIGHTS

32% OCCUPANCY WAS FROM FIESTA REWARDS, APRECIARE AND MOTIVA MEMBERS.

LOYALTY PROGRAMS

In 2017, Fiesta Rewards launched an advertising campaign in television, cinema, OOH, magazines, digital, internal and other media. In May, the Santander Fiesta Rewards credit card portfolio was re-launched, and 36% more cards were issued compared to 2016. To celebrate Posadas®' 30th anniversary, we organized a drawing in which 130,000 members participated and 500,000 tickets were issued. These efforts attracted new members, reinforced the loyalty of existing ones and improved transactionality, at the same time guaranteeing members the best possible experience every time they have contact with the program.

In 2017, members of our Fiesta Rewards, Apreciare and Motiva programs registered 32% occupancy, or 1,854,917 room nights. These programs welcomed 46,814 new members and reported 226,400 active members in the year. A total of 111,829 awards were claimed, 84% of which were hotel nights, and 17,135 new Santander Fiesta Rewards credit cards were issued, bringing the grand total to 117,295 active accounts.

Live Aqua Residence Club Nima Bay Marina Vallarta

FIESTA
REWARDS.

TE CONOZCO,
TE RECONOZCO.

46,814

NEW MEMBERS

111,829

AWARDS REDEEEMED

17,135

NEW SANTANDER
FIESTA REWARDS CREDIT CARDS

What´s next?

_BENEFITS:

- Up to 50% discount at hotels in our family*
  with the best possible rate always!
- Up to **70% off at hotels** in over 60,000 destinations outside of Mexico.
- **Bookings can be shared** with family and friends, from the website.
- You can book cruises, flights, activities and car rentals
  all at the same website!
- It offers **payment options** with financing.
- **Up to 10 years traveling,** if you want.

As of now, our clients will enjoy the power and control of traveling where they want, when they want!

*one, Gamma, Fiesta Inn, Fiesta Americana, Grand Fiesta Americana, Live Aqua.

COMMAND CENTER

The main goal of our Command Center this year was to optimize our brand communications and promote more innovative content.

We channeled all our energies through Social Studio, a tool that has helped shed more light on user sentiment and enabled us to respond to crises in real time with the aid of buzz monitoring.

Towards the end of the year, we began segmenting and classifying digital tribes so we can follow users at all social points until such efforts lead to e-commerce purchases. We will now know which tribe has the greatest purchase intention and will thus be able to fine-tune our strategies, targeting them.

We have also standardized best practices in terms of segmentation, campaigns, publication times, content formats and tools, because every agency and our various internal areas are now able to share opinions and pool efforts, making them much more productive.

The result of this joint effort has been greater customer loyalty, while our e-commerce attribution model has revealed which social media channels are the most effective when it comes to marketing our brands.

OPTIMIZING COMMUNICATION OF OUR BRANDS WITH INNOVATIVE CONTENT.

Distribution and CRM

In 2017, we set another record in terms of the number of bookings processed by our distribution suite, over 3.3 million in the year (10% growth over 2016), meaning more than six bookings a minute. Aside from the volume of bookings, revenues generated by them grew more than 25% as a result of the strategies implemented by our revenue management team. We managed to maintain a healthy mix of bookings via our internal and external channels (67% vs. 33%, respectively) and continue to upgrade our platforms so as to maintain our competitive edge, improve cost per booking and ensure increasingly greater profitability as a result of scaling. In 2017, we were able to keep our global distribution cost under $8 USD per booking, including commissions. We also managed to position our resort website "La Colección" in the US market by including user-generated digital content and making improvements to the site and its usability.

In 2017, we continued optimizing processes, tools and data security at our Konexo contact center and were recertified in PCI DSS and COPC, which are the highest levels of certification granted to contact centers worldwide. We were also the only contact center to be granted MG CIC certification— which now features a chapter on personal information certification in partnership with INAI— by the Mexican Institute of Teleservices (IMT).

3.3 *MILLION*

BOOKING RECORD, UP 10% FROM 2016 EQUAL TO 25% MORE REVENUE.

Likewise, we forged ahead with the digital transformation of our CRM area, implementing projects to improve the customer experience (CX) and automated service tools to guarantee timely follow-up and centralization of specific cases so we have a 360-degree perspective of our customers. These efforts have helped lay the groundwork for a Master Data Management (MDM) center that will enable us to build a unique, centralized knowledge base on every consumer of our products and services and capitalize on the intrinsic value of data.

Social media data and interactions with our customers were incorporated into our marketing campaigns, with a view to personalizing their experience on our web and voice channels even before their stay with us. Regarding our Digital Command Center for monitoring all conversations with our customers on social media, this continues to mature, facilitating the task of measuring digital interactions with users in real time, so we can identify service, information, crisis management and sales opportunity cases.

Vacation Properties

PROVAC

Mexico's vacation properties market met with its fair share of challenges in 2017, but it also came across opportunities and learned some valuable lessons.

The industry continues to grow, with Mexico accounting for 20% of the US$20 billion the global market generates. Posadas® has specialized in the domestic market, where Mexicans represent 25% of sales and foreigners 75%, and where we accounted for no less than 86% of total sales in 2017! Impressive, right?

Mexico is the eighth most visited country in the world. Its main tourist destinations are the beach areas of Cancun, the Riviera Maya, Los Cabos, Puerto Vallarta and the Riviera Nayarit, which represent 75% of membership sales, with the rest of the country accounting for the remaining 25%. Cancun is our leading destination in terms of vacation property sales.

We are fully committed to improving the satisfaction of our 70,000-plus customers, partners and travelers, and continue expanding and innovating in an effort to reach more and more people and places. In 2017 alone, we invested over 90 million pesos in upgrades to eight of our hotels, launched a new product and opened Live Aqua Private Residences Los Cabos.

Our products

Trends in the hospitality industry are favorable, both in the business and leisure segments. That is why we have focused our efforts on developing a portfolio of specific vacation property products to satisfy the needs of travelers with very different profiles, both Mexican and foreign:

Live Aqua Residence Club

"EVERYTHING WAS GREAT AND THIS TIME, MY GUEST JOINED THE LIVE AQUA FAMILY, TOO."

—Adrián Brígido

The perfect private club for those who appreciate authenticity and the most exclusive of destinations. Aimed at cosmopolitan pleasure-seekers in the ***AB socioeconomic level***, with high purchasing power and who:

- Look for inspiring, charming, chic atmospheres
- Like to be pampered with novel details
- Tend to be interested in learning about the local culture

Results:

- Opening of Live Aqua Private Residences Los Cabos
- 9 out of every 10 members said they were satisfied
- Launch of new website
- 22% membership increase over 2016

Fiesta Americana Vacation Club

"WE'VE BEEN MEMBERS FOR FIVE YEARS. THE ATTENTION, SERVICE, EFFICIENCY AND FOOD ALWAYS SURPASS OUR EXPECTATIONS. YOU DON'T HAVE TO WORRY ABOUT ANYTHING, AND POINTS MAKE IT A LOT EASIER, BECAUSE YOU HAVE MORE OPTIONS AND ADVANTAGES. WE WOULDN'T CHANGE FIESTA AMERICANA VACATION CLUB FOR ANYTHING."

—Castañeda Family

Fiesta Americana Vacation Club promises Mexican and foreign families memorable vacations and countless benefits in a wide range of destinations:

- Leisure and/or business travelers who like to feel welcome and who are used to personalized services
- Business travelers who extend their trips for vacation purposes— "*Bleisure*", a new way of traveling

Results:

- Sales were up 5.6% compared to 2016
- Launch of a new and improved website
- Simplified membership to facilitate use and include more travel options
- Renovation of seven hotels

KÍVAC

“WE’VE BEEN TREATED VERY WELL AT THE HOTELS WE’VE BOOKED AT. EXCELLENT SERVICE.”

— Reyna Rosas

The prepaid vacation plan aimed at middle-class families who want to stay at four- and five-star hotels.

Results:

- 40,000 active members, 54% traveled during the year
- 14,700 new members in 2017, +3% compared to 2016
- Over 160,000 room nights booked using Kívac points (+16% compared to 2016) at more than 200 hotels, 51% of which were city hotels and 49% beach properties

Digital:

Web traffic: 2.1 million one-time visits

Facebook scope: + 4 million people

Re_set Launch

Re_set is our most recent launch. This “exclusive discount plan” gives families and groups of friends the freedom to travel more often and whenever they choose, in Mexico and abroad.

Born from a need to connect with new consumers and lifestyles, Re_set is our response to market trends and technological progress—a new product with a new outlook and a more profitable business model for the company.

Re_set targets seasoned travelers and online research experts who like to make their own decisions, primarily couples and groups of friends in the 35-45 age bracket with a C+ socioeconomic level.

We’re ready: What’s next?

There can be no denying 2017 was a challenging year. Mexico was ravaged by hurricanes, earthquakes and floods, yet we held firmly onto our position as the country’s largest operator! Our Vacation Properties division is the second-largest generator of room nights in the Posadas® system (8% growth compared to 2016), outsold only by Expedia.

Plus we managed to reach our goals for the year:

- Sales were up 6% compared to 2016
- Membership increased 7% over 2016

DESIGN: Arterisco | designcenter ™

Innovation

ANNUAL REPORT 2017

POSADAS.COM

Com mu nity

ANNUAL
REPORT 2017

POSADAS®

Beyond simply following others, Posadas® forges its own path toward social responsibility and commitment.

Social Responsibility

Getting involved and benefitting others are lines of work that turn into core initiatives for the Posadas® business strategy. By getting our employees, suppliers, guests, local communities and authorities involved, we benefit current and future generations. To do that, we rely on our social responsibility practices that span every sphere: economic, social and environmental, engaging our partners as both, employees and human beings, in other words, both inside the company and beyond.

AWARDS

Due to our work and business practices, in 2017, we were named a **Socially Responsible Company** for the fifth year in a row.

We also achieved the **Great Place to Work** distinction, placing us among the top 10 companies in Mexico.

SOCIAL COMMITMENT

In the **social realm**, we took steps to implement the **National Code of Conduct for the Protection of Girls, Boys and Teens, in the Travel and Tourism Sector.**

To accomplish that, the following initiatives were launched:

- Clearly stating **our commitment** to opposing sexual and labor exploitation of girls, boys and teens in core company documents (Ethics Code, Fundación Posadas® Internal Regulations and Policy).
- Increasing awareness and training all personnel in **100% of Posadas®** hotels.
- Implementing **an action plan** to ensure that our employees know how to respond in presumable cases of sexual and labor exploitation of girls, boys and teens.
- Forming **collaborative networks with other institutions** to prevent, evaluate and report risk cases.
- **Informing** our guests and making sure that our suppliers also state their commitment to oppose labor exploitation of girls, boys and teens.

Thanks to all the actions targeting Social Responsibility, *Forbes* magazine ranked Posadas® number 29 on its 2017 list of most Charitable Companies.

DUE TO OUR WORK AND BUSINESS PRACTICES, IN 2017, WE WERE NAMED A SOCIALLY RESPONSIBLE COMPANY FOR THE FIFTH YEAR IN A ROW.

2,800

AT-RISK INDIVIDUALS
HELPED

16,000

TREES PLANTED

280

HEALTH BENEFICIARIES
SUPPORTED BY FUNDACION POSADAS®

561

SCHOLARSHIPS AWARDED TO CHILDREN AND TEENAGERS FROM LOW-INCOME HOUSEHOLDS

100

FOOD BASKETS DONATED TO FAMILIES AFFECTED BY THE TROPICAL STORM IN LOS CABOS

Awards

- **SOCIALLY RESPONSIBLE COMPANY** IN 2017
- GREAT PLACE TO WORK
- GILBERTO RINCÓN GALLARDO INCLUSIVE COMPANY **AWARD**
- AWARDS FOR **GREEN INITIATIVES**

QUALITY OF LIFE

In the personal and business realm, we have continued to strive to improve quality of life in the company, as we have done every year. The following initiatives target this area:

- Training and personnel development: achieved through programs that focus on topics of sustainability and professional growth opportunities
- A feeling of belonging and teamwork: an ongoing endeavor
- Healthy work practices: made possible by fostering a clean and safe work environment.
- A culture based on a positive work environment and values, promoted at all levels.
- Promoting family-work balance among our employees, an aspect we do not ignore.
- **Gilberto Rincón Gallardo Inclusive Company Award**: a distinction for practices of respect and inclusion for everyone in our hotels, sales rooms and offices.
- Comprehensive wellness programs for our employees: the Vive Salud program helps care for our employees' health and productivity.
- Escuela de Posadas® Service School: a cornerstone that continues to produce experiences for our guests and is central to employee development.

COMMUNITY INVOLVEMENT

Fundación Posadas® made efforts to contribute to development in Mexico and improve the quality of life for at-risk individuals, especially in terms of health, education, housing construction and support to disaster victims.

The Foundation has a national scope, with operational capacity and presence in 30 states throughout the country, in addition to Mexico City.

“THIS YEAR, WITH 2,800 VOLUNTEERS PARTICIPATING, WE WERE ABLE TO *ASSIST MORE THAN 9,000 AT-RISK INDIVIDUALS.*”

HEALTH

In 2017, more than 280 patients were cared for with Fundación Posadas® support. We are involved in the following areas:

- Financing of critical and urgent surgeries and treatments for people who do not normally receive timely healthcare.
- 1,500 hours of therapy annually for children affected by an illness or disability.
- Low-cost eye exams, vision tests and eyeglasses through the program "Para Verte Mejor" (The Better to See You With).
- Detection of cases of hearing problems and medical consultation, tests and hearing aids through the program "Hoy Escucho Mejor" (I Hear Better Today).

EDUCATION

In 2017, Fundación Posadas® granted full scholarships to 561 underprivileged children and teenagers. Two of them earned college degrees. Plus, thanks to the program "Una Oportunidad para Estudiar" (A Chance to Study), 87 adults were able to finish high school.

SUPPORT FOR FAMILIES AFFECTED BY DISASTERS

Following the earthquakes and natural disasters that devastated numerous areas of the country, Fundación Posadas® took action.

In the aftermath of tropical storm Lidia, in Los Cabos, and the September 7 and 19 earthquakes in Mexico City, Mexico State, Morelos, Oaxaca, Puebla and Veracruz, we helped with property damage inspections, construction materials, household goods, and specifically in Los Cabos, food baskets for 100 families affected by the tropical storm.

VOLUNTEERISM

For the first time, the scope of the volunteerism program now covers the entire country. With **2,800 volunteers** participating, we were able to assist more than **9,000 at-risk individuals.**

We have made visits to orphanages, hospitals, schools, nursing homes, food banks and communities.

Among the activities carried out were:

- Deep cleaning, outdoor and indoor painting, improving facilities
- Appliance repairs (refrigerators, microwaves, stoves, blenders) at orphanages and nursing homes
- Food and clothing distribution
- Ground preparation and grass planting outdoors
- Painting and cooking classes, reading groups, remedial classes for disabled children

Another aspect of the volunteerism program was the reforestation project in Huixquilucan, Mexico State, carried out jointly with Fundación Grupo México. Together, we planted 16,000 trees.

FURTHER EFFORTS INCLUDED PROMOTING GUEST PARTICIPATION, THROUGH CASH DONATIONS, TO FURTHER THE WORK FUNDACIÓN POSADAS® IS DOING TO BUILD A BRIGHTER FUTURE FOR MEXICAN FAMILIES.

OTHER PROGRAMS

We have designed other programs to have a positive impact on our natural and social surroundings.

With the "Sustainable Communities" program that provides training for social endeavors that help families at risk, and jointly with Fundación ADO, FUNDEMEX and Natura, A.C., staff were trained at the Lacandona Jungle in the state of Chiapas. Thirty-four local families benefited by acquiring hotel and administration skills that they can now take back and apply to their own companies.

The program "Cumpliendo Sueños" (Fulfilling Dreams) made it possible to take 6 seriously ill children to see the ocean.

Fundación Posadas® has further helped some 4,000,000 people through its collaboration with 36 other foundations. We have donated over 600 hotel room nights and more than 3,800 items, such as linens, office furniture, dishes and glasses, that are no longer being used in hotels in the chain.

ALLIANCES FOR MEXICO

With the aim of having a greater impact on the development of the country, Fundación Posadas® continues its membership in the Network of Company Foundations and the AMEXCID Sustainability Alliance.

ENVIRONMENTAL CARE AND CONSERVATION

The sustainable tourism model Posadas® follows has enabled us to position ourselves as a leader in the environmental field.

The base tools include construction and operation manuals, which, in turn, determine the use of materials, finishes, high-tech equipment and facilities, as well as administrative and operational procedures. All of this minimizes the impact on the natural and

Thanks to all the actions targeting Social Responsibility, *Forbes magazine ranked Posadas® number 29 on its 2017 list of Charitable Companies.*

Posadas® is a socially *responsible company:*

- SOCIALLY COMMITTED TO THE PROTECTION OF **GIRLS, BOYS AND TEENAGERS**
- **QUALITY OF LIFE** IN THE COMPANY
- **LINKS TO THE COMMUNITY:**
- NATURAL DISASTER RELIEF
- SUPPORT FOR HEALTH PROGRAMS
- SCHOLARSHIPS
- VOLUNTEERS
- CONCERN FOR THE ENVIRONMENT

POSADAS® HAS FURTHER HELPED SOME

4 MILLION *PEOPLE*

THROUGH ITS COLLABORATION WITH 36 OTHER FOUNDATIONS.

THE SUSTAINABLE TOURISM MODEL POSADAS® FOLLOWS HAS ENABLED US TO POSITION OURSELVES AS A LEADER IN THE ENVIRONMENTAL FIELD.

social setting and enables us to move forward with environmental protection and care.

Posadas® signed an agreement with the federal environmental protection agency Profepa to work jointly to obtain certification in the category of "Environmental Tourism Quality". For certification, federal, state and local laws, policies and standards must be implemented, as well as several means of control and evaluation of processes, including tracking fossil fuel, electricity, gas and water consumption. Likewise, an inventory of greenhouse gases must be submitted to the National Emissions Registry.

GREEN HOTELS

Some of the green initiatives in our hotels are:

- Upgrading of the facilities.
- Temporary storage of organic and inorganic waste, training, regulation signage, collection and final disposal authorized by Mexico's Ministry of Environment and Natural Resources (SEMARNAT).
- Temporary storage of hazardous waste, regulation signage, training, collection and SEMARNAT-authorized final disposal.
- Temporary storage of chemical products and solvents, regulation signage and training.
- Collection and final disposal of used vegetable oil to manufacture biodiesel.
- Water-saving units in showers and sinks; conversion to high-efficiency toilets and dry urinals.
- LED lighting in public and service areas.
- Air conditioning systems that use environmentally-friendly coolants.
- High-efficiency, low-NOX emissions water heaters.

RECOGNITION FOR GREEN INITIATIVES:

- Environmental Tourism Quality (certificate issued by PROFEPA)
- Green Key environmental certification (international certificate)
- Water Sustainable Hotel (distinction granted by Fundación Helvex)
- Environmental Leadership for Competitiveness (awarded by SEMARNAT)
- S Award (given by PROFEPA and the Ministry of Tourism)
- Fire protection, alarm and detection equipment (certificate issued by the maintenance company)
- Company public safety program (accredited by Protección Civil, the public safety ministry)

The Explorean Cozumel by Fiesta Americana

DESIGN: Arterisco | designcenter ™

Community

ANNUAL REPORT 2017

POSADAS.COM

Re
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ANNUAL
REPORT 2017

POSADAS®

Growth and favorable trends: that was Posadas® in 2017.

Grand Fiesta Americana Monterrey Valle

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

OPINION

We have audited the accompanying consolidated financial statements of Grupo Posadas®, S.A.B. de C.V. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017, 2016 and 2015, and the consolidated statements of comprehensive (loss) income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Posadas®, S.A.B. de C.V and Subsidiaries (the Entity) as of December 31 2017, 2016 and 2015, and their consolidated financial performance and their consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgment, have been of most significance in our audit of the consolidated financial statements for the year 2017. These matters were selected from those communicated with the Entity's Management and the Audit Committee, but do not pretend to represent all the matters discussed with them. Our audit procedures related to these matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Our opinion on the consolidated financial statements is not modified with respect to any of the Key Audit Matters described below.

KEY AUDIT MATTER

REVENUES FROM VACATION CLUB

Revenues generated from Vacation Club operations represent approximately one third of the Entity's consolidated revenues.

Under International Accounting Standard 18 Revenues, revenues from the sale of Vacation Club memberships and of Kívac points must be recognized when all of the following conditions are fulfilled:

- **i.** the significant risks and benefits derived from the use of the goods or services are transferred;
- **ii.** the services have been rendered;
- **iii.** the amount of the revenues can be reliably measured;
- **iv.** it is probable that the economic benefits associated with the operation will be received; and
- **v.** the costs related to the operation can be reliably measured.

AUDIT PROCEDURES PERFORMED

The audit tests applied to revenues generated from these services were significant for our audit because the business processes are complex and highly dependent on system generated reports, which should be reconciled to the accounting records. As a result, our audit procedures included, among others:

- **i.** review of the design and implementation and operating effectiveness tests of the internal controls and substantive tests of the report issued by the system and supports the recording of income of the operation of Vacation Club;
- **ii.** documentation review, based on random sampling, of the integrity of the contracts signed with customers;
- **iii.** analysis and review of the assumptions and methodologies used by the Entity to receive the minimum payments which guarantee that the collection is reasonably assured;
- **iv.** review of hotel operation reports which support the amount of the services contracted and collected, recognized as revenues when rendered to the customers, with their respective costs and expenses; and
- **v.** review and evaluation of historical information on the amount of services contracted and collected, which have not been used before their expiration.

Our work also included reviewing the adequacy of the Entity's disclosures on the accounting assumptions and policies for revenue recognition of the Vacation Club business, which are included in Note 4t to the accompanying consolidated financial statements.

KEY AUDIT MATTER

VACATION CLUB RESERVE FOR REFUNDS

The amount of this reserve represents approximately 7% of the total current and long-term Vacation Club notes receivable, which are presented in the consolidated statement of financial position.

Given the specific nature of the operation of the Vacation Club business, the Entity has implemented a process for the analysis and calculation of the reserve to evaluate and determine the amount of this reserve. Therefore, the evaluation of its sufficiency was significant for our audit.

As a supplement to this key audit matter, the Entity analyzes transactions to identify revenues, which recoverability is uncertain. This implies that the amounts shown as Notes Receivable from Vacation Club on the consolidated statement of financial position might not be recoverable.

The amount recognized as the reserve is the best estimate on the Vacation Club inventory returns of the members who would not meet their contractual payment obligations, for which, the probability of default for all notes receivable is considered, regardless of their aging.

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

AUDIT PROCEDURES PERFORMED

We analyzed with the Entity's Management the methodology used to determine the amount of the reserve, its consistent application with previous years and the support for the variables used in the calculation model, we discussed it with the Audit Committee members and found that the use of the model is appropriate.

Our audit procedures also included, among others:

- **i.** tests of the Entity's controls related to the information used within the model, and used to determine the balance of the reserve;
- **ii.** analysis of balances related to the sufficiency of the reserve in previous years;
- **iii.** review of the classification of the portfolio aging based on payment defaults, and the recalculation of the amounts to be reserved based on probability default;
- **iv.** evidence of new operating strategies and those communicated to members in order to support the restructuring and recovery of overdue portfolio or about to expire; and
- **v.** confirmation that the assumptions used by Management in the calculation and determination of the reserve reflect the business strategies aimed to recover the Vacation Club inventory due to defaults which have occurred or are expected to be incurred by members to pay their debts.

KEY AUDIT MATTER

TAX LIABILITIES

In its regular course of operations, the Entity is engaged in different lawsuits. The International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets establishes the steps to follow to evaluate and if applicable, to determine the monetary effect and the necessary disclosures to include in the consolidated financial statements. Therefore Management has recorded liabilities and has determined reserves to cover these tax liabilities and contingencies.

With respect to the main tax contingencies in effect at the 2016 year end close, in April 2017, a series of agreements were reached with the Tax Administration Service (SAT) to resolve differences of criterion concerning the amortization of trademarks, the deduction of interest derived from the acquisition of those trademarks, the tax treatment given to real estate investment funds, the amortization of usufruct rights and, more specifically, the effects generated by the termination of the tax consolidation regime, which resulted in the recognition of a payment obligation in different years, primarily income taxes, for a total amount of $2.376 billion pesos.

The Entity's accounting policy to record liabilities and provisions, and disclose tax liabilities are included in Notes 4r, 17 and 26, respectively, to the accompanying consolidated financial statements.

AUDIT PROCEDURES PERFORMED

Given the significance of the amounts resulting from the agreements reached during 2017 with SAT and the effect on income for the year, our audit procedures included the following:

- **i.** we involved our tax experts in the analysis of the legal documents related to the conclusion of the lawsuit and the conclusive agreement supporting the amounts recorded in results and as liability in the consolidated financial statements of the year;
- **ii.** obtained written confirmations from the outside attorneys responsible for advising the Entity in its lawsuit against tax credits determined by the tax authorities, to ascertain their opinion on the current status of the proceeding not covered by the agreements;
- **iii.** held meetings with the Entity's Tax Department in order to understand and confirm the status of the lawsuit, and;
- **iv.** evaluated the reasonableness of the sufficiency of the reserve recorded in the long-term accrued liabilities caption in the accompanying consolidated statement of financial position, to cover possible adverse lawsuits outcome.

KEY AUDIT MATTER

DEFERRED INCOME TAXES

As explained in Note 4q to the consolidated financial statements, the Entity recognizes deferred income taxes for all the differences between the carrying values and the tax bases of its assets and liabilities, and the benefits of tax loss carryforwards are taken into account.

As of December, 31, 2017 the amount of tax loss carryforwards is $6,925,639,000, which represents a deferred income tax benefit of $2,077,692,000 and may be applied as long as the individual entities which incurred them, generate in the future sufficient taxable income before the aforementioned tax losses expire.

International Accounting Standard 12 Taxes on Income, requires that the carrying value of a deferred tax asset be subjected to review and must be reduced when it is considered likely that there will not be sufficient taxable income to enable all or part of the asset to be recovered. Therefore, as of December 31, 2017, the Entity has not recognized a benefit of $49,685,000 for the uncertainty related to the realization of this asset.

AUDIT PROCEDURES PERFORMED

A change in assumptions and conditions on the recovery of tax losses might originate a material effect in the amount of the deferred income tax benefit recorded in the consolidated financial statements. Therefore, the test of the estimate was significant for our audit because the evaluation process is complex and is based on assumptions which are affected by future expectations from hotel operation results and from proper execution of the corporate restructuring.

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

- **i.** evaluate and challenge the assumptions and methodologies used by the Entity;
- **ii.** analysis of individual entities' trend of their tax results from previous years;
- **iii.** review the financial and tax projections to determine if the generation of taxable income in the future will enable the tax losses to be recovered before they expire, and
- **iv.** review the progress achieved in the corporate restructuring process.

We believe that the Entity's disclosures in relation to the main captions originating the deferred income tax balances are appropriate in Note 16 to the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE DOCUMENT CONTAINING THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to the Entity's going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise our professional judgment and maintain an attitude of professional skepticism throughout the audit. We also:

- Identify and assess the risks of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement because of fraud is higher than for one resulting from material misstatement because of an error, as fraud may involve collusion, forgery, intentional omissions, Intentional misstatements, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies applied and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the global presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient and appropriate audit evidence about the Entity's financial information and its business activities to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We continue to be solely responsible for our audit opinion.

We communicate with Entity's Management and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

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

Galaz, Yamazaki, Ruiz Urquiza, S.C.

Member of Deloitte Touche Tohmatsu Limited

C.P.C. Fernando Loera Aguilar

March 5, 2018

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2017, 2016 AND 2015

(In thousands of Mexican pesos)

ASSETS	Notes	2017	2016	2015
CURRENT ASSETS:				
Cash and cash equivalents	6	$ 1,383,584	$ 1,320,097	$ 763,810
Investments in securities	7		450,000	450,000
Accounts and notes receivable - Net	8	2,704,284	2,735,222	2,496,491
Inventories		24,480	24,507	33,750
Prepaid expenses		83,196	51,808	99,619
Vacation Club inventory	9	264,979	153,277	198,485
Other current assets		112,998	63,692	62,085
Assets classified as held for sale	2	1,481,530	64,531	59,184
Total current assets		6,055,051	4,863,134	4,163,424
NON-CURRENT ASSETS:				
Property and equipment committed for sale	10	307,714	-	-
Long-term notes receivable	11	2,779,005	2,231,275	2,285,534
Vacation Club inventory in construction		104,112	151,480	22,745
Property and equipment - Net	12	4,601,178	6,483,129	6,666,479
Prepaid expenses		119,561	40,521	59,178
Investment in associates		226,129	1,129	1,129
Intangible assets and other assets	13	725,370	641,184	404,920
Deferred tax assets	16	1,615,471	658,518	173,554
Total non-current assets		10,478,540	10,207,236	9,613,539
TOTAL ASSETS		$ 16,533,591	$ 15,070,370	$ 13,776,963

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	2017	2016	2015
CURRENT LIABILITIES:				
Current portion of long-term debt	15	$ 11,232	$ 472	$ 1,399
Trade accounts payable	14	436,100	497,753	438,432
Other liabilities and accrued expenses		1,247,588	1,061,833	1,032,469
Income tax payable	16	321,684	362,454	240,885
Other tax payable		294,303	-	-
Deferred income from Vacation Club		508,910	435,627	253,639
Current portion of long-term value-added tax		111,899	134,955	95,726
Liabilities directly associated with assets classified as held for sale	2	-	7,200	6,384
Total current liabilities		2,931,716	2,500,294	2,068,934
LONG-TERM LIABILITIES:				
Debt	15	7,768,483	7,871,765	6,242,282
Accrued liabilities	17	490,156	459,676	504,534
Value-added tax payable		394,074	318,954	319,932
Deferred income from Vacation Club		918,687	840,307	703,538
Liabilities directly associated with property and equipment committed for sale	10	6,330	-	-
Income tax payable	16	1,601,193	151,097	310,240
Total long-term liabilities		11,178,923	9,641,799	8,080,526
TOTAL LIABILITIES		$ 14,110,639	$ 12,142,093	$ 10,149,460
STOCKHOLDERS' EQUITY:				
CONTRIBUTED CAPITAL:				
Capital stock	21	495,881	495,881	495,881
Contributions for future capital increases		-	704	4,828
Share repurchase reserve		16,856	16,856	16,856
Additional paid-in capital		157,429	157,429	157,429
		$ 670,166	$ 670,870	$ 674,994
EARNED CAPITAL:				
Share repurchase reserve		535,000	535,000	535,556
Retained earnings		983,611	1,467,516	2,172,779
Retained comprehensive earnings		51,581	62,945	47,424
		$ 1,570,192	$ 2,065,461	$ 2,755,759
TOTAL CONTROLLING INTEREST		2,240,358	2,736,331	3,430,753
Non-controlling interest		182,594	191,946	196,750
Total stockholders' equity		2,422,952	2,928,277	196,750
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 16,533,591	$ 15,070,370	$ 13,776,963

See accompanying notes to consolidated financial statements.

GRUPO POSADAS®, S. A. B. DE C. V. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(In thousands of Mexican pesos, except (loss) earnings per share)

CONTINUING OPERATIONS	Notes	2017	2016	2015
Revenue	22	$ 8,906,990	$ 7,979,349	$ 6,901,221
Cost of sales	22	5,346,489	4,538,947	4,101,783
Gross profit		3,560,501	3,440,402	2,799,438
Administrative expenses	22	1,105,068	982,304	884,090
Sale and development expenses	22	272,308	252,243	166,250
Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets		906,225	1,040,475	801,646
Other expenses, net		55,262	110,921	145
Interest expense		641,173	643,592	508,840
Interest income		(60,399)	(46,802)	(34,457)
Commissions and financial expenses		147,657	93,474	100,080
Exchange (gain) loss, net		(296,806)	1,234,444	708,553
Equity in losses of associates		–	–	750
		$ 2,770,488	$ 4,310,651	$ 3,135,897
Income (loss) before income tax		790,013	(870,249)	(336,459)
Income tax expense (benefit)	16	1,262,607	(174,349)	131,334
Loss from continuing operations		(472,594)	(695,900)	(467,793)
DISCONTINUED OPERATIONS				
Loss from discontinued operations		–	(1,279)	(2,612)
Consolidated loss for the year		(472,594)	(697,179)	(470,405)
Other comprehensive income (loss)				
(Loss) income on exchange differences from translating foreign operations, which will be reclassified subsequently to profit or loss		(3,195)	32,195	7,516
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss		(11,670)	(23,820)	18,091
Income taxes		3,501	7,146	(5,427)
		(11,364)	15,521	20,180
Consolidated comprehensive loss for the year		$ (483,958)	$ (681,658)	$ (450,225)

See accompanying notes to consolidated financial statements.

	2017	2016	2015
CONSOLIDATED LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Controlling interest	$ (483,905)	$ (705,819)	$ (470,208)
Non-controlling interest	11,311	8,640	(197)
Consolidated loss for the year	$ (472,594)	$ (697,179)	$ (470,405)
CONSOLIDATED COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Controlling interest	$ (495,269)	$ (690,298)	$ (450,028)
Non-controlling interest	11,311	8,640	(197)
Consolidated comprehensive loss for the year	$ (483,958)	$ (681,658)	$ (450,225)
LOSS PER SHARE:			
From continuing and discontinued operations –			
Basic and diluted loss per common share (in pesos)	$ (0.98)	$ (1.42)	$ (0.95)
From continuing operations –			
Basic and diluted loss per common share (in pesos)	$ (0.98)	$ (1.42)	$ (0.94)
WEIGHTED AVERAGE NUMBER OF SHARES	495,881,988	495,881,988	495,929,856

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

(In thousands of Mexican pesos)

	CONTRIBUTED CAPITAL				EARNED CAPITAL				
	Capital stock	Contributions for future capital increases	Shares repurchase reserve	Additional paid-in capital	Shares repurchase reserve	Retained earnings	Other items of comprehensive income	Non-controlling interest	Total stockholders' equity
BEGINNING BALANCE, 2015	$ 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
Repurchase of shares	–	–	–	–	(556)	556	–	–	–
Partial payment of convertible debt	–	(4,124)	–	–	–	–	–	–	(4,124)
Change in the value of non-controlling interest	–	–	–	–	–	–	–	(13,444)	(13,444)
Consolidated comprehensive loss	–	–	–	–	–	(705,819)	15,521	8,640	(681,658)
BALANCE AS OF DECEMBER 31, 2016	495,881	704	16,856	157,429	535,000	1,467,516	62,945	191,946	2,928,277
Dividends paid to non-controlling interest	–	–	–	–	–	–	–	(19,188)	(19,188)
Payment of convertible debt	–	(704)	–	–	–	–	–	–	(704)
Change in the value of non-controlling interest	–	–	–	–	–	–	–	(1,475)	(1,475)
Consolidated comprehensive loss	–	–	–	–	–	(483,905)	(11,364)	11,311	(483,958)
BALANCE AS OF DECEMBER 31, 2017	$ 495,881	$ -	$ 16,856	$ 157,429	$ 535,000	$ 983,611	$ 51,581	$ 182,594	$ 2,422,952

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, 2017, 2016 AND 2015

(In thousands of Mexican pesos)

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Consolidated loss for the year	$ (472,594)	$ (697,179)	$ (470,405)
Adjustments for:			
Income tax expense (benefit)	1,262,607	(174,349)	131,334
Depreciation, amortization, cost of disposal and asset impairment	430,635	595,350	414,677
Amortization of debt issue expenses	72,097	72,642	49,985
Equity in associates	-	-	750
Income on sale of strategic fixed assets	(103,017)	(108,374)	-
(Income) loss on sale of fixed assets	(2,439)	(11,754)	88,134
Interest expense	641,173	643,592	508,840
Interest income	(60,399)	(46,802)	(34,457)
Unrealized foreign exchange (income) loss	**(371,912)**	**1,439,926**	**932,462**
	1,396,151	1,713,052	1,621,320

	2017	2016	2015
TRANSACTIONS IN WORKING CAPITAL:			
Accounts and notes receivable – Net	(533,807)	(189,819)	(442,161)
Inventories	339	9,243	318
Prepaid expenses	(57,439)	52,980	(25,486)
Vacation Club inventory	(138,737)	45,208	88,483
Trade accounts payable	(61,653)	59,321	38,331
Other liabilities and accrued expenses	440,160	(46,543)	484,463
Vacation Club deferred income	151,663	318,757	382,497
Payment of income taxes	(816,208)	(218,829)	(466,581)
Net cash generated by operating activities	**380,469**	**1,743,370**	**1,681,184**

	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(400,535)	(573,995)	(600,573)
Vacation Club inventory in construction	(67,818)	(128,734)	(11,827)
Intangible assets and other assets	(131,634)	(202,893)	(184,766)
Investments in securities	450,000	-	69,073
Contributions of investment in associates	(225,000)	-	-
Interest collected	60,399	46,802	33,066
Sale of property and equipment	6,983	15,632	5,664
Cash flows from sales of non-strategic properties	435,000	245,000	-
Net cash generated by (used in) investing activities	**127,395**	**(598,188)**	**(689,363)**

	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received from debt issuance	-	922,635	1,219,441
Cash received from debt contracting	210,000	-	-
Loan payments	-	(793,667)	(1,542,844)
Interest paid	(631,779)	(687,315)	(573,282)
Debt issuance costs	(2,706)	(26,424)	(359,274)
Partial payment of convertible debt	(704)	(4,124)	(7,688)
Repurchase of shares	-	-	(2,044)
Non-controlling interest dividends paid	**(19,188)**	**-**	**-**
Net cash used in financing activities	**(444,377)**	**(588,895)**	**(1,265,691)**
Net increase (decrease) in cash and cash equivalents	63,487	556,287	(273,870)
Cash and cash equivalents at the beginning of the year	1,320,097	763,810	997,792
Effects of exchange rate changes of cash held in foreign currencies	**-**	**-**	**39,888**
Cash and cash equivalents at the end of the year	**$ 1,383,584**	**$ 1,320,097**	**$ 763,810**

See accompanying notes to consolidated financial statements.

GRUPO POSADAS®, S. A. B. DE C. V. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(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 Live Aqua, Grand Fiesta Americana, Fiesta Americana, The Explorean, Fiesta Inn, Fiesta Inn Loft, One Hotels and Gamma brands.

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

HOTELS	2017	2016	2015
Owned	14	15	17
Leased	14	13	14
Managed (including lofts)	134	124	110
Total hotels operated	162	152	141
Total rooms operated	25,608	24,324	23,259

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

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

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

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

The 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. Issuance of "Senior Notes 2022" and prepayment of "Senior Notes 2017"

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

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

b. Sales of non-strategic assets

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

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

c. **Assets available for sale**

Fiesta Americana Condesa Cancún - In August 2017, the Entity executed a purchase-sale contract subject to certain precedent conditions for the sale of the Fiesta Americana Condesa Cancún hotel to FibraHotel. The sales' price will be $2,892,000. These precedent conditions are: (i) the approval of the transaction by the Entity's Stockholders Meeting and of the Holders of FibraHotel; (ii) the successful issuance of the FibraHotel's Real Estate Fiduciary Securitization Certificates; and (iii) a favorable ruling of the Federal Economic Competition Commission regarding the transaction. The purchase-sale will take effect once the precedent conditions have been fulfilled and the transaction is formalized in the State of Quintana Roo Public Property Registry. The Entity estimates that this will occur during the first quarter of 2018. Consequently, the value of the hotel is presented as short-term as "assets classified as held for-sale" in the consolidated statements of financial position. The Entity and FibraHotel will each invest approximately $60,000 to renovate public areas during 2017 and 2018 (see Note 27a).

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

Hotel Ramada - At the date of the consolidated financial statements, the Entity is engaged in active negotiations with different investors through the broker Avison & Young for the sale of the "Ramada Plaza" hotel in Laredo, Texas, USA. The Entity has received different proposals for this property, and is in the process of analysis in order to close the transaction.

As the accounting criteria determined for assets available-for-sale were fulfilled at December 31, 2014. From that date until 2016, the hotel building, equipment and liabilities included in the sale were classified as short-term as "assets classified as held for sale" and "liabilities directly associated with assets classified as held for sale", respectively, in the consolidated statements of financial position. As of December 31, 2017, these amounts are presented as long-term "property and equipment committed for sale".

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.

Fiesta Americana Hacienda Galindo - In June 2017, the Entity leased the Fiesta Americana Hacienda Galindo hotel located in the State of Querétaro to FibraHotel. The hotel has 168 rooms and was remodeled in different stages during 2017 with an investment made by FibraHotel of $130,000. The Entity simultaneously agreed to sell this hotel and its contents, subject to the deadline and other conditions that must be fulfilled no later than December 2019, the date on which the transaction price will be determined based on an amount equal to 10.06 times EBITDA generated by the hotel during 2019 and after deducting the investment made by FibraHotel. The value of the hotel and its contents are therefore presented as long term as "property and equipment committed for sale" in the consolidated statements of financial position. During the lease period and following the closing of the purchase-sale, the Entity will continue to operate the hotel under the terms of a hotel and trademark licensing agreement executed for a total of 22.5 years.

Fiesta Americana Hermosillo - On April 29, 2016 a purchase and sale agreement was signed subject to term, precedent conditions and a purchase option with FibraHotel for the sale of the hotel "Fiesta Americana Hermosillo" in accordance with the following clauses: i) the respective term will expire on January 31, 2020, ii) the consideration will be that resulting from multiplying 10.06 times the average of the hotel's EBITDA for the last three years, less the investment made in leasehold improvements and disbursements, subject to a minimum of $80.5 million. At the same time as the signing of the sales contract, the Entity signed a lease agreement with FibraHotel for a non-cancelable term maturing in 2020 for $10 million, which the Entity must invest in property improvements; also, FibraHotel agrees under the same terms to invest $75 million in such property. The sale of the property will be recognized once the aforementioned clauses are duly fulfilled.

As a result of signing the purchase-sale contract, the Entity conducted an impairment study for the Fiesta Americana Hermosillo hotel, and determined an effect of $57,063, presented under the caption "Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets", in the consolidated statement of comprehensive (loss) income.

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

e. Renewal of hotel operation contracts

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

f. Execution of a contract in the Dominican Republic

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

g. Mayan Riviera Trust

During April, 2017, the Entity formalized its participation in a hotel project on the Mayan Riviera through the execution, together with other beneficiaries, to create a Business Activity Administration and Warranty Trust, with the contribution of land and cash. The amount of $225 million in cash was contributed by the Entity in April 2017 (Trust incorporation date), and is presented under the heading "investment in associates" in the consolidated statements of financial position. At the start of the construction phase, the Entity will contribute an additional amount of $225 million.

The project considers two hotels, a Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms, which will be operated by the Entity. The Entity's initial equity in the Trust is 6%, which it intends to increase to 12.5% by acquiring the equity held by one of the other beneficiaries. In order to ensure this acquisition, the Entity deposited the amount of $67 million, which is presented as "long-term prepaid expenses" in the consolidated statements of financial position.

Similarly, to guarantee the operation of the hotels during a 20-year period, the Entity will pay US$10 million to the Trust as a lease assignment fee. The operating contract establishes a guaranteed annual gross operating profit of US$12 million.

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

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

i. For the year 2013, a loss derived from a sale of shares was eliminated from the calculation of the termination of the tax consolidation regime, thus resulting in the recognition of an additional payment obligation in different years for the total amount of $2.376 billion. Of this amount, the Entity settled $524 million in April 2017; the remaining will be settled through annual payments from 2018 through 2023, for the approximate amount of $308.6 million each, subject to inflation indexing. As part of the agreements reached with SAT, $72.6 million of

2007 tax was included in the calculation and the payment period determined for the termination of the tax consolidation regime.

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

ii. With regard to 2008, 2009 and 2010, the tax authorities accepted that the Entity would only settle the ancillary charges resulting from the observed items, for the amount of $15.8 million. The Entity filed an authorization request to obtain a favorable ruling from the SAT to enable it to apply the benefits detailed in the aforementioned article 70-A of the Federal Tax Code.

iii. The Entity obtained audit close documents for 2010 and 2013 with the same conclusion as those mentioned in the preceding numerals i) and ii). For 2007, 2008 and 2009, the Entity received notification documents through which the authorities resolved to revoke the rulings that determined the respective tax liabilities. It is important to mention that the agreements reached for 2007, 2008 and 2009 were ratified in August 2017 when the Entity obtained conclusive agreements issued by the Taxpayer's Defense Office.

iv. In the case of the subsidiary entities Gran Inmobiliaria Posadas®, S.A. de C.V. and Inversora Inmobiliaria Club, S.A. de C.V. (both considered as SIBRAs), the tax authorities determined that the amortization rate used for the usufruct rights contributed by Posadas® be modified beginning 2013, thus resulting in additional payments of $56.4 and $13.3 million, respectively.

i. Credit granted to the Fiesta Americana Mérida Hotel

In June 2017, a subsidiary of the Entity, 51% owner of the shares of the Fiesta Americana Mérida hotel, contracted a credit for a seven-year period for the amount of $210,000 at the annual 9.175% interest rate with a fiduciary warranty with Banco Nacional de México, S. A. (Banamex). Proceeds were used to pay taxes, remodel the hotel's public areas and for other corporate purposes. This amount is presented as "long-term debt" in the consolidated statements of financial position, except for the amount payable in 2018, which is presented as short-term. On January 23, 2018, a $10,000 principal prepayment was made.

j. Corporate Restructuring Process

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

k. Earthquake in Mexico City, hurricanes and other events

September, 2017 was significantly affected by the following events:

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

ii. The travel alerts issued by the United States of America government for North American travelers affected several cities; in the case of Cancun and Los Cabos, these alerts were withdrawn on January 10, 2018.

iii. The September 7 and 19 earthquakes affected the states of Chiapas, Oaxaca, Morelos, Puebla and Mexico City, which significantly affected the second half of the month's occupation percentages and the system's average rate.

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

In the current year, the Entity has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2017, which did not have important effects on the Entity's consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

For 2017 it was not considered necessary to disclose the above changes in the notes to the Entity's consolidated financial statements because debt amounts denominated in foreign currency only changed due to exchange rate fluctuations. Similarly, only one credit denominated in Mexican pesos was obtained, as presented in the consolidated statements of cash flows. According to the modification's provisional transition, the Entity has not disclosed comparative information from prior periods.

Annual Improvements to IFRS 2014-2016 Cycle

IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Entity's consolidated financial statements as none of the Entity's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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

The following new and revised IFRS have been issued to date but are not yet effective. These IFRS allow earlier application, option that in the consolidated financial statement as of December, 31, 2017 has not been elected by the Entity.

i) Effective for annual periods beginning on or after 1 January 2018, for which the Entity does not expect to have important effects on its consolidated financial information.

IFRS 9 Financial Instruments

- IFRS 9 requires that all recognized financial assets that are within the scope of IAS 9 Financial Instruments are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39.

The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

IFRS 15 Revenue from Contracts with Customers

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

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

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

While the Entity is still evaluating the effects derived from this new standard, it nonetheless considers that adoption of IFRS 15 will not have a significant effect on the consolidated financial statements other than the additional disclosure requirements.

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

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

IFRS 16, Leases

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

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

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

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Entity is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements, which will include FAVC revenues that are currently recognized as lease revenues. Accordingly, it is not possible to provide a reasonably estimate until Entity´s Management concludes the analysis.

4. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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

i. Historical cost

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

ii. Fair value

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

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

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

c. Basis of consolidation

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

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

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

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

- The percentage of Posadas®' holding of voting rights relative to the percentage and dispersion of voting rights of the other vote holders;
- Potential voting rights held by Posadas®, other vote holders or other parties;

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

Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when Posadas® loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive (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 (loss) 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	PARTICIPATION (%) 2017, 2016 & 2015
Promotora Inmobiliaria Hotelera, S.A. de C.V. y Subsidiarias [1]	100
Controladora de Acciones Posadas®, S.A. de C.V. y Subsidiarias [1]	100
Administración Digital Conectum, S.A. de C.V. y Subsidiarias [2]	100
Posadas® USA, Inc. y Subsidiarias	100
Hoteles y Villas Posadas®, S.A. de C.V. [1]	100
Inversora Inmobiliaria Club, S.A. de C.V.	100
Gran Inmobiliaria Posadas®, S.A. de C.V. [1]	100
Soluciones de Lealtad, S.A. de C.V.	100
Konexo Centro de Soluciones, S.A. de C.V.	100
Inmobiliaria del Sudeste, S.A. de C.V.	51

[1] Subsidiary entities merged into Posadas® during 2016..

[2] Subsidiary entities merged into Posadas® during 2017.

All intragroup amounts, transactions and cash flows 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. 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. Interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. 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.

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 partial 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

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

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

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

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

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

Land is not depreciated.

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

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

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

j. Intangible assets and other assets

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

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

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

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

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.

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

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

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

2. *Derecognition of intangible assets*

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

k. Impairment of tangible and intangible assets

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

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

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

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

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

l. Assets classified as held for sale

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

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

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

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

m. Investments in associates

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

n. Leasing

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.

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	U.S. dollar

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

p. Employee benefits

Retirement benefits costs from termination benefits

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

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

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

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

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

Short-term and other long-term employee benefits

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

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

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

Statutory employee profit sharing (PTU)

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

As result of the 2014, Income Tax Law, as of December 31, 2017, 2016 and 2015, PTU is determined based on taxable income, according to Section I of Article 9 of such Law.

q. Income taxes

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

1. *Current tax*

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

2. *Deferred income tax*

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

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

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

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

3. *Current and deferred tax for the year*

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

r. Provisions

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

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

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. Revenue recognition

The Entity recognizes its revenues as follows:

i. Revenues 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.;

Revenues from the operation of the Vacation Club are recognized as leasing revenue, where the portion allocated to the rental of the land is recognized as a deferred liability, and the part allocated to the rental of construction is recognized as revenue from membership sales;

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

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

iv. 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. Revenues from the sale of strategic assets are recognized once the risks and rewards are transferred to the buyer and/or the precedent conditions of the purchase-sale contracts are fulfilled.

u. Classification of costs and expenses

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

v. Statements of cash flows

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

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

w. Loyalty programs

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

x. (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 number of shares outstanding during the period. As of December 31, 2017, 2016 and 2015, 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 refunds related to the Vacation Club
Estimates are used to determine the reserves for doubtful accounts considering mainly arrears in collection according to the established financing plans. The Vacation Club cancellation estimate is determined based on the probability of a percentage of membership cancellations; the recovery of the value of the Vacation Club inventory is considered.

ii. Revenue recognition of Vacation Club
Revenues from the Vacation Club are recognized as a financial lease, since substantially all the risks and benefits inherent in the ownership of the FAVC are transferred to the purchasers, and the right of use is granted for a term similar to the life of the assets.

iii. The presentation of deferred revenues and other Kívac assets, current and long-term
Kivac points that are expected to be utilized during the following 12 months from the date of the consolidated statement of financial position are classified as current, considering the expected Kívac collection, which is the trigger that entitles the purchasers to use the hospitality service of this product.

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

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

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

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

viii. Classification criteria of the Entity's operating segments
The Entity classifies its businesses into four operating segments, based on internal reports prepared under a managerial approach.

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

6. CASH AND CASH EQUIVALENTS

	2017	2016	2015
Cash	$ 74,594	$ 65,171	$ 109,345
Cash equivalents:			
Overnight investments	1,299,221	1,254,926	654,465
Others	9,769	-	-
Total	$ 1,383,584	$ 1,320,097	$ 763,810

7. INVESTMENTS IN SECURITIES

	2017	2016	2015
Trading:			
Overnight investments	$ -	$ 450,000	$ 450,000

8. ACCOUNTS AND NOTES RECEIVABLE

	2017	2016	2015
Notes receivable from Vacation Club (a)	$ 1,745,087	$ 1,846,740	$ 1,218,342
Other receivables from Vacation Club	168,941	170,462	279,720
Clients and agencies (b.)	824,303	732,451	624,403
Other taxes recoverable, net	-	-	401,983
Officers and employees	62,729	60,485	37,647
Others	71,668	79,428	166,993
	2,872,728	2,889,566	2,729,088
Less - Allowance for doubtful accounts	(168,444)	(154,344)	(232,597)
	$ 2,704,284	$ 2,735,222	$ 2,496,491

a. Notes receivable from Vacation Club

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

Composition of the trading portfolio

	2017	2016	2015
Maturity of notes receivable from Vacation Club-			
Less than 90 days	$ 386,786	$ 422,463	$ 100,703
Between 91 and 330 days	603,833	657,243	597,692
Between 331 and 365 days	754,468	767,034	519,947
	$ 1,745,087	$ 1,846,740	$ 1,218,342

b. Accounts receivable from clients and agencies

The average credit term related to amounts owed for hotel services is 19 days. The Entity does not charge interest on outstanding amounts. Normally, amounts owed within this portfolio are not aged significantly. During 2017, 2016 and 2015 the Entity identified and wrote-off $10,390, $88,719 and $2,122, respectively, of the reserve for doubtful accounts, since it was determined that such amounts did not have possibility of being recovered.

	2017	2016	2015
Clients and agencies-			
Less than 90 days	$ 742,920	$ 650,710	$ 552,853
Over 90 days	81,383	81,741	71,550
	$ 824,303	$ 732,451	$ 624,403

	2017	2016	2015
Allowance for doubtful accounts-			
Clients and agencies	$ (33,075)	$ (34,183)	$ (122,902)
Notes receivable from Vacation Club	(135,369)	(120,161)	(109,695)
	$ (168,444)	$ (154,344)	$ (232,597)

9. VACATION CLUB INVENTORY

	2017	2016	2015
Vacation Club inventory	$ 241,176	$ 128,477	$ 177,397
Villas and residential lots	23,803	24,800	21,088
	$ 264,979	$ 153,277	$ 198,485

Vacation Club inventories recognized in cost of membership sales during the period in respect of continuing operations was $133,641, $48,919 and $87,923 at December 31, 2017, 2016 and 2015, respectively.

10. PROPERTY AND EQUIPMENT COMMITTED FOR SALE

	2017
Long term:	
Property and equipment – Net	
Hotel Fiesta Americana Hacienda Galindo	$ 129,797
Hotel Fiesta Americana Hermosillo	125,638
Hotel Ramada Plaza:	
Cash and cash equivalents	4,123
Accounts and notes receivable – Net	189
Inventories	277
Prepaid expenses	757
Property and equipment – Net	46,933
	52,279
Total long-term property and equipment committed for sale	**$ 307,714**
Liabilities directly associated with property and equipment committed for sale	**$ (6,330)**

11. LONG-TERM NOTES RECEIVABLE

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

	2017	2016	2015
Long-term notes receivable:			
Vacation Club memberships	$ 2,508,342	$ 1,945,498	$ 2,211,196
Kívac	348,694	366,920	108,309
	2,857,036	2,312,418	2,319,505
Less:			
Allowance for Kívac's doubtful accounts	(78,031)	(81,143)	(33,971)
Total	**$ 2,779,005**	**$ 2,231,275**	**$ 2,285,534**

The maturities of the long-term Vacation Club memberships at December 31, 2017 are as follows:

To collect during	Amount
2019	$ 808,217
2020	624,245
2021	427,556
2022 and thereafter	648,324
Total long-term notes receivable	**$ 2,508,342**

12. PROPERTY AND EQUIPMENT

	2017	2016	2015
Buildings	$ 5,010,933	$ 6,431,458	$ 6,603,406
Furniture and equipment	1,439,118	1,479,002	1,227,058
Computers	385,027	422,053	417,977
Vehicles	31,937	37,093	30,132
	6,867,015	8,369,606	8,278,573
Less - Accumulated depreciation	(3,699,960)	(4,469,963)	(4,375,084)
	3,167,055	3,899,643	3,903,489
Land	1,251,599	2,184,719	2,218,114
Construction in progress	182,524	398,767	544,876
	$ 4,601,178	$ 6,483,129	$ 6,666,479

	LAND	BUILDINGS	FURNITURE AND EQUIPMENT	COMPUTERS	VEHICLES	CONSTRUCTION IN PROGRESS	TOTAL
COST							
Beginning balance as of January, 2015	$ 2,129,829	$ 6,563,629	$ 1,481,450	$ 433,202	$ 35,139	$ 427,899	$ 11,071,148
Additions	88,285	74,703	113,194	13,736	5,058	305,597	600,573
Transfers from construction in progress	–	109,943	78,546	131	–	(188,620)	–
Reclassified as held for sale	–	(144,869)	(74,613)	(7,913)	(4,677)	–	(232,072)
Derecognition of fully depreciated assets	–	–	(371,519)	(21,179)	(5,388)	–	(398,086)
Balance as of December 31, 2015	2,218,114	6,603,406	1,227,058	417,977	30,132	544,876	11,041,563
Additions and remodeling	821	44,080	129,640	6,252	4,806	325,008	510,607
Transfers of prepayments and other assets	824	20,814	28,945	274	784	(32,749)	18,892
Transfers from construction in progress	–	289,854	144,864	–	3,650	(438,368)	–
Disposals from remodeling	–	(376,607)	–	–	–	–	(376,607)
Disposals	(35,040)	(150,089)	(51,505)	(2,450)	(2,279)	–	(241,363)
Balance as of December 31, 2016	2,184,719	6,431,458	1,479,002	422,053	37,093	398,767	10,953,092
Additions and remodeling	–	69,953	54,296	2,409	2,019	204,982	333,659
Transfers of prepayments and other assets	–	132,286	74,399	1,453	–	520	208,658
Transfers to assets classified as held for sale	(800,570)	(1,400,770)	(173,795)	(746)	(799)	–	(2,376,680)
Transfers from construction in progress	–	305,968	105,497	807	–	(421,745)	(9,473)
Disposals from remodeling		(1,142)	(51,034)	(1,146)	–	–	(53,322)
Disposals	(132,550)	(526,820)	(49,247)	(39,803)	(6,376)	–	(754,796)
Balance as of December 31, 2017	$ 1,251,599	$ 5,010,933	$ 1,439,118	$ 385,027	$ 31,937	$ 182,524	$ 8,301,138
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Beginning balance as of January, 2015	$ –	$ (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 fully 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)
Depreciation expense	–	(216,631)	(158,143)	(9,268)	(3,649)	–	(387,691)
Disposals of assets	–	77,130	21,230	1,756	741	–	100,857
Remodeling derecognition	–	249,019	–	–	–	–	249,019
Asset impairment	–	(57,064)	–	–	–	–	(57,064)
Balance as of December 31, 2016	–	(3,145,525)	(890,707)	(408,321)	(25,410)	–	(4,469,963)
Depreciation expense	–	(178,955)	(184,735)	(7,717)	(3,765)	–	(375,172)
Disposals of assets	–	374,187	50,895	39,282	5,083	–	469,447
Transfers to assets classified as held for sale	–	615,378	36,097	464	450	–	652,389
Remodeling derecognition	–	186	22,486	667	–	–	23,339
Balance as of December 31, 2017	–	(2,334,729)	(965,964)	(375,625)	(23,642)	–	(3,699,960)
TOTAL NET INVESTMENT AT DECEMBER 31, 2017	$ 1,251,599	$ 2,676,204	$ 473,154	$ 9,402	$ 8,295	$ 182,524	$ 4,601,178

As of December, 31, 2017 certain real estate property has been granted as guarantee of tax credits mentioned in Note 26 a, whose approximate amount is $289,902.

13. INTANGIBLE ASSETS AND OTHER ASSETS

	2017	2016	2015
Kívac's sales commissions	$ 367,845	$ 330,143	$ 317,852
Expenditures for technology projects	160,497	153,882	21,857
Guarantee deposits	45,037	42,995	44,537
Development expenses and others	151,991	61,919	20,674
Other assets	-	52,245	-
	$ 725,370	$ 641,184	$ 404,920

14. SUPPLIERS

The Entity has lines of credit contracted with Banco Santander (México), S.A., BBVA Bancomer, S.A., Banco Monex, S.A. and until 2016 with Banco Actinver, S.A. up to the amount of $100,000, $148,000, $50,000, and $35,000, respectively. The purpose of these credit lines is to provide financial factoring transactions for the Entity´s suppliers over a maximum payment term of 90 days. For each financial factoring transaction, interest is accrued at a fixed rate agreed between the Entity and the financial institutions.

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

	2017	2016	2015
Banco Santander (México), S.A.	$ 18,710	$ 43,141	$ 65,249
BBVA Bancomer, S.A.	40,900	72,173	57,578
Banco Monex, S.A.	9,730	17,490	36,297
Banco Actinver, S.A.	-	13,841	14,229
	$ 69,340	$ 146,645	$ 173,353

15. LONG-TERM DEBT

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

	2017	2016	2015
U.S. dollar-denominated:			
"Senior Notes 2022", fixed rate of 7.875%	$ 7,569,715	$ 7,871,765	$ 5,593,072
"Senior Notes 2017", fixed rate of 7.875%	-	-	649,210
Mexican pesos:			
Loan annual rate of 9.175%	210,000	-	-
Other loans, at variable rates average of 3.32%	-	472	1,399
	7,779,715	7,872,237	6,243,681
Less - Current portion	(11,232)	(472)	(1,399)
Long-term debt	$ 7,768,483	$ 7,871,765	$ 6,242,282

The maturities of long-term debt at December 31, 2017, are as follows:

Payable during	Thousands of American dollars	Thousands of Mexican pesos
2019	-	$ 23,531
2020	-	25,766
2021	-	28,214
2022 and therefore	US$ 400,000	121,257
		198,768
Equivalent in thousands of Mexican pesos		7,894,160
Less - debt issuance costs		(324,445)
		$ 7,768,483

b. On June 22, 2017, a subsidiary of the Entity contracted a fiduciary warranty loan (based on the hotel's collection through credit cards) with Banamex for the amount of $210 million at an annual 9.175% interest rate, and maturity in 2024.

c. On May 16, 2016 an additional issuance was made for US$50 million as part of the "Senior Notes 2022" program, accruing interest at an annual rate of 7.875%, maturing in 2022. With this additional issuance of "Senior Notes 2022", in November 2016 the balance of US$38.3 million of the debt known as "Senior Notes 2017", with maturity in 2017, was paid in advance.

With the additional issuance, the "Senior Notes 2022" program achieved the total amount of US$400 million.

d. On June 30, 2015 the Entity completed a debt issuance for US$350 million in notes known as "Senior Notes 2022" through the Luxembourg Stock Exchange. The intention was to substitute the issuance of US$310 million known as "Senior Notes 2017" held by the Entity as of December 31, 2014, for which US$1,060 was offered for each $1,000 of the previous issuance. As a result of the offering it was possible to tender US$271.7 million of the "Senior Notes 2017", equivalent to 87.63% of principal. The "Senior Notes 2022" accrue interest at the annual rate of 7.875%, with principal maturing on June 30, 2022. The interest is payable semiannually, beginning on December 30, 2015.

e. On November 28, 2014, the Entity obtained US$47.2 million through a program known as "Euro-Commercial Paper", which accrued annual interest at a rate of 6% and matured on November 18, 2016. 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.

f. On November 30, 2012, the Entity issued a bond for US$225 million known as the "2017 Senior Notes", with maturity on November 30, 2017, accruing interest at annual fixed interest rate of 7.875%. 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 issuance of "2017 Senior Notes" for US$35 million, with maturity on November 30, 2017, accruing interest at annual fixed interest rate of 7.875%. The "2017 Senior Notes" were issued based on a private exchange of US$31.6 million of the "2015 Senior Notes". The additional issuance was carried out with the same terms as the first, resulting in a total debt of US$310 million. As a result of the issuance of the notes known as "Senior Notes 2022", the outstanding balance was decreased, and as of December 31, 2015 represented US$38.3 million.

g. The most significant restrictions and obligations contained in debt agreements as of December 31, 2017, 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

h. As of December 31, 2017, restrictions and covenants have been complied with. Below is detail of key financial items of the Entity and the subsidiary guarantors of the "Senior Notes 2022":

	2017			2016		
	Guarantors	Non-guarantors	Total consolidated	Guarantors	Non-guarantors	Total consolidated
Total revenues	$ 8,411,647	$ 495,343	$ 8,906,990	$ 7,485,156	$ 494,193	$ 7,979,349
Depreciation, amortization and impairment	379,944	50,691	430,635	536,923	58,427	595,350
Lease expense	475,590	-	475,590	445,125	-	445,125
Consolidated (loss) income	(483,778)	11,184	(472,594)	(749,612)	52,433	(697,179)
Total assets	**15,413,703**	**1,119,888**	**16,533,591**	**13,631,904**	**1,438,466**	**15,070,370**
Total liabilities	**13,594,516**	**516,123**	**14,110,639**	**11,435,340**	**706,753**	**12,142,093**

16. INCOME TAXES

The Entity is subject to ISR. Under the ISR Law the rate for 2017, 2016 and 2015 was 30% and will continue at 30% thereafter. Due to the abrogation of the ISR Law valid until December 31, 2013, the tax consolidation regime was eliminated, therefore, the Entity and its subsidiaries are required to pay the deferred tax determined at that date during the following five fiscal years starting from 2014, as shown below.

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

The Entity and its subsidiaries elected to join the new scheme, for which reason income taxes were calculated based on the aforementioned regime in 2017, 2016 and 2015.

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 2014 which was repealed, it must continue to pay the tax that it deferred under the tax consolidation scheme in 2007 and previous years based on the aforementioned provisions, until such payment is concluded.

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

Taxable income 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 benefit of prior year losses.

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

	2017	2016	2015
Current tax -			
Current ISR	$ 49,726	$ 212,713	$ 120,397
ISR previous years	2,169,834	97,902	111,881
	2,219,560	310,615	232,278
Deferred ISR benefit -	(956,953)	(484,964)	(100,944)
Total income tax (benefit)	**$ 1,262,607**	**$ (174,349)**	**$ 131,334**

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

	2017	2016	2015
Statutory rate	30%	30%	30%
Less:			
Effect of tax loss carryforward benefit	(137)%	1%	53%
Reserve of individual tax loss carryforward benefit	10%	(9)%	(70)%
ISR previous years	275%	-	-
Effects of permanent differences and tax effects of inflation	(18)%	(2)%	(52)%
Effective rate	**160%**	**20%**	**(39)%**

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

	2017	2016	2015
Notes receivable	$ (947,686)	$ (825,990)	$ (732,510)
Allowance for doubtful accounts	128,996	120,533	88,811
Real estate inventory	(28,589)	(45,735)	(59,339)
Property and equipment	(158,635)	(220,183)	(156,132)
Intangible assets and other assets	(49,367)	(19,346)	(54,088)
Reserves and deferred income	768,714	640,859	651,687
Tax loss carryforwards	2,077,692	2,611,588	2,820,609
Reserve of tax loss carryforwards	(49,685)	(1,101,718)	(1,389,165)
Tax benefits (Conacyt)	8,172	21,932	10,077
Unrealized exchange rate fluctuation	(134,141)	(134,141)	-
SIBRAs tax effect	-	(389,281)	(1,006,396)
Deferred ISR asset	**$ 1,615,471**	**$ 658,518**	**$ 173,554**

d. The benefits of restated tax loss carryforwards for which the deferred ISR asset, have been partially recognized, can be recovered subject to certain conditions. At December 31, 2017, 2016 and 2015, the tax loss carryforwards amounted to $6,925,639, $8,705,291, and $9,402,030, respectively.

e. Tax loss carryforwards

Expiration dates and restated amounts of tax loss carryforwards as of December 31, 2017 are:

Year	Amount
2018	$ 1,066,476
2019	460,375
2020	6,645
2021	1,683,915
2022	12,271
2023	573,457
2024	1,031,069
2025	1,944,431
2026	83,788
2027	63,214
	$ 6,925,639

f. Tax credits

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

Year	Amount
2018	$ 320,241
2019	320,239
2020	320,239
2021	320,239
2022	320,238
2023	320,238
	1,921,434
Less - current portion of income tax payable	(320,241)
	$ 1,601,193

17. LONG-TERM ACCRUED LIABILITIES

	2017	2016	2015
Return reserve for Vacation Club	$ 129,617	$ 138,850	$ 157,394
Employee benefits	148,094	137,453	134,691
Other accrued liabilities	212,445	183,373	212,449
	$ 490,156	**$ 459,676**	**$ 504,534**

A current portion of the return reserve for Vacation Club has been recorded within "Other liabilities and accrued expenses" in the consolidated statements of financial position, as of December 31, 2017, 2016 and 2015 of $58,917, $73,595, and $81,739, respectively.

18. EMPLOYEE BENEFITS

The net period cost for obligations under the pension plan and related seniority premiums amounted to $32,915, $6,802, and $22,357 as of December 31, 2017, 2016 and 2015, respectively. Other disclosures required by accounting rules are not considered material.

19. FINANCIAL INSTRUMENTS

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

a. **Capital risk management**

The Entity manages its capital to ensure that it will continue as a going concern, while maximizing the return to stockholders through the optimization of debt and equity structure. During 2017 overall strategy of the Entity has not been changed compared to 2016 and 2015.

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

The Entity's Management, on a monthly basis, reviews the net debt and accrued interest and its relation to the EBITDA (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 the end of the reporting period was as follows:

	2017	2016	2015
Debt (i)	$ 7,779,715	$ 7,872,237	$ 6,243,681
Cash, banks and investments in securities	1,383,584	1,770,097	1,213,810
Net debt	6,396,131	6,102,140	5,029,871
Stockholders' equity (ii)	**$ 2,422,952**	**$ 2,928,277**	**$ 3,627,503**
Net debt to equity index	2.64	2.08	1.39

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

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

b. **Categories of financial instruments**

	2017	2016	2015
Financial assets			
Cash	$ 74,594	$ 65,171	$ 109,345
Held for trading	1,308,990	1,704,926	1,104,465
Account and notes receivable	5,483,289	4,966,497	4,380,042
Financial assets held for sale	4,312	6,814	3,688
Financial liabilities			
Amortized cost	8,882,349	9,049,365	7,455,990

c. **Market risk**

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

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

d. **Foreign currency risk management**

The Entity believes that the risk is material because as of December 31, 2017, 97% of its debt is denominated in US dollars. Considering the net monetary position in US dollars as of December 31, 2017, 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 $610,447.

The current exchange rates in Mexican pesos are as follows:

	December 31			March 5
	2017	2016	2015	2018
Mexican pesos per U.S. dollar	$ 19.7354	$ 20.6640	$ 17.2065	$ 18.8909

e. **Interest rate risk management**

The Entity is exposed to low market risks related to fluctuations in interest rates, because its debt at December 31, 2017 accrue interest at a fixed rates. Therefore, an increase in interest rates does not result in a significant risk to the Entity. As of December 31, 2017, the "Senior Notes 2022" issued in US dollars represent practically 100% of the debt of the Entity, and accrue interest at a fixed rate.

f. **Credit risk management**

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

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

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

g. Liquidity risk management

As of December 31, 2017, the Entity does not have liquidity risk with respect to its current debt. In 2016 the Entity liquidated debt maturing in the short term with the resources obtained through the program known as "Senior Notes 2022".

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

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

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

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AS OF DECEMBER 31, 2017	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	3 MONTHS	6 MONTHS	1 YEAR	1 AND 3 YEARS	3 + YEARS	TOTAL
Debt	7.875% and 9.175%	$ 4,817	$ 331,772	$ 347,656	$ 1,389,429	$ 9,056,176	$ 11,129,850
Suppliers		436,100	–	–	–	–	436,100
Other liabilities and accrued expenses		794,630	–	–	–	–	794,630
Total		**$ 1,235,547**	**$ 331,772**	**$ 347,656**	**$ 1,389,429**	**$ 9,056,176**	**$ 12,360,580**

AS OF DECEMBER 31, 2016	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	3 MONTHS	6 MONTHS	1 YEAR	1 AND 3 YEARS	3 + YEARS	TOTAL
Debt	7.875%	$ –	$ 325,458	$ 325,930	$ 1,301,832	$ 10,543,806	$ 12,497,026
Suppliers	–	497,753	–	–	–	–	497,753
Other liabilities and accrued expenses	–	674,897	–	–	–	–	674,897
Total		**$ 1,172,650**	**$ 325,458**	**$ 325,930**	**$ 1,301,832**	**$ 10,543,806**	**$ 13,669,676**

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%	$ –	$ 263,097	$ 264,496	$ 1,711,948	$ 8,156,419	$ 10,395,960
Suppliers	–	438,432	–	–	–	–	438,432
Other liabilities and accrued expenses	–	334,324	–	–	–	–	334,324
Total		**$ 772,756**	**$ 263,097**	**$ 264,496**	**$ 1,711,948**	**$ 8,156,419**	**$ 11,168,716**

The amounts included as Debt are fixed interest rate debt.

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

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

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

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

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

As of December 31, 2017, the fair value of the long-term receivables from Vacation Club is $2,966,140, which is greater than its carrying amount. As of December 31, 2016 and 2015 the fair value of those receivables is greater than their carrying amount since they generate interest at higher than market rates.

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

	2017	2016	2015
Thousands of US dollars:			
2022 Senior Notes	US$ 344,743	US$ 354,581	US$ 320,655
2017 Senior Notes	-	-	33,627
	US$ 344,743	US$ 354,581	US$ 354,282
Thousands of Mexican pesos			
Banamex	$ 167,885	$ -	$ -

At December 31, 2017, a portion of the Entity's revenues, generally around 27%, has been directly or indirectly denominated in US dollars. This is due to the fact that room rates at beach hotels (primarily Cancun and Los Cabos) maintain rates in US dollars. Furthermore, a portion of the sales and financing of Vacation Club memberships have been historically denominated in US dollars.

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

20. STOCKHOLDERS' EQUITY

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

	Number of shares 2017, 2016 and 2015
Authorized capital	512,737,588
Less -	
Repurchase of shares	(16,855,600)
	495,881,988

b. As of December 31, 2017, the share capital is composed solely of Series "A" free subscription.

c. At the Extraordinary General Stockholders' Meeting held on March 22, 2017, the stockholders approved $535,000 as the maximum amount of resources that may be allocated to the purchase of own shares, with the limitations established by the Securities Market Law.

d. As of December 31, 2017, 2016 and 2015, the legal reserve fund, presented within retained earnings, amounts to $99,187 (nominal value) and represents 20% of the nominal capital. This reserve fund may not be distributed to stockholders except in the form of dividends.

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

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

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

Year	Amount that could be subject to withholding	Amount not subject to withholding
Retained earnings through December 31, 2013	$ -	$ 3,217,617
Profit for the year 2017	$ 1,053,637	$ -

21. BALANCES AND TRANSACTIONS IN FOREIGN CURRENCY

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

	2017	2016	2015
Thousands of US dollars:			
Current:			
Monetary assets	53,692	46,071	62,918
Monetary liabilities	(7,859)	(6,051)	(11,078)
	45,833	40,020	51,840
Long-term:			
Monetary assets	44,851	42,422	62,859
Monetary liabilities	(400,000)	(400,023)	(388,413)
	(355,149)	(357,601)	(325,554)
Net liability position	(309,316)	(317,581)	(273,714)
Equivalent in thousands of Mexican pesos	**$ (6,104,475)**	**$ (6,562,494)**	**$ (4,709,660)**

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

22. REVENUE, COST OF SALES AND OPERATING EXPENSES

a. **Revenue**:

	2017	2016	2015
Hotel operation	$ 4,347,086	$ 4,063,087	$ 3,546,116
Vacation Club	2,982,385	2,605,078	2,177,475
Management fee, brand and other expenses	1,142,519	1,066,184	1,123,243
Sale of non-strategic properties	435,000	245,000	-
Other income	-	-	54,387
	$ 8,906,990	**$ 7,979,349**	**$ 6,901,221**

b. **Cost of sales**:

	2017	2016	2015
Hotel operation	$ 1,959,700	$ 1,807,241	$ 1,607,559
Vacation Club	2,101,521	1,748,656	1,593,635
Management fee, brand and other expenses	953,285	846,424	900,589
Sales of non-strategic properties	331,983	136,626	-
	$ 5,346,489	$ 4,538,947	$ 4,101,783

c. **Administrative expenses**:

	2017	2016	2015
Salaries, employee benefits and other	$ 453,755	$ 441,519	$ 425,802
PTU	86,052	-	-
Electricity	198,418	180,259	169,992
Maintenance	112,459	110,375	98,574
Professional fees	66,743	73,478	44,049
Credit card commissions	47,207	48,336	40,588
Property taxes and duties	41,511	38,396	34,367
Office rentals	27,273	26,570	22,273
Services and supplies	12,868	16,438	15,722
Insurance and bonds	8,759	9,483	6,175
Equipment leasing	12,466	6,800	3,759
Doubtful accounts	19,638	14,863	10,877
Others	$ 1,105,068	$ 982,304	$ 884,090

d. **Sale and development expenses**:

	2017	2016	2015
Marketing and publicity	$ 185,373	$ 162,862	$ 75,291
Salaries, employee benefits and other	74,318	75,363	69,902
Travel expenses	7,363	7,157	10,747
Subscription fees	146	2,234	2,651
Others	5,108	4,627	7,659
	$ 272,308	$ 252,243	$ 166,250

23. RELATED PARTY TRANSACTIONS

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

	2017	2016	2015
Direct, short and long-term benefits	$ 108,965	$ 132,759	$ 101,543
Termination benefits	$ -	$ 40,002	$ 2,092

24. INFORMATION BY BUSINESS SEGMENTS

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

a. **Hotel operation** - Revenues generated by this segment are represented by the rental of hotel rooms, the sale of food, beverages and related services (laundry, telephones, spa, etc.) to guests. The expenses incurred by the segment are related to the payroll of the personnel that attend guests in hotels, the cost of food and beverages and hotel operating expenses, including sales and administrative personnel, office expenses, electricity, insurance and property taxes. In the case of leased hotels, an additional rent expense is generated.

b. **Vacation Club** - Revenues generated by this segment include the sale of memberships, interest income generated by financed sales, annual membership fees and income from the effective use of the "Kivac" program. Costs and expenses include the value of real property sold under this regime, marketing expenses incurred for prospective clients, collection expenses, payroll of personnel located at the sites where Vacation Club operates, including electricity and insurance, the payroll and office expenses of sales and administrative personnel, together with the cost of hotel exchanges.

c. **Hotel management, brand and other** - Revenues generated by this segment include fees billed to hotels under the terms of hotel operating contracts; brand use and franchises, as well as billing of different centralized services. The costs and expenses incurred by this segment primarily involve payroll of the personnel that supervise hotel operations, the cost of the reservation service, centralized accounting, purchasing and technology service expenses and the recovery of Global Distribution System costs.

d. **Sale of non-strategic properties** - As discussed in Note 1, the Entity has focused on holding strategic assets. As part of this strategy, it has sold and is in the process of selling hotel properties and other non-strategic assets. This segment includes the results obtained from the sale of these assets.

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2017	HOTEL OPERATION	VACATION CLUB	HOTEL MANAGEMENT, BRAND AND OTHER	SALE OF NON-STRATEGIC PROPERTIES	TOTAL	OTHER CORPORATE EXPENSES	ELIMINATIONS	TOTAL CONSOLIDATED
Statement of comprehensive (loss) income:								
Total revenues	$ 4,374,035	$ 2,982,385	$ 1,441,910	$ 435,000	$ 9,233,331	$ –	$ (326,340)	$ 8,906,990
Cost and general expenses	3,129,415	2,201,065	1,398,097	331,983	7,060,560	–	(313,604)	6,746,956
Corporate expenses	–	–	–	–	–	452,682	(12,648)	440,034
Depreciation, and amortization	–	–	–	–	–	430,635	–	430,635
Other expenses	–	–	–	–	–	67,817	(88)	67,729
Operating income (loss)	$ 1,244,620	$ 781,320	$ 43,814	$ 103,017	$ 2,172,770	$ (951,133)	$ –	1,221,638
Financial expenses, net								(431,625)
Income before income taxes								$ 790,013

2016	HOTEL OPERATION	VACATION CLUB	HOTEL MANAGEMENT, BRAND AND OTHER	SALE OF NON-STRATEGIC PROPERTIES	TOTAL	OTHER CORPORATE EXPENSES	ELIMINATIONS	TOTAL CONSOLIDATED
Statement of comprehensive (loss) income:								
Total revenues	$ 4,092,983	$ 2,605,078	$ 1,616,772	$ 245,000	$ 8,559,833	$ –	$ (580,484)	$ 7,979,349
Cost and general expenses	3,169,313	1,841,633	1,306,787	136,627	6,454,360	–	(561,611)	5,892,749
Corporate expenses	–	–	–	–	–	338,166	(18,744)	319,422
Depreciation, and amortization	–	–	–	–	–	528,196	–	528,196
Impairment of assets	–	–	–	–	–	57,064	–	57,064
Write-offs due to remodeling of fixed assets	–	–	–	–	–	127,588	(129)	127,459
Operating income (loss)	$ 923,670	$ 763,445	$ 309,985	$ 108,373	$ 2,105,473	$ (1,051,014)	$ –	1,054,459
Financial expenses, net								(1,924,708)
Loss before income taxes								$ (870,249)

2015	HOTEL OPERATION	VACATION CLUB	HOTEL MANAGEMENT, BRAND AND OTHER	SALE OF NON-STRATEGIC PROPERTIES	TOTAL	OTHER CORPORATE EXPENSES	ELIMINATIONS	TOTAL CONSOLIDATED
Statement of comprehensive (loss) income:								
Total revenues	$ 3,574,647	$ 2,200,492	$ 1,926,738	$ –	$ 7,755,931	$ 54,054	$ (854,710)	$ 6,901,221
Cost and general expenses	2,988,503	1,658,923	1,424,898	–	6,072,324	–	(836,337)	5,235,987
Corporate expenses	–	–	–	–	–	321,144	(18,040)	303,104
Depreciation, and amortization	–	–	–	–	–	414,677	–	414,677
Other expenses, net	–	–	–	–	–	479	(333)	146
Operating income (loss)	$ 586,144	$ 541,569	$ 501,840	$ –	$ 1,683,607	$ (682,246)	$ –	947,307
Financial expenses, net								(1,283,766)
Loss before income taxes								$ (336,459)

25. COMMITMENTS

a. As of December 31, 2017, 2016 and 2015, 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, 2017, 2016 and 2015, lease expense was $475,590, $445,125, and $386,969, respectively. The minimum lease estimated for the following years is shown below:

Years	Amount
2018	$ 659,785
2019	680,637
2020	694,288
2021	709,051

b. As of December 31, 2017, 2016 and 2015, the Entity has entered into lease contracts for computer equipment and other, which usually have a term of three years. Lease payments are based on the value of the leased equipment and vary in function with the requirements of the Entity's operational departments. For the years ended December 31, 2017, 2016 and 2015, lease expense amounted to $105,974, $80,594, and $60,128, respectively. The estimated rental payments for the following years is shown below:

Years	Amount
2018	$ 106,382
2019	86,190
2020	31,490

26. TAX LIABILITIES

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

As of December 31, 2017, 2016 and 2015, 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.

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

27. SUBSEQUENT EVENTS

a. On February 20, 2018, the conditions and requirements to comply with the purchase-sale contract executed for the Fiesta Americana Condesa Cancun hotel, as discussed in Note 2c), were fulfilled; the total sales price agreed for the assets was $2,892,000. The long-term lease contract executed for this hotel simultaneously became effective and both parties agreed to implement the purchase-sale and lease contracts as of January 1, 2018.

The Entity has disbursed part of its committed investment of $60,000 for the renovation of public areas during 2017, and expects to conclude this commitment during the second quarter of 2018.

b. In February 2018, the Entity executed operating contracts for two Fiesta Americana All Inclusive hotels in Cuba. One will be a 633 room hotel at Playa Varadero; and the second will be a 749 room hotel, with 10 restaurants and approximately 36,000 square meters of gardens located at Playa Pesquero, Holguín Province, in the eastern area of Cuba. Both hotels are local investments and the Entity estimates that they will begin operations during the fourth quarter of 2018.

28. AUTHORIZATION TO ISSUE THE FINANCIAL STATEMENTS

The consolidated financial statements as of December 31, 2016 and 2015 were approved in General Stockholders Meetings held on March 23, 2017 and March 15, 2016, respectively. The accompanying consolidated financial statements as of December 31, 2017 were authorized to be issued on February 21, 2018, 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.

DESIGN: Arterisco | designcenter ™

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Results

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