GRUPO POSADAS, S.A.B. de C.V.
Prol. Paseo de la Reforma 1015, Torre A, Piso 9
Col. Santa Fe Del. Cuajimalpa
Mexico City, D.F. 05348

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

Ticker Code: Posadas A

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

Registration in the National Securities Registry does not imply certification of the merit of the securities, or of the Issuer's solvency, of the accuracy or truthfulness of the information contained in the annual report, nor does it validate the acts which, if applicable, violated the law

ANNUAL REPORT PRESENTED IN KEEPING WITH THE GENERALLY APPLICABLE PROVISIONS TO SECURITIES ISSUERS AND OTHER MARKET PARTICIPANTS FOR THE CORPORATE YEAR ENDING DECEMBER 31, 2016

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

Debt Instruments	Senior Notes
Ticker symbol	POSADAS
Amount	US$400,000,000
Issue Date	June 30, 2015
Maturity Date	June 30, 2022
Issue term	7 years
Interest and calculation procedure	Annual fixed interest rate at 7.875% calculated on the basis of 360 days *per annum*
Interest payment periods	Every 6 months beginning December 30, 2015
Place and method for paying interest and principal	Accrued principal and ordinary interest payable at maturity, by wire transfer, through Bank of New York
Negotiable Instrument subordination	Priority of Payment (*Pari Passu*)
Amortization and early amortization	Single payment beginning June 30, 2019 at 103.938% and after June 30, 2021 at 100% until maturity date. Issuer entitled to amortize early, fully or partially, as described in the "Make-Whole" clause.
Guarantee	"Senior Notes" are unsecured and 4 subsidiaries act as surety thereof.
Trustee	The Bank of New York Mellon, as "Trustee"
Rating by rating institution and its meaning	S&P Global Ratings, "B+" Fitch Mexico, S.A. de C.V. "B+" Moody´s de Mexico, S.A. de C.V. "B2"
Common representative	The Bank of New York Mellon, as "Trustee"
Depository	The Bank of New York Mellon, as "Trustee"
Tax rules	Applicable withholding rate on date of this report, regarding interest paid on Senior Notes is subject (i) for Foreign resident individuals and legal entities, for tax purposes, to a 4.9% withholding rate provided that a series of conditions are met, (ii) if any of these conditions, such as in article 7, second paragraph of the LMV[T.N.] is not met, residents abroad may be subject to a 10% withholding rate. In both cases, advisors should be consulted regarding the tax consequences of investing in Senior Notes, including the enforcement of specific rules relating to their particular situations. It is possible that the tax rules in force may be modified during the Program period and during the Issue term.
Calculation Agent	The Bank of New York Mellon, as "Trustee"

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

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

ÍNDICE

a) Glossary of Terms and Definitions

TERM	DEFINITION
“BMV” or “Stock Exchange”	Shall mean Mexican Stock Exchange Market, S.A.B. de C.V.
“CNBV”	Shall mean National Banking and Securities Commission.
“Company” or “Posadas”	Shall mean Grupo Posadas, S.A.B. de C.V. and its subsidiaries.
“Issuer”	Grupo Posadas, S.A.B. de C.V.
“Audited Financial Statements”	The financial statements audited by Galaz, Yamazaki, Ruiz Urquiza, S.C. for the corporate years ending December 31, 2016, 2015 and 2014 included in the present Annual Report.
“Fibra”	Mexican trusts principally established to develop, acquire, own and operate hotels (REIT).
“Report”	The present Annual Report.
“RNV”	National Securities Registry under the National Banking and Securities Commission.
“$” or ”Pesos” or “M.N.”	Currency of legal tender in the United Mexican States.
“US” or “Dollars”	Currency of legal tender in the United States of America.
“M”	Millions.
“NIIF” or “IFRS”, due to its initials in English	International Financial Reporting Standards
“Vacation Properties” or “Vacation Club”	Sale of 40 year right to use memberships
“LMV” due to its initials in Spanish	For Ley del Mercado de Valores, which translates into English as the Mexican Securities Law.

b) Executive Summary

This summary is not intended to contain all information which may be relevant to making investment decisions regarding the securities that are herein mentioned. Therefore, the investors should read all the Annual Report, including the audited financial statements and the corresponding notes before making an investment decision.

Grupo Posadas, S.A.B. de C.V. and Subsidiaries is the largest operator of hotels in Mexico based on the number of hotels, rooms, geographic coverage, sales and market penetration (Source: “Posadas Market Research Department”).

As of December 31, 2016, there were 152 [1]hotels and resorts operating under Posadas’ brands, representing a total of 24,324 rooms, thus having the greatest concentration in Mexico with 24,124 rooms distributed in 62 Mexican Cities, including the most important urban and beach destinations and 200 rooms in the state of Texas in the United States of America. Consequently, it serves a broad base of tourist and business travelers.

For most of 2016, out of the 152 hotels, the Company was the majority owner of 15 hotels, operated 118, 6 in franchise modality and leased 13.

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

The Live Aqua family hotels and its derivatives, as well as Gran Fiesta Americana and Fiesta Americana offer a wide variety of services and luxury rooms attracting high economic level tourism to coastal destinations and executive business travelers to city destinations. On the other hand, the Fiesta Inn hotels are smaller, with more moderate prices, comfortable rooms, a variety of services, and located in small to medium-sized cities, as well as in the suburbs of large urban areas. One Hotels attract business travelers looking for the best price at an excellent location since these hotels have standardized services and are located in urban areas.

During 2015, the Company initiated operations for its Gamma brand franchise: Based on this brand, the group intends to organize a marketing system for its services through franchising, by recognizing the existence of business opportunities for good quality hotels located in the United Mexican States territory. These good quality hotels already exist in the market but with certain deficiencies in light of the new systems and distribution channels which do not allow them to competitively participate with the main corporate accounts, and which need better marketing tools to increase their market participation. The latter would allow, most of the time that the owners of said hotels or whoever has legal title to freely dispose of them to keep operating them, increasing their quality standards and, at the same time, take advantage of the Franchiser’s infrastructure and marketing strengths and yet preserve their distinctive local details. To March 31, 2016, there are 6 Gamma hotels franchised.

During the 2016 corporate year, Posadas strengthened the Company’s brand portfolio to obtain a profitable growth by opening 13 new hotels: Live Aqua Urban Resort Monterrey; 2 Grand Fiesta Americana: Grand Fiesta Americana Puebla, Grand Fiesta Americana Monterrey Valle; 2 Fiesta Americana: Fiesta Americana Mexico Toreo and Fiesta Americana Monterrey Pabellon M; 4 Fiesta Inn: Fiesta Inn Playa del Carmen, Fiesta Inn Los Mochis, Fiesta Inn Pachuca Gran Patio and Fiesta Inn Loft Monterrey La Fe; 3 One: One Salamanca, One Durango and One Cuautitlan, and finally the hotel Gamma Torreon.

Likewise, Live Aqua was redefined and the hotel portfolio divided into the brands Live Aqua Urban Resort, Live Aqua Beach Resort and Live Aqua Boutique Resort.

Since June 1, 2016, the residential club The Front Door adopted the Live Aqua brand to re-launch as Live Aqua Residence Club (LARC), a vacation membership with a variety of high-level residential and hotel vacation real properties.

The Company has achieved a leadership position by maintaining strategies and opportunities that have allowed it to constantly grow, with a diversified and balanced portfolio: owned, leased, managed and franchised hotels, a mix of both urban and beach hotels. Our hotels serve both tourist as well as business travelers with a broad geographic coverage that extends across Mexico. The “all inclusive” lodging format has been consolidating and to this date, Posadas operates 9 hotels under this format.

[1] 152 hotels with 148 management contracts.

As part of these leadership strategies and due to the new change and innovation era in which we are immersed as well as the connectivity increase that continues generating large information quantities, the Company has been making digital communication efforts and investing in tools that analyze digital tribe interactions (new client segmentation) that follow Posadas' brands on social networks. Therefore, Posadas has become the first hotel chain to implement sale, support and crisis processing through social networks by way of the "Command Center", a tool representing the joint effort of different Posadas' areas and which has improved and increased social network interaction and the number of followers. Thus taking advantage of sales opportunities and reacting more efficiently to any crisis.

The Company has operated a vacation club for more than 15 years under the Fiesta Americana Vacation Club (FAVC) brand and for 2 years a residential club under the brand Live Aqua Residence Club (LARC). Under the FAVC product, members purchase a "40 year right to use" represented by annual points. FAVC points may be exchanged for lodging at any of the complexes located in Los Cabos, Baja California Sur; Acapulco, Guerrero; Cancun, Cozumel (two complexes) and Kohunlich (Chetumal), Quintana Roo, as well as at any Company operated hotel. Additionally, FAVC members may use their points at Resorts Condominium International ("RCI") complexes and Hilton Grand Vacation Clubs, or at any complex affiliated thereto in different parts of the world. LARC members have the right to use the residential developments located in Puerto Vallarta and soon Los Cabos, in addition to the aforementioned complexes, and at The Registry Collection hotel network. During the 2015 corporate year, the company acquired a plot of land located in Los Cabos which was allocated to building villas. During 2016, the first construction stage of these villas (Live Aqua Residence Club) in Los Cabos continued and which opening is planned for mid-2017. This stage equals 34% of the project and the rest of the units are considered to open by the end of 2017.

2016 was the 6 year benchmark of the Company's marketing of the product denominated "KIVAC" consisting of the point-denominated presale of lodging services with an up to 5 year validity, exchangeable for accommodations at any of the Company hotels and at about one hundred affiliated real properties not operated under our brands. To December 31, 2016 more than 33,100 members were affiliated under this modality. Beginning in 2015, the sale of this product started to be made through a website, in addition to other more traditional marketing mechanisms.

In 2016, the Company launched the new image of its acknowledgement and distinction program for frequent travelers, Fiesta Rewards. This was in order to thank the member loyalty, preference and trust incorporating new benefits and the Black Level for the most loyal members. This program had 220 thousand active members in 2016. Likewise, for the seventh consecutive year, the Company carried out the Campaign "Viaja[T.N.]" with more than 900 thousand gift certificates delivered during the year.

Regarding Distribution, the US$7.8 reservation cost was maintained even though the costs are dollar-priced. The latter due to the achieved scalability and the generation through direct channels of 70% of the reservations.

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

As owner and lessee of several hotel properties, Posadas decided to and executed investment in and refurbish the Fiesta Americana Guadalajara, Fiesta Americana Condesa Cancun and Fiesta Americana Merida hotels.

EBITDA, our main cash source, allowed us to invest more than $700 million pesos in maintaining and refurbishing our hotels (specifically Fiesta Americana Condesa Cancun and Fiesta Americana Guadalajara). It also allowed us to comply with our financial and tax liabilities and to generate a net cash flow of more than $550 million resulting in cash of $1,770 million pesos to the 2016 closing which considers US$24.3 million as surplus obtained after complying with all liabilities payable in USD, including the 2017 Senior Notes balance.

The generation in USD of approximately 25% of the annual consolidated income works as a direct hedge for Notes coupons with 2022 due date.

In 2015, US$350 million due in 2022 were issued, 87.6% of the 2017 due date Senior Notes were repurchased. On its due date (November 18, 2015) the Euro commercial paper's payment for US$50 million was made. Based on the applicable law, the Senior Notes and documents related to the same were not submitted for review or approval of any federal or state securities commission, or the regulatory entity of any country.

[T.N.] "Viaja" is literally translated into English as "Travel".

In May 2016, the reopening of US$50 million was carried out under the same terms and conditions as the notes with 2022 due date. With this add-on, the "Senior Notes 2022" program reached a total amount of USD$400 million. As foreseen in the reopening prospectus (Offering Memorandum), on October 3, 2016 the trustee agent (The Bank of New York Mellon) was notified of the payment instruction of US$38.3 million balance of the "7.875% Senior Notes Due 2017", which was made on November 30, 2016.

In 2014 and 2016 Posadas made public its intention to carry out a corporate internal restructuring in order to reorganize the number of its subsidiaries and the duties that some subsidiaries had in its structure. This corporate restructuring was timely informed and has significant importance in the Issuer's inter-company operations.

In this regard and considering the 2006 tax claim reported in the 2015 consolidated financial statements and pursuant to the present procedural stage, a guarantee of $846.0 million was established. For additional information see section *3) Financial Information, c) Relevant Loan Information*

As a proactive means to solve discrepancies in the application criteria of tax provisions and to give more operating and financial certainty, on April 7, 2017 the Company announced diverse agreements convened with the Tax Administration Service (SAT). The agreements are related to tax law compliance for the 2007 to 2013 tax years regarding brand amortizations aspects, SIBRAS tax treatment and the termination of the consolidated tax rules that Grupo Posadas had applied and that on said date had been subject to observations by the SAT. For additional information see section *3) Financial Information, c) Relevant Loan Information.*

Selected Financial Information

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

This consolidated financial information summary is presented for the years 2016, 2015 and 2014, based on the Company's consolidated financial statements which have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C., the Company's external auditors.

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

Financial Highlights		Audited Financials (million pesos) As of December 31st: 2016 - IFRS	2015 - IFRS		2014 - IFRS
Total Revenues	Ps.	7,979.3	6,901.2	Ps.	5,848.3
Corporate expenses		338.2	321.1		256.2
Depreciation, amortization, and real estate leasing		1,040.5	801.6		739.0
Impairment of assets		57.1	0.0		0.0
Operating income		1,054.5	947.3		544.7
Comprehensive financing cost		1,924.7	1,283.0		883.9
Taxes		(174.3)	131.3		(1,061.3)
Net income		(697.2)	(470.4)		718.2
Majority net income		(705.8)	(470.2)		716.8
Balance Sheet Data (End of Period):					
Current assets	Ps.	4,903.7	4,222.6	Ps.	4,676.9
Property and equipment, net(34)		6,483.1	6,666.5		6,559.5
Total assets		15,070.4	13,777.0		13,318.0
Current liabilities		2,500.3	2,068.9		3,085.5
Long-term debt		7,871.8	6,242.3		4,432.3
Total liabilities		12,142.1	10,149.5		9,208.7
Stockholders' equity		2,928.3	3,627.5		4,109.2
Other Financial Data					
EBIT / Revenues		13.2%	13.7%		9.3%
Net Income / Revenues		-8.7%	-6.8%		12.3%
EBITDA		$1,649.8	$1,362.0		$954.0
EBITDA to Revenues		20.7%	19.7%		16.3%
Total debt to EBITDA		4.8 X	4.6 X		6.2 X
Current assets / Current Liabilities		1.96 X	2.04 X		1.52 X
Total Liabilities / Equity		4.15 X	2.80 X		2.24 X

The shares representing the Company's corporate capital are listed on the Mexican Stock Exchange Market, S.A.B. de C.V., where they have traded since 1992. The number of shares in circulation (weighted average) to December 31, 2016, amounts to approximately 496 M.

Series "A" shares have shown low trading according to the BMV's rating, therefore they operated according to a BMV bidding process. Trading in Series "A" shares has never been suspended by the regulatory authorities.

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

POSADAS A	2012	2013	2014	2015	2016
Price Max.	20.75	24.7	25.50	41.50	46.97
Price Min.	15.8	20.5	22.50	27.00	41.50
Price at closing	20.75	24.7	25.50	41.50	46.00
Daily operated volume (thousands of shares)	9.9	205.6	804.3	16.4	8.0

Source: Bloomberg (The daily average volume is based on trading days).

For additional information regarding share performance see section 5 b) Capital Market - Share Performance on the Stock Exchange.

c) Risk Factors

The investing public should consider carefully all the information contained in the Annual Report, and specifically the following risk factors which are detailed below. These risks factors are not the only ones that the

Company faces. Additional risks and uncertainties of which the Company is not aware, as well as those currently thought immaterial, may have a material adverse effect on the Company's operations, financial situation, operating results or cash flows.

<u>Risks Relating to the Company</u>

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

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

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

Accordingly, our financial results were impacted by the 2010, 2011, and 2012 economic slowdown, and although we have recently witnessed a recovery, it has not reached 2008 levels (denominated in then Mexican pesos). Both our financial results, and our growth, may be influenced or distressed if this global economic situation occurs again, affecting our general businesses' and liquidity conditions. The effects of the current economic situation are difficult to forecast and mitigate.

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

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

Approximately 26% of the rooms that we manage are in Hotels classified as luxury hotels. Luxury hotels generally command higher room rates. In an economic downturn, these hotels are susceptible to decreased revenues, since hotels in this segment generally target the business and high-end vacation markets as compared to hotels in economic categories.

Likewise, the national and international perception of violence may have adversely affected travelers' decisions to travel to certain Mexican locations or to keep lodging plans at our hotels.

Concentration in one industry

The Company's operation is principally concentrated in one industry –hotel and service industry- and the current strategy consists of staying focused on this industry and other related business, such as the Vacation Properties, contact centers and centralized management. The Company has also undergone an ownership consolidation process of the hotels under its operation. To December 31, 2016, only four investors own 23 hotels as a whole, another investor is the owner of 61 hotels with 8,244 rooms that represents 34% of the total room inventory managed by Posadas. This concentration and dependency risk may affect, among others, the Company's negotiation and operating capabilities pursuant to policies freely established by the Company and sacrifice its operating margins. It is worth mentioning that the Company waived its preemptive rights to acquire certain hotels. These hotels are currently operated by the Company and were sold by their owners to Fibrahotel.

Competition

Competition for guests

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

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

The Company has mitigated this risk by keeping regional leadership and developing competitive operating, marketing and distribution advantages such as its brand recognition. Up to now, these measures have been sufficiently successful, but we cannot guarantee that they will be effective in the future in the consolidation framework of international hotel businesses.

Competition for operating agreements

When the Company seeks to grow through new hotel properties operated by the Company, it competes against other entities seeking the same opportunities. The Company competes with other entities that have greater financial resources or that have better-recognized international brands so as to enter into operating contracts with hotel owners. In addition to competing for new opportunities, the Company also competes against other hotel chains when the existing operating contracts expire. Therefore, the Company cannot ensure that it will continue entering into or renewing successfully its operating contracts or that it will do so under similar or more satisfactory economic terms or characteristics. Competition may generally reduce the number of future growth opportunities, increase the bargaining power of hotel owners and reduce the Company's operating margins. Likewise, said competition has forced the Issuer to negotiate operation and licensing contracts, where it undertakes contingent obligations to guarantee specific operating results which, in case the hotel obtains negative operating results, would make the Issuer sacrifice income and even disburse the deficit amounts in order to comply with such guarantee.

Competition for franchise agreements

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

Geographic Dependence

At present, the Company operates in Mexico and in the United States of America. However, the Company's operations are principally concentrated in Mexico since 151 of the 152[2] hotels operated that is 99% of the rooms operated are located in Mexico and these represents 99% of its income. In spite of the fact that the Mexican inventory is diversified to serve the city and beach segments as well as vacation and business travelers, the Company is significantly dependent on its Mexican operations; a market in which the Company already has high penetration. If these Mexican operations do not continue according to the Company designed plan and strategies, it could have a material adverse effect on the Company's operations, financial situation or its overall operating results.

Posadas' ability to operate and grow in other countries may also be affected by present or future commercial barriers, currency fluctuations, currency exchange controls, political situations, inflation, taxes and legislative amendments in the countries where the Company operates or intends to operate, or in which it has investors.

Growth Strategy

The Company has designed a growth strategy for its hotel, Vacation Properties and other service businesses in Mexico, which is primarily based on the execution of hotel operating agreements regarding third party realty, the execution of franchise contracts regarding third-party operated hotels, and the construction of new buildings allocated to Vacation Properties (under the time-share arrangements). The Company's ability to expand will depend on a number of global economic factors including, but not limited to, the condition of the United States, Mexican and other

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[2] 152 hotels with 148 operating agreements.

Latin American countries' economies, the ability of investors to construct new properties for the Company to operate and/or lease, or to enter into franchise contracts concerning such properties, and the selection and availability of new hotels locations, and the availability of financing. There can be no assurance that the Company's expansion plans will be achieved, or that the new hotels or Vacation Properties developments will meet with consumer acceptance or be operated profitably. In this same manner, the Company continues to offer contact center services to third-parties.

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

The Company may expand its operations to the United States of America and other Latin American countries. The Company has entered into a franchise contract with an investor in that country by means of which the company granted a Live Aqua franchise to exclusively develop said hotel brand in the United States of America for a 20 year term. The risks confronting our ability to successfully operate in the current markets also apply to our ability to operate in new markets whose operation and legislation are unknown or which require that authorities of other countries authorize its incursion. The Company may not obtain these authorizations due to the country's government and legislation, or our suppliers could not obtain the necessary permits or these may be revoked. Additionally, the Company would not have the same knowledge or familiarity levels regarding the new markets' dynamics and conditions and their regulations, which may affect its growth or operating ability in said markets, thereby affecting its profitability.

Management Contracts and Brand Licensing

As of December 31, 2016, the Company had 118 managed hotels, that the Company carries out by executing hotel operating and brand licensing contracts. The Company's management and financial conditions may be adversely affected to the extent that hotel management and brand licensing contracts which are about to expire are not renewed or are renewed on less favorable terms, or otherwise, if new managed hotels and brand licensing contracts cannot be executed. Furthermore, under determined management contracts, the Company guarantees a minimum revenue to the owner of the hotel otherwise the owner may cancel the contract if certain hotel performance standards are not achieved. However, this does not mean that the Company breached the operating contract. To date, no hotel operating contract has been anticipatorily terminated due to the previous circumstance.

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

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

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

Leasing contracts

Of the hotels operated by the Company to December 31, 2016, 13 operated under a leasing arrangement, and it is foreseen that great part of the Company's growth will come from said arrangements. The Company's operating and financial conditions may be adversely affected to the extent that income and operating profits are not sufficient to make the lease payments stipulated in the lease agreements. In accounting terms, leases are not capitalized and are registered as expense as they accrue. In 2015 and 2016, the leased hotels located in the Santa Fe area in Mexico City (Fiesta Americana Santa Fe and Fiesta Inn Santa Fe) did not generate positive EBITDA including fees, therefore the Company undertook this shortage in order to pay all of its liabilities, on September 1st, 2016, the Company decided not to renew the leasing contracts of these hotels.

To December 31, 2016, we are current with payments of all the leased hotels. Likewise, non-compliance of the lessors' obligation under arrangements in the leasing agreements may adversely affect the operation and finally the Company's profitability.

Franchising Contracts

The Company has also resolved to grow by franchising based on novelty brands, supported by its traditional brands. This means a foray into a new market that until now was unknown to Posadas and in which Posadas is not a leader. Therefore, the Company cannot guarantee its success in the execution and operation of franchise contracts. Furthermore, this new operating method implies that the owner or a third party other than the Company will manage the hotel's operation, and in this operating format we have not previously engaged or we have not done so with our brands. This new product means that Posadas must invest in the creation of a franchise system supporting the services intended to be rendered to this system's users. Moreover, it implies that third parties' hotels outside of Posadas' control will operate under its brands and distribution platforms. We cannot guarantee that Posadas will succeed in its franchising business, or that it will be successful soon, nor can it guarantee that its franchisees under this new segment will succeed.

Finally, the economic and financial capacity of the hotel owners may affect preservation of the brand standards under which the hotels operate. The Company may need to notify termination of franchise contracts for breach of said standards or of the franchisees' payment obligations, and this situation may adversely affect Posadas' possibilities to receive the consideration stipulated in said franchise contracts. To December 31, 2016, 6 hotels were operated under franchise.

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

The operation of certain services businesses, such as Ampersand, Konexo and Conectum, which on a consolidated basis, represented less than 10% of the Company's total revenues to December 31, 2016, 2015 and 2014. These businesses have developed from our hotel business, and have had a varying degree of independence from the hotel business, but there can be no assurance that said businesses will perform in accordance with their established expectations. Furthermore, the implementation and development of these businesses may imply the distraction of our executive officer team and the detouring of funds, or the anticipated benefits may be less or none; the decision to cease operations of some of these businesses due to third party obligations and limit them to service units, may bring about expenses. However, we depend on these businesses to operate various services, such as the Fiesta Rewards loyalty program, the contact center (call center), accounting processes, payroll payments, and technology services, amongst others. If any of these businesses cease to provide their respective services to us, or if they provide them less effectively, the Company's results, operations and financial condition may be adversely affected.

Holding Company Structure

Based on the corporate restructuring information leaflets made public in 2014 and 2016, the administration plans to transform the Issuer into an operating corporation as well as holding corporation for the shares of a limited group of subsidiaries. The foregoing transferring, at the pace and to the extent permitted and possible, the management of the hotel operation business, licensing of brands and granting of franchises to a Posadas' subsidiary company which would receive a significant amount of the income derived from the corresponding fees and royalties.

The Issuer nowadays can be defined as a holding company which principal assets consist of the shares of its subsidiaries, the right to use and full right of various real properties, the ownership of the Company's main brands and hotel operating contracts, and those contracts for brand licensing and franchising. By virtue of the foregoing, revenues of the Issuer primarily depend on the collection of dividends and fees arising from hotel operating, brand licensing, and franchise contracts. Beginning on June 1, 2016, the Issuer will absorb the direct operation of the owned and leased contracts, the personnel rendering service in said hotels, as well as the operation of the FAVC's and LARC's exchange program club. Most of the real properties will be owned by the Issuers' subsidiary companies.

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

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

Corporate restructuring

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

i) Creditors' Opposition

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

ii) Authorizations from the Government

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

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

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

iv) Legal provisions under the foreign law

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

v) Share price fluctuation

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

vi) Tax implications

In spite of the fact that efficiency is one of the objectives sought by this restructuring, we cannot guarantee that an unforeseen tax may not be incurred which may cause a material adverse effect or that the tax authorities may apply different criteria for tax purposes regarding such restructuring.

vii) Opportunity

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

Dependence on our key employees

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

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

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

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

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

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

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

Credit risk

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

Taxes

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

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

In this regard and considering the 2006 tax claim, reported in the 2015 consolidated financial statements and pursuant to its procedural stage, a guarantee of $846.0 million was established. For additional information see section 3) *Financial Information*, c) *Relevant Loan Information*.

Derived from the last consultation of the Company with the tax authorities, a favorable decision regarding the 2007 to 2013 tax years will be obtained. It is anticipated that the documentary record of said decision will be received soon. The Company may continue with the contingency and the payment of amounts determined by the tax authorities, if said documentary record is not received and/or there is an unexpected event affecting the agreements previously made with the authority, such as a change in administration. For additional information see section 3) *Financial Information*, c) *Relevant Loan Information.*

Proceedings and claims

The Company faces a series of legal proceedings other than tax proceedings, arising from the normal course of its operations. Due to the incipient nature of the proceedings, their lack of relevance, or the improbability of determining a probable contingent amount, there have not been established for all cases the related reserves. However, in the opinion of the Company management and its legal advisors, the outcome of contingencies arising from claims to December 31, 2016, will not significantly affect its consolidated financial situation nor its operating results in the short term.

During 2016, the corporation was sued in a labor proceeding by the unions of *Compañia Mexicana de Aviacion*, and although the legal advisors and the Issuer deem ungrounded the claimants' petitions, it is not possible to ensure the procedural outcome.

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

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

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

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

Historically, the majority of our indebtedness had been denominated in U.S. dollars. As of December 31, 2016, 100% of our indebtedness was denominated in U.S. dollars and at fixed rates. As a result, we were slightly exposed to risks from fluctuations in interest rates.

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

Likewise, the night/room rates of certain hotels in Mexico are typically quoted in U.S. dollars, as well as the sale and financing of Vacation Properties memberships, nevertheless we noted a greater tendency to set most of these debts at a fixed rate. However, the Company may in the future use financial derivative instruments for interest rates and currency exchange rates as intended to mitigate risks.

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

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

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

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

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

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

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

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

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

Labor costs, generally, including those related to indemnity and payments under labor and tax laws are significant, and may escalate beyond our expectations which could have an adverse effect on our operating margins. Recently, amendments were made to the labor justice system and union activities. However, and notwithstanding the result, the application criteria of said amendment by the administrative and judicial authorities are still unknown, and they may have an adverse effect on the Company or its subsidiaries.

Contractors may breach obligations to develop real properties

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

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

Our insurance coverage may be insufficient to cover potential losses

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

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

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

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

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

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

Our business operations in Mexico and abroad are subjected to anticorruption and money laundering laws, which in general prohibit that enterprises and their intermediaries make inappropriate payments to government officers or to any other person in order to obtain or hold onto business, obtain government authorizations or the non-applicability of the law; or to carry out operations with persons with unlawful proceeds, and to periodically report operations denominated "vulnerable" as well compile files thereof. The Company has policies applicable to our employees, managers and directors regarding the compliance of anticorruption and money laundering laws, and we consider we comply with said national provisions related to identification and prevention of operations with unlawful proceeds. However, we cannot ensure that none of our employees or executives contravene our internal or the authority's regulation and violate these provisions.

Likewise, the Company provides services to the general public and it is legally prohibited from discriminating due to any reason or refuse to provide service to the public, however, it is possible that persons charged as probably responsible for committing unlawful activities are unknown users of our services.

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

The Company has implemented policies and procedures to identify vulnerable activities and comply with the policies provided for in the Federal Law for the Prevention and Identification Operations with the Proceeds of Unlawful Activities (LFPIORI due to its initials in Spanish). However, we cannot guarantee that our interpretation of vulnerable activities coincides with that of the authority or with the limitations contained in the final report.

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

Vacation Properties Sales

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

At present, we bear the risk of defaults under purchase contracts for Vacation Property memberships. Members buy a 40 year right to use annually in any location of our Vacation Properties points system. We typically charge an initial payment of between 10% and 30% of the total price of the membership and offer monthly installment payment plans that comprise both payments of capital and interest on the unpaid balance of the purchase price. We recognize as income the entire value of a purchase contract when 10% of the purchase price is paid. Our policy is to cancel, against the corporate year's profits, those memberships that passed unsuccessfully through all recovery collection proceedings. The possible default on purchased agreements are covered by a reserve which could be insufficient to offset breaches and negatively affect our financial results.

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

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

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

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

Vacation Properties members pay annual maintenance fees that are allocated to operate and maintain timeshare resorts. Failure to pay maintenance fees by the members results in the cancellation of the pertinent contract, thus freeing inventory for a new sale. However, the preceding failure may cause the Company to allocate funds to cover said expenditures.

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

Any failure to protect our brands could have a negative impact on the value of our brand names and adversely affect our business

We believe our brands and trade names are an important component of our business and of the hotel business in general. We rely on laws that protect intellectual and industrial property rights to protect our registered proprietary rights. The success of our business depends in part on our continued ability to use our industrial property rights to increase brand awareness and further develop our brands on both the Mexican and international markets.

Monitoring and restricting the unauthorized use of our intellectual property is difficult, expensive and burdensome. In the future, litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the intellectual proprietary rights of third parties. Litigation of this type could result in substantial costs and we could be forced to allocate funds to said purposes and which may result in counterclaims or other claims against the Company, diverting management's attention and could significantly harm our operating results.

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

During the course of our business activities, third parties may perceive that Posadas violates their industrial or intellectual property rights. Although Posadas plans to take measures to mitigate exposure to these claims, the measures taken could be insufficient, ineffective or with different interpretations and, in the future, litigation may be necessary to defend use of industrial or intellectual property rights and so determine the validity and scope of the intellectual property rights of third parties. Litigation of this nature may result in substantial cost and we may be obligated to allocate monetary resources for said purposes, and which may result in counterclaims or other claims against the Company, distract the attention of its officers, impact in the Company's reputation and may significantly affect the income of our operations.

Stoppages or failures in information systems

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

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

In this same manner, the Company is exposed to compliance with confidentiality obligations and the provisions under the Law for Protection of Personal Data held by Private Persons. Regardless of whether the Company's efforts towards establishing adequate control procedures and measures in order to comply with these provisions, information management systems and use and safekeeping procedures for said information are vulnerable to failures derived from fires, flood, power outages, theft of information or of infrastructure, telecommunication failures, failures of the selfsame system, among other causes, or subject to different interpretative criterion of the authorities than those applied by the Company. The occurrence of any failure, intentional acts, or a difference of interpretative criterion may affect Posadas' operations, thus negatively impacting its sales and/or operating costs, originating adversarial proceedings and the latter's implicit costs. Although plans exist to reduce the impact of said failures, said plans may be inefficient.

Risk of outdated room distribution technology

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

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

Investments and remodeling

To continue satisfying the greater purchasing power market, in December 2015, the Company purchased a plot of land located in the development Cabo del Sol beside the hotel Grand Fiesta Americana Los Cabos to continue developing Live Aqua Residence Club (before The Front Door). This plot of land represented an $89 M (US$5M) investment and the construction is planned to build 100 rooms and their service areas. In said sale-purchase contract, the Company undertook diverse affirmative and negative covenants, amongst which is to build the development in a limited term. The breach of these obligations may cause the obligation of paying expenses, costs and indemnity to the seller, and which may adversely affect the economic situation of the Company and the project.

During 2016, the construction of the first stage in the plot of Los Cabos for the villas Live Aqua Residence Club continued, and it is planned to open by the middle of 2017. This stage is equivalent to a 34% of the project and it is estimated that the rest of the units will open by the end of 2017.

In 2016, the Company invested more than $700 million pesos in maintaining and remodeling hotels, mainly the following: Fiesta Americana Condesa Cancun, Fiesta Americana Guadalajara and Fiesta Americana Merida

In 2010, the Company acquired the ownership of real property located on the Rivera Maya denominated Chemuyil, same which it conveyed in December 2013 by selling shares of determined subsidiaries. Currently the Company has acquired 6% of the investment vehicle implemented by third parties to develop said property. The company intends to increase this investment to 12.5% by signing 20 years operating and brand licensing agreements counted from the signature date. The Company does not have the certainty that the project will be executed, that the anticipated yield on the investment will materialize nor that the project will be timely executed.

The developing projects of this kind may imply greater leverage, they may not be profitable or their development may be delayed, or the corresponding financing may not be obtained.

Disinvestment and Sales

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

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

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

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

Non-compliance with requirements to keep stock market listing and/or registration in the National Securities Registry.

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

Impact of government regulatory changes

The passing of new laws and legal provisions applicable to our industry and to our general activity, as well as their administrative or judicial interpretation, is implemented at the various government levels, and such laws and legal provisions may be amended from time to time. The effects of these amendments on our activity, in our market and country, in our clients' economy, in their capacity to travel to and stay in our hotels are unpredictable and

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

unquantifiable. Furthermore, such effects may result in the implementation of specific controls and procedures which may represent important costs and risks for the Company, increase compliance costs, and make our activity less profitable. Moreover, such controls and procedures may not be mitigated or may modify or restrict the manner in which the company is currently operating.

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

Risks Related to the Hospitality Industry

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

These risks include the following:

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

The Hotel Industry is Cyclical

The hotel industry is cyclical by nature. Of the 24,324 hotel rooms that the Company operated as of December 31, 2016 (including Vacation Properties), 21% are located in beach destinations where the cyclical aspect is more pronounced in contrast to business hotels. Generally, our Resort hotel revenues are greater in the first and fourth quarters, which reflect winter vacations, than in the second and third quarters. This seasonal cycle may generate quarterly fluctuations in the Company's revenues.

General Real Property Investment Risks

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

Lack of Real Property Liquidity

Real property is relatively liquid. The Company's ability to diversify its investment in hotel properties in response to economic or other conditions may be limited. There can be no assurance that the market value of any of the Company's hotels will not decrease in the future. The Company cannot guarantee that it will be able to dispose of a hotel if it deems it advantageous or necessary, nor can the Company assure that the sale price of any of its properties will be sufficient to recoup or exceed the Company's original investment amount.

Natural Disasters (Acts of God)

The properties that the Company operates are subject to Acts of God, such as natural disasters, particularly in locations where we own or operate various hotels. Some of these events may be hurricanes, earthquakes, epidemics, terrorism and environmental hazards, which may be either uninsurable or the insurance costs are too expensive with significant deductibles to the Company. Notwithstanding that said properties are insured against "All Risks", the damage that said events may cause represent a materially adverse risk factor to the properties' operations and to the income derived from these properties, to the Company's financial situation or to its operating results.

The Company operates 21 hotels in beach locations (11 of them in Cancun, Cozumel and the Riviera Maya) which are subject to hurricanes and which may be affected by loss of business due to business activity reduction caused by a hurricane.

Epidemics

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

Environmental Regulations and other Regulations

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

Environmental laws, ordinances and regulations in the various jurisdictions in which we operate may make us liable for the costs of removing, cleaning up or eliminating hazardous or toxic substances on, under, or in the property we currently own, operate or lease or that we previously owned, operated or leased without regard to whether we knew of, or were responsible for, the presence of hazardous or toxic substances. The presence of hazardous or toxic substances or the failure to properly clean up such substances, if present, could jeopardize our ability to develop, use, sell or rent the affected realty or to borrow money using such property as a guarantee. We are also subject to other laws, ordinances and regulations relating to lead, containing materials, operation and closure of storage tanks, and preservation of wetlands, coastal zones or endangered species, which could limit our ability to develop, use, sell or rent our real property or use it as collateral. Future changes in environmental laws or the discovery of currently unknown environmental conditions, including archeological zones, may have a substantial adverse effect on our financial condition and operating results. In addition, Mexican environmental regulations have become increasingly stringent. This trend is likely to continue with the passing of time and may be influenced by various international environmental agreements. The creation of new environmentally protected areas may affect or impose operating or economic costs on our operations. Our compliance with the latter may be challenged by the authority. Accordingly, there can be no assurance that a more stringent enforcement of existing laws and regulations or the adoption of additional legislation would not have a material effect on our business and financial (or other) condition or prospects.

Concentration in Internet distribution channels may negatively impact our cost distribution

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

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

The hotel industry is significantly dependent on technology

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

The Hotel Industry is Capital Intensive

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

Public Security

The potential client's perception of insecurity in urban and coastal locations may influence tourist and business traveler flow to the destinations in which the Company operates a hotel, and would adversely affect our revenues and operating results due to decreased travel and reduced demand for the destinations affected by such events.

Risks Relating to Mexico

Mexican Economic Conditions and Government Policies

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

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

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

The Mexican economic crisis and slowdown may generate a material adverse effect on the Company's operations and financial conditions, as well as a stronger currency exchange rate could reduce the flow of tourists to our country. In 2014, 2015 and 2016 the GDP was only 2.1%, 2.5% and 2.4% respectively, due to the federal government's efforts to implement government structural reforms, such as energy and tax legislative reforms.

Since the last quarter of 2014 and during 2015, the peso depreciated significantly against the United States dollar, representing a 12.6% depreciation for 2014, 16.9% for 2015 and 20.09% for 2016. This affected the Company's debt leverage and interest hedge index since its total debt is denominated in United States dollars.

Currency exchange fluctuations

As of December 31, 2016, 100% of our total indebtedness was denominated in U.S. dollars. While the majority of the Company's sales (approximately 75%) are peso denominated. An important portion of the accounts receivable are denominated in US dollars; see Notes 11 and 17 in the Company's audited consolidated financial statements included in this Annual Report (Attachment). The peso has been subjected to significant past depreciations and may be depreciated in the future. Peso depreciation would negatively impact the Company's results and financial condition due to implicit increased financing costs. This would be because the peso cost of the Company's dollar indebtedness would increase and would affect the Company's ability to pay its dollar denominated debt. The currency exchange rate for the period ending in December 2016 was $20.6640 pesos per United States Dollar that represented a 20.09% depreciation during the corporate year. Regarding the use of derivatives, we have used mainly cross-currency swaps where we pay a fixed United States Dollar rate in USD and receive a floating peso rate. During higher volatility periods such as those experienced in the 2008-2010 markets, these may represent significant variations as currency losses and gains, and to a lesser extent variation in interest rates that may considerably affect operating results. As of December 31, 2015, the Company had derivative contract positions to sell US$14 M equivalent to $242.8 M with due date on January 2016. To December 31, the Company did not have any financial derivative instrument signed.

Inflation

Given that a significant portion of the Company's operating costs are peso-denominated, a considerable inflation increase may in turn increase the Company's operating costs. Inflation may affect our client's purchasing power and, in this manner, it may adversely affect the demand for hotel rooms and Vacation Properties memberships. Inflation fluctuations may importantly affect the Company's financial situation and operating results. The annual inflation rates, in accordance with the National Consumer Price Index ("INPC", due to its initials in Spanish) measurements published by Banco de Mexico have been 4.1%, 2.1% and 3.4% for 2014, 2015 and 2016, respectively.

Interest Rates

As in the case of the value of the peso against the dollar and inflation levels, historically interest rates in Mexico have undergone volatility periods. These adverse situations have affected the Mexican economy, including inflation increases, and thus have resulted in substantial interest rate increases in the Mexican market during such periods. Interest rate movements may affect directly the Company's integrated financing result, thereby increasing its financing costs, in the event its bank debt is contracted at a floating rate. However, the recently experienced fall of interest rates on international markets has reduced the Company's financial risk. Interest rates on 28-day CETES (Mexican Treasury Bills) for 2014, 2015 and 2016 are: 3.0%, 3.0% and 4.2% (at the corporate year closing 5.7%), respectively.

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

Fibra Hotel

As of December 31, 2016, 34% of the total rooms that the Company manages are owned by a Fibra (REIT) that trades on the Mexican Stock Exchange market, and which, at a certain point in time, may confront liquidity problems to preserve its hotels in optimum conditions thus affecting the brands operated by Posadas and its results. To this date, 40% of our hotels are owned by Fibras.

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

The risk of an economic downturn in the United States of America, Europe or other countries may imply changes to the inhabitants' spending patterns, such as postponing or cancelling travel decisions which may be reflected in lower occupancy in the Company's hotels, specifically those beach destinations with greater influx of tourists from the United States, such as Cancun and Los Cabos. As of December 31, 2016, approximately 20% of the Company's rooms are located in beach destinations, and the remaining 80% in urban hotels. The GDP reported by Bloomberg in 2014, 2015 and 2016 was 2.4%, 2.5% and 3.5% respectively and inflation was 0.8%, 0.7% and 2.1% respectively. As of December 31, 2016, Posadas owns one hotel in the southern part of Texas in the United States which Posadas has identified for sale in the Company's consolidated statement of financial situation.

External Information Sources and Expert Statements

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

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

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

d) Other Securities

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

On February 20, 2014, the issuance of US$35 million additional "2017 Senior Notes" was announced by the Entity at an annual rate of 7.875% and due in 2017. The "2017 Senior Notes" were issued based on a private exchange for US$31.6 M of the principal amount of the "2015 Senior Notes" which constituted an add-on issuance of "2017 Senior Notes" with identical terms and reached a total of US$310 million issued. As a result of the cancellation of the "2015 Senior Notes" which were exchanged, the outstanding total principal amount of "2015 Senior Notes" was US$51.7 million to that date, which were fully paid on January 15, 2015.

On December 2, 2014, the Company successfully completed the Euro Commercial Paper ("ECP") issuance in the amount of US$50.0 M due on November 18, 2015, at a 6.0% rate, notified as a material event on November 27, 2014. The Company received the funds derived from the issue, which were mainly allocated to paying the balance of the "2015 Senior Notes" issue, and other corporate purposes, as well as to maintain a robust cash balance to meet any operating needs and capital expenses.

On June 25, 2015, the Issuer carried out a placement of Debt instruments denominated "Senior Notes 2022" abroad for an authorized amount up to US$350 M (Three hundred fifty million 00/100 USD). By way of official letter number 153/5630/2015, the CNBV recorded the placement in its RNV. As a consequence of said issuance, 87.6% of the "2017 Senior Notes" were cancelled, and the principal amount of the "2017 Senior Notes" in circulation is US$38.3 M. Likewise, part of the funds obtained from the placement were used for full payment of the Euro Commercial Paper issuance referred to in the preceding paragraph. Said securities were issued in compliance with Rule 144A and Regulation S of the Securities Act, and were registered on the Luxemburg Stock Exchange and in the Euro MTF Market.

On May 16, 2016, an add-on issue of US$50 million dollars of "Senior Notes 2022" was made at a 7.875% annual rate due in 2022. With this "Senior Notes 2022" add-on issue, the US$38.3 million balance of the debt known as "Senior Notes 2017" due in 2017 was paid in advance in November 2016.

With the add-on, the "Senior Notes 2022" program amounted to US$400 million dollars.

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

Maintenance Requirements

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

I. <u>Annual Information</u>:

(a) The third business day immediately following the date on which the ordinary general shareholders meeting is held which issues a resolution on the results of the corporate year, and which should be held within the 4 months following the close of said corporate year:

1.- Reports and opinion mentioned in article 28, section IV, of the Stock Exchange Law.

2. Annual financial statements, accompanied by an external auditor's opinion, as well as of the Issuer's associated entities which contribute more than 10 percent to its profits or total consolidated assets.

3. Communication signed by the secretary of the board of directors reporting the updated status of the books containing the records of the minutes of the shareholders' meetings, sessions of the board of directors, share record book and, if a variable capital corporation, the registry book containing increases and decreases in corporate capital.

4. Document referred to by article 84 of the general provisions, signed by the External Auditor.

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

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

No later than May 31 of each year:

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

II. <u>Quarterly Information</u>:

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

III. <u>Legal Information</u>:

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

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

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

2. Summary of the resolutions adopted by the meetings of shareholders, debenture holders or other securities holders.

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

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

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

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

(d) At least six business days before the act referred to, for each one of the following notifications:

1. Notification to the shareholders for exercising the corresponding preemptive right due to a corporate capital increase and the subsequent issue of shares, which payment should be presented in cash.

2. Notification of delivery or exchange of shares, debentures or other securities.

3. Notification of dividend payments, which should state the amount and proportion of the dividends, and if applicable, interest payment.

4. Any other notification addressed to the shareholders, debenture holders, and other securities holders or the investing public.

(e) On June 30 every three years, the formalization of the general shareholders meeting which approved the comparison of the Company's corporate by-laws with the Company's registration information in the Public Registry of Commerce.

IV. Purchase of own shares:

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

V. Material Shareholding

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

VI. Material Events:

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

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

e) Significant Changes to Securities Rights Registered in the RNV.

During the 2014 corporate year, the Issuer's extraordinary general shareholders' meeting resolved to decrease the shares representing its fixed corporate capital without withdrawal rights by cancelling 64,151,031 common, registered Series A shares, without par value, which directly or indirectly belonged to the corporation. In this context, during 2014, the Issuer proceeded to make the cancellation, decrease its fixed corporate capital without withdrawal rights and update its registration in the RNV, which to this date amounts to $512,737,588.00 (five hundred twelve million, seven hundred thirty-seven thousand, five hundred eighty-eight pesos 00/100 Mexican Currency), represented by 512,737,588 (five hundred twelve million, seven hundred thirty-seven thousand, five hundred eighty-eight) common, registered Series A shares, without par value. To this date, the share number in the repurchase fund amounts to 16,855,600 shares, therefore. 495,881,988 shares Series A are circulating.

The 2015 and 2016 Extraordinary General Shareholders Meetings modified the third, fifth, ninth, twelfth, twenty-first and thirty-first clauses of the corporate by-laws.

f) Public Documents

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

For more information please consult the Company's Internet page at: www.posadas.com.

2) THE COMPANY

a) History and Development of the Company

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

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

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

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

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

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

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

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

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

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

[T.N.] The Spanish translates as "Stock Market Corporation" in English, In 2008, development of non-hotel businesses continued with the consolidation of Ampersand which engages in the management of loyalty programs, and the Konexo call center.

In 2010, the Company acquired ownership of real property located on the Riviera Maya, with plans to develop a tourism complex including resorts destined to hotel services and other types of vacation properties. Likewise, on December 20, 2013, the Company sold to a third party, by selling shares of determined subsidiaries, the plot it had in Chemuyil and a residence in Cancun, Quintana Roo. It is important to mention that the plot was sold free of any IPAE (Institute of the Real Property of Public Administration of the State of Quintana Roo) tax or encumbrance. The aforesaid because in 2013, said institute applied a liquidated damages clause of US$10 M to be paid by Promotora Ecotur, S.A. de C.V due to breach of the construction agreements on the aforementioned land lot within the agreed term. Said payment was made by executing on the shares of the Issuer allocated in a guarantee trust. Currently, the Company has acquired the 6% of the investment vehicle implemented by third parties to develop said property. The company intends to increase this investment to 12.5%.

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

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

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

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

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

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

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

In April 2013, Posadas created The Front Door, a new luxury brand in the Vacation Properties Business aiming to offer a select portfolio of residential and hotel properties at exclusive destinations. That same year, the Company acquired 16 luxury apartments located in Puerto Vallarta (Marina Vallarta) to be allocated to the timeshare business. In 2016, The Front Door became Live Aqua Residence Club (LARC). In December 2015, the Company acquired a land lot in Los Cabos, Baja California Sur, to be allocated to the construction of villas for the Live Aqua Residence Club product. During 2016, the first construction stage of these villas continued, the opening is planned for mid-2017. This stage equals 34% of the project and the rest of the units are considered to open by the end of 2017.

In connection with our traditional Fiesta Americana Vacation Club business, in 2013 we allocated the Fiesta Americana Cozumel hotel to the timeshare system and its remodeling and refurbishment are in progress. The real property will operate under the all-inclusive format. Finally, in 2013 and 2014, Phase III of our timeshare facility in Los Cabos, Baja California Sur, was finalized. Both projects are estimated to an approximate investment of $450 M.

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

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

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

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

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

During 2014, the offer for the Vacation Properties segment was broadened by reopening the hotels Fiesta Americana Cozumel and The Explorean Cozumel which were remodeled for approximately $300 million investment.

As part of its product renovation strategy, during 2014 Posadas developed and launched the new concept of "Fiesta Americana" and "Grand Fiesta Americana" brand, an integral renovation which goes from image and logotype including public areas and rooms. Similarly, the Fiesta Inn Express and Fiesta Inn Loft brand extensions respond to the travelers' needs as do the new franchise Gamma business brand model.

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

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

In the financial and corporate areas, the following activities stood out in 2014, 2015 and 2016:

- On April 10, 2014 and 2016, the Corporate Restructuring information leaflets were published on the Company's corporate restructuring project for subsidiaries. The company continues analyzing to better detail its organization.

- In September 2014, we executed an agreement to fully terminate the escrow guaranty related to the sale of the South American hotel operation business

- On December 2, 2014, the Company received the Euro Commercial Paper ("ECP") placement funds for US$50 million at a year, with a 6.0% annual due rate. The issuance's net funds were mainly used for corporate purposes and to maintain a strong cash balance that allowed Grupo Posadas to face its operating needs and capital expenses.

- In January 2015, the Issuer paid a balance of US$51.7 M regarding the 2015 Senior Notes issue.

- On June 30, 2015, the Entity carried out a debt issue for US$350 M dollars in notes known as "2022 Senior Notes" by way of the Luxemburg Stock Exchange. The intention was to substitute the US$310 M dollars issue known as "2017 Senior Notes" that the Issuer held to December 31, 2014 and for which US$1,060 dollars were offered for each thousand dollars of the prior issue.

- As a result of the offer, it was possible to repurchase US$271.7 M dollars of "2017 Senior Notes" equivalent to 87.63% of the principal amount. The "2022 Senior Notes" accrue 7.875% annual interest with a due date on June 30, 2022. The interest is biannually payable starting on December 30, 2015.

- In connection with the Senior Notes issue due in 2017, issued in November 2012, in January 2013, the Senior Notes issue due in 2017 was modified to total an issue of US$275.0 M. In February 2014, US$31.6 M Senior Notes due in 2015 were exchanged for Senior Notes due in 2017 and an add-on issue was made in such a manner that the issue due in 2017 totaled a principal amount of US$310.0 M. Likewise, Impulsora de Vacaciones Fiesta S.A. de C.V. and Controladora de Acciones Posadas S.A. de C.V. have been included as payment guarantors of such notes. Due to the issuance of the notes denominated "2022 Senior Notes", the remaining balance of this program decreased to US$38.3 M to December 31, 2015. In November 2016, the US$38.3 million balance was pre-paid since the Company made an add-on issue on May 16, 2016 of US$50 M dollars of the “Senior Notes 2022” program at an annual 7.875% rate due in 2022. With the add-on issue, the “Senior Notes 2022” program amounted to US$400 M dollars.

- In September 2015, Grupo Posadas S.A.B. de C.V. renewed with Santander a loan opening facility for $200.0 M, granting as guarantee the Fiesta Inn Aeropuerto hotel.

- In December 2014, the Issuer contracted an Euro Commercial Paper issue of US$50 M, the interest was recognized in the consolidated statement of changes as they accrued, and it was paid on November 18, 2015, the principal’s due date.

- In 2013, Posadas began its corporate restructuring project, which intensified in 2014, 2015 and still continues in 2016 in accordance with the plans published in the Corporate Restructuring information leaflets dated April 10, 2014 and February 29, 2016. In this context, in 2013, the subsidiary Inmobiliaria Hotelera Posadas S.A. de C.V. was spun off so as to survive and create two new corporations to which certain assets and liabilities derived from securing the Senior Notes due in 2017 were transferred. During that year, a proceeding was filed to consolidate in the corporation Hoteles y Villas Posadas S.A. de C.V. (formerly AltiusPar S.A. de C.V.) the operation and payroll of owned and leased hotels. To this end, various inter-company operations were executed to transfer lease contracts, operation and license contracts and labor liabilities, among others. Furthermore, during 2014, 2015 and to date 2016, the Company entered into various corporate acts, among others, various mergers, pursuant to the plan described in the aforementioned informational leaflets. Amongst these, there stands out the consolidation of part of the realty business in Grupo Posadas, S.A.B. de C.V. and the elimination of some non-operating subsidiaries. The Company expects to continue this project’s corporate movements during the 2017 corporate year and following years.

- Regarding regulatory issues, in 2015, several normative amendments or additions were enacted which have made the Corporation adjust its procedures or invest funds to comply with them, such as the provisions related to the norms governing personal information held by private persons, or the applicable anti-money laundering norms.

- Following-up the 2006 tax claim, reported in the 2015 consolidated financial statements and pursuant to their present procedural stage, a guarantee of $846.0 million was constituted

- During 2016, the first construction stage of these villas in Los Cabos, Baja California Sur continued for the Live Aqua Residence Club product. This stage equals 34% of the project which opening is planned for mid-2017, and the rest of the units are considered to open by the end of 2017.

- On May 2, 2016, the Company informed the lease and future sale of the Fiesta Americana Hermosillo hotel with 220 rooms, which will continue being operated by Posadas.

- On August 1, 2016, the Company informed of the Fiesta Inn Monterrey Valle hotel sale to Fibra Hotel with 176 rooms, which will continue being operated by Posadas for a 20 year term.

- The Company has acquired the 6% of the investment vehicle implemented by third parties to develop the Chemuyil real property located on the Riviera Maya (Mayan Riviera). The Company intends to increase this investment to 12.5% by signing a 20 year operating and brand licensing agreements counted from the signature date.

The detailed financial situation to the 2016 closing is presented in the Financial Statements to this report and demonstrates duly explained and classified the Corporation’s profit and loss during the corporate year. Likewise, it presents the financial situation changes during said year and evidences the changes in the entries that comprise the corporate patrimony in the 2016 corporate year. The necessary notes complementing and clarifying the information contained in the financial statements are also detailed in the Independent Auditors Report and the 2014, 2015 and 2016 consolidated financial statements of Grupo Posadas S.A.B. de C.V. and Subsidiaries issued by Galaz, Yamazaki, Ruiz Urquiza S.C., (Deloitte).

Principal Investments 2014-2016

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

The following explains the principal investments that the Company has made between 2014 and 2016:

Total capital expenses for 2014 amounted to $752.2 M, which were mainly used in the following projects:

- Capital expenses totaled $597.5 M, of which 63% was used for maintenance and remodeling hotels, principally the Mexico City Fiesta Inn Aeropuerto, Fiesta Americana Merida, Fiesta Americana Guadalajara hotels and for repairs to the Fiesta Americana hotel in Los Cabos, due to the Odile hurricane.
- The 17% balance for corporate use is mainly related to the change of corporate offices.

Regarding the Vacation Properties, capital expenses totaled $154.6 M, principally for repairs to the Vacation Club villas in Los Cabos and the final remodeling stage in Cozumel (Cozumel Dive Resort and The Explorean Cozumel).

For 2015, the consolidated annual capital expenses totaled $612 M:

- Hotels: 42% was used for the maintenance and remodeling of hotels, specifically the Fiesta Americana Guadalajara, Fiesta Americana Condesa Cancun, Fiesta Inn Aeropuerto Ciudad de Mexico, Fiesta Inn Cuautitlan and Fiesta Americana Merida, amongst others.
- Vacation Properties: 33% was used for projects such as Acapulco Diamante and Live Aqua Residence Club (previously The Front Door Los Cabos).
- The balance of 25% for Corporate is mainly related to the corporate offices and technology.

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

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

b) Business Description

i) Principal Activity

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

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

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

In 2014, Posadas made an incursion into the hotel franchising market under the brand Gamma.

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

The Company plans to operate and franchise in Mexico 34 additional hotels with 5,049 rooms that should open during the following 24 months. This will represent a 22% room offer increase and, of this, 58% corresponds to the economy and business formats, including the Gamma brand. Of these hotels, two will operate as a Live Aqua, 1 as Grand Fiesta Americana, 8 under the brand Fiesta Americana, 1 as Live Aqua Residence Club (previously The Front Door), 1 as The Explorean, 11 operate under the brand Fiesta Inn, 13 under the three star hotel chain "One Hotels", and 2 under the Gamma brand. Of the projected hotels, 20 of the aforementioned hotels are under construction by their different owners. In line with the Company's strategy of operating a greater number of hotels with minimal investment, the Company plans to be the operator or franchiser of said rooms through franchising, management and leasing contracts with third parties investors. The Company estimates total investment for the aforecited Mexican development plan at approximately 8,621 million (US$429 M) of which Posadas will contribute with a 5% of its funds.

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

Posadas is one of the largest goods and services purchasers in the industry. Some of the Company's main suppliers are: Oracle, Deloitte, Accenture, Axa Seguros, Ariba, Lexmark, Comercial Norteamericana, LG, Jianlu, R Y J Edificaciones, Beta Procesos, Duetto Research, Goirand, Industrias D K, Diprec, Jabones y Productos Especializados, Dell México. It should be mentioned that the Issuer is not dependent on any supplier.

To take advantage of the Company's purchase volume as well as to guarantee the brand and operating standards, in 2016 a new Institutional Purchase model was initiated. Said model, under the Corporate Procurement Division has as its purpose to clearly contribute to the 2020 strategy obtaining an adequate balance between automation, efficiency, risk control, standardization and costs.

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

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

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

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

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

ii) Distribution Channels

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

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

The Company entered into an alliance with Santander Bank to issue a credit card under the shared brand Santander-Fiesta Rewards, with which the clients accumulate points to be exchanged in the company's loyalty program operating under the same Brand "Fiesta Rewards. To December 31, 2016 there were more than 134,000 card holders in Mexico.

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

In 2016, the Company launched the new image of its acknowledgement and distinction program for frequent travelers, Fiesta Rewards. This was in order to thank the member loyalty, preference and trust incorporating new benefits and the Black Level for the most loyal members. This program had 220 thousand active members in 2016.

Currently the loyalty program has commercial alliances with American Express, Thanks Again, Club Premier and Iberia Plus, amongst others. To December 31, 2016, there were 220 thousand active members which represented approximately 35% of our hotel occupancy.

In 2010, the Company launched the Kivac product, for the purpose of marketing hotel inventory, through the sale of points exchangeable for accommodations. The points are valid for 5 years. As of December 31, 2015, the Kivac program members total more than 33,100.

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

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

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

In 2016, the Company maintained its US$7.8 distribution cost per reservation despite dollarized costs, thanks to the achieved scalability and the generation through direct channels of 70% of the reservations. Thus, maintaining a US$7.8 distribution cost per reservation

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

- Company: CERVECERIA CUAUHTEMOC MOCTEZUMA S.A. DE C.V.
- Exchange : PROMOCION Y PUBLICIDAD FIESTA S.A. DE C.V.
- Travel Agency: ROCA NEGOCIOS ESTRATEGICOS DE HOSPEDAJE S. DE R.L. DE C.V.
- Company: SERVICIOS EJECUTIVOS SORIANA S.A. DE C.V.
- Company: INSTITUTO TECNOLOGICO Y DE ESTUDIOS SUPERIORES DE MONTERREY

In 2016, this channel increased its reservation numbers made on the Distribution platform from 8.5% to 9.4% representing a 21.8% growth compared to that in 2015. It is important to highlight that all brands grew in reservations made through said channel in comparison to 2015.

1.	ONE	55.3 %
2.	FI	14.1 %
3.	FA	8.5 %
4.	RESORTS	37.3 %
5.	GAMMA	42.6 %

iii) Patents, Licenses, Brands and Other Contracts

The Company operates its hotel business under four principal models, owned hotels; third party hotels managed by Posadas, hotels leased to third parties, and franchised hotels. In 2014, the Company began to operate a franchise business, and in 2015 corporate year, the first hotels operating under this collaboration system began operating.

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

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

Currently Posadas is designing and launching onto the market new hotel brands for differentiated markets and new vacation products. These products may represent additional investment as part of their creation, launch and marketing.

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

Soon, the Company will launch 2 new 4-5 star brands which will be aligned with current market trends (*millennials*).

To December 31, 2016, the average life of the Company's hotel management contracts (except its owned and leased hotels) was 9.5 years. Per brand, it was: 13.8 years for Live Aqua, 5.1 years for Grand Fiesta Americana, 9.8 years for Fiesta Americana, 10.5 years for Fiesta Inn, 14.5 years for Fiesta Inn Loft, 8.6 years for Gamma and 10.4 years for One Hotels. Generally, once the contract terminates, the owner may choose to renew the management contract, normally for periods shorter than the initial period. See chapter "Risk Factors" for more information related to contract renewal. The Company basically provides hotel services under 9 brands:

Posadas Mix of Brands					
Brand	Category	Hotel Rooms	Rooms by range	Location	Segment
Live Aqua Boutique Resort	Boutique	1 60	60-100	Upscale Resorts and large cities	International tourists and high end locals
Live Aqua Hotels & Resorts	Luxury	3 580	130-400	Upscale Resorts and large cities	International tourists and high end locals
Grand Fiesta Americana Hotels & Resorts	Grand Tourism	8 2,226	200-600	Large cities and upscale Resorts	Domestic and International tourists and business travellers
Fiesta Americana Hotels & Resorts	5-Stars	12 3,525	80-650	Large cities and upscale Resorts	Domestic and International tourists and business travellers
Fiesta Inn Hoteles Business Class	4-Stars	66 9,196	90-220	Small and mid size cities	Domestic and International business travellers
Fiesta Inn Loft	4-Stars	2 164	40-150	Small and mid size cities and suburbs of large cities	Domestic and International business travellers, longer stays
Gamma Hoteles & Resorts	4-Stars	11 1,551	80-200	Small and mid size cities	Domestic and International business travellers
One hotels	3-Stars	40 4,996	100-140	Mid and large size cities in industrial locations	Domestic business travellers
Fiesta Americana Vacation Club	5-Stars	5 1,517	100-300	Resorts	Domestic and International tourists
The Explorean by Fiesta Americana	5-Stars	2 96	40-100	Resorts	Ecotourism, Domestic and International tourists
Other	4-5 Stars	2 413	100-220	Mid and large size cities	Domestic and International tourists and business travellers
Total		**152** **24,324**			

Source: Posadas

The Company has entered into strategic alliances regarding certain products and services offered to third parties or offered jointly by Posadas and the third parties, such as the shared-brand Santander-Fiesta Rewards credit card mentioned herein in section 2) The Company.

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

To finance its operations and growth, to December 31, 2016, the Company had placed two bond issues abroad. *See Financial information – Relevant Loan Information*.

At the beginning of 2015, Posadas entered into an exclusive 20-year brand licensing contract so that our counterparty could invest and operate, by itself, Live Aqua hotels in the United States of America. Pursuant to our counterparty's statements, it expects to open at least 5 hotels under this brand in the following years in that country's principal cities.

The Company Vacation Properties segment created the new Live Aqua Residence Club product aimed at a higher purchasing-power segment; members purchase a "40-year right to use" represented by annual FAVC points. FAVC points may then be exchanged for lodging at any of the seven FAVC complexes located in Los Cabos, (Villas and Resort), Acapulco, Cancun, Cozumel, Chetumal and Puerto Vallarta, as well as at any of the hotels operated by the Entity. Additionally, FAVC members may use their points at Resorts Condominium International ("RCI") complexes and Hilton Grand Vacation Club or at any complexes affiliated thereto in different parts of the world.

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

Other relevant contracts

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

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

Derivative Financial Instruments

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

The reference or underlying variables of derivative financial instruments applicable to *Cross Currency Swaps* ("CCS") held by the Issuer may be subject to market, loan and operation risks that may result in unexpected and material losses. A fall in asset valuation, an unanticipated financing event or unforeseen circumstances causing a correlation of factors that were previously uncorrelated, may cause losses resulting from risks which were not accounted for when a derivative financial instrument was structured and traded. Some of these factors are the exchange rate *("FX"),* Libor rate changes represented in basis points ("pbs"), changes in *Spread* or *Basis* pbs and changes in the TIIE rate represented in pbs. Currently, the notional value of these instruments has been considerably reduced and the hedge by these instruments is maintained, and the depreciation corresponding to monthly markets valuations are recorded in the net profit and loss statement of savings corresponding to monthly flow exchanges for each coupon in pesos and dollars as part of the Comprehensive Financial Result ("RIF", due to its initials in Spanish). For greater detail please see section: 3) Financial Information, ii) Financial Situation, Liquidity and Capital Resources, Derivative Financial Instruments.

iv) Principal Clients

Given the nature of the hotel industry, the Company considers that it is not significantly dependent on any or several clients as users of hotel services which if lost would adversely affect the Company's operating results or financial situation. The Company has a business strategy based on targeting the Mexican business and vacation market segments through the Fiesta Americana, Fiesta Inn, Gamma and One Hotels brands; the wholesale segment in the North American market principally for the resorts line; and the Mexican group and conventions market segment for Fiesta Americana and Fiesta Inn. However, it is worth mentioning that the Company's marketing efforts are focused on the Mexican, United States and Canadian markets, therefore, a slowdown or downturn of said markets may significantly and adversely affect the Company's operating results.

Furthermore, there is a trend to consolidate hotel ownership in groups such as FibraHotel and other institutional real property investors. At present, we operate 61 hotels owned by FibraHotel representing the 40% of the total hotels operated by the Company and four other owners concentrate the operation of 23 third party hotels representing a 15% of the total. This trend is expected to continue in the near future. The loss of FibraHotel as a client, would seriously and adversely affect the Company's operating results and financial situation.

v) Applicable Legislation and Tax Situation

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

Currently, there is a proposal to amend the Federal Consumer Protection Law in the Mexican Congress that may affect different aspects of our operations, for example marketing rules for our vacation and residential clubs and our clients' cancellation rights.

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

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

Finally, various subsidiaries of the Company hold concessions for different purposes, which are governed by the applicable laws and specifically by the terms of the concession. This is the case of the Federal Maritime and Territorial Land Zones, water and wastewater wells, as of principal importance.

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

Stock Market Law

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

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

Tax Regulations in Mexico

Mexican enterprises are subject to Income Tax ("ISR", due to its initials in Spanish) and to the Single Rate Business Tax ("IETU", due to its initials in Spanish) until 2013. The ISR is calculated by considering certain inflationary effects as taxable or deductible, such as depreciation calculated on constant price values.

ISR -The rate was 30% in 2016 and 2015 and years thereafter. The Company incurred ISR on a consolidated basis with its Mexican subsidiaries up to 2013. Due to the repeal of the Income Tax Law in effect until December 31, 2013, the tax consolidation rules were eliminated. Therefore, the Issuer is obligated to pay the deferred income tax determined as of that date in the subsequent five corporate years beginning in 2014. This deconsolidation tax was recognized in the Consolidated Comprehensive Results statement to December 31, 2013, under the heading of profits tax and amounted to $882 M; likewise, short and long-term liabilities to December 31, 2016 amount to $159.1 M and $151.1, respectively. To March 31, 2017 short term liabilities amount to $611.2 M and $1,852.1 M in long term, liabilities as a consequence of the recognition referred to in section: 3) Financial Information, c) Relevant Loan Information.

Pursuant to Transitional Article 9, section XV, subsection d) of the 2014 Law, given that as of December 31, 2013 the Entity was considered to be a holding company and was subject to the payment scheme contained in Article

4, Section VI of the transitional provisions of the ISR law published in the Federal Official Gazette on December 7, 2009, or article 70-A of the repealed 2013 ISR law, it must continue to pay over the tax that it deferred in 2007 and prior years under the tax consolidation rules as based on the aforementioned provisions, until full payment is made.

IETU – The IETU was repealed in 2014. Therefore, to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax liabilities based on each corporate year's cash flow. The rate was 17.5%.

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

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

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

The Company opted to take advantage of these new rules. Thus, it has calculated the 2016 Income Tax as described above (for greater details, see Audited Financial Statements attached hereto)

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

US Tax Regulations

According to current United States law, the subsidiaries operating in that country are subject to Income Tax computed at a 35% rate.

vi) Human Resources

To December 31, 2016, the Company had 16,950 employees. In Mexico, around 50% of the employees are unionized. Generally, a union represents the unionized employees for each hotel. The collective bargaining agreements are generally reviewed yearly for salary adjustments and every two years for other clauses contained therein. Each of the individual hotel unions is affiliated to one of the larger national labor organization: either the "CTM" (due to its initials in Spanish, *Confederacion de Trabajadores de Mexico*) or the "CROC" (due to its initials in Spanish, *Confederacion Revolucionaria de Obreros y Campesinos*).

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

Likewise, the Company has a pension plan, seniority premiums and severance pay for non-unionized personnel thus complementing the legal seniority premium and pensions granted by law. In order to have access to the pension plan, employees must be older than sixty. The annual cost of legal seniority premiums, retirement and pension plans for personnel meeting certain requirements is calculated by an independent actuary based on the projected unit credit method. To respond to these liabilities, the Company keeps investments in pension and retirements reserve funds that to December 31, 2016, amounted to $38.3 M.

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

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

The management of human capital is one of the Company's priority, and during 2014 it started a project headed by the Human Capital Division in order to attract and retain key position talent in different Company business units, thus diminishing the risk of losing business know-how, productivity, efficiency and continuity. This project currently continues; in 2015 and 2016, approximately 796 evaluations were carried out to identify the talent with the greatest potential and design individual development and retention plans for this collaborator group. Likewise, there is a retirement plan reserve for material directors in the amount of $89.4 M.

In 2016, Posadas obtained the tenth position amongst the best companies to work in Mexico with more than 5,000 collaborators according to the Great Place to Work organization survey.

During 2017 the company will be working in implementing a competency model to manage the Human Resources areas and launching an evaluation tool to manage and detect internal corporate, hotel and sales talent. Regarding collaborators training, in 2017 the Company focused on three programs: Service, Attitude, Magic and Action School and Sales School. Additionally, it implemented the program denominates Top Talent Transformation given by Harvard Business Publishing, training 19,000 collaborators.

vii) Environmental Performance

The construction and hotel industries in Mexico are subject to federal, state and municipal laws, as well as to strict regulations in preservation, conservation and environmental protection matters; hotel operations and safety aspects, amongst others. The Company is implementing actions within its reach to reasonably comply with the laws governing hotel and environmental matters. We are currently in process of modifying and processing various authorizations, licenses, permits and concessions necessary for the operation of our hotels.

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

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

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

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

Derived from effort and work on environmental issues, some of the achievements of the Company during 2016 are:

- PROFEPA "S" Award: The Office of the Federal Attorney General for Environment Protection and the Ministry of Tourism (SECTUR) awarded Posadas with 4 "S" awards for its compliance with environmental normativity, implementation of good operating and engineering practices, as well as maintaining closeness with the community policies, offering a solid sustainable development base. The 4 hotels who received this award were: Fiesta Americana Los Cabos, Fiesta Inn Cancun, One La Paz, Holiday Inn Merida.
  In addition to the foregoing, the Company signed an Undertaking Agreement through which it assumed the commitment of incorporating 130 hotels throughout the country eligible for certification by the Environmental Audit National Program.

- Around 8 hotels obtained Touristic Environmental Quality Certificates granted by PROFEPA.

- Hydro-sustainable Hotel Award: More than 10 hotels received this award granted by the Helvex Foundation among which there stand out: Live Aqua Bosques, Fiesta Americana Reforma, Fiesta Americana Queretaro and Fiesta Americana Merida. This award incentivizes and acknowledges the hotels with the best environmental practices regarding water use and care in order to measure their good environmental practices, especially those aimed at saving and effectively using water.

- As part of its environmental plan, the Company seeks an international environmental certification. Thus, in October 2016, it started a Green Key process, an environmental responsibility and sustainability excellence standard. The hotels which have this award offer their guests that by choosing their lodging facilities, they are contributing to making an environmental and sustainable difference.
  Posadas would start with the hotels: Live Aqua Cancun, Fiesta Americana Condesa Cancun and Fiesta Americana Hacienda Galindo.

- The company initiated the greenhouse gas emission registry with the National Emissions Registry. The latter only for the hotels under the corporate name: “Hoteles y Villas Posadas, S.A de C.V”.

- From TripAdvisor, 78 hotels have an Excellence Certificate and 27 hotels with the “Eco leaders” award.

The market shows a marked trend to consume sustainable products and services. In this sense, our clients are not the exception therefore the sustainable operation of our hotels is key to marketing our services.

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

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

viii) Market Information

Industry’s Global Context

The tourism industry is susceptible to an ample variety of factors, from changes in consumer habits and preferences to international security and terrorism fears. In 2016, world tourism showed positive behavior by presenting a 3.9% increase in the arrival of international tourists reaching a total of 1,235 million.

Globally speaking, Asia and Africa had an annual growth of arrival of international tourists of 8.4% and 8.1% respectively. Unites States only grew 3.6% while Europe with the highest concentration of arrival of international tourists only grew 2%. Middle East had a significant diminishment of 4.1%.

The countries which stand out regarding the growth of arrivals are: Germany with a 16.8% growth, Spain with 9.9% while Mexico and Thailand grew 8.9%.

In contrast, Turkey lost around 12 million of international tourists which represents a 30% annual drop, therefore, it no longer appears in the classification of the 10 countries with the most international arrivals.

France and United States, despite keeping their Ranking position, presented a significant 5.4% tourist decrease (last information available as of September 2016) and 2.3% (last information available as of August 2016) respectively. France, due to terrorism derived effects, and the United States because of its currency appreciation.

During the last five years, the arrival of international tourists to Mexico has grown at a 10.6% average annual rate and the income per international tourists grew 11.3%. Tourism industry results surpassed the expectations forecasted for the beginning of 2016.

In 2016, international tourist arrivals reached a total of 1.235 million, 3.9% more than those of the previous year. According to the World Tourism Organization (WTO), the number of international travelers that stayed at least one night out of their country last year was in 2016 more than 60 million.

2016 was a year, which despite variations in the different destinations due to currency fluctuation, the oil price dropped as well as other basic products and the growing awareness about security, showed a positive behavior regarding the arrival of international tourists, which has been constant in the last five years, growing at a 10.6% annual rate according to the WTO.

The following chart shows the countries with the highest international tourist arrivals in 2016 (Source: Tourist Activity Outlook number 20 of the National Tourism Business Council “CNET and World Tourism Organization “WTO)”.

Position	Country	Million International tourists arrivals
	World	1,235.0
1	France	88.1
2	United States	77.9
3	Spain	75.6
4	China	59.3
5	Italy	52.6
6	Turkey	39.3
7	Germany	35.6
8	Mexico	35.0
9	United Kingdom	33.9
10	Thailand	32.6

*Data estimated from WTO information and country tourism offices.

The WTO foresees that international tourist arrivals will increase approximately 3% and 4% around the world in 2017.

Tourism in Mexico *(Source: National Tourism Business Council – CNET)*

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

Unless otherwise stated, the source of the tourism information in this section is from the Ministry of Tourism (“SECTUR”) and we have not independently verified the information contained in this section. The terms “tourism” and “tourist” refer to business and group leisure trips.

According to the WTO estimated numbers, Mexico received 35 million international tourists in 2016, which is a number greater than that of the previous year by 8.9%. The greatest number of foreign visitors were from the United States and Canada with 9.6 and 1.7 million tourists, respectively. The latter expresses an increase of 12.1% and 1.6% in comparison to the preceding year.

It is estimated that the economic disbursement by international visitors to Mexico was US$19.5 thousand million in 2016, which represented an increase of approximately 10.4% as compared with 2015.

Tourism is the third income source of the country, after the remittances sent by Mexicans living abroad and petroleum exports.

The accumulated balance of the Tourism Balance to December 2016 was 9 million dollars and represented a 22.4% increase with respect to 2015.

Domestic. In 2016, 453,000 domestic trips were registered, regarding the national tourism, in the same year 48.1 million tourists lodged in hotel rooms (destinations with more than 1,000 average rooms) were registered.

Hotel occupancy levels. In general, based on the 25 principal destinations in the country (including beach destinations), hotel occupancy levels in Mexico averaged 63.6% in 2015 and 65% in 2016, an increase, historically being the highest occupation in the last 5 years with an increase of 1.4pp.

Competition

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

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

The principal competitors of Fiesta Americana hotels are other international and Mexican chains such as Camino Real, Intercontinental, Crowne Plaza, Marriott, Sheraton, Westin, Hilton and Hyatt, Principal competitors of Fiesta Inn hotels are both independent local hotel operators and international and Mexican chains such as Holiday Inn, City Express, Holiday Inn Express, Best Western, Mision, Hampton Inn and NH hotels.

The Vacation Properties industry is also highly competitive. Fiesta Americana Vacation Club competes primarily with Palace Resorts, Mayan Palace and Royal Holiday Club in Mexico, and generally with other Vacation Club Caribbean destinations and other coastal resort areas operating this concept, and in the high end segment Live Aqua Residence Club (previously known as The Front Door) may be a competitor.

Although the Company considers itself a leader in Mexico as to the number of operated hotels and rooms and geographical coverage, there is no official publication proving the market participation of its hotels in relation to existing competitors or its competitive position.

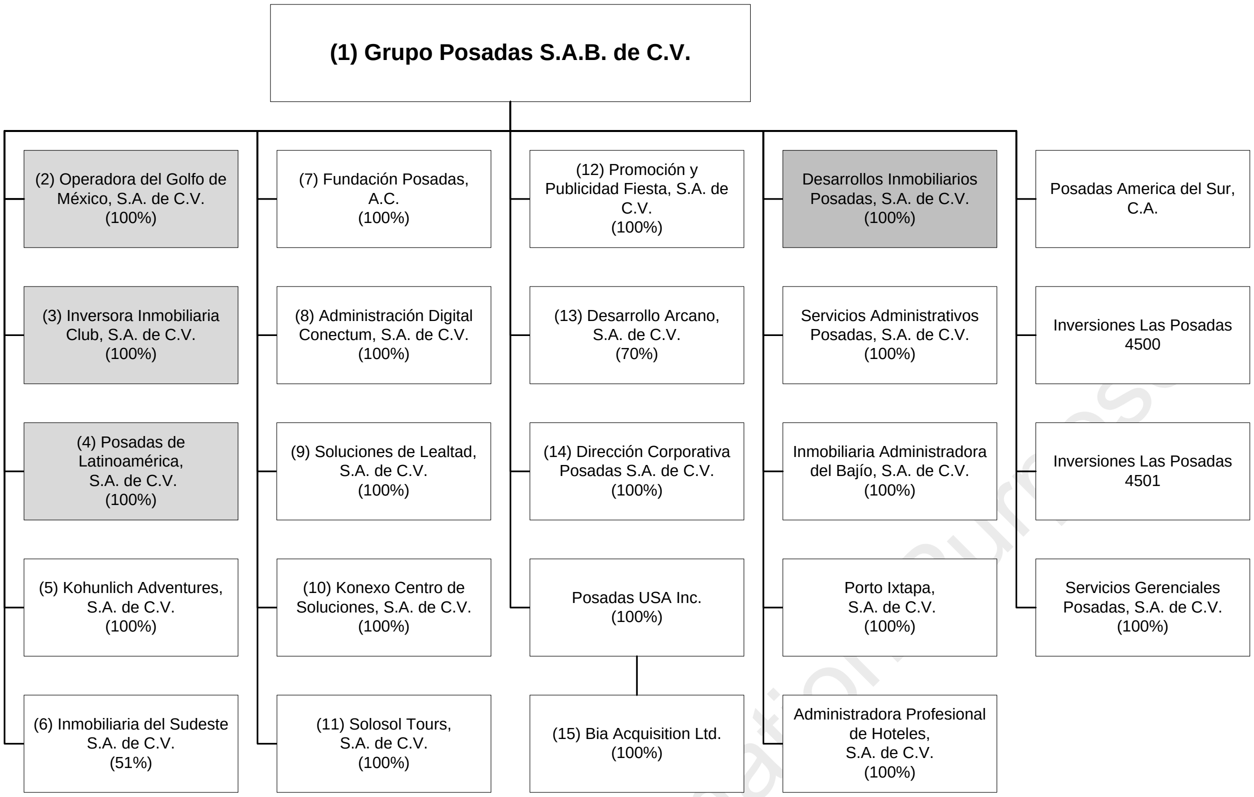
In reference to total rooms (including own, leased and operated rooms) in Mexico in relation to the top ten countries with the most international arrivals, the Posadas brands jointly have an approximate 26% market participation. Including the competitive set brands, Boutique hotels (Live Aqua Boutique), Luxury (Live Aqua) and Grand Tourism (Grand Fiesta Americana) have a 13% market share in the five star category. The hotels operating under the Fiesta Americana brand have a 15% market share. In the four star category, Fiesta Inn has a 30% market share. In the "economy" three star segment, the brand One Hotels has a 52% market share. In the four categories, the aforementioned Posadas' brands are leaders.

ix) Corporate Structure

The Company is organized as a holding corporation and additionally conducts a very important number of its operations by itself and through its mainly Mexican subsidiaries. After the corporate restructuring, it is intended that the Company operate with approximately 24 Mexican subsidiaries and some others abroad, or with the lowest possible number.

The following organizational chart illustrates how the Company's principal subsidiaries are organized, as well as the principal activities of each entity.

To March 31, 2017, the principal Company's subsidiaries are grouped in the following manner (taking into consideration some still existing subsidiaries since the mergers have not yet become fully effective):



Source: Posadas

Guarantors of the Senior Notes 2022

1) Grupo Posadas, S.A.B. de C.V. owns hotel trademarks, under which it operates hotels in Mexico through management and/or franchise contracts, and it receives net cash flows from owned and leased hotels. This Entity pays rents for leased hotels to third parties. This Entity hires employees for owned and leased hotels.
   Grupo Posadas S.A.B. de C.V. manages our vacation club exchange program.
2. Operadora del Golfo de México, S.A. de C.V. owns all of our hotels in Mexico, except for the FA Merida hotel.
   Grupo Posadas S.A.B. de C.V. and Operadora del Golfo de México S.A. de C.V. own our Cozumel vacation club resort. Those ownership entities lease their resorts to Posadas de Latinoamérica S.A. de C.V, which sells rights of our Vacation Properties segment in that property.
3. Inversora Inmobiliaria Club, S.A. de C.V. is the subsidiary through which we hold our vacation club resorts: Acapulco, Cancún, Marina Vallarta, and Kohunlich vacation club resorts.
4. Posadas de Latinoamérica S.A. de C.V. owns Los Cabos vacation club resort and sells time share rights in such property. Posadas de Latinoamérica S.A. de C.V. pays royalties and management fees to Grupo Posadas, S.A.B. de C.V. for the operation of vacation club units. Posadas de Latinoamérica S.A. de C.V. markets our Kivac product, which targets low-end customers.
5. Kohunlich Adventures, S.A. de C.V. holds our federal ground transportation permits for transportation of our hotel guests.
6. Inmobiliaria del Sudeste S.A. de C.V. is the owner of, and receives all of the cash flows of, the FA Mérida hotel.
   Inmobiliaria Administradora del Bajío S.A. de C.V. is the payroll entity for such hotel.
7. Fundación Posadas A.C. holds and administers our public charity programs.
8. Administración Digital Conectum S.A. de C.V. holds our Conectum business.
9. Soluciones de Lealtad, S.A. de C.V. holds our Ampersand business.
10. Konexo Centro de Soluciones S.A. de C.V. holds our Konexo's call center business.
11. Solosol Tours S.A. de C.V. holds our GloboGo business.
12. Promoción y Publicidad Fiesta, S.A. de C.V. holds the marketing fund for all of our hotels.
13. Desarrollo Arcano, S.A. de C.V. and Porto Ixtapa, S.A. de C.V. are the developers of two residential ventures in Ixtapa, Mexico.
    Desarrollo Arcano, S.A. de C.V. holds two plots of land in Ixtapa and Porto Ixtapa, S.A. de C.V. holds an account receivable for the last plot of land sold in Ixtapa.
14. Dirección Corporativa Posadas, S.A. de C.V., Servicios Administrativos Posadas, S.A. de C.V., Servicios Gerenciales Posadas, S.A. de C.V. are our payroll entities for corporate and hotel executive committee employees.
15. Bia Acquisition Ltd. is the subsidiary through which we own one hotel located in Laredo, Texas. Posadas USA Inc. holds our sales promotion and collection operations in the United States.

* Inversiones Las Posadas 4500, C.A., Inversiones Las Posadas 4501, C.A., Posadas América del Sur, C.A., are entities that we plan on disposing, pursuant to our on-going corporate reorganization.

Grupo Posadas' board of directors has decided to carry out an ambitious internal restructuring plan that began by consolidating hotel operation in its subsidiary "Hotels y Villas Posadas S.A. de C.V." and which it intends to complete in 2016. The plan will reduce its number of subsidiaries to about 30 entities. The restructuring plan, which was the subject of two informational leaflets published on April 10, 2014 and on February 26, 2016 and to which the reader is remitted for greater detail, consists of an internal corporate structure reorganization of certain businesses of Posadas. It is underlined that no corporation which is not currently a direct or indirect subsidiary of Posadas participates in the corporate restructuring, and as to those corporations in which third party minority participation exists, it is foreseen that said third parties will not acquire interest in corporations or assets in which at present they do not have an interest or a holding. For this reason, the consolidated assets and operations of Posadas as a corporate group will not undergo substantial changes after the Company's corporate restructuring. Along these lines, Posadas has implemented a series of corporate movements that solely involve subsidiaries controlled (that is to say, corporations where the Issuer owns 51% or more of the corporate capital), directly or indirectly. The corporate restructuring does not imply the Company's incursion into a new business line, and in no manner, affects the existence or legal capacity of Posadas as a Publicly-Traded Corporation, nor will it affect in any manner the products and services that the Company offers to its clients. Neither will the corporate restructuring affect the Company's work force. The corporate restructuring of Posadas' Subsidiaries is intended to reduce and make more efficient the Issuer's corporate structure. Currently there is pending the full entry into force of the merger of: Gran Inmobiliaria Posadas, S.A. de C.V., Yipa, S.A. de C.V., Inmobiliaria y Administradora Minerva, S.A. de C.V., Corp. Hotelera de Ciudad Juarez, S.A. de C.V., Sistema Director de Proyectos, S.A. de C.V., Comisiones e Incentivos Fiesta, S.A. de C.V., Comercializadora Reservaciones Posadas, S.A. de C.V., API PM, S.A. de C.V., API LA, S.A. de C.V., API FA, S.A. de C.V. and Axioma Demostrado, S.L.

x) Description of the Company's Principal Assets

Herein below is a list of the Company's hotels to December 31, 2016, including number of rooms, age, location and type (franchised, owned, managed or leased):

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Hotel	Opening	Country	Type of Contract	Number of Rooms
Live Aqua Bosques (Ciudad de México)	2012	México	Managed	135
Live Aqua (Cancún)	2004	México	Leased	371
Live Aqua Boutique Resort Playa del Carmen	2015	México	Managed	60
Live Aqua Urban Resort Monterrey	2016	México	Managed	74
Grand Fiesta Americana AI Parks Vallarta	2015	México	Managed	444
Grand Fiesta Americana Coral Beach	1990	México	Managed	602
Grand Fiesta Americana Chapultepec	2001	México	Managed	203
Grand Fiesta Americana Guadalajara Country Club	2007	México	Managed	207
Grand Fiesta Americana Puebla	2016	México	Managed	168
Grand Fiesta Americana Monterrey Valle	2016	México	Managed	180
Grand Fiesta Americana Los Cabos Golf & Spa Resort	2000	México	Owned	249
Grand Fiesta Americana Querétaro	2003	México	Managed	173
FA Aguascalientes	1993	México	Managed	192
FA Condesa Cancún	1989	México	Owned	502
FA Cuernavaca, Hacienda San Antonio El Puente	2011	México	Managed	131
FA Guadalajara	1982	México	Owned	391
FA Hacienda Galindo	1977	México	Owned	168
FA Hermosillo	1982	México	Managed	221
FA Mérida	1995	México	Owned	350
FA Monterrey Pabellon	2016	México	Managed	178
FA Puerto Vallarta	1979	México	Managed	291
FA Reforma	1970	México	Owned	616
FA México Toreo	2016	México	Managed	252
FA Veracruz	1995	México	Managed	233
FAVC Cancún	1981	México	Owned	310
FAVC Condesa Acapulco	1971	México	Owned	560
FAVC Cozumel Dive Resort	1991	México	Owned	174
FAVC Explorean Cozumel	2014	México	Owned	56
FAVC Explorean Kohunlich	1999	México	Owned	40
FAVC Los Cabos Villas	2000	México	Owned	457
FAVC Puerto Vallarta - Nima Bay	2013	México	Owned	16
FI Aeropuerto Ciudad de México	1970	México	Owned	327
FI Aguascalientes	1993	México	Managed	125
FI Cancun Las Americas	2012	México	Leased	152
FI Celaya	2003	México	Managed	124
FI Centro Histórico	2003	México	Leased	140
FI Ciudad del Carmen	2003	México	Managed	131
FI Ciudad Obregón	2007	México	Managed	141
FI Ciudad Juárez	1999	México	Managed	166
FI Colima	2004	México	Managed	104
FI Cuautitlán	2004	México	Leased	128
FI Cuernavaca	2008	México	Managed	155
FI Culiacán	2003	México	Leased	146
FI Chetumal	2013	México	Managed	131
FI Chihuahua	1993	México	Managed	152
FI Coatzacoalcos	2008	México	Managed	122
FI Durango	2008	México	Managed	138
FI Ecatepec	2005	México	Leased	143
FI Guadalajara	1995	México	Managed	158
FI Hermosillo	2002	México	Managed	155
FI Insurgentes Sur	2011	México	Leased	162
FI Insurgentes Viaducto	2003	México	Leased	210
FI León	1995	México	Managed	160
FI Los Mochis	2016	México	Managed	125
FI Mérida	2014	México	Managed	166
FI Mexicali	2004	México	Managed	150
FI Monclova	1996	México	Managed	121
FI Monterrey Fundidora	2007	México	Managed	155

Hotel	Opening	Country	Type of Contract	Number of Rooms
FI Monterrey La Fe - Aeropuerto	1998	México	Managed	161
FI Monterrey Tecnologico	2010	México	Managed	201
FI Monterrey Valle	1994	México	Managed	177
FI Naucalpan	1997	México	Managed	119
FI Nogales	2004	México	Managed	107
FI Nuevo Laredo	2011	México	Managed	120
FI Oaxaca	1993	México	Managed	145
FI Pachuca Gran Patio	2016	México	Managed	156
FI Perinorte	1996	México	Managed	127
FI Perisur	2001	México	Leased	212
FI Plaza Central	2014	México	Managed	169
FI Playa del Carmen	2016	México	Managed	129
FI Poza Rica	2005	México	Managed	107
FI Puebla las Animas	2012	México	Leased	140
FI Puebla FINSA	2006	México	Managed	123
FI Querétaro	2000	México	Managed	175
FI Querétaro Centro Sur	2014	México	Managed	134
FI Reynosa	2006	México	Managed	127
FI Saltillo	1997	México	Managed	149
FI San Cristobal de las Casas	2011	México	Managed	80
FI San Luis Potosí Glorieta Juárez	1996	México	Managed	135
FI San Luis Potosí Oriente	2004	México	Leased	140
FI Tampico	2002	México	Managed	124
FI Tepic	2008	México	Managed	139
FI Tijuana Otay	2005	México	Leased	142
FI Tlalnepantla	1994	México	Managed	131
FI Toluca Tollocan	1998	México	Managed	144
FI Toluca Aeropuerto	2013	México	Managed	150
FI Toluca Centro	2009	México	Managed	85
FI Torreón Galerías	2005	México	Managed	146
FI Tuxtla Gutiérrez	2007	México	Managed	120
FI Veracruz Boca del Río	1999	México	Managed	144
FI Veracruz Malecón	2001	México	Managed	92
FI Villahermosa	2015	México	Managed	159
FI Xalapa	1993	México	Managed	119
FI Zacatecas	2011	México	Managed	146
FI Loft Ciudad del Carmen	2015	México	Managed	120
FI Loft Irapuato	2015	México	Managed	44
FI Loft Monterrey La Fe	2016	México	Managed	48
FI Loft Monclova	2014	México	Managed	37
FI Loft Querétaro	2014	México	Managed	50
One Acapulco Costera	2008	México	Managed	126
One Aguascalientes Ciudad Industrial	2008	México	Managed	126
One Aguascalientes San Marcos	2009	México	Managed	126
One Cancún Centro	2014	México	Managed	126
One Ciudad del Carmen Concordia	2012	México	Managed	126
One Ciudad de México Patriotismo	2007	México	Managed	132
One Ciudad de México Alameda	2014	México	Managed	117
One Culiacan Forum	2012	México	Managed	119
One Coatzacoalcos Forum	2007	México	Managed	126
One Guadalaja Centro Historico	2012	México	Managed	146
One Guadalajara Periferico Norte	2011	México	Managed	132
One Guadalajara Periferico Vallarta	2014	México	Managed	121
One Guadalajara Tapatío	2013	México	Managed	126
One Irapuato	2013	México	Managed	126
One La Paz	2014	México	Managed	126
One León Poliforum	2014	México	Managed	126
One Monclova	2014	México	Managed	66

Hotel	Opening	Country	Type of Contract	Number of Rooms
One Monterrey Aeropuerto	2006	Mexico	Managed	126
One Playa del Carmen Centro	2010	Mexico	Managed	108
One Puebla FINSA	2010	Mexico	Managed	126
One Cuautitlan	2016	Mexico	Managed	156
One Queretaro Aeropuerto	2013	Mexico	Managed	126
One Queretaro Centro Sur	2014	Mexico	Managed	126
One Queretaro Plaza Galerias	2008	Mexico	Managed	126
One Oaxaca Centro	2013	Mexico	Managed	109
One Celaya	2015	Mexico	Managed	126
One Cuernavaca	2015	Mexico	Managed	125
One Gran Sur	2015	Mexico	Managed	144
One Durango	2016	Mexico	Managed	126
One Reynosa Valle Alto	2010	Mexico	Managed	135
One Salina Cruz	2011	Mexico	Managed	126
One Saltillo Derramadero	2009	Mexico	Managed	126
One Salamanca	2016	Mexico	Managed	126
One San Luis Potosí Glorieta Juárez	2008	Mexico	Managed	126
One Silao	2014	Mexico	Managed	126
One Toluca Aeropuerto	2007	Mexico	Managed	126
One Vallarta Aeropuerto	2014	Mexico	Managed	126
One Villahermosa Centro	2014	Mexico	Managed	110
One Villahermosa Tabasco 2000	2015	Mexico	Managed	126
One Xalapa Las Animas	2012	Mexico	Managed	126
Gamma Campeche Malecon	2015	Mexico	Franchise	146
Gamma Ciudad Obregon	2014	Mexico	Managed	135
Gamma El Castellano, Mérida	2015	Mexico	Franchise	153
Gamma Ixtapa	2015	Mexico	Franchise	153
Gamma León	2014	Mexico	Managed	159
Gamma Monterrey Ancira	2015	Mexico	Franchise	244
Gamma Morelia Beló	2014	Mexico	Managed	84
Gamma Inn Tijuana	2014	Mexico	Managed	140
Gamma Pachuca	1998	Mexico	Leased	114
Gamma Torreon	2016	Mexico	Managed	102
Gamma Xalapa Nubara	2015	Mexico	Franchise	121
Ramada Plaza	1988	USA	Owned	200
Holiday Inn Mérida	1980	Mexico	Managed	213

Source: Posadas

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

Moreover, the Company is the holder of certain real property destined for office use in Morelia and at present is the owner of two lots of land located in the states of Nayarit and Guerrero, an urban land lot in Bacalar and two land lots in Arcano for the construction of hotel projects. These projects are conditioned to obtainment of financing.

In April 2016, the Company opened the hotel Fiesta Americana Pabellon Monterrey under an administration contract and decided to not renew the operating contract for the hotel Fiesta Americana Centro Monterrey beginning July 1, 2016.

On May 2, 2016, the Company informed the lease and future sale of the Fiesta Americana Hermosillo hotel which will continue being operated by Posadas. With an investment of $85 million, 123 rooms and common areas will be remodeled and the hotel sale will be completed in 2020 with an EBITDA multiple of 10.06 times.

On August 1, 2016, the Company informed of the Fiesta Inn Monterrey Valle hotel sale to Fibra Hotel with 176 rooms, which will continue being operated by Posadas for a 20-year term. As a result of this sale, a $108 million profit was recorded in the Other Businesses category in the consolidated financial statement.

On February 1, 2017, initiated operations the hotels Fiesta Inn Puerto Vallarta La Isla with 144 rooms and One Mexicali with 120 rooms, and the One Guadalajara Expo hotel on February 7, 2017 with 126 rooms. All of them under a managed contract.

In April 2017, the sale purchase contract of the hotel Fiesta Inn Aeropuerto with 327 rooms was signed, which will continue being leased by Posadas for a 15 year term, these contracts will enter into force in the second half of the year.

During 2016, the Company opened 13 hotels representing a total of 1,864 additional rooms:

Hotel	Rooms	Contract
One Salamanca	126	Managed
One Durango	126	Managed
FA Monterrey Pabellon	178	Managed
Fi Pachuca Gran Patio	156	Managed
GFA Puebla	168	Managed
GFA Monterrey Valle	180	Managed
Live Aqua Urban Resort Monterrey	74	Managed
Fiesta Inn Loft Monterrey La Fe	48	Managed
FI Playa del Carmen	129	Managed
FA México Toreo	252	Leased
FI Los Mochis	125	Managed
One Cuautitlan	156	Managed
Gamma Torreon	102	Managed
Inventory Increase	44	
Total	**1,864**	

With respect to investment plans for the remodeling of own and leased hotels and the Live Aqua Residence Club in Los Cabos to be allocated to our Vacation Property segment, please see section 2), The Company, History and Development in this Annual Report.

xi) Judicial, Administrative or Arbitral Proceedings

As of December 31, 2016, the Company was a party in several judicial and administrative proceedings derived from the ordinary course of business, both as plaintiff and defendant. However, none of the judicial or administrative proceedings of which Posadas has knowledge may be considered “material” in terms of the Generally Applicable Provisions to Securities Issuers and other Securities Market Participants, due to the incipient procedural status, the indetermination of the amount, or due to the merits of the proceeding, in our advisors’ opinion.

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

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

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

Since judicial and administrative proceedings do not depend on the Company, the latter cannot with certainty assure or affirm regarding the outcome of said proceedings, the period in which they will be resolved and, in the applicable case, the eventual loss that an adverse resolution would bring to the Company and its operations.

During 2016, the corporation was sued in an employment proceeding by the unions of the Company “Compañía Mexicana de Aviacion”, and although the advisors and the Issuer deemed the claimants’ petitions ungrounded, it is not possible to ensure the procedural outcome.

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

xii) Representative Shares of Corporate Capital

As of December 31, 2016, the Company’s corporate capital is made up of 512,737,588 no par value shares, fully subscribed and paid, without considering shares that have been repurchased by the Issuer. To said date, 512,684,913 shares out of the 512,737,588 total were deposited with the S.D. Indeval, *Institucion para el Deposito de Valores, S.A. de C.V.* in a sole certificate. Therefore 52,675 shares representing the corporate capital of Grupo Posadas are not deposited with said institution.

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

Number of shares	**2016**	**2015**	**2014**
	Series "A"	**Series "A"**	**Series "A"**
Capital	512,737,588	512,737,588	512,737,588
Minus- Repurchase of shares	(16,855,600)	(16,855,600)	(16,799,600)
	495,881,988	**495,881,988**	**495,937,988**

The Extraordinary General Shareholders Meeting of Grupo Posadas held on March 19, 2014 resolved, among other items, to cancel 64,151,031 series A no par value shares and thus reduce Grupo Posadas’ stated corporate capital by the amount of $64,151,031.00 (sixty-four million, one hundred fifty-one thousand, and thirty-one 00/100 Mexican pesos). As a consequence of the above, the make-up of the Corporation’s corporate capital, after the cancellation of the previously mentioned trusts and some shares repurchased by a charge to the repurchase fund, the corporation’s corporate capital was composed as follows:

- Corporate capital: $512,737,588.00
- Number of shares representing corporate capital: 512,737,588 series “A” shares, common and freely negotiable.

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

The distribution of shareholder’s equity, which if applicable will be resolved by the Shareholders Meeting, excepting updated amounts of corporate capital contributed and tax retained earnings, will incur ISR on account of the Company at the effective rate on distribution date. The tax paid on such distribution may be set off against ISR for the corporate year in which the tax on the dividends is paid and in the two immediately following corporate years, against that corporate year’s tax and the provisional payments thereof.

As of December 31, 2013, the legal reserve is presented in accumulated earnings and amounts to $99.2 million (face value), and represents 20% of the nominal corporate capital. Said reserve cannot be distributed to shareholders, except as share dividends.

The General Ordinary Shareholders Meeting held on March 22, 2017 approved that the maximum amount of funds to be allocated to purchasing the corporation's shares, according to the Stock Market Law's limitations, would be the amount of $535 million. This amount does not exceed the earnings balance withheld to December 31, 2016.

As follows, the events which occurred in the last corporate years are detailed:

(i) The Issuers' Extraordinary General Shareholders Meeting, on March 19, 2014, resolved, among other issues, to cancel 64,151,031 Series A registered shares, without par value and, accordingly, decrease Grupo Posadas' stated corporate capital by $64,151,031.00 (sixty-four million, one hundred fifty-one thousand, thirty-one 00/100 pesos Mexican Currency).

(ii) The Issuers' Extraordinary and Ordinary General Shareholders Meeting, on August 22, 2014, resolved to merge into Grupo Posadas, six 100% subsidiary corporations: Compañia Desarrolladora Los Cabos, S.A. de C.V., Hoteles la Mansion, S.A. de C.V., Inmobiliaria Opus, S.A. de C.V., Inmuebles Cozumel Reef, S.A. de C.V., Promotora Dinatur de Sonora, S.A. de C.V., Turistica Hotelera Cabos Siglo XXI, S.A. de C.V. This action did not cause any movements in the Issuer's corporate capital.

(iii) The Issuers' Extraordinary General Shareholders Meeting, on April 14, 2015 resolved to modify the Twelfth clause of the corporate by-laws.

(iv) The Issuers' Ordinary General Shareholders Meeting, on June 18, 2015 resolved to refinance its debt by way of a "Senior Notes" issue.

(v) The Issuers' Extraordinary General Shareholders Meeting, on March 15, 2016, resolved to amend the fifth clause of its corporate by-laws and merge eight corporations: Promotora Inmobiliaria Hotelera, S.A. de C.V., Controladora de Acciones Posadas, S.A. de C.V., Promotora del Caribe, S.A., Promociones Hoteleras del Caribe, S.A. de C.V., Corporativo Prohoca, S.A. de C.V., Fiesta Vacation, S.A. de C.V., Hoteles and Villas Posadas, S.A. de C.V., Asesores Administrativos Los Cabos, S.A. de C.V

(vi) The Issuers' Extraordinary General Shareholders Meeting, on October 31, 2016, resolved to modify the third, ninth, twelfth, twenty-first, and thirty-first of its Corporate By-laws and merge 11 corporations: Gran Inmobiliaria Posadas, S.A. de C.V., Inmobiliaria y Administradora Minerva, S.A. de C.V., Yipa, S.A. de C.V., API PM,S.A. de C.V., API LA, S.A. de C.V., API FA, S.A. de C.V., Axioma Demostrado, S.L., Corp. Hotelera de Ciudad Juárez, S.A. de C.V., Sistema Director de Proyectos, S.A. de C.V., Comisiones and Incentivos Fiesta, S.A. de C.V., Comercializadora Reservaciones Posadas, S.A. de C.V..

(vii) The annual Issuers' Ordinary General Shareholders Meeting, for the 2014, 2015, 2016 and 2017 corporate years have approved the corresponding corporate years without declaring any dividends.

xiii) Dividends

The periodicity, amount and form of dividend payments are proposed by the Company's Board of Directors and are put to the consideration of the ordinary annual general shareholders meeting for approval. The dividend amount depends on operating results, financial situation, capital expenses, investment projects and other factors deemed important by the Board of Directors.

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

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

3) FINANCIAL INFORMATION

a) Selected Financial Information

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

			Audited Financials (million pesos) **As of December 31st:**		
Financial Highlights		**2016 - IFRS**	**2015 - IFRS**		**2014 - IFRS**
Total Revenues	**Ps.**	7,979.3	6,901.2	**Ps.**	5,848.3
Corporate expenses		338.2	321.1		256.2
Depreciation, amortization, and real estate leasing		1,040.5	801.6		739.0
Impairment of assets		57.1	0.0		0.0
Operating income		1,054.5	947.3		544.7
Comprehensive financing cost		1,924.7	1,283.0		883.9
Taxes		(174.3)	131.3		(1,061.3)
Net income		(697.2)	(470.4)		718.2
Majority net income		(705.8)	(470.2)		716.8
Balance Sheet Data (End of Period):					
Current assets	**Ps.**	4,903.7	4,222.6	**Ps.**	4,676.9
Property and equipment, net(34)		6,483.1	6,666.5		6,559.5
Total assets		15,070.4	13,777.0		13,318.0
Current liabilities		2,500.3	2,068.9		3,085.5
Long-term debt		7,871.8	6,242.3		4,432.3
Total liabilities		12,142.1	10,149.5		9,208.7
Stockholders' equity		2,928.3	3,627.5		4,109.2
Other Financial Data					
EBIT / Revenues		13.2%	13.7%		9.3%
Net Income / Revenues		-8.7%	-6.8%		12.3%
EBITDA		$1,649.8	$1,362.0		$954.0
EBITDA to Revenues		20.7%	19.7%		16.3%
Total debt to EBITDA		4.8 X	4.6 X		6.2 X
Current assets / Current Liabilities		1.96 X	2.04 X		1.52 X
Total Liabilities / Equity		4.15 X	2.80 X		2.24 X

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

It is important to mention that the Senior Notes maturing in 2017 and 2022 are guaranteed by a good portion of subsidiaries that represent an important amount of the assets, shareholders' equity, sales and operating profits of the corporation, in accordance to the audited financial statements of the external auditors, and therefore the information has not been broken down. In this regard, please refer to the information detailed in ii) Financial Situation, Liquidity and Capital Markets.

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

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

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

REVENUES BY BUSINESS UNIT (million pesos)	2016 - IFRS		2015 - IFRS		2014 - IFRS	
	Revenues	%	Revenues	%	Revenues	%
OWNED AND LEASED HOTELS	4,063.1	50.9%	3,544.4	51.4%	2,717.8	46.5%
MANAGEMENT	922.2	11.6%	782.3	11.3%	1,107.9	18.9%
VACATION PROPERTIES	2,605.1	32.6%	2,200.5	31.9%	1,996.7	34.1%
OTHER BUSINESSES	389.0	4.9%	319.7	4.6%	-	NA
OTHER REVENUES	0.0	0.0%	54.4	0.8%	25.8	0.4%
TOTAL	**7,979.3**	**100%**	**6,901.2**	**100%**	**5,848.3**	**100%**

Source: Posadas

c) Relevant Credit Information

Section B. *Financial Situation, Liquidity and Capital Resources*, found later in this Report, contains a detailed discussion of the Company's total debt structure. As of December 31, 2016, the Company was current with all capital and interest payments on all loans contracted. In like manner, to the date of this report, the Company is current with capital and interest payments on financing contracted.

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

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

I. Regarding the 2006 corporate year, there is a proceeding against a tax liability determined by the Central International Auditing Administration of the Tax Administration Service (SAT) for an updated amount of $846 million, which is pending ruling by the Federal Administrative Justice Court. Therefore, it is not possible to predict a result for the Company to the date of this annual report. The tax authorities have alleged failure to pay Income Tax, reason for which the Company presents an appeal remedy before SAT which was decided in favor of its interests, therefore, the Company presented a revocation remedy against said determination was filed and which was ruled against the Company. Thus the Company file a null and void remedy, resulting in the aforementioned proceeding. The interest applicable to this tax liability has been guaranteed in terms of the applicable provisions. According to out external advisors on this issue, there are sufficient arguments to obtain a favorable result in said proceeding. It is important to mention that the Company constituted a guarantee in order to comply with the tax interest on the liability determined. Although the Company has announced that it is constantly and closely communicating with the authority in order to resolve these proceedings, there is no guarantee that the Company will be successful.

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

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

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

a. Recognition of a payment obligation for the total amount, in different corporate years, of $2,463 million pesos, which includes accrued taxes and surcharges to April 7, 2017. Of this amount, $612 million pesos were liquidated during the corporate year ($488 million pesos were paid on April 7, and the remaining amount during the month of April 2017). The balance to be paid in annual payments between 2018 and 2023, subject to updates, for an approximate amount of $308 million pesos each one.

b. A profit loss registered on March 31, 2017 for $955 million pesos, as the consequence of the long-term tax liability increase.

c. Ratify the right of Grupo Posadas to amortize the pending tax losses accumulated to 2013, for an approximate amount of $7,750 million pesos.

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

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

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

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

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

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

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

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

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

Pursuant to the last consultation with the tax authorities, the Company made corrections related to the aforestated for tax years 2007, 2008 and 2009, liquidating only the accessories for the entries which were the subject of observations. Accordingly, the Company presented an authorization request to obtain a favorable ruling from the SAT to benefit from article 70-A of the Federal Tax Code (late charges at the extension rate and elimination of fines).

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

IV. The new 2014 Income Tax Law eliminated the incentive that allowed contributing realty to Real Property Investment Corporations (SIBRAS) and accumulated the gain upon conveyance of these assets until the moment of sale to third parties or the sale of the shares of these corporations, stipulating the obligation to accumulate said gain up to the close of 2016.

The tax resulting from said accumulation in an amount of $968 million, of which $3,226 million was accumulated income corresponding to the real properties that were contributed, at that time, to the SIBRAS.

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

i) Operating Results

2016-2015

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

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

	Notes	2016	2015	2014
Continuous operations				
Revenues	22	$ 7,979,349	$ 6,901,221	$ 5,848,278
Sale cost	22	4,538,947	4,101,783	3,579,145
Gross profit		3,440,402	2,799,438	2,269,133
Adminstration expenses	22	982,304	884,090	807,848
Sale and development expenses	22	252,243	166,250	131,871
Depreciation, amortization, lease and wear and tear		1,040,475	801,646	739,026
Other expenses, net		110,921	145	45,670
Interest expense		643,592	508,840	417,669
Interest revenue		(46,802)	(34,457)	(22,509)
Commissions and financial expenses		93,474	100,080	60,763
Exchange loss, net		1,234,444	708,553	427,934
Equity in earnings of associated companies		-	750	12,595
		4,310,651	3,135,897	2,620,867
Loss prior to earnings tax		(870,249)	(336,459)	(351,734)
Earnings (Benefit) tax	16	(174,349)	131,334	(1,061,257)
(Loss) Profit from continuous operations		(695,900)	(467,793)	709,523
Discontinued operations				
(Loss) Earnings from discontinued operations		(1,279)	(2,612)	8,718
(Loss) Consolidated earnings for year		(697,179)	(470,405)	718,241
Other integrated results				
Foreign currency conversion gain, to be later reclassified into profit and loss		32,195	7,516	10,844
Recalculation of defined benefit obligations, not to be later reclassified into profit and loss		(23,820)	18,091	(13,689)
Earnings Tax		7,146	(5,127)	4,107
		15,521	20,180	1,262
Consolidated Comprehensive Results for year		$ (681,658)	$ (450,225)	$ 719,503

(Cont.)

	2016	2015	2014
Annual consolidated profit (loss) attributable to:			
Controlling participation	$ (705,819)	$ (470,208)	$ 716,817
Non-controlling participation	8,640	(197)	1,424
Annual consolidated profit (loss)	$ (697,179)	$ (470,405)	$ 718,241
Annual consolidated integrated result attributable to:			
Controlling participation	$ (690,298)	$ (450,028)	$ 718,079
Non-controlling participation	8,640	(197)	1,424
Annual consolidated integrated results	$ (681,658)	$ (450,225)	$ 719,503
Profit (loss) per share:			
Continuous operations and discontinued operations -			
Earnings (loss) basic and diluted per common share (in pesos)	$ (1.42)	$ (0.95)	$ 1.45
Continuous operations -			
Earnings (loss) basic and diluted per common share (in pesos)	$ (1.42)	$ (0.94)	$ 1.43
Weighted average of shares in circulation	495,929,856	495,929,856	495,937,601

(Ends)

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

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

2016 -2015 Total Revenue

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

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

2016 -2015 Owned and Leased Hotels

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

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

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

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

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

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

2016 -2015 Management

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

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

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

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

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

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

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

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

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

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

2016 -2015 Vacation Properties

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

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

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

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

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

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

2016 -2015 Other Businesses

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

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

2016 -2015 Corporate Expenses

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

2016 -2015 Depreciation, Amortization and Real Property Leasing

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

2016 -2015 Operating Results

The operating results for Grupo Posadas consolidate the revenues from its lines of own hotels, administration of hotels, brands and others, Vacation Properties and other business lines and deducts its corporate expenses and expenses due to depreciation, amortization, leasing of real property and deterioration of assets. Consequently, because of the preceding, its consolidated operation loss was $697.2 million for 2016 and of $470.4 million reported in 2015.

2016 -2015 Comprehensive Financial Result

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

(Numbers in thousands of pesos)

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

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

2016 -2015 Revenue from discontinued operations, net income tax

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

2016 -2015 Majority Net Result

Our financial statements report a consolidated net loss of $705.8 million for 2016.

2016 -2015 Financial Situation

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

The Company's total assets to December 31, amount to $15,070.3 million (US$729.3 million).

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

To 2016 closing, the total debt amounted to $ 7,872.2 (US$380.9 million) million net of issuance expenses, while the net debt according to IFRS was $ 6,102.1 million (US$295 million). The proportion of Net Debt to EBITDA was 3.7 times, which favorably compares with 4.6 times reported to December 31, 2015 on a comparable basis.

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

To the publication date of this report, the corporate ratings are:

Moody´s: global scale "B2" with positive outlook.
S&P Global Ratings: global scale "B+" with stable outlook.
Fitch Ratings: global scale Issuer Default Rating (IDR) "B" and local scale "BB+(mex)", both with stable outlook.

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

In compliance with the stipulations of article 4.033.01 section VIII of the Mexican Stock Exchange's Internal Regulations, we would like to make known that the debt analysis coverage of Grupo Posadas is done by:

Bank of America Merrill Lynch, analyst, Roy Yackulic roy.yackulic@baml.com (1-646) 855-6945
BCP Securities, LLC, analyst: Ben Hough bhough@bcpsecurities.com (1-203) 629 2181

Corporate year ending December 31, 2015
Compared with the corporate year ending December 31, 2014
Information according to International Financial Reporting Standards (IFRS)

Consolidated Integrated Operating Results Statement
For the years ending December 31, 2015 and 2014
(*In thousands of Mexican pesos*)

	2015	2014
Continuous operations		
Revenues	$ 6,901,221	$ 5,848,278
Sale cost	4,209,784	3,667,834
Gross profit	**2,691,437**	**2,180,444**
Adminstration expenses	815,126	745,305
Sale and development expenses	126,879	105,726
Depreciation, amortization, lease and wear and tea	801,646	739,026
Other expenses, net	479	45,669
Interest expense	508,840	417,669
Interest revenue	(34,457)	(22,509)
Commissions and financial expenses	100,080	60,763
Exchange loss, net	708,553	427,934
Equity in earnings of associated companies	750	12,595
	3,027,896	**2,532,178**
Loss prior to earnings tax	(336,459)	(351,734)
Earnings (Benefit) tax	131,334	(1,061,257)
(Loss) Profit from continuous operations	(467,793)	709,523
Discontinued operations		
(Loss) Earnings from discontinued operations	(2,612)	8,718
(Loss) Consolidated earnings for year	**(470,405)**	**718,241**
Other integrated results		
Foreign currency conversion gain	7,516	10,844
Recalculation of defined benefit obligations	12,664	(9,582)
	20,180	1,262
Consolidated Comprehensive Results for year	$ (450,225)	$ 719,503

(Cont.)

	2015	2014
Annual consolidated profit (loss) attributable to:		
Controlling participation	$ (470,208)	$ 716,817
Non-controlling participation	(197)	1,424
Annual consolidated profit (loss)	**$ (470,405)**	**$ 718,241**
Annual consolidated integrated result attributable to:		
Controlling participation	$ (450,028)	$ 718,079
Non-controlling participation	(197)	1,424
Annual consolidated integrated results	$ (450,225)	$ 719,503
Profit (loss) per share:		
Continuous operations and discontinued operations -		
Earnings (loss) basic and diluted per common share (in pesos)	$ (0.95)	$ 1.45
Continuous operations -		
Earnings (loss) basic and diluted per common share (in pesos)	$ (0.94)	$ 1.43
Weighted average of shares in circulation	495,929,856	495,937,601

In this context, at the 2015 closing, the following relevant events occurred (Additionally, see section *2) the Company, a) History and Development of the Company.*

Profit and Loss Statement - IFRS (million pesos)	2015		2014		Var%
	$	%	$	%	
Total Revenues	6,901.2	100.0	5,848.3	100.0	18.0
Owned and Leased Hotels					
Revenues	3,103.8	100.0	2,717.8	100.0	14.2
Direct Cost	2,335.9	75.3	2,265.1	83.3	3.1
Contribution	767.9	24.7	452.7	16.7	69.6
Management					
Revenues	1,123.2	100.0	1,107.9	100.0	1.4
Direct Cost	870.2	77.5	806.5	72.8	7.9
Contribution	253.1	22.5	301.4	27.2	(16.0)
Vacation Properties and Other Businesses					
Revenues	2,619.8	100.0	1,996.7	100.0	31.2
Direct Cost	2,011.5	76.8	1,520.7	76.2	32.3
Contribution	608.3	23.2	475.9	23.8	27.8
Corporate expenses	321.1	4.7	255.5	4.4	25.7
Depreciation / Amort. & Leases	414.7	6.0	409.3	7.0	1.3
Impairment of assets	0.0	0.0	0.0	0.0	na
Other (revenues) and expenses	0.5	0.0	46.4	0.8	(99.0)
Other revenues	(54.4)	(0.8)	(25.8)	(0.4)	110.6
EBIT	**947.3**	**13.7**	**544.7**	**9.3**	**73.9**
EBITDA	**1,362.0**	**19.7**	**954.0**	**16.3**	**42.8**

2015 -2014 Total Revenue

The Company's total revenue increased an 18.00% from $5,848.3 million in 2014 to $6,901.2 million in 2015. The preceding was principally due to the extraordinary performance of the owned hotels and to the sale of the vacation properties memberships.

2015 -2014 Owned and Leased Hotels

Owned and Leased Hotels	Total		Urban		Coastal	
	2015	% Var.	2015	% Var.	2015	% Var.
Accumulated						
Average rooms available	5,443	(2.9)	4,164	(3.9)	1,279	0.3
ADR	1,383	14.8	1,213	10.2	1,867	23.3
Occupancy (Var. in pp)	73%	3.6	71%	3.4	78%	4.0
RevPar	1,005	20.7	860	15.7	1,456	30.1

2105 was characterized by very good operating performance, propelled by a relevant growth of 20.7% in the effective rate.

Owned and Leased hotels include revenues and expenses derived from the operation of the owned and leased hotels operated by the Company. The 14.2% revenue increase of Owned and Leased Hotels from $2,717.8 million in 2014 to $3,103.8 million in 2015 is mainly attributed to better performance by coastal hotels. From the operative point of view: (i) the increase of 3.6 pp in occupancy, (ii) the result of a more effective rate of 20.7% of $1,005 in 2015 and $832 in 2014 and (iii) the 2.9% decrease in the average room number operated is mainly due to the fact that the hotel Fiesta Inn San Luis Potosi Oriente changed from being a hotel leased by the company to a hotel managed by it. The urban hotels results showed an improvement in comparison with those registered in 2014. With a 3.9% decrease of the average room number, a 10.2% increase in the average daily rate and an occupancy factor 3.4 pp higher, the revenue was 15.7% higher.

Coastal hotels practically operated the same number of rooms (0.3%) more rooms on the average, including LAT20 hotel by Live Aqua which lease contract initiated on December 1, 2015. On the other hand, said hotels had a 23.3% increase in the average daily rate fee with a 4.0 pp. occupancy increase. The foregoing resulted in an revenue RevPar increase of 30.1% in comparison with that of the previous year, confirming the consolidation of the All Inclusive plan, (meals and activities included in the cost of the rooms), as well as a tourist flow increase to coastal destinations principally coming from the United States.

Departmental costs of own and leased hotels by the Company consist of the salaries related to room housekeeping personnel. In addition, it includes costs for food and beverages, as well as other expenses, such as commissions to agencies, reservation fees and room amenities and laundry services. Departmental costs and expenses equal $2,335.9 million for 2015, presenting an increase of 3.1% in comparison with the $2,265.1 million for the same period in 2014. Departmental costs and expenses were contained since they increased by one-fifth, in proportion to revenue. The Departmental result (revenue minus departmental costs and expenses) was $767.9 million for 2015, thus it represented a 69.6% increase in comparison with $452.7 million for the comparable 2014 period.

General Expenses related to the Company's own and leased hotels consist of administrative expenses, as well as sale, promotion and publicity expenses, in addition to maintenance and energy costs, real property tax, insurance premium payments, auditor and legal advisor fees. In sum, these expenses increased by 3.1%, to $ 815.2 million during 2015 in comparison with $745.3 million for the 2014 comparable period.

Hurricane "Odile" impacted the city of Los Cabos on September 14, 2014 damaging part of the hotel Grand Fiesta Americana Los Cabos and the Fiesta Americana Vacation Club Villas. Both properties began operating anew on November 15, 2014 before the year-end vacation season began. In order to dimension the impact, the Hotel and the Villas Los Cabos represented 3.5% of the room inventory. Actual and consequential damages insurance coverage for both properties were adequate. On December 17, 2015, the Entity received an indemnity due to the claims presented to the insurance company for a net deductible amount of US$10.6 million from which US$8.6 million corresponded to damages to properties and US$2 million to business interruption loss.

2015 - 2014 Management

Management	Total		Urban		Coastal	
	2015	% Var.	2015	% Var.	2015	% Var.
Accumulated						
Average rooms available	19,946	8.0	17,157	7.9	2,788	8.8
ADR	1,167	5.4	1,043	2.8	1,886	14.5
Occupancy (Var. in pp)	66%	2.1	65%	2.1	69%	1.8
RevPar	765	8.8	678	6.3	1,294	17.5

The category "Hotel Management, Brands and Other Fees" includes services for administration and brands, as well as the administrative services of loyalty programs (Ampersand), telephone call centers (Konexo) and the centralized purchasing business of Grupo Posadas. Due to the adoption of IFRS, inter-company operations were eliminated, such as rates collected as expenses of own and leased hotels, which subsequently were converted into income for the hotel administration segment.

2015 revenue increased 1.4% in comparison with 2014, obtaining $1,123.2 million in 2015 in comparison with $1,107.9 million in 2014. An 8.8% growth increase in the Effective Rate resulted from a higher occupancy and a 5.4% increase in availability fee.

The Company has opened 14 new hotels, including 5 conversions to Gamma brand. (for further detail see section 1) "b) Executive Summary").

Direct costs and corporate expenses related to Grupo Posadas' Hotel Management, Brands and Others business line include, principally costs and expenses of its corporate sales, hotel operations, as well as costs related to its departments of human resources and its Ampersand, Konexo and Summas businesses. Pursuant to the Segment Note, these costs and expenses increased by 7.9% to $870.2 million in comparison with the same period in 2014 in which they represented $806.5 million.

For urban hotels, at the system level it was noted that the average number of rooms operated presented an increase of 7.9%, with an improvement of 2.8% in the average rate, increasing occupancy by 2.1 pp to attain an effective rate of 6.3%.

Coastal hotels presented an increase of 8.8% in the operated rooms' average with the recent incorporations of hotel LAT20 in Playa del Carmen and the Grand Fiesta Americana All Inclusive Parks Vallarta. It is worth mentioning that the company has not opened a coastal hotel since 2004. The rate average climbed to 14.5% with an occupancy higher than 1.8pp, thus the effective rate increased to 17.5%.

2015 -2014 Vacation Properties and Other Businesses

The category "Vacation Club and others", includes the Fiesta Americana Vacation Club. The income from the Vacation Properties and others increased by 31.2% to $2,619.8 million in 2015, from $1,996.7 million in the 2014 comparable period; the Vacation Properties segment represented approximately 90% of the revenue in this business category. Growth defined the vacation properties business, increasing in 2015 the number of members, reaching more than 60,000. Kivac reports about 26,000 clients. It is worth mentioning that the Food and Beverage sector has had an outstanding performance reporting an 89% YY increase. On the other hand, the margin for the 12 months of 2015 is 0.6 pp less than that for the same period in the preceding year.

Expenses for the Vacation Properties and Other Businesses line include, principally, expenses related to sales, financing, administration and operating expenses for our destinations. These costs increased 32.3% to $2,011.5 million in comparison to $1,520.7 million for the same period in 2014.

To December 31, 2015 the portfolio profile of vacation properties, valued at approximately US$210 million (of which US$131 million correspond to FAVC) improved substantially. The soundness of the portfolio is demonstrated by the fact that 91% of the same is within the normal collection period of less than 90 days.

To continue satisfying the higher purchasing power market, in December 2015, the Company purchased a lot of land located in development Cabo del Sol beside the hotel Grand Fiesta Americana Los Cabos to continue developing the Live Aqua Residence Club (previously The Front Door) program. This lot of land represented an $80 million (US$5 M) investment and 100 new rooms are to be built on this property. As for the development of Fiesta Americana Vacation Club in the Acapulco Diamante zone, continues in stand by.

2015 -2014 Corporate Expenses

The Company's corporate expenses include expenses such as salaries, administrative expenses, legal advisory fees, as well as diverse payments related to its financial, corporate, human resources and technology departments, as well as those of the Chief Executive Officer. Corporate expenses –according to Segment Note- in 2015 represented $321.1 million, which was a 25.7% percentage increase in comparison with the $256.2 million that this category represented for the same period in 2014. This increase resulted from various unique actions taken to reorganize the highest administrative levels of Grupo Posadas. In percentage of the Company's revenues, corporate expenses represented 4.7% of its total income in 2015, a level similar to that of the previous year.

2015 -2014 Depreciation, Amortization and Real Property Leasing

Grupo Posadas had depreciation, amortization and leasing expenses from real property for an amount equal to $801.6 million in 2015. This represented an increase of 8.5% in comparison to $739.0 million expended for this concept in the comparable 2014 period. The increase in hotels leases was caused in part due to the depreciation of the Mexican currency in relation to the US dollar.

2015 -2014 Operating Results

The operating results for Grupo Posadas consolidate the revenues from its lines of owned and leased hotels, administration of hotels, brands and others, Vacation Properties and other business lines and deducts its corporate expenses and expenses due to depreciation, amortization, leasing of real property and deterioration of assets. Consequently, because of the preceding, its earnings from consolidated operations were $947.3 million for 2015 and a loss of $544.7 million reported in 2014.

2015 -2014 Comprehensive Financial Result

Concept	2015	2014
Interest gained	(34,457)	(22,509)
Interest paid	508,840	417,669
Exchange rate (gain) loss	708,553	427,934
Comissions and financial	100,080	60,763
Total	**1,283,016**	**883,857**

(Numbers in thousands of pesos)

In 2015, the global financial result of Grupo Posadas was $1,283.0 million, which was an increase when compared with $883.8 million for 2014. Interest expenses grew by 21.7% to $508.8 million in 2015, in comparison to $417.7 million for the 2014 comparable period. This increase was principally due to the Mexican peso's depreciation with respect to the United States dollar and to having funds in cash to pay the Euro Commercial Paper from June 30 to November 18, 2015. Currency exchange effects related to Posadas foreign operations translated into a loss of $708.5 million in 2015, in comparison with currency exchange loss of $427.9 million in 2014, since the Mexican peso depreciated 16.9% during 2015.

To close of 2015, the hedge of net interest to EBITDA was 2.9 times, 0.5 times higher than in 2014.

2015 -2014 Revenue from discontinued operations, net income tax

On the other hand, in 2013, as a consequence of the entry into force of the new Mexican tax laws, we had to recognize an updated payable Income Tax of $529 million, due to the repeal of the Consolidated Tax Rules, and additionally updated taxes payable for $1,006.4 million recognized in the deferred tax, resulting from the extinction of benefits under the SIBRAS rules. The Company and its subsidiaries are obligated to pay the determined deferred tax on December 31, 2015 during the following three corporate years counted from 2015.

2015 -2014 Majority Net Result

Our financial statements report a consolidated net loss of $470.2 million for 2015.

2015 -2014 Financial Situation

The cash balance to December 31, 2015 was $1,213.8 million (US$70.6 million). On its due date (November 18, 2015) US$50 million were paid corresponding to Euro Commercial Paper.

The Company's total assets amount to $13,770.0 million (US$800.7 million).

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

Total debt amounted to $ 6,243.7 (US$362.9 million) million net of issuance expenses, while the net debt according to IFRS was $ 5,029.9 million (US$292 million). The proportion of Net Debt to EBITDA was 3.7 times, which favorably compares with 4.6 times reported to December 31, 2014 on a comparable basis.

The Total Debt mix at close of 2015 was the following: 100% long-term in USD and at a fixed rate. The average debt life was 6.0 years and no debt was guaranteed with real property assets.

To the publication date of this report, the corporate ratings are:

Moody´s: global scale "B2" with negative outlook.

S&P: global scale “B” with stable outlook.
Fitch: global scale Issuer Default Rating (IDR) “B” and local scale “BB+(mex)”, both with negative outlook.
The rating for the notes issue “7.875% Senior Notes 2017” are: Moody’s:“B2”/ S&P:“B”/Fitch:“B+ RR3”.

In compliance with the stipulations of article 4.033.01 section VIII of the Mexican Stock Exchange’s internal Regulations, we would like to make known that the debt analysis coverage of Grupo Posadas is done by:

J.P. Morgan Securities LLC, analyst: Jacob Steinfeld, jacob.a.steinfeld@jpmorgan.com (1-212) 834-4066
Bank of America Merrill Lynch, analyst, Roy Yackulic roy.yackulic@baml.com (1-646) 855-6945
BCP Securities, LLC, analyst: James Harper, jharper@bcpsecurities.com (1-203) 629-2181

2014-2013

Corporate Year ending December 31, 2014
Compared with the Corporate Year ending December 31, 2013
Information according to International Financial Reporting Standards (IFRS)

For the corporate years ending December 31, 2014 and 2013
(in thousands of Mexican pesos, excepting (loss) per share)

	2014	2013
Continuous operations		
Revenues	$ 5,848,278	$ 8,550,358
Sale cost	3,667,834	5,953,657
Gross profit	**2,180,444**	**2,596,701**
Adminstration expenses	745,305	703,104
Sale and development expenses	105,726	110,563
Depreciation, amortization, lease and wear and tear	739,026	1,641,401
Other expenses, net	45,669	183,213
Interest expense	417,669	393,659
Interest revenue	(22,509)	(113,084)
Commissions and financial expenses	60,763	57,711
Exchange loss, net	427,934	29,996
Equity in earnings of associated companies	12,595	4,863
	2,532,178	**3,011,426**
Loss prior to earnings tax	**(351,734)**	**(414,725)**
Earnings (Benefit) tax	(1,061,257)	1,161,883
(Loss) Profit from continuous operations	**709,523**	**(1,576,608)**
Discontinued operations		
(Loss) Earnings from discontinued operations	8,718	(181,206)
(Loss) Consolidated earnings for year	718,241	(1,757,814)
Other integrated results		
Foreign currency conversion gain	10,844	2,049
Recalculation of defined benefit obligations	(9,582)	8,795
	1,262	10,844
Consolidated Comprehensive Results for year	$ 719,503	$ (1,746,970)

(Cont.)

	2014	2013
Annual consolidated profit (loss) attributable to:		
Controlling participation	$ 716,817	$ (1,753,264)
Non-controlling participation	1,424	(4,550)
Annual consolidated profit (loss)	$ 718,241	$ (1,757,814)
Annual consolidated integrated result attributable to:		
Controlling participation	$ 718,079	$ (1,742,420)
Non-controlling participation	1,424	(4,550)
Annual consolidated integrated results	$ 719,503	$ (1,746,970)
Profit (loss) per share:		
Continuous operations and discontinued operations - Earnings (loss) basic and diluted per common share (in pesos)	$ 1.45	$ (3.57)
Continuous operations - (Earnings (loss) basic and diluted per common share (in pesos)	$ 1.43	$ (3.20)
Weighted average of shares in circulation	495,937,601	492,496,017

In this context, at the close of 2014, the following relevant events occurred (Additionally, reference should be made to section 2) The Company, a) History and Development of the Company.

Profit and Loss Statement - IFRS (million pesos)	2014		2013		Var%
	$	%	$	%	
Total Revenues	5,848.2	100.0	8,550.3	100.0	(31.6)
Owned and Leased Hotels					
Revenues	2,717.8	100.0	4,778.3	100.0	(43.1)
Direct Cost	2,265.1	83.3	3,854.6	80.7	(41.2)
Contribution	452.7	16.7	923.7	19.3	(51.0)
Management					
Revenues	1,107.9	100.0	1,319.0	100.0	(16.0)
Direct Cost	806.5	72.8	915.4	69.4	(11.9)
Contribución	301.4	27.2	403.6	30.6	(25.3)
Vacation Properties and Other Businesses					
Revenues	1,996.7	100.0	1,776.0	100.0	12.4
Direct Cost	1,520.7	76.2	1,410.0	79.4	7.9
Contribution	476.0	23.8	366.0	20.6	30.1
Otros					
Ingresos	0.0	0.0	677.0	100.0	na
Costo Directo	0.0	0.0	679.0	100.3	na
Contribución	0.0	0.0	(2.0)	(0.3)	na
Corporate expenses	256.2	4.4	247.2	2.9	3.7
Depreciation / Amort. & Leases	409.3	7.0	420.1	4.9	(2.6)
Impairment of assets	0.0	0.0	894.8	10.5	na
Other (revenues) and expenses	45.7	0.8	170.9	2.0	(73.3)
Other revenues	(25.8)	(0.4)	0.0	0.0	na
EBIT	**544.8**	**9.3**	**(41.7)**	**(0.5)**	**na**
EBITDA	**954.0**	**16.3**	**1,273.2**	**14.9**	**(25.1)**

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

2014 -2013 Total Revenue

The Company's total revenue decreased 31.6% from $8,550.3 million in 2013 to $5,848.2 million in 2014. The preceding was principally due to the income which corresponded to the sale of 14 hotels to FibraHotel, which was registered in 2013.

2014 -2013 Owned and Leased Hotels

Owned and Leased Hotels	Total		Urban		Coastal	
	2014	% Var.	2014	% Var.	2014	% Var.
Accumulated						
Average rooms available	5,631	(3.5)	4,356	(9.5)	1,275	24.4
ADR	1,204	11.1	1,099	9.1	1,514	9.6
Occupancy (Var. in pp)	69%	0.9	68%	1.3	74%	(2.8)
RevPar	831	12.6	742	11.3	1,119	5.6

2014 was characterized by a very good operating performance, propelled by relevant 11.1% growth in the availability rate.

Owned and leased Hotels includes the revenues and costs and expenses derived from operating own and leased hotels by the Company. The decrease in revenues from Owned and Leased Hotels of 43.1% to $2,717.8 million in 2014 from $4,778.3 million in 2013 is principally attributed to the sale of fourteen hotels considered to be non-strategic for the Company but that it continues to operate. Upon excluding the sale of those hotels, income presents sustained growth. From the operating point of view, the following: (i) an increase of 0.9 pp in occupancy, (ii) resulting in a better effective rate (RevPar) of 12.6% which was $831 in 2014 and $738 in 2013 and (iii) a 3.5% decrease in the average number of rooms operated. The results of urban hotels improved in comparison with those registered in 2013. With a decrease of 9.5% in average rooms operated, an increase of 9.1% in the average daily rate (ADR) and an occupancy factor greater by 1.3 pp, the effective rate (RevPar) was increased to 11.3%.

Coastal hotels operated 24.4% more rooms on the average, due to the transfer of the hotel "Fiesta Americana Grand Los Cabos Golf & Spa" (FAG), which from July 1, 2012 until December 2013 had been marketed by the Vacation Properties segment. Furthermore, these hotels underwent a 9.6% average rate increase with an occupancy decrease of 2.9 pp. All of the preceding resulted in an increased 5.6% effective rate (RevPar) in comparison with the preceding year; which confirms the consolidation of three hotels to the All Inclusive plan (meals and activities included in the cost of the rooms), as well as a tourist flow increase to coastal destinations, principally coming from the United States and Brazil.

Departmental costs of owned and leased hotels by the Company consist of the salaries related to room housekeeping personnel. In addition, it includes costs for food and beverages, as well as other expenses, such as commissions to agencies, reservation fees and room amenities and laundry services. Departmental costs and expenses equal $1,004.5 million for 2014, presenting a marginal decrease of 0.3% in comparison with the $1,007.5 million for the same period in 2013. Departmental costs and expenses remained constant despite a reduction in the number of rooms of Grupo Posadas' own hotels in comparison with the preceding year. The Departmental result (revenue minus departmental costs and expenses) was $1,687.1 million for 2014, thus it represented a 1.3% increase in comparison with $1,666.1 million for the comparable 2013 period.

General Expenses related to the Company's own and leased hotels consist of administrative expenses, as well as sale, promotion and publicity expenses, in addition to maintenance and energy costs. In sum, these expenses increased by 5.6%, to $ 571.7 million during 2014 in comparison with $541.2 million for the 2013 comparable period. By category, these expenses changed as is hereinafter described: (i) administrative expenses increased by 28.5%, representing $177.3 million in 2014 and $138.0 million for the same 2013 period; (ii) the costs for sale, promotion and publicity decreased by 4.4%, representing $105.7 million for 2014 and $110.5 million for the 2013 comparable period; and (iii) maintenance and energy expenses, that in 2014 represented $288.7 million, for 2013 were $292.6 diminishing by 1.4%. General Expenses were reduced, mainly due to a lesser number of room in the Company's own hotels.

Expenses related to the Company's own and leased hotels include real property taxes, payments of insurance premiums, and payment of fees for auditors and legal counsel. Other net expenses diminished by 75.1%; $45.7 million in 2014 and $183.2 million in the 2013 comparable period.

Hurricane “Odile” impacted the city of Los Cabos on September 14, 2014 damaging part of the hotel Fiesta Americana Grand Los Cabos and the Fiesta Americana Vacation Club Villas. Both properties began operating anew on November 15, 2014 before the year-end vacation season began. Actual and consequential damages insurance coverage for both properties were adequate and the deductibles for both overages applicable to Posadas were US$1.9 million. For purposes of measuring the impact, the Hotel and Villas in Los Cabos represented 3.5% of room inventory.

In 2014 the Company sold its minority participation in 2 hotels: Fiesta Inn Xalapa and One Xalapa.

2014 -2013 Management

Management	Total		Urban		Coastal	
	2014	% Var.	2014	% Var.	2014	% Var.
Accumulated						
Average rooms available	18,461	9.2	15,880	8.4	2,581	14.3
ADR	1,108	6.5	1,014	5.4	1,633	9.3
Occupancy (Var. in pp)	63%	(1.0)	63%	(0.9)	68%	(1.8)
RevPar	703	4.9	635	3.9	1,112	6.4

The category “Hotel Management, Brands and Other Fees” includes services for administration and brands, as well as the administrative services of loyalty programs (Ampersand), telephone call centers (Konexo) and the centralized purchasing business (Summas) of Grupo Posadas. Due to the adoption of IFRS, inter-company operations were eliminated, such as rates collected as expenses of own and leased hotels, which subsequently were converted into income for the hotel administration segment.

2014 revenue decreased 16.0% in comparison with 2013, obtaining $1,107.9 million in 2014, in comparison with $1,319.0 million in 2013. Growth of 4.9% in the Effective Rate was in turn due to marginally less occupancy and an availability rate increase of 6.5%.

The company has opened 18 new hotels, including 4 conversions to the Gamma brand. It should be mentioned that the contract to operate the Hotel Fiesta Inn Villahermosa was not renewed.

Direct costs and corporate expenses related to Grupo Posadas’ Hotel Management, Brands and Others business line include, principally costs and expenses of its corporate sales, hotel operations, as well as costs related to its departments of human resources and its Ampersand, Konexo and Summas businesses. Pursuant to the summary of operating results, these costs and expenses decreased by 11.9% to $806.5 million in comparison with the same period in 2013 in which they represented $915.4 million.

For urban hotels, at the system level it was noted that the average number of rooms operated presented an increase of 8.4%, with an improvement of 5.4% in the average rate, decreasing occupancy by 0.9 pp to attain an effective rate of 3.9%.

Beach hotels presented an increase of 14.3% in the operated room average. The rate average climbed to 9.3% with occupancy lower than 1.8 pp, thus the effective rate increased to 6.4%.

2014 -2013 Vacation Properties and Other Businesses

Fiesta Americana Vacation Club has been 15 years in the market. In 2014 the offer of this product was broadened by reopening the hotels Fiesta Americana Cozumel, The Explorean Cozumel and concluding the last stage of the villas in the hotel Fiesta Americana Grand Los Cabos. Likewise, the architectural project for the new Fiesta Americana Grand Acapulco Diamante was begun.

The category “Vacation Properties and others”, included the Fiesta Americana Vacation Club. The income from the Vacation Properties and others increased by 12.4% to $1,996.7 million in 2014, from $1,776.0 million in the 2013 comparable period; the Vacation Properties represented approximately 90% of revenue in this business category. Growth defined the vacation properties business, increasing in 2014 the number of members, reaching more than 50,000. Kivac reported about 19,000 clients.

Expenses for the “Vacation Properties and Other Businesses” line included, principally, expenses related to sales, financing, administration and operating expenses for our destinations. These costs increased 7.9% to $1,520.7 million in comparison to $1,410.0 million for the same period in 2013.

To December 31, 2014 the portfolio profile of Vacation Properties, valued at approximately US$138 million, improved substantially. The soundness of the portfolio was demonstrated by the fact that 91% of the same was within the normal collection period of less than 90 days.

2014 -2013 Corporate Expenses

The Company's corporate expenses included expenses such as salaries, administrative expenses, legal advisory fees, as well as diverse payments related to its financial, corporate, human resources and technology departments, as well as those of the Chief Executive Officer. Corporate expenses –by segment- in 2014 represented $256.2 million, which was a 3.7% percentage increase in comparison with the $247.2 million that this category represented for the same period in 2013. This increase resulted from various unique actions taken to reorganize the highest administrative levels of Grupo Posadas. In percentage of the Company's revenues, corporate expenses represented 4.4% of its total income in 2014. The latter was mainly due to the change of Conectum reporting to Corporate.

2014 -2013 Depreciation, Amortization and Real Property Leasing

Grupo Posadas had depreciation, amortization and leasing expenses from real property for an amount equal to $739.0 million in 2014. This represented a decrease of 1.0% in comparison to $746.6 million expended for this concept in the comparable 2013 period.

2014 -2013 Operating Results

The operating results for Grupo Posadas consolidate the revenues from its lines of owned and leased hotels, administration of hotels, brands and others, Vacation Properties and other business lines and deducts its corporate expenses and expenses due to depreciation, amortization, leasing of real property and deterioration of assets. Consequently, because of the preceding, its earnings from consolidated operations were $544.7 million for 2014 and a loss of $41.6 million reported in 2013.

2014 -2013 Comprehensive Financing Result

Concept	2014	2013
Interest gained	(22,509)	(110,875)
Interest paid	417,669	393,659
Exchange rate (gain) loss	427,934	29,997
Efects of valuation	0	(2,209)
Comissions and financial	60,763	57,711
Total	**883,857**	**368,283**

(Numbers in thousands of pesos)

In 2014, the global financial result of Grupo Posadas was $883.9 million, a reduction when compared with $368.3 million for 2013. Interest expenses grew by 6.1% to $417.7 million in 2014, in comparison to $393.7 million for the 2013 comparable period. This increase was principally due to the peso depreciation with respect to the United States dollar. Currency exchange effects related to Posadas foreign operations translated into a loss of $427.9 million in 2014, in comparison with currency exchange earnings of $30.0 million in 2013, since the Mexican peso depreciated 12.6% during 2014.

To close of 2014, the hedge of net interest to EBITDA was 2.4 times.

2014 -2013 Revenue from Discontinued Operations, Net Income Tax

With respect to the South America sales transaction, in September 2014, we executed an agreement to fully terminate the escrow guaranty related to the sale of the South American hotel operation business, having received US$16.6 million.

On the other hand, in 2013, as a consequence of the entry into force of the new Mexican tax laws, we had to recognize an updated payable Income Tax of $813.4 million, due to the repeal of the Consolidated Tax Rules, and additionally updated taxes payable for $993.3 million recognized in the deferred tax resulting from the extinction of benefits under the SIBRAS rules. The Company and its subsidiaries are obligated to pay the deferred tax determined on December 31, 2014 during the following four corporate years counted from 2014.

2014 -2013 Majority Net Result

Our financial statements reported consolidated net earnings of $718.2 million for 2014. The net earnings corresponded in part to a decrease in the deferred taxes reserve, the product of a corporate restructuring.

2014 -2013 Financial Situation

The cash balance to December 31, 2014 was $1,516.8 million (US$103.1 million). It should be noted that the cash balance to end of January 2015, after timely and appropriately paying the notes due in 2015, totals $916.9 million (US$62.4 million).

The Company's total assets amounted to $13,318.0 million (US$904.9 million) at the closing of the corporate year.

The principal entries which used cash were, amongst others, capital expenses, taxes and interest payments.

Total debt amounted to $5,882.3 million (US$399.7 million) net of issuance expenses, $1,160 million more than September 30, 2014, due to the issuance of US$50 million of Euro Commercial Paper and the depreciation of the peso, while net debt according to IFRS was $4,365.4 million (US$296 million). The proportion of Net Debt to EBITDA was 4.6 times, which unfavorably compares with 3.9 times reported to December 31, 2013 on a comparable basis.

The Total Debt mix at close of 2014 was the following: 24% short-term, 100% in USD and at a fixed rate. The average debt life was 2.3 years and no debt was guaranteed with real property assets.

To the publication date of this report, the corporate ratings were:

Moody´s: global scale "B2" with negative outlook.
S&P: global scale "B" with stable outlook.
Fitch: global scale Issuer Default Rating (IDR) "B" and local scale "BB+(mex)", both with negative outlook.

The rating for the notes issue "7.875% Senior Notes 2017" are: Moody's:"B2"/S&P:"B"/Fitch:"B+ RR3".

In compliance with the stipulations of article 4.033.01 section VIII of the Mexican Stock Exchange's Internal Regulations, we would like to make known that the debt analysis coverage of Grupo Posadas is done by:

J.P. Morgan Securities LLC, analyst: Jacob Steinfeld, jacob.a.steinfeld@jpmorgan.com (1-212) 834-4066
Bank of America Merrill Lynch, analyst, Roy Yackulic roy.yackulic@baml.com (1-646) 855-6945
BCP Securities, LLC, analyst: James Harper, jharper@bcpsecurities.com (1-203) 629-2181

ii) Financial Situation, Liquidity and Capital Markets

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

For some years, the Company's strategy has consisted of growth through hotel management contracts, which implies minimum capital expenses. However, in 2016, the Company remodeled the Fiesta Americana Guadalajara, Fiesta Americana Condesa Cancun and Fiesta Americana Merida investing a total of $703 million. This included the maintenance and remodeling of hotels, Vacation Properties and investment in technology.

As of December 31, 2016, 2015 and 2014 the financial debt was integrated as follows (interest rates in force to December 31, 2016 – 2014, respectively):

USD (Thousands)	2016	2015	2014
"Senior Notes 2022" fixed interest rate 7.875%	7,871,765	5,593,072	
"Senior Notes 2017" fixed interest rate 7.875%		649,210	4,432,316
"Senior Notes 2015" fixed interest rate 9.25%			756,517
Mortgage loan at a rate of 2.55%			
Euro Commercial Paper fixed interest rate 6%			691,179
Other loans at variable rates of 3.32%	472	1,399	2,261
Vacation Club financings at a rate of 4.73%			
MXN (Thousands)	**2016**	**2015**	**2014**
Convertible debentures at a rate of 16%			
Mortgage loans at a rate of 6.82%			
Minus			
Mortgage loans classified as assets available for sale			
Long-term maturities	(472)	(1,399)	(1,449,957)
Long-term debt	**7,871,765**	**6,242,282**	**4,432,316**

As of December 31, 2016, 100% of the Company's debt was at a fixed rate. Its nominal weighted interest rate with tax withheld at the close of 2016 was 8.28% in US Dollars.

The long-term debt maturity dates to December 31, 2016 are as follows:

To pay during:	(USD 000) (Thousands)
2022	400,000
	400,000
Equivalent in thousands of pesos	8,265,600
Minus-issuance costs	(393,835)
	7,871,765

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

Long-Term Debt

Senior Notes

On May 16, 2016, an add-on issue of US$50 million dollars of "Senior Notes 2022" was made at a 7.875% annual rate due in 2022. With this "Senior Notes 2022" add-on issue, the US$38.3 million balance of the debt known as "Senior Notes 2017" due in 2017 was paid in advance in November 2016. With the add-on issue the "Senior Notes 2022" program amounted to US$400 million dollars.

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

On November 28, 2014, the Company issued an amount of US$ 47.2 million dollars through a program known as "Euro Commercial Paper" which generated an annual interest rate of 6%, due on November 18, 2015. The interests were recorded in the consolidated integrated operating results statement as they accrued, and were paid on November 18, 2015, the principal's due date.

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

Principal restrictions and negative covenants stipulated in the debt contracts to December 31, 2016:

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

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

As of December 31, 2016, and to the date of publication of this annual report, the restrictions and obligations have been fulfilled.

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

The securities are guaranteed by the Company’s main subsidiaries and impose obligations and restrictions customarily used for this type of instrument. A breakdown of the company’s main financial items is presented hereunder, as well as the guarantor subsidiaries separated from the non-guarantor subsidiaries (some numbers may vary due to rounding off):

Results (million pesos as of December 31, 2016)	Grupo Posadas & Guarantors		Non Guarantors		Consolidated	
	2016	2015	2016	2015	2016	2015
Total Revenues	7,845	6,248	494	653	7,979	6,901
Impairment, depreciation and amort.	537	359	58	55	595	415
Leases	445	387	-	-	445	387
(Net Loss)	(750)	(623)	52	152	(697)	(470)
Total Assets	13,632	12,257	1,438	1,520	15,070	13,777
Total Liabilities	11,435	9,011	707	1,138	12,142	10,149

Credit lines contracted, in effect and undrawn

The Company established a revolving credit line with Banco Santander S.A. for a total amount of $200 million for a twelve-month term with due date September 26, 2017. This line has a real property guarantee. This line has determined fund borrowing limitations related to breach of payment of principal and interest, any of the Issuer’s other debt should be subject to accelerated maturity, breach of affirmative and negative covenants, declaration or request of bankruptcy, liquidation or commercial insolvency proceeding, delivery of inaccurate or false material information and change of control, among others. As of the date of release of this report, the Company has not drawn any amount on these lines.

Production Chain Program

The Company established four production chain programs with Banco Santander S. A., Banco Actinver S.A., BBVA Bancomer S.A. and Banco Monex S. A., for a total amount of up to $333 million. As of December 31, 2016, the Company had used 44% of these lines.

Additional Information regarding Financing

As of December 31, 2016, the financial debt in effect does include mortgage guarantees. The Company has also guaranteed, in the ordinary course of its businesses, obligations with third parties, clients or suppliers.

Derivative Financial Instruments

The company monitors and participates occasionally in the derivative financial instruments market, using these instruments as an economic hedge of its debt. As of December 31, 2016, the Company had not contracted any Financial Instrument.

Treasury. The corporate treasury manages the treasury of those hotels of which Posadas is 100% owner and lessee and that of the service businesses other than those strictly related to the hotel business.

Historically, the Company has sought to keep a balanced currency investment structure and this structure is mainly composed of the Mexican-peso and US-dollar debt mix that each one of the Companies of Grupo Posadas holds. In Grupo Posadas, the bulk of the investments are concentrated in money market, government, bank and private commercial paper. These instruments allow the Company to keep liquidity and availability to meet its daily cash flow needs.

Capital Expenses. At the close of December 2016, capital expenses amounted to $703 million; of which 81% was allocated to hotels, 10% for corporate use, and 9% to vacation properties. Currently, the Company mostly finances budget capital expenses by internal generation. The Company's dependence on debt to finance capital expenses has decreased to the extent that it has expanded through hotel operation or leasing contracts.

Balance Account Changes. For the 2016, 2015 and 2014 corporate years, the company is adopting IFRS which principally affects the items of fixed assets, credit risks, Vacation Properties reserves and deferred taxes, among others.

Unregistered operations. As of December 31, 2016, the Company had not carried out any relevant operation which was not registered in the Audited Financial Statements.

iii) Internal Control

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

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

The performance of the Company's internal audits is the responsibility of the Audit Division, which annually proposes to the Audit Committee an internal annual audit program whose quarterly progress and findings are presented to such Committee. However, the Audit Division participates in carrying out un-scheduled audits at the request of the Office of the General Director, the General Corporate Finance Division or of any other upper-level body.

In order to mitigate the risks to which the Company is exposed, as well as to contribute to the achievement of its strategic goals and reinforce operating and financial procedures, in February 2015, an informational survey related to the Company's Principal Risks was applied so that, during the year, the different business units may generate an action plan to control and mitigate said risks.

In order to continue strengthening Corporate Government, in February 2015 the Board of Directors decided to create the Risk Administration area which during the same year carried out diverse activities to identify business opportunities and answer to negative events, identifying areas exposed to potential risks and the possible impact to the achievement of the Company's strategic goals. All of the above considering a functional and technical implementation of the solution, strengthening in said manner, the functional and operation needs of the Risk and Group Auditing Areas.

e) Critical Estimates, Accounting Allowances or Reserves

See Note 5 of the Audited Financial Statements in Attachment

The critical accounting opinions and key uncertainty sources when applying the estimates made to the date of the consolidated financial statements December 31, 2016 are:

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

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

Receivable documents for Vacation Properties operation – To December 31, 2016 the return reserve of Vacation Properties according to IFRS amounts to $138.5 million.

ii. Recognition of *Vacation Club* income

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

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

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

iv. Financial projections due to asset deterioration

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

v. Use of tax losses

To determine if said losses may be used there are formulated taxable income and profits projections that would be individually generated in the following years through a detailed business plan at the level of the business unit, which includes the sale of non-strategic assets, new investment projects and the reorganization of group entities, amongst others, that generate sufficient profits and make possible the use of tax losses before they expire.

vi. Effects of contingencies faced by the Entity

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

vii. Useful life and residual value of real properties

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

viii. Classification criteria for operation segments of the Issuer

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

ix. Estimated amounts of investments in securities other than money equivalents

To the date of the consolidated statement of financial situation, the Issuer estimates its short-term cash needs considering its operating cycle, debt servicing for the following year and the budget authorized by the Investment Committee for capital investments. The excess is presented as investment in securities other than cash equivalents.

4) ADMINISTRATION

a) External Auditors

During the last corporate years (2002-2016) Galaz, Yamazaki, Ruiz Urquiza, S.C., a member firm of Deloitte Touche Tohmatsu Limited, has conducted the independent audit.

During the last twelve corporate years, the Company's financial statements have not been subject to qualification or negative opinion by the external auditors, nor have said auditors refrained from issuing an opinion.

The appointment of the independent auditor is made by the Company's Board of Directors. Since 2003, the Audit Committee's opinion has been taken into consideration, taking into account the independence, professionalism and experience of the firm appointed as independent auditor.

During the 2013 corporate year, the Audit Committee directed the selection process for the legal entity that provides the external audit services of the Company by way of a quantitative and qualitative evaluation process of the four principal auditing firms in Mexico. The latter to make a recommendation to the Board of Directors regarding the hiring of the legal entity that would provide external audit services. This included the fee proposal, as well as the amount of the services to be provided by said firm under the concept of permitted services un-related to audits during the 2013 corporate year, and which may not exceed 30% of the total auditing fees agreed with said firm. The latter being the parameter ratified by the Audit Committee for these additional or complementary services and which was ratified in Committee session on February 26, 2013.

The additional or complementary services provided by Galaz, Yamazaki, Ruiz Urquiza, S.C. included: (i) limited review of the Company's consolidated financial statements as the basis for the issuance of liabilities and related work; (ii) transfer price analysis; (iii) tax services specifically related to responding to diverse formal requirements from the tax authorities regarding the audits made of the Company; (iv) various opinions related to the norms applicable to prevent and report money laundering, considering in the opinion of the Audit Committee that contracting said services do not affect impartiality in relation to the auditing of the Corporation's consolidated financial statements.

Said additional or complementary services during the corporate year ending on December 31, 2016, represented approximately 35.7% of the fees approved by the Board of Directors under the concept of audit services. This percentage exceeded the 30% limit established by the Board of Directors.

The Audit Committed deemed that said surplus was not significant in relation to the limit imposed by the Board of Directors, and furthermore that it was principally derived from services rendered in 2016 related to the issuance of the Senior Notes and the response to several formal requests related to tax audits. Thus, the Committee advised the Board to not take into account the surplus amount.

b) Related Party Transactions and Conflicts of Interest

In the normal course of its activities, the Company has entered into commercial and financial transactions with its subsidiaries and a significant number of the entities wherein it has a shareholding participation, whether or not it has a significant influence. In regard to the latter, the most relevant transactions refer to loans, current account contracts, leasing, rendering of services, purchase and sale of shares, assets, inter-company loans, merger of Company subsidiaries, diverse operations to administratively simply the corporate and subsidiary structure, and administration of hotel operation contracts, and/or licenses to use brands which it may have signed for the administration of hotel properties. The Company intends to continue entering into part of these transactions in the future. From time to time, the Company analyzes transfer prices, thus, in the opinion of the administration, the transactions with related companies are executed on market terms.

In the 2016 corporate year, the Corporate Practices Committee was not informed of any matter which requires the Board of Directors approval so that any director, material officer or person with power to control could take advantage of a business opportunity for themselves or in favor of third parties and which would correspond to the Issuer or to the legal entities which are controlled by the Issuer, or on which it has a material influence on the terms of Article 28, section III, subsection f) of the Stock Exchange Law.

The employee benefits granted to key management personnel and/or Material Directors of the Issuer within the normal course of the Company's business may be summarized as presented for corporate years 2016, 2015 and 2014 in the Opinion of the Independent Auditors which is found in Attachment. For further detail regarding payments to Material Directors, see note 23 of the Audited Financial Statements attached hereto.

The Corporate Practices Committee informed the Board of Directors of the Issuer that it had information regarding specific operations between the Company's subsidiaries or between the Company's subsidiaries and the Company which were ordinary or customary for the business. Said operations were considered to have been concluded at market price and operations (i) with related persons or affecting related persons, consisting of the supply of pastry and bakery products, rendering hotel related and processing before governmental authorities services, legal assistance services for the issuance of Senior Notes by the Corporation and rendering of operating services in hotels located in Monterrey, Saltillo and Queretaro which were rendered at market price, (ii) with material directors consisting of the termination of the loan to material directors program, and the implementation of the new Retention Plan applicable to material directors and strategic personnel, in this regard the Corporate Practices Committee issued a favorable opinion.

As of December 31, 2016, material officers and other Company employees had received loans and, to that date, the unpaid aggregated balance thereof amounted to approximately U$S2.2 million.

c) Administrators and Shareholders

The Board of Directors.

According to the Company's corporate by-laws, the Company's management is the responsibility of a Board of Directors, whose members are annually elected at a General Ordinary Shareholders Meeting. The corporate by-laws provide that the Board of Directors must meet at least every three months. The Company corporate by-laws establish, amongst others, that the Issuer companies must have a minimum of 5 directors and a maximum of 21, and that at least 25% of the members must be independent. The Permanent and Alternate Secretaries are not part of the Board of Directors. The Board of Directors appointed by the Company's Ordinary Shareholders Annual Meetings both dated March 22, 2017, is formed by 10 permanent directors as listed below:

Members of the Board of Directors:

Member	Age	Occupation	Date of Appointment
Pablo Azcarraga Andrade	58	Chairman of the Board of Directors of Grupo Posadas	29-Apr-97
Enrique Azcarraga Andrade	52	Director General, EXIO, S.C.	31-May-91
Fernando Chico Pardo	64	Chairman, Promecap, S.C.	26-Jul-95
Jose Carlos Azcarraga Andrade	51	Chief Executive Officer of Grupo Posadas	30- Apr -08
Juan Servitje Curzio	59	Chairman of the Board of Directors of Productos Rich S.A. de C.V.	30- Apr -12
Jorge Soto y Galvez*	73	Independent Consultant	27- Apr -06
Silvia Sisset de Guadalupe Harp Calderoni	45	Private Investor	05- Apr -10
Carlos Levy Covarrubias	55	Private Investor	27- Apr -06
Luis Alfonso Nicolau Gutierrez*	55	Independent Consultant	30- Apr -12
Benjamin Clariond Reyes-Retana*	68	Independent Consultant	27- Apr -06

* Independent Director

Pablo Azcarraga Andrade

Mr. Azcarraga holds an accounting degree from Universidad Anahuac and a Master's Degree in Hotel Management with a certificate in Marketing and Finance from Cornell University in New York. From 1986 to date, he has held various positions within Posadas, such as General Director of Fiesta Americana Condesa Cancun hotel, General Director of the Fiesta Americana Hotel Division, and he is currently the Chairman of the Board of Directors of Posadas.

Enrique Azcarraga Andrade

Mr. Azcarraga is an industrial engineer with an MBA degree from Harvard University. He has collaborated in several companies such as Operadora de Bolsa, Grupo Posadas, DESC – Sociedad de Fomento Industrial, GBM – Grupo Bursatil Mexicano, and is currently the General Director of Exio, S.C., a wealth investment consulting company.

Fernando Chico Pardo

Mr.zChico holds a degree in Business Administration and a Master's Degree in Business Administration from Northwestern University. Mr. Chico has held several positions in the following companies: Bimbo, Anderson-Clayton, Bank of America, Salomon Brothers, Standard Chartered Bank, Mocatta Metals Corporation, Casa de Bolsa Acciones y Asesoria Bursatil, Inversora Bursatil, Grupo Financiero Inbursa and is currently the Chairman of Promecap, S.C. and ASUR. Mr. Chico is also an active member of the Board of Directors of: Grupo Financiero Inbursa, Condumex, Grupo Carso, Sanborns, Sears Roebuck de Mexico, United Pension Fund, Quantum Group of Funds and Papalote Museo del Niño.

Jose Carlos Azcarraga Andrade

Mr. Azcarraga is an industrial engineer from the Universidad Anahuac, with a Master's Degree in Business Administration from Kellogg School of Management, Northwestern University. He has held various positions in the Company, such as General Director of Vacation Properties Posadas, and since November 11, 2011, he is General Director of Grupo Posadas, S.A.B. de C.V. (CEO).

Juan Servitje Curzio

Mr. Servitje is an industrial engineering graduate from the Universidad Anahuac and holds a Master's Degree in Business Administration with honors from Northwestern University, J.L. Kellogg School of Management. He is the Chairman of the Board of Directors of Productos Rich, S.A. de C.V., and since 2000, he is the Chairman of Rich Products Corporation for Latin America, also he is a member of the Board of Grupo FRIALSA (Leading Company in Mexico in controlled temperature Storage and Distribution). Likewise, he participates in various non-profit organizations such as USEM (Mexican Social Entrepreneurs Union), SIFE (Students in Free Enterprise), amongst others.

Jorge Soto y Galvez

Mr. Soto holds an Accounting Degree from UNAM (Universidad Nacional Autonoma de México). He joined the independent auditing firm Arthur Andersen where he was responsible for the firm's most important clients, until he became part of the Executive Committee for the Mexico division and participated as a member of the Board of Directors of various Arthur Andersen's clients. At the present time, he has established his own consulting company.

Silvia Sisset de Guadalupe Harp Calderoni

Ms. Harp holds a Public Accounting degree from the ITAM. She worked at Robert's and at Filantropia, Educacion y Cultura, A.C. Ms. Harp was the General Director of Fundacion Alfredo Harp Helu and since 2006 she holds the position of Chairwoman. At the moment, she participates on the Boards of Directors of Grupo Marti and the Fundacion Teleton Trust.

Carlos Levy Covarrubias

Mr. Levy holds a Bachelor's Degree in Business Administration from the Universidad Iberoamericana. In 1987, he joined Casa de Bolsa Accival and held several equity operations positions until he became Operations Director. From 1991 through 2005, Mr. Levy held various positions in Banamex-Accival Financial Group, such as the Group's Director of Asset Coordination, Deputy General Director of the Treasury, General Director of Casa de Bolsa Accival and Corporate Director for Specialized Banking and Investment Management of Banamex Financial Group. After leaving the Financial Group, Mr. Levy founded an investment management company in which he currently participates. Likewise, he was the Chairman of the Mexican Association of Financial Intermediaries from 2003 through 2005.

Luis A. Nicolau Gutierrez

Mr. Nicolau is a lawyer graduated from the "Escuela Libre de Derecho" and he holds a Master's Degree in Law from Columbia University. He is a partner of the Law Firm Ritch Mueller, S.C. Mr. Nicolau is a director for Morgan Stanley Mexico, Shakey's Pizza Mexico, chairman of the Fulbright Trust, member of the Investment Committee of Ignia Fund y Promotora Social Mexico, A.C. He is also a member of the Museo del Niño Trust and a member of the Oversight Committee of the Mexican Stock Exchange. Mr. Nicolau is the author of various legal publications.

Benjamin Clariond Reyes-Retana

Mr. Clariond has a degree in Business Administration from the Instituto Tecnologico y de Estudios Superiores de Monterrey, a certificate in upper-level corporate management from the Industrial Studies Center in Geneve, and a certificate in Family-owned Enterprise Management from the Wharton School, incorporated into the University of Pennsylvania. He has held various upper-level executive positions in Grupo IMSA in Monterrey and was chairman and board member of industrial, banking and service institutions. He has been a legislative deputy elected to the LIV Legislature for the Ist Federal Electoral District of Nuevo Leon, At that time he was a member of the Committees for Human Settlements and Public Works, Industrial Capital and Promotion and Communication and Transportation, and was also on the technical committee of the Chamber of Deputies. He was the Municipal President of Monterrey from January 1, 1992 to October 31, 1994 and on April 17, 1996 the State Congress designated him interim Governor of the state of Nuevo Leon. He is currently a Federal Deputy elected by proportional representation for Nuevo Leon to the LXI Legislature of Mexico's Congress.

Mr. Pablo Azcarraga Andrade, Mr. Enrique Azcarraga Andrade and Mr. Jose Carlos Azcarraga Andrade are brothers. Mr. Juan Servitje Curzio is married to Cecilia Azcarraga Andrade.

Furthermore, the Ordinary General Shareholders Meeting of Grupo Posadas, S.A.B. de C.V also appointed the following alternate members to the Board of Directors: Alfredo Loera Fernandez and Charbel Christian Francisco Harp Calderoni, to represent indistinctly Silvia Sisset Harp Calderoni and Carlos Levy Covarrubias in their absence.

The majority of the Board of Directors members must be Mexican. Minority shareholders holding 10% of the corporate capital are also entitled to appoint a director and their corresponding alternate. The directors shall continue in their positions, although their appointed term has concluded or if they have resigned from the position, for up to a term of thirty calendar days in the absence of their substitute's appointment or if the latter does not take possession of their position, without applying the Article 154 provisions of the General Law of Business Corporations. Should this be the case, the Board may appoint temporary directors without shareholders meeting approval.

So that a Board of Directors meeting is legally convened, majority attendance of the permanent members or their respective alternates must be met, and the resolutions of the Board of Directors shall be valid if taken by a majority vote of those present at the meeting. Should a tie exist, the Board of Directors' chairman shall have the deciding vote. However, should the Board convene in order to discuss any proposal to purchase Company shares, the presence of at least 75% of the permanent directors or their respective alternates shall be required.

The Company's corporate by-laws provide that the Board of Directors shall convene at least once every three months, and that the Chairman of the Board, 25% of the directors, the Secretary or the Vice-Secretary, the Chairman of the Audit Committee or the Chairman of the Corporate Practices Committee may call for a Board meeting.

In compliance with the Stock Exchange Law, the Company's Board of Directors shall approve all the operations different from the Company's ordinary business, and which, amongst others, include: (i) the Company's general strategy, (ii) operations with related parties, except if these are immaterial to the Company due to their amount, (iii) non-recurring and unusual transactions and the purchase or sale of assets with a value equal to or greater than 5% of the Company's consolidated assets, and (iv) granting guarantees or undertaking liabilities in an amount equal to or greater than 5% of the Company's consolidated assets.

The Board of Directors is the Company's legal representative. The Board of Directors is responsible, amongst other things, for:

- approving the Company's general business strategy;
- approving, by hearing the Audit Committee or the Corporate Practices Committee's opinion, in the applicable case: (i) operations with related parties, subject to determined exceptions, (ii) the appointment of the Chief Executive Officer or the Chairman, their remunerations and removal, for justifiable cause, (iii) the Company and its subsidiaries' financial statements, (iv) unusual or non-recurring operations and any operation or series of operations in the same corporate year which involve (a) the purchase or sale of assets in an amount equal to or greater than 5% of the Company's consolidated assets, or (b) the granting of guarantees or undertaking of liabilities in an amount equal to or greater than 5% of the Company's consolidated assets, (v) the agreements entered into with independent auditors, and (vi) accounting policies;
- establishing special committees and determining their powers and authority, in the understanding that the Board of Directors may not delegate to any said committee the powers expressly reserved, in accordance with the law, to the Company's shareholders or Board;
- determining matters related to the change in control clause provided for in the corporate by-laws.

Duties of Due Diligence and Loyalty

The LMV (Stock Market Law) imposes duties of due diligence and loyalty on the directors. The duty of due diligence implies that the Company's directors must act in good faith and in the Company's best interest. To said purpose, the Company's directors are obligated to request from the Chief Executive Officer, the material officers and the external auditors the information which is reasonably necessary to make decisions. Directors who fail to comply with their due diligence duty shall be jointly responsible for actual and consequential damages caused to the Company or its subsidiaries.

The duty of loyalty implies that the Company's directors must maintain as confidential all information they obtain due to their positions, and shall refrain from participating in the deliberation and voting on any issue in which they have any conflict of interest. Directors are disloyal to the Company if they obtain economic benefits for themselves, if they knowingly favor a determined shareholder or group of shareholders, or if they take advantage of business opportunities without an exemption granted by the Board of Directors. The duty of loyalty also implies that the directors shall (i) inform the Audit Committee and/or the Corporate Practices Committee and the external auditors of all irregularities of which they obtain knowledge during the performance of their duties, and/or (ii) refrain from disclosing false information and from ordering or causing the omission of recording transactions carried out by the Company affecting any financial statement concept.

Directors who breach their duty of loyalty are considered responsible for actual and consequential damages caused to the Company or its subsidiaries resulting from the aforementioned acts or omissions. This responsibility applies also to the actual and consequential damages caused to the Company resulting from the economic benefits obtained by the directors or third parties due to the breach of loyalty.

Directors may be subject to criminal penalties of up to 12 years imprisonment should they act in bad faith affecting the Company, including the alteration of its financial statements and reports.

A liability action for breach may be exercised by shareholders representing at least 5% of the corporate capital, and criminal proceedings may only be exercised by the Ministry of Finance and Public Credit after the CNBV's prior opinion. Directors will not incur in the aforementioned responsibilities (including criminal responsibilities) if acting in good faith: (i) they fulfill the legal approval requirements for those matters which should be presided over by the Board of Directors or its committee, (ii) they make decisions pursuant to the information provided by material officers or third parties whose capacity and credibility are not subject to reasonable doubt, (iii) they choose, to the best of their knowledge, the most appropriate alternative, or the negative patrimonial consequences were unforeseeable, and (iv) they comply with shareholders' resolutions, provided that said resolutions do not contravene the applicable laws.

In compliance with the Mexican securities law (LMV), for the exercise of its supervisory powers, the Board of Directors may be supported by an Audit Committee and a Corporate Practices Committee, and the Company's external auditor. The Audit Committee and the Corporate Practices Committee, jointly with the Board of Director, exercise the duties previously exercised by the Statutory Auditor in keeping with the General Law of Business Corporations.

Remunerations of Directors and Executive Committee

Grupo Posadas, S.A.B. de C.V.'s Ordinary General Shareholders Meeting held in March 2017 approved an amount equal to two *Centenario (centenary)* gold coins, prior withholding of the corresponding tax, as remuneration for the permanent directors and the secretary for corporate year 2017, until the following Annual Ordinary General Shareholders Meeting, for their attendance at Board's meetings. Alternate directors shall earn the same fees only when they attend Board meetings in substitution of the corresponding permanent directors. The members of the Audit Committee and Corporate Practices Committee will earn the same fee for each meeting that they attend except the Chairmen who will earn three *Centenario* per meeting.

Executive Committee:

In keeping with the Company's corporate by-laws, an Executive Committee exists, composed of a minimum of 3 and a maximum of 5 permanent members, who may have alternates and who may or may not be directors. The Executive Committee is elected by the Board of Directors and its members hold their positions for the term of one year; however, they continue in their positions until the persons appointed to substitute them takes over. The Executive Committee is in charge of analyzing the Company's issues, matters or problems regarding its business or new businesses, taking into consideration the economic, legal or any perspectives considered relevant. The Committee may present proposals before the Board of Directors regarding the matters under discussion and it may only act as representative of the Issuer when the Board of Directors so decides. The members of the Executive Committee do not receive any remuneration for carrying out their duties. The Board of Directors may delegate to said Committee certain responsibilities in addition to the ones stipulated in the corporate by-laws.

Audit Committee and Corporate Practices Committee

At the present time, the Audit Committee is composed of three members: Jorge Soto y Galvez, as Chairman, Benjamin Clariond Reyes-Retana and Luis Alfonso Nicolau Gutierrez. The Chairman was confirmed by the Ordinary Shareholders Meeting held on March 22, 2017 and the remaining members were appointed or confirmed by the Board of Directors on April 26, 2017. The Chairman of the Audit Committee is appointed by the Company's shareholders meeting and the other members by the Board of Directors.

At present, the Corporate Practices Committee is composed of three members: Luis Alfonso Nicolau Gutierrez (appointed by the Shareholders Meeting held on March 22, 2016), as Chairman, Jorge Soto y Galvez and Benjamin Clariond Reyes-Retana, were ratified as members of this committee at the Board of Directors meeting of April 26, 2016. The Chairman of the Corporate Practices Committee is appointed by the Company's shareholders meeting, and the remaining members by the Board of Directors. In the opinion of the Board, each committee has at least one financial expert.

The Audit Committee and the Corporate Practices Committee are responsible for, amongst other matters and under their jurisdiction per the terms of the Stock Market Law, (i) supervising the duties of the external auditors and analyzing their reports, (ii) discussing and supervising the preparation of the financial statements, (iii) presenting a report on the effectiveness of the internal control systems before the board of directors, (iv) requesting reports from the members and relevant directors whenever they deem it necessary, (v) informing the board of directors of all irregularities of which they have knowledge, (vi) receiving and analyzing the comments and observations formulated by the shareholders, members of the board, relevant directors, third parties or external auditors, and carrying out the pertinent corresponding actions related to said comments, (vii) calling shareholders meetings, (viii) evaluating the performance of the Chief Executive Officer or Chairman, (ix) preparing and presenting its annual activity report to the Board of Directors, (x) providing opinions to the Board of Directors, (xi) requesting and obtaining opinions from independent experts, and (xii) attending Board of Directors sessions when preparing annual reports and fulfilling all other information presentation obligations.

The Chairman of the Audit Committee shall prepare an annual activity report for said committee and present it to the board of directors. Such annual report shall include, at least: (i) the status of the internal control and internal audit system and, if applicable, the descriptions of its deficiencies and deviations, as well as the aspects requiring improvements, taking into consideration the opinions, reports, communiques and the external audit report, as well as the reports issued by independent experts; (ii) report and monitor prevention and corrective measures implemented based on investigative results related to breaches of the Company's operating and accounting registration guidelines and policies; (iii) a performance assessment of the legal entity rendering external audit services; (iv) the material results of the review of the financial statements of the Company and its subsidiaries, (v) the description and effects of modifications of accounting policies; (vi) the measures adopted due to relevant observations formulated by shareholders, members, relevant directors, employees and, in general, by any third party, regarding accounting, internal controls, and matters related to external or internal audits; and (vii) the follow-up of the resolutions resulting from the shareholders' and Board of Directors' meetings.

The Chairman of the Corporate Practices Committee shall prepare an annual activity report for said body and present it to the board of directors. Said annual report shall comprise, at least: (i) the performance of the relevant directors; (ii) transactions executed with related parties; and (iii) remunerations of the members of the board and relevant directors.

Principal Officers

A brief curriculum summary of the principal officers is herein included as follows:

Name	Age	Current Position	Years with the company
Pablo Azcarraga Andrade	58	Chairman of the Board of Directors	32
Jose Carlos Azcárraga Andrade	51	Chief Executive Officer of Grupo Posadas	26
Javier Barrera Segura	54	Franchise Vice-President	28
Jorge Carvallo Couttolenc	60	Real Estate Vice-President	23
Arturo Martinez del Campo Saucedo	50	Chief Financial Officer	2
Enrique Calderon Fernandez	50	Hotel Operations Vice-President	10
Gerardo Rioseco Orihuela	53	Vacation Properties Vice-President	17

Javier Barrera Segura

Mr. Barrera holds a degree in Economics from the ITAM and a Master's Degree in Business Administration from Tulane University. For more than 20 years, he has held important positions in the Company before becoming Vice-President of Posada´s Franchise. Mr. Barrera was responsible for designing and launching the Fiesta Americana Vacation Club business and he was also Marketing Director. In 1986, he was granted the National Economics Award.

Jorge Carvallo Couttolenc

Mr. Carvallo holds a Chemical Engineering degree and a Master's degree in Business Administration from the ITAM. In the Company, he has held various positions in the Finance and Development areas. As General Director of Real Property, he has been responsible for developing the Mexican and South American expansion plans and he is currently Vice-President of Inmobiliaria Posadas (Real Estate).

Arturo Martinez del Campo Saucedo

Mr. Martinez is an Industrial Engineering graduate from the Universidad Iberoamericana with a Master's Degree in Administration from the University of California. He joined Grupo Posadas, S.A.B de C.V. on February 2, 2015 as Chief Financial Officer. He obtained broad experience in the Financial Group Banamex – Citigroup; he held the positions of: Mexico Cost Management Head, Financial Planning Corporate Banking and Treasury (Mexico / Latam), Chief Financial and Administrative Officer at Credito Familiar and Chief Financial Officer at Avantel / Banamex Citigroup, among others.

Enrique Calderon Fernandez

Mr. Calderon has a degree in Hotel Administration from the Centro de Estudios Superiores de San Angel. He has served for more than 20 years in the hotel marketing and tourism service areas in Posadas and other companies of the tourism sector, creating marketing, promotional and sales strategies. In 1999, he joined Posadas as Sales Director for Fiesta Americana hotels, and since then he has held several positions such as Sales Director South Region, Urban Hotels Key Accounts Director,Mexico Sales Director and currently Hotel Operations Vice-President.

Gerardo Rioseco Orihuela

Mr. Rioseco is an Industrial Engineering graduate from the Universidad Anahuac del Sur. With prior experience in the finance and tourism sectors, he joined the Company in 1999 participating in the launch of Fiesta Americana Vacation Club as Project Director in Los Cabos. From 2002 on, he is the Commercial Director of FAVC and then Vacation Properties Vice-President. He is Vice-President of the Mexican Association of Tourism Developers (AMDETOUR) and a board member of the American Resort Development Association (ARDA).

Remunerations of Executive Committee (Management) members and principal officers

For the year ending on December 31, 2016, the cash remunerations paid to the aforementioned officers and persons deemed related persons as a whole represented approximately 2.2% of the Company's total income. Said amount includes the payments of wages, vacation bonuses, legal Christmas bonuses and performance bonuses. Performance bonuses are determined based on individual performance and Company performance.

The Company has established an executive retirement and pension plan which to December 31, 2016, reports a total accumulated reserve of $89.4 million.

Principal Shareholders

According to the information obtained as of March 13, 2017, (date of the S.D. Indeval S.A. de C.V. report due to the extraordinary and ordinary general shareholders meeting held on March 22, 2017), from the information disclosed by the material shareholders, board members and officers of the Issuer, as of the date of this report and to the extent of the Company's knowledge, the following shareholders fall into the predicates stated herein below:

(i) Shareholders or group of shareholders who are beneficiaries of more than 10% of the corporate capital of the Company:

a. Accivalmex Patrimonial, S.A. de C.V., Sociedad de Inversión de Renta Variable. We have no information that allows us to identify a "beneficiary" of this corporate capital holding.

b. A group of the members of the Azcarraga Andrade family is the holder of more than 10% of the corporate capital of the Company. Said persons are: Maria Luisa Andrade e Iñarritu, Maria Beatriz, Maria Cecilia, Maria Luisa, Pablo, Enrique and Jose Carlos Azcarraga Andrade. To the extent of the disclosure, each of them is beneficiary, in their portion, of beneficiary rights to the selfsame, therefore amongst them, a "shareholder beneficiary" cannot be identified.

c. Banco Nacional de Mexico, S.A. by way of trust account 16436-2. There is no information that allows us to identify a "shareholder beneficiary" of this corporate capital holding.

(ii) Shareholders or group of shareholders with material influence, control over or power to control the Company:

A group of persons who are members of the Azcarraga Andrade Family may exercise material influence on the Company and it is considered that said group may have the power to control the Company, should they exercise their voting rights for the same purpose. Likewise, various family members and shareholders are material directors and/or executive directors of the Issuer, among others, the Chairman of the Board of Directors and the Chief Executive Officer of the Company.

(iii) Material directors and executives who individually hold more than 1% and less than 10% to this date: we know that Pablo, Jose Carlos, Beatriz and Enrique Azcarraga Andrade, as well as Silvia Sisset Harp Calderoni, jointly hold, directly or indirectly, 13.9% of the Issuer's corporate capital.

Code of Ethics and Conduct

In 2014, the Office of General Director published a Code of Ethics applicable to all material officers and other employees of the Company, which contains provisions related to the conduct of the Issuer's employees with respect to the following aspects: Code of Ethics and Conduct. On April 22, 2015, the Board of Directors approved the Code of Ethics and Conduct that the Company's directors and employees must observe.

The Ethics and Conduct Committee holds sessions quarterly in order to discuss and resolve regarding issues received by means of formal accusation channels established by the Company. During 2016 in the framework of complying with the National Code of Conduct promoted by the Mistry of Tourism, the Interpretation Criteria of the National Code of Conduct regarding the prohibition of children at work, sexual and work exploitation and human trafficking.

d) Corporate By-laws and Other Agreements

The Board of Directors has the authority to determine the criteria for the compensation packages of the Chief Executive Officer and other material executives and in legal terms, the power to approve policies and guidelines for the use and enjoyment of the assets of Posadas, operations between related persons, amongst these, board members, executives or approval so that a relevant board member or executive or a person with the power to control may take advantage of business opportunities to benefit themselves or in favor of third parties. Based on the above, the Board of Directors determined the operations policy with related parties that includes, amongst other aspects, benefits granted by the Company to shareholders, Directors and collaborators, guidelines observed to identify, authorize, control and report transactions/operations with related parties, how to treat and manage conflicts of interests as well as the policy for operations with shares of the Issuer.

In terms of clause twelve of the Company's by-laws, some rules have been established in order to delay, prevent, defer, or make more burdensome a change of control of the Issuer. Said clause was modified by the shareholders meeting dated April 14, 2015 and, the minority interests were updated on the October 31, 2016 meeting.

On March 19, 2014, the Extraordinary and Ordinary Shareholders Meeting of the Company approved the modification of the seventh clause of the by-laws and the cancellation of 64,151,031 Series "A" shares, subject to the termination of certain trusts of which the Company was the direct or indirect beneficiary. The resolutions of the shareholders meeting have been disclosed and executed in compliance with the generally applicable provisions for securities issuers and other securities market participants.

On March 15, 2016, the Extraordinary and Ordinary Shareholders Meeting of the Company approved the modification of the fifth clause of the by-laws, to clarify its corporate purpose and encompass all the activities the Issuer will acquire as a consequence of the corporate restructuring plan publicized in the informational leaflet on February 29, 2016. The text of the fifth clause has been publicized in the summary of resolutions and in the record of the minutes of the shareholders meeting pursuant to the Generally Applicable Provisions to Securities Issuers and other Securities Market Participants.

On October 31, 2016, the Extraordinary Shareholders Meeting of the Company modified the third, ninth, twelfth, twenty-first and thirty-first clauses of the Corporate bylaws to adapt them to the new name of Mexico City and to the new electronic publicity system of the Ministry of the Economy, such as the mechanisms to publicize calls to meetings and other corporate acts.

In accordance with the corporate by-laws in effect for the Company, the quorum requirements for convening and validity of the resolutions adopted in the Ordinary and Extraordinary Shareholders' Meeting are the following:

To consider legally convened an ordinary general shareholders meeting at first call at least 50% of the ordinary Series "A" shares should be represented. Through second or subsequent calls, the Ordinary General Shareholders' Meeting shall be considered validly convened by any number of Series "A" shares represented.

To consider legally convened an extraordinary general shareholder's meeting at first call at least 75% of the ordinary Series "A" shares should be represented. At second or subsequent calls, the aforementioned

Extraordinary General Shareholders' Meeting shall be considered validly convened with at least 50% of the Series "A" shares represented.

In accordance with the Company's by-laws, the Board of Directors has, amongst others, the following powers: 1) general power of attorney for collections and lawsuits with all the general and special powers that require a special clause in accordance with the Law; 2) general power of attorney to manage business and corporate assets on the broadest terms in compliance with the provisions of the respective law; 3) general power of attorney for acts of ownership, pursuant to the provisions of the respective law; 4) the Board of Directors shall have general legal representative powers by the delegation of legal representation of the corporate principal to represent it in trials or labor proceedings under the terms of the Federal Labor Law in force; 5) general power of attorney to draw, accept, endorse, negotiate, issue, guarantee, certify and in any other manner subscribe negotiable instruments on behalf and representation of the company, on the terms established in General Law of Negotiable Instruments and Credit Operations; 6) powers to open and cancel bank, investment or other accounts as well as to make deposits and draw on said accounts through the person or persons designated by the Board of Directors; 7) powers to appoint and remove the chief executive officer of the company and lower-ranking officers, as well to determine their attributions, powers, performance bonds, employment conditions and remunerations; 8) powers to grant general or special powers of attorney, as well as to substitute or delegate the powers granted to it, always reserving the right to exercise the same, and to revoke any of the powers granted, substituted or delegated; 9) the Board of Directors, through its chairperson, secretary or vice-secretary, may call Ordinary or Extraordinary General Shareholders' Meetings, in all the cases set forth in these By-laws or when deemed convenient, and to set the date, time and agenda for said Meetings; 10) to execute the resolutions adopted by a Company Shareholders' Meeting which shall be done through its chairperson, except if that power is delegated to another board member; 11) to establish and modify the Company's or its subsidiaries employee share sales or purchase options or share subscription plans; 12) to appoint and remove the Executive Committee members, as well as members of other mid-level administration or operation bodies, establishing their composition, powers and functioning subject to the provisions of the applicable law; and 13) to establish the Audit and Corporate Practices Committee or Committees referred to in the Stock Market Law and to appoint and remove their members, with the exception of the Chairperson, who shall be appointed by the Shareholders' Meeting in compliance with the Stock Market Law provisions; 14) to present to the General Shareholders' Meeting held at the close of the corporate year the following reports: the annual Audit Committee report, the annual Corporate Practices Committee report and the report of the Chief Executive Officer referred to in the Stock Market Law; as well as those other reports, opinions and documents which are required to comply with and under the terms of the Stock Market Law, the General Law of Business Corporations and other applicable laws; and 15) to preside over, discuss, and resolve on the matters referred to in the Second Section of the Twelfth Clause of the Company's corporate by-laws strictly adhering to the terms therein stipulated.

The members of the Board of Directors of the Issuer are elected by the favorable majority vote of the holders of Series "A" shares in circulation, present at an ordinary general shareholder's meeting. It being the case that the resolutions when directors state to have a conflict of interest are made according to the principles established for such effect by the Stock Market Law.

The Issuer's corporate by-laws establish measures preventing the purchase of shares granting control of the Issuer. In accordance with these measures, certain purchases of Series "A" shares representing the Issuer's corporate capital must be previously approved by the Issuer's Board of Directors or the General Extraordinary Shareholders' Meeting when, amongst other things, the consequence of such acquisitions is that the shareholding of the acquiring party in question, either individually or jointly with determined persons, represents a holding equal to or above ten percent of all Series "A" shares or five percent if the purchaser is considered a competitor. For a description of the referred measures, the procedure to request authorization from the Issuer's Board of Directors and/or the Extraordinary General Shareholders' Meeting, the quorum to convene and resolve, and the consequences of acquiring the shares, consultation of the complete text of the Second Section of the Twelfth Clause of the Issuer's corporate by-laws is suggested.

Minority Shareholder Rights

In line with the Stock Market Law, the Company's corporate by-laws stipulate the following minority shareholder rights:

- The right of holders of at least 10% of the shares representing the Company's corporate capital to request that the chairperson of the Board of Directors or of the Audit Committee and of the Corporate Practices Committee to call a shareholders' meeting in which they have the right to vote.

- The right of holders of at least 5% of the shares representing the Company's corporate capital to exercise an action to determine the responsibility of any of the directors, subject to satisfaction of certain legal requirements.

- The right of holders of at least 10% of the shares with the right to vote and represented in the respective shareholders' meeting to request postponement of the vote on any matter on which they believe they lack sufficient information.

- The right of holders of at least 20% of the shares representing the Company's corporate capital to legally challenge any resolution of the general meetings in which they have the right to vote, subject to meeting certain legal requirements.

- The right of holders, either individually or jointly representing at least 10% of the corporate capital, to appoint at least one director and the respective alternate director in the corresponding meetings.

e) Other Corporate Governance Practices

In accordance with the Stock Market Law and the Board of Directors, the Company is subject to certain corporate government requirements, including: 1. An Audit Committee and a Corporate Practices Committee that convene periodically. 2. Independent members on its Board of Directors. 3. The Shareholder's Meeting establishing the feasibility of alternate the Directors in the sessions of the Board of Directors (only two directors have assigned alternate directors). 4. The Board of Directors convening at least once every three months to present the results of the immediately preceding quarter. 5. That, in addition, the information of the company is available to all Directors and the Issuer has made available technological tools to ease said informational access.

The Company has an internal audit and risk area which directly reports to the Audit Committee and the Chief Executive Officer. Additionally, said area has an ongoing relationship with the Company's external auditor which is appointed by the Board of Directors after hearing the prior opinion of the Audit Committee.

During 2015, the Company continued creating diverse guidelines and policies so that the Corporate Government of the selfsame become more efficient and professional. The latter such as the Code of Ethics and Conduct, internal control and audit policies, Investment Policy, Issuer's Securities Operation Policy which are the responsibility of directors, officers and employees, the Issuer's Owned Shares Operation Policy which is the responsibility of the Issuer, and the Company's Loans to Material Directors Policy, which were approved by the Board of Directors session after hearing the prior opinion of the Audit and Corporate Practices Committees, within the scope of their respective responsibilities.

Providing continuity to the Company interest in regards to Corporate Government guidelines, policies and practices, during 2016 the following documents were drafted: 1) Related Persons Policy, 2) Financial Information Disclosure to Third Party Guidelines. Both documents were subject to a validation process by the Audit and Corporate Practices Committees to be later presented to and approved by the Board of Directors.

5) CAPITAL MARKETS

a) Stock Structure

The shares which represent the corporate capital of the Company are listed on the Mexican Stock Exchange Market, S.A.B. de C.V., where they have traded since 1992. The number of shares in circulation (weighted average - excluding shares in repurchase -) amounts to approximately 496 Million. The stock certificates issued and in effect to this date are the following:

Security or Provisional Certificate Number	Date of Issuance	Number of shares represented	Series
CP21*	30/04/1992	42,675	A
CP8	21/12/1998	10,000	A
1	15/10/2014	512,424,496	A
2	18/06/2015	260,417	A

* Regarding CP21, the Company had been notified of the judicial ruling for cancellation and replacement of this negotiable instrument, once the ruling becomes final.

Shares have shown low trading according to the selfsame BMV's rating, therefore they are operated according to a BMV bidding arrangement. Trading in series "A" shares has never been suspended by the regulatory authorities. As of February 28, 2013, the Series "A" shares is the only stock traded.

b) Share Performance in the Stock Market

Source: Bloomberg (The daily average volume is based on trading days)

Annual performance in the past 5 years

POSADAS A	2012	2013	2014	2015	2016
Price Max.	20.75	24.7	25.50	41.50	46.97
Price Min.	15.8	20.5	22.50	27.00	41.50
Price at closing	20.75	24.7	25.50	41.50	46.00
Daily operated volume (thousands of shares)	9.9	205.6	804.3	16.4	8.0

POSADAS L	2012	2013	2014	2015	2016
Price Max.	20.75	-	-	-	-
Price Min.	14.00	-	-	-	-
Price at closing	20.75	-	-	-	-
Daily operated volume (thousands of shares)	5.4	-	-	-	-

Quarterly last 2 years

POSADAS A	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16
Price Max.	28.80	32.50	34.00	41.50	43.00	46.97	45.60	46.00
Price Min.	27.00	30.23	34.00	34.00	41.50	44.50	45.60	42.00
Price at closing	28.80	32.50	34.00	41.50	43.00	45.60	45.60	46.00
Daily operated volume (thousands of shares)	1.3	0.4	0.5	23.9	10.9	5.3	14.2	3.9

Monthly last 6 months

POSADAS A	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
Price Max.	42.00	46.00	46.00	46.00	46.00	46.00
Price Min.	42.00	43.10	46.00	46.00	46.00	46.00
Price at closing	42.00	46.00	46.00	46.00	46.00	46.00
Daily operated volume (thousands of shares)	0.5	8.8	0.1	0.0	0.2	0.1

(information to April 27, 2017)

c) Market Maker

The Company does not have a market maker.

6) PERSONS RESPONSIBLE FOR THE INFORMATION CONTAINED IN THE ANNUAL REPORT

The persons indicated below have prepared, within the scope of their respective duties, the information in this annual report and which to the best of their knowledge, fairly reflects the Company's situation and have no knowledge that any material information may have been omitted or falsified in this annual report or that the same contains information that would mislead investors. This document has been subjected to review and comments by the Corporate Practices Committee of the Issuer.

Name	Position	Institution
Ing. Jose Carlos Azcarraga Andrade	Chief Executive Officer	Grupo Posadas, S. A. B. de C. V.
Ing. Arturo Martinez del Campo Saucedo	Chief Financial Officer (Financial Vice-President)	Grupo Posadas, S. A. B. de C. V.
Lic. Enrique Calderon Fernandez	Hotel Operations Vice-President	Grupo Posadas, S. A. B. de C. V.
Ing. Gerardo Rioseco Orihuela	Vacation Properties Vice-President	Grupo Posadas, S. A. B. de C. V.
Lic. Javier Barrera Segura	Franchise Vice-President	Grupo Posadas, S. A. B. de C. V.
Ing. Jorge Carvallo Couttolenc	Real Property Vice-President	Grupo Posadas, S. A. B. de C. V.
Dra. Olga Gutierrez Nevarez	Director of Legal Affairs	Grupo Posadas, S. A. B. de C. V.
Lic. Gabriel Elias Guzman	Corporate Comptroller and Treasury Director	Grupo Posadas, S. A. B. de C. V.
C.P. Roberto Alvarez Lopez	Tax Director	Grupo Posadas, S. A. B. de C. V.
C.P.C. Fernando Loera Aguilar	External Auditor	Galaz, Yamazaki, Ruiz Urquiza, S.C.

7) ATTACHMENTS

Audited financial statements corresponding to the corporate years ending on December 31, 2016, 2015 and 2014.

Annual reports formulated by the Audit Committee in the performance of its duties and in support of the Board of Directors regarding the contents of the report rendered by the Chief Executive Officer and the report referred to in article 172 b) of the General Law of Business Corporations.

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

Consolidated Financial Statements for the Years Ended December 31, 2016, 2015 and 2014, and Independent Auditors' Report Dated March 2, 2017

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

Independent Auditors’ Report and Consolidated Financial Statements for 2016, 2015 and 2014

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

Opinion

We have audited the accompanying consolidated financial statements of Grupo Posadas, S.A.B. de C.V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, 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 as of December 31 2016, 2015 and 2014, 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, were of most significance in our audit of the consolidated financial statements for the year 2016. 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	*Audit procedures performed*
Revenues from Vacation Club	
The Vacation Club operation generates revenues from the sale of Vacation Club memberships and of Kívac points, which represent 33% of the total Entity's revenues. Under International Accounting Standard 18 *Revenues,* revenues 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. Note 4t to the accompanying consolidated financial statements includes the accounting policies for revenue recognition of the Vacation Club business.	The audit tests applied to the 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) using the support of our systems expert for the design and implementation and operating efficiency tests of the internal controls and substantive tests on the system supporting 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.

Key Audit Matter	*Audit procedures performed*
Vacation Club Reserve for refunds	
The amount of this reserve represents 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. The Entity analyzes the operations to identify those revenues whose recovery might be uncertain and, therefore, the related Notes receivable might not be recoverable.	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, 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 utilized within the model, and used to determine the balance of the reserve;

Key Audit Matter	*Audit procedures performed*
Vacation Club Reserve for refunds	
The amount recognized as a reserve in the consolidated financial statements is the Entity's best estimate on the Vacation Club inventory returns, as a result of the members who would not meet their contractual payment obligations. All notes receivable are considered, more importantly those aged by more than 11 months, as these accounts are generally not recovered, as shown from past experience. In addition to aging, recent collection effects, communications with the members, and experiences of default are taken into account. Note 4r to the accompanying consolidated financial statements describes the accounting policies for this 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 the portfolio aging; iv) evidence of new operating strategies and those communicated to members in order to support the restructuring and recovery of portfolio overdue 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 occur by members to pay their debts.

Key Audit Matter	*Audit procedures performed*
Contingencies	
There is currently an official request for payment of income taxes from the year 2007 in the amount of $1,026,736,000 and a tax lawsuit from the year 2006, in the amount of $767,248,000, whose outcome cannot be determined at the date of the consolidated financial statements. The accounting policy for the recognition of provisions, and the disclosure of contingencies, are included in Notes 4r, 26 and 27 to the accompanying consolidated financial statements. In its regular course of operations, the Entity is engaged in different lawsuits, where mainly, given the early stage of the lawsuits or the impossibility to determine a provision, as established in International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets,* no reserves have been established. The Entity also considers the fact that in Management's experience, in similar lawsuits the respective outcome has not significantly affected the Entity's financial position or result of its operations.	Given the significance of the amounts claimed through the official request for payment and the related tax liability, as well as the uncertainty on the possible adverse ruling for the lawsuit, our audit procedures included the following: i) involved our tax experts in the analysis of the legal arguments sustained by the Entity's Management to defend its position in the lawsuit, and in the analysis of the faults or omissions considered by the tax authorities; ii) obtained written confirmations from the outside attorneys responsible for advising the Entity in its lawsuit against the official request for payment and the related tax liability assessed by the tax authorities, to ascertain their opinion on the current status of the proceeding; 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 a possible adverse lawsuit outcome.

Key Audit Matter	Audit procedures performed
Long-term financial debt	
As of December 31, 2016 the Entity's level of indebtedness is $7,871,765,000, representing 65% of its total liabilities and 2.7 times its stockholders' equity. This debt was contracted in US dollars and amounts to US400,000,000, and as a result of the Mexican peso devaluation in 2016, the Entity recognized, net exchange losses for $1,234,444,000 in its consolidated statement of comprehensive (loss) income. The debt is contracted at a 7.875% annual fixed interest rate, and generated interest expense of $643,592,000. In order to reduce its liquidity risk, the Entity has focused on restructuring its debt maturities, and during May 2016 concluded the refinancing of its total debt denominated "Senior Notes 2022" for US400,000,000, maturing on June 30, 2022, including the prepayment in November 2016 of US38,332,000 debt with maturity in November 2017. Notes 15 and 19 to the consolidated financial statements disclose the main characteristics of the long-term financial debt, as well as the Entity's policies to manage the risks derived from its financial instruments.	Due to the importance of this caption and its impact on the consolidated financial statements, our audit tests consisted of: i) ensuring the formal approval by the Entity's Board of Directors for contracting and restructuring the long-term financial debt; ii) reviewing compliance with the restrictions and affirmative and negative covenants established in the debt contracts; iii) reviewing the adequate disclosure of the main captions of the financial statements of the guarantor and non-guarantor entities; iv) obtaining written confirmation from the creditor financial institution to corroborate the balances of the principal and of the interest accrued in the year; v) corroborating the correct valuation of the debt in Mexican pesos, at the exchange rate in effect at year end, as well as the amount and valuation of the interest accrued and owed at year end; vi) reviewing the correct presentation of the cash flows from operating and financing activities in the consolidated statement of cash flows, and vii) reviewing the adequate disclosure of the financial risks in the consolidated financial statements.

Key Audit Matter	Audit procedures performed
Deferred taxes	
As explained in Notes 4q and 16 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. The amount of tax loss carryforwards is $8,705,291,000, which represents a deferred income tax benefit of $2,611,588,000, and may be applied as long as the individual entities which incurred them, generate sufficient future 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, 2016, the Entity has estimated that a reserve of $1,101,718,000 is required due to the uncertainty related to the realization of this asset.	Given the relevance of deferred taxes, a change in assumptions and conditions on the recovery of tax losses might originate a material effect in the amount 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) evaluating and challenging the assumptions and methodologies used by the Entity; ii) analyzing individual entities' trend of their tax results from previous years; iii) reviewing 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) reviewing the projected results of the corporate restructuring process. We believe that the Entity's disclosures in relation to the main captions originating the deferred tax balances are appropriate.

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 Audit Committee is responsible for overseeing the Entity’s financial reporting process, reviewing the content of the consolidated financial statements and submit them to the Entity’s Board of Directors for approval.

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 auditors’ 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 professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement 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 resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Deloitte.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used 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 overall 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 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 2016 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 2, 2017

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

Consolidated Statements of Financial Position

As of December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

Assets	Notes	2016	2015	2014
Current assets:				
Cash and cash equivalents	6	$ 1,320,097	$ 763,810	$ 997,792
Investments in securities	7	450,000	450,000	519,073
Accounts and notes receivable - Net	8	2,735,222	2,496,491	2,627,080
Inventories		24,507	33,750	34,068
Prepaid expenses		92,329	158,797	133,311
Vacation Club inventory	9	153,277	198,485	286,968
Other current assets		63,692	62,085	27,733
Assets classified as held for sale	10	64,531	59,184	50,910
Total current assets		4,903,655	4,222,602	4,676,935
Non-current assets:				
Long-term notes receivable	11	2,231,275	2,285,534	1,726,722
Vacation Club inventory in construction		151,480	22,745	10,918
Property and equipment - Net	12	6,483,129	6,666,479	6,559,525
Investment in associates		1,129	1,129	1,879
Intangible assets and other assets	13	641,184	404,920	269,362
Deferred tax assets	16	658,518	173,554	72,610
Total non-current assets		10,166,715	9,554,361	8,641,016
Total assets		$ 15,070,370	$ 13,776,963	$ 13,317,951

Liabilities and stockholders' equity	Notes	2016	2015	2014
Current liabilities:				
Current portion of long-term debt	15	$ 472	$ 1,399	$ 1,449,957
Trade accounts payable	14	497,753	438,432	400,101
Other liabilities and accrued expenses		1,061,833	1,032,469	749,376
Income tax payable		362,454	240,885	280,272
Deferred income from Vacation Club		435,627	253,639	65,822
Current portion of long-term value-added tax		134,955	95,726	133,539
Liabilities directly associated with assets classified as held for sale	10	7,200	6,384	6,423
Total current liabilities		2,500,294	2,068,934	3,085,490
Long-term liabilities:				
Debt	15	7,871,765	6,242,282	4,432,316
Accrued liabilities	17	459,676	504,534	400,210
Value-added tax payable		318,954	319,932	248,719
Deferred income from Vacation Club		840,307	703,538	508,858
Income tax payable	16	151,097	310,240	533,148
Total long-term liabilities		9,641,799	8,080,526	6,123,251
Total liabilities		12,142,093	10,149,460	9,208,741
Stockholders' equity:				
Contributed capital:				
Capital stock	21	495,881	495,881	495,937
Contributions for future capital increases		704	4,828	12,516
Share repurchase reserve		16,856	16,856	16,800
Additional paid-in capital		157,429	157,429	157,429
		670,870	674,994	682,682
Earned capital:				
Share repurchase reserve		535,000	535,556	535,556
Retained earnings		1,467,516	2,172,779	2,645,031
Other items of comprehensive income		62,945	47,424	27,244
		2,065,461	2,755,759	3,207,831
Total controlling interest		2,736,331	3,430,753	3,890,513
Non-controlling interest		191,946	196,750	218,697
Total stockholders' equity		2,928,277	3,627,503	4,109,210
Total liabilities and stockholders' equity		$ 15,070,370	$ 13,776,963	$ 13,317,951

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, 2016, 2015 and 2014
(In thousands of Mexican pesos, except (loss) earnings per share)

	Notes	2016	2015	2014
Continuing operations				
Revenue	22	$ 7,979,349	$ 6,901,221	$ 5,848,278
Cost of sales	22	4,538,947	4,101,783	3,579,145
Gross profit		3,440,402	2,799,438	2,269,133
Administration expenses	22	982,304	884,090	807,848
Sale and development expenses	22	252,243	166,250	131,871
Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets		1,040,475	801,646	739,026
Other expenses, net		110,921	145	45,670
Interest expense		643,592	508,840	417,669
Interest income		(46,802)	(34,457)	(22,509)
Commissions and financial expenses		93,474	100,080	60,763
Exchange loss, net		1,234,444	708,553	427,934
Equity in losses of associates		-	750	12,595
		4,310,651	3,135,897	2,620,867
Loss before income tax		(870,249)	(336,459)	(351,734)
Income tax (benefit) expense	16	(174,349)	131,334	(1,061,257)
(Loss) profit from continuing operations		(695,900)	(467,793)	709,523
Discontinued operations				
(Loss) profit from discontinued operations		(1,279)	(2,612)	8,718
Consolidated (loss) income for the year		(697,179)	(470,405)	718,241
Other comprehensive income (loss)				
Exchange differences on translating foreign operations, which will be reclassified subsequently to profit or loss		32,195	7,516	10,844
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss		(23,820)	18,091	(13,689)
Income taxes		7,146	(5,427)	4,107
		15,521	20,180	1,262
Consolidated comprehensive (loss) income for the year		$ (681,658)	$ (450,225)	$ 719,503

(Continued)

	2016	2015	2014
Consolidated (loss) income for the year attributable to:			
Controlling interest	$ (705,819)	$ (470,208)	$ 716,817
Non-controlling interest	8,640	(197)	1,424
Consolidated (loss) income for the year	$ (697,179)	$ (470,405)	$ 718,241
Consolidated comprehensive (loss) income for the year attributable to:			
Controlling interest	$ (690,298)	$ (450,028)	$ 718,079
Non-controlling interest	8,640	(197)	1,424
Consolidated comprehensive (loss) income for the year	$ (681,658)	$ (450,225)	$ 719,503
(Loss) earnings per share:			
From continuing and discontinued operations -			
Basic and diluted (loss) earnings per common share (in pesos)	$ (1.42)	$ (0.95)	$ 1.45
From continuing operations -			
Basic and diluted (loss) earnings per common share (in pesos)	$ (1.42)	$ (0.94)	$ 1.43
Weighted average shares	495,929,856	495,929,856	495,937,601

(Concluded)

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders’ Equity

For the years ended December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

	Contributed capital					Earned capital				
	Capital stock	Contributions for future capital increases	Shares repurchase reserve	Shares held in trust	Additional paid-in capital	Shares repurchase reserve	Retained earnings	Other items of comprehensive income	Non-controlling interest	Total stockholders’ equity
Beginning balance, 2014	$ 495,937	$ 12,516	$ 133,509	$ (3,322)	$ 157,429	$ 559,371	$ 1,776,394	$ 25,982	$ 230,401	$ 3,388,217
Capital increase by issuing shares in trust	-	-	-	3,322	-	7,669	-	-	-	10,991
Decrease shares repurchase reserve	-	-	(116,709)	-	-	(31,484)	148,193	-	-	-
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	(8,000)	(8,000)
Acquisition of non-controlling interest and stock purchase surplus	-	-	-	-	-	-	3,627	-	(5,128)	(1,501)
Consolidated comprehensive income	-	-	-	-	-	-	716,817	1,262	1,424	719,503
Balance as of December 31, 2014	495,937	12,516	16,800	-	157,429	535,556	2,645,031	27,244	218,697	4,109,210
Repurchase of shares	(56)	-	56	-	-	-	(2,044)	-	-	(2,044)
Partial payment of convertible debt	-	(7,688)	-	-	-	-	-	-	-	(7,688)
Change in the value of non-controlling interest	-	-	-	-	-	-	-	-	(21,750)	(21,750)
Consolidated comprehensive loss	-	-	-	-	-	-	(470,208)	20,180	(197)	(450,225)
Balance as of December 31, 2015	495,881	4,828	16,856	-	157,429	535,556	2,172,779	47,424	196,750	3,627,503
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

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, 2016, 2015 and 2014
(In thousands of Mexican pesos)

	2016	2015	2014
Cash flows from operating activities:			
Consolidated (loss) income for the year	$ (697,179)	$ (470,405)	$ 718,241
Adjustments for:			
Income tax (benefit) expense	(174,349)	131,334	(1,061,257)
Depreciation, amortization, cost of disposal and asset impairment	595,350	414,677	409,265
Amortization of debt issue expenses	72,642	49,985	46,401
Equity in losses of associates	-	750	12,595
Loss (income) on sale of fixed assets	(120,128)	88,134	-
Interest income	(46,802)	(34,457)	(22,509)
Unrealized foreign exchange loss	1,439,926	932,462	590,499
Interest expense	643,592	508,840	417,669
	1,713,052	1,621,320	1,110,904
Transactions in working capital:			
Accounts and notes receivable - Net	(189,819)	(442,161)	(192,610)
Inventories	9,243	318	1,735
Prepaid expenses	52,980	(25,486)	(11,445)
Vacation Club inventory	45,208	88,483	(180,972)
Trade accounts payable	59,321	38,331	51,774
Other liabilities and accrued expenses	(46,543)	484,463	176,246
Deferred income of Vacation Club	318,757	382,497	119,607
Income taxes paid	(218,829)	(466,581)	(595,188)
Net cash generated by operating activities	1,743,370	1,681,184	480,051
Cash flows from investing activities:			
Purchases of property and equipment	(573,995)	(600,573)	(426,454)
Vacation Club inventory in construction	(128,734)	(11,827)	(10,919)
Intangible assets and other assets	(202,893)	(184,766)	(81,940)
Investments in securities		69,073	6,278
Interest collected	46,802	33,066	22,509
Sale of property and equipment	15,632	5,664	-
Cash flows from sales of non-strategic properties	245,000	-	26,197
Net cash used in investing activities	(598,188)	(689,363)	(464,329)

(Continued)

	2016	2015	2014
Cash flows from financing activities:			
Cash received from debt issuance	922,635	1,219,441	740,159
Loan repayments	(793,667)	(1,542,844)	-
Interest paid	(687,315)	(573,282)	(427,114)
Debt issuance costs	(26,424)	(359,274)	(50,149)
Partial payment of convertible debt	(4,124)	(7,688)	-
Repurchase of shares	-	(2,044)	-
Capital increase by issuing shares in trust	-	-	10,991
Non-controlling interest dividends paid	-	-	(8,000)
Acquisition of non-controlling interest	-	-	(1,501)
Net cash (used in) generated by financing activities	(588,895)	(1,265,691)	264,386
Net increase (decrease) in cash and cash equivalents	556,287	(273,870)	280,108
Cash and cash equivalents at the beginning of the year	763,810	997,792	706,365
Effects of exchange rate changes on the balance of cash held in foreign currencies		39,888	11,319
Cash and cash equivalents at the end of the year	$ 1,320,097	$ 763,810	$ 997,792

(Concluded)

See accompanying notes to consolidated financial statements.

(In thousands of Mexican pesos)

1. Activities

Grupo Posadas, S. A. B. de C. V. (Posadas) and Subsidiaries (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, LAT20, 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	2016	2015	2014
Owned	15	17	17
Leased	13	14	14
Managed	120	110	96
Total hotels operated	148	141	127
Total rooms operated	24,324	23,259	21,094

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 "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 2b). Through December 31, 2016, the Entity continues with the organizational restructuring to significantly 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 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 achieved the total amount of US$400 million.

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 initial intention was to substitute the issuance of US$310 million known as "Senior Notes 2017" which the Entity held as of December 31, 2014 and for which US$1,060 was offered for each US$1,000 of the previous issue. As a result of the offering it was possible to tender US$271.7 million of "Senior Notes 2017", equivalent to 87.63% of principal, and the remaining balance of this program decreased to US$38.3 million, while the notes representing the remaining balance were held outstanding; also, the funds that were not used for such tender were applied by the Entity mainly for the payment of the commercial euro paper held by the Entity that matured on November 2015.

The "Senior Notes 2022" accrue interest of 7.875% a year with maturity of principal on June 30, 2022. The interest is payable semiannually in the months of June and December, beginning as of December 30, 2015.

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

b. ***Sale of Hotel Fiesta Inn Monterrey Valle and promise to sell Hotel Fiesta Americana Hermosillo***

As part of the asset sales strategy, on August 1, 2016, the hotel building which operated under the commercial brand "Fiesta Inn Monterrey Valle" was sold to Fibra Hotel; the amount of the transaction was $245 million.

On April 29, 2016 a purchase and sale agreement was signed subject to term, conditions precedent and a purchase option with Deutsche Bank México, S.A. Institución de Banca Múltiple, fiduciary division, trustee of the Trust F/1596 (Fibra Hotel) 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 *EBITDA* of the hotel 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 with Fibra Hotel for a noncancelable term maturing in 2020 for $10 million, which the Entity undertakes to invest in property improvements; also, Fibra Hotel 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.

Pursuant to the signing of the purchase-sale contract, the Entity conducted an impairment study for the hotel Fiesta Americana Hermosillo, 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.

The Entity continues operating both hotels under the modality of "Managed Hotels".

c. ***Hurricane Odile***

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

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

d. ***Assets available for sale***

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

As all the accounting criteria required for assets available for sale have been fulfilled as of December 31, 2014, the real estate and equipment of the hotel subject to sale have been presented as "assets held for sale" in the consolidated statements of financial position.

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.

e. ***Tax effects of 2013***

i. Under the new Income Tax Law (LISR) in effect in 2014, the tax consolidation scheme was eliminated. Therefore, Posadas became obligated to pay the deferred tax up to December 31, 2013, during the following five years beginning in 2014. This tax on deconsolidation was determined by the Entity's management and recognized in the consolidated statement of comprehensive (loss) income as of December 31, 2013, under the heading of income tax expense, for the amount of $882,262; also, the short and long-term liability as of December 31, 2016 is $159,143 and $151,097, respectively. The determination of such tax is subject to review by the tax authorities.

ii. Similarly, the 2014 LISR eliminates the incentive that allowed for the contribution of real property to Real Estate Companies (SIBRAS) and the accrual of the gain on sale of these properties at the time the shares of such companies were sold. Consequently, if the above assumptions for accrual of the gain have not been fulfilled as of December 31, 2016, it must be accrued on that date. The liability for this gain was not fully recorded previously because the Entity had no plans to sell the shares or the assets. Consequently, due to the change in circumstances, the Entity recorded a deferred tax in the consolidated statement of financial position of $1,297,422 as of December 31, 2013. Due to a series of additional analyses and considering the tax attributes of the Entity, during 2014 tax losses of $304,090 were carried forward. As of December 31, 2016, the liability derived from this gain is $389,281 (see Note 16c.)

3. Application of new and revised International Financial Reporting Standards

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

In 2016 the Entity applied the following amendments to IFRS issued by the International Accounting Standards Board (IASB), which did not have important effects on the Entity's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

Provide practical guidance on applying the concept of materiality for financial statement disclosures.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment.

The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue; or

b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Entity's management uses the straight-line method for depreciation of its property and equipment, and amortization of intangible assets, since it believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets.

Amendments to IAS 19, Employee Benefits

Clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level as the benefits are to be paid. For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

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

At the date of the consolidated financial statements the following new and revised IFRS have been issued but are not yet effective. These IFRS allow earlier application, option that has not been elected by the Entity.

i) Effective for annual periods beginning on or after 1 January 2017, for which the Entity does not expect to have important effects on its consolidated financial information.

Amendments to IAS 12 Income Tax: Recognition of Deferred Tax Assets for Unrealized Losses

Provides requirements on the recognition and measurement of current or deferred tax liabilities or assets, and the amendments clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Amendments to IAS 7 Statements of Cash Flows: Provide disclosures.

With the purpose to provide disclosures that allow users of financial statements evaluate the changes in liabilities arising from financing activities, IASB requires that the changes in liabilities arising from financing activities are disclosed: (i) from financing cash flows; (ii) from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) in fair values; and (v) other changes.

ii) **Effective for annual periods beginning on or after 1 January 2018,** 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 9 *Financial Instruments*

- IFRS 9 requires that all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* 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 (historical cost) at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at Fair Value Through Other Comprehensive Income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (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:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 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.

iii) **Effective for annual periods beginning on or after 1 January 2019;** during 2017 the Entity will begin the analysis and evaluation of the effects of this standard, although given the nature of its operations it would expect significant impacts.

IFRS 16, ***Leases***

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A lessee would recognize a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

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), a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term.

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 the entities which controls. Control is achieved when Posadas:

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

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

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

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

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

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

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

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

Entity	**Participation (%) 2016, 2015 and 2014**
Promotora Inmobiliaria Hotelera, S. A. de C. V. and Subsidiaries	100
Controladora de Acciones Posadas, S. A. de C. V. and Subsidiaries	100
Administración Digital Conectum, S. A. de C. V. and Subsidiaries	100
Posadas USA, Inc. and Subsidiaries	100
Hoteles y Villas Posadas, S. A. de C. V.	100
Inversora Inmobiliaria Club, S. A. de C. V.	100
Gran Inmobiliaria Posadas, S. A. de C. V.	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

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

<u>Changes in the Entity's ownership interests in existing subsidiaries</u>

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. <u>Effective interest method</u>

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. <u>Financial assets at FVTPL</u>

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.

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

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

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

5. Loans and receivables

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

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

6. <u>Impairment of financial assets</u>

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. <u>Derecognition of financial assets</u>

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***

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

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

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

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

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

	(%)
Buildings - Construction	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.

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

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

j. ***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.

<u>Short-term and other long-term employee benefits</u>

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.

<u>Statutory employee profit sharing (PTU)</u>

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

As result of the 2014 Income Tax Law, as of December 31, 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. <u>Current tax</u>

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

2. Deferred income tax

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

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

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

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

3. Current and deferred tax for the year

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

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.

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 statement 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 shares outstanding during the period. The diluted (loss) earnings per share is determined by adding 1) to the net (loss) earnings utilized in the numerator of the basic earnings per common share computation, interest and exchange rate fluctuation recorded in earnings attributable to voluntarily convertible loans and 2) to the weighted average shares outstanding in the denominator of the computation, the weighted average of outstanding obligations converted to shares based on the conversion factor established in the convertible loan agreements. As of December 31, 2016, 2015 and 2014, 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, hydrosanitary 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

	2016	2015	2014
Cash	$ 65,171	$ 109,345	$ 85,792
Cash equivalents:			
Overnight investments	1,254,926	654,465	912,000
Total	$ 1,320,097	$ 763,810	$ 997,792

7. Investments in securities

	2016	2015	2014
Trading:			
Overnight investments	$ 450,000	$ 450,000	$ 487,294
Other	-	-	31,779
	$ 450,000	$ 450,000	$ 519,073

8. Accounts and notes receivable

	2016	2015	2014
Notes receivable from Vacation Club (a.)	$ 1,846,740	$ 1,218,342	$ 1,022,035
Other receivables from Vacation Club	170,462	279,720	250,742
Clients and agencies (b.)	732,451	624,403	531,821
Other taxes recoverable, net	-	401,983	805,284
Account receivable from sale of non-strategic assets	-	-	102,000
Officers and employees	60,485	37,647	33,160
Others	79,428	166,993	123,635
	2,889,566	2,729,088	2,868,677
Less - Allowance for doubtful accounts	(154,344)	(232,597)	(241,597)
	$ 2,735,222	$ 2,496,491	$ 2,627,080

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

	2016	2015	2014
Maturity of notes receivable from Vacation Club-			
Less than 90 days	$ 422,463	$ 100,703	$ 311,336
Between 91 and 330 days	657,243	597,692	334,537
Between 331 and 365 days	767,034	519,947	376,162
	$ 1,846,740	$ 1,218,342	$ 1,022,035

b. Accounts receivable from clients and agencies

The average credit term related to amounts owed for hotel services is 35 days. The Entity does not charge interest on outstanding amounts. Normally, amounts owed within this portfolio are not aged significantly. During 2016, 2015 and 2014 the Entity identified and wrote-off $88,719, $2,122 and $9,364, respectively, of the reserve for doubtful accounts, since it was determined that such amounts did not have possibility of being recovered.

	2016	2015	2014
Clients and agencies-			
Less than 90 days	$ 650,710	$ 552,853	$ 410,312
Over 90 days	81,741	71,550	121,509
	732,451	$ 624,403	$ 531,821
Allowance for doubtful accounts-			
Clients and agencies	$ (34,183)	$ (122,902)	$ (120,340)
Notes receivable from Vacation Club	(120,161)	(109,695)	(43,123)
Other	-	-	(78,134)
	$ (154,344)	$ (232,597)	$ (241,597)

9. Vacation Club inventory

	2016	2015	2014
Vacation Club inventory	$ 128,477	$ 177,397	$ 268,552
Villas and residential lots	24,800	21,088	18,416
	$ 153,277	$ 198,485	$ 286,968

Vacation Club inventories recognized in cost of membership sales during the period in respect of continuing operations was $48,919, $87,923and $83,453 at December 31, 2016, 2015 and 2014, respectively.

10. Assets classified as held for sale

	2016	2015	2014
Assets classified as held for sale of the Ramada Plaza hotel:			
Cash and cash equivalents	$ 5,586	$ 2,642	$ 5,595
Accounts and notes receivable - Net	1,228	1,046	1,193
Inventories	312	259	154
Prepaid expenses	428	359	288
Property and equipment - Net	56,977	54,878	43,680
Total assets classified as held for sale	$ 64,531	$ 59,184	$ 50,910
Liabilities directly associated with assets classified as held for sale:			
Other liabilities and accrued expenses	$ (7,200)	$ (6,384)	$ (6,423)

11. Long-term notes receivable

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

	2016	2015	2014
Long-term notes receivable:			
Vacation Club memberships	$ 1,945,498	$ 2,211,196	$ 1,556,054
Kívac	366,920	108,309	247,156
	2,312,418	2,319,505	1,803,210
Less:			
Allowance for Kívac's doubtful accounts	(81,143)	(33,971)	(76,488)
Total	$ 2,231,275	$ 2,285,534	$ 1,726,722

The maturities of the long-term notes receivable at December 31, 2016 are as follows:

To collect during	Amount
2018	$ 993,046
2019	589,320
2020	309,524
2021 and thereafter	420,528
Total long-term notes receivable	$ 2,312,418

12. Property and equipment

	2016	2015	2014
Buildings	$ 6,431,458	$ 6,603,406	$ 6,563,629
Furniture and equipment	1,479,002	1,227,058	1,481,450
Computers	422,053	417,977	433,202
Vehicles	37,093	30,132	35,139
	8,369,606	8,278,573	8,513,420
Less - Accumulated depreciation	(4,469,963)	(4,375,084)	(4,511,623)
	3,899,643	3,903,489	4,001,797
Land	2,184,719	2,218,114	2,129,829
Construction in progress	398,767	544,876	427,899
	$ 6,483,129	$ 6,666,479	$ 6,559,525

	Land	Buildings	Furniture and equipment	Computers	Vehicles	Construction in progress	Total
Cost							
Beginning balance as of January, 2014	$ 2,093,737	$ 6,653,027	$ 1,422,265	$ 435,244	$ 37,236	$ 221,690	$ 10,863,199
Additions	53,536	18,156	136,457	5,602	6,494	206,209	426,454
Disposals	(11,228)	-	-	(7,644)	(7,325)	-	(26,197)
Reclassified as held for sale	(6,216)	(107,554)	(77,272)	-	(1,266)	-	(192,308)
Balance as of December 31, 2014	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)	-
Disposals	-	(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	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	-	(376,607)	-	-	-	-	(376,607)
Derecognition of fully depreciated assets	(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
Accumulated depreciation and impairment							
Beginning balance as of January, 2014	$ -	$ (2,972,043)	$ (916,451)	$ (374,821)	$ (22,314)	$ -	$ (4,285,629)
Depreciation expense	-	(208,270)	(134,751)	(27,163)	(4,438)	-	(374,622)
Reclassified as held for sale	-	106,793	41,648	-	187	-	148,628
Balance as of December 31, 2014	-	(3,073,520)	(1,009,554)	(401,984)	(26,565)	-	(4,511,623)
Depreciation expense	-	(178,648)	(189,558)	(26,659)	(4,956)	-	(399,821)
Disposals of assets	-	54,189	73,799	6,655	3,631	-	138,274
Derecognition of 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
Derecognition of fully depreciated assets	-	249,019	-	-	-	-	249,019
Impairment of assets	-	(57,064)	-	-	-	-	(57,064)
Balance as of December 31, 2016	$	$ (3,145,525)	$ (890,707)	$ (408,321)	$ (25,410)	$ -	$ (4,469,963)
Total net investment at December 31, 2016	$ 2,184,719	$ 3,285,933	$ 588,295	$ 13,732	$ 11,683	$ 398,767	$ 6,483,129

Certain real estate property has been granted as guarantee of an undisposed line of credit as well as certain tax liabilities; the approximate amount of these assets is $614,665.

13. Intangible assets and other assets

	2016	2015	2014
Kívac's sales commissions	$ 330,143	$ 317,852	$ 215,970
Guarantee deposits	42,995	44,537	39,719
Expenditures for technology projects	153,882	21,857	7,662
Development expenses and others	61,919	20,674	6,011
Other assets	52,245	-	-
	$ 641,184	$ 404,920	$ 269,362

14. Suppliers

The Entity has lines of credit contracted with Banco Santander (México), S.A., BBVA Bancomer, S.A., Banco Monex, S.A. and Banco Actinver, S.A. up to the amount of $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 the invoices of suppliers which agreed to for the financial factoring is composed as follows:

	2016	2015	2014
Banco Santander (México), S.A.	$ 43,141	$ 65,249	$ 59,373
BBVA Bancomer, S.A.	72,173	57,578	33,386
Banco Monex, S.A.	17,490	36,297	25,923
Banco Actinver, S.A.	13,841	14,229	2,438
	$ 146,645	$ 173,353	$ 121,120

15. Long-term debt

a. Long-term debt is as follows:

	2016	2015	2014
U.S. dollar-denominated:			
"Senior Notes 2022", fixed rate of 7.875%	$ 7,871,765	$ 5,593,072	$ -
"Senior Notes 2017", fixed rate of 7.875%	-	649,210	4,432,316
"Senior Notes 2015", fixed rate of 9.25%	-	-	756,517
Euro-Commercial Paper, fixed rate of 6%	-	-	691,179
Other loans, at variable rates average of 3.32%	472	1,399	2,261
	7,872,237	6,243,681	5,882,273
Less - Current portion	(472)	(1,399)	(1,449,957)
Long-term debt	$ 7,871,765	$ 6,242,282	$ 4,432,316

The maturities of long-term debt at December 31, 2016, are as follows:

Payable during	Thousands of American dollars
2022	400,000
Equivalent in thousands of Mexican pesos	$ 8,265,600
Less - debt issuance costs	(393,835)
	$ 7,871,765

b. 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.

c. 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.

d. 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, 2015. Interest was recognized in the consolidated statement of comprehensive (loss) income as accrued, and was paid on November 18, 2015, due date of the principal.

e. 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.

f. On January 15, 2010, the Entity issued debt securities for US$200 million under a Senior Notes program, due on January 15, 2015 ("2015 Senior Notes"). The securities accrued interest at an annual rate of 9.25%, with semiannual coupons. The remaining balance of the program was reduced by the additional issuance of "Senior Notes 2017", resulting in a total debt of US$51.7 million at December 31, 2014, which was paid at maturity.

g. The most significant restrictions and obligations contained in debt agreements at December 31, 2016, prohibit the Entity from:

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

At December 31, 2016, restrictions and covenants have been satisfied.

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

	2016			2015		
	Guarantors	Non-guarantors	Total consolidated	Guarantors	Non-guarantors	Total consolidated
Total revenues	$ 7,485,156	$ 494,193	$ 7,979,349	$ 6,247,866	$ 653,355	$ 6,901,221
Depreciation, amortization and impairment	536,923	58,427	595,350	359,332	55,345	414,677
Lease expense	445,125	-	445,125	386,969	-	386,969
Consolidated (loss) income	(749,612)	52,433	(697,179)	(622,716)	152,311	(470,405)
Total assets	13,631,904	1,438,466	15,070,370	12,257,339	1,519,624	13,776,963
Total liabilities	11,435,340	706,753	12,142,093	9,011,409	1,138,051	10,149,460

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

	Guarantors		Non-guarantors		Total consolidated	
	2015	2014	2015	2014	2015	2014
Total revenues	$ 6,676,420	$ 5,553,097	$ 224,801	$ 295,181	$ 6,901,221	$ 5,848,278
Impairment, depreciation and amortization	365,943	370,047	48,734	39,218	414,677	409,265
Lease expense	386,969	329,761	-	-	386,969	329,761
Consolidated (loss) income	(442,520)	926,686	(27,885)	(208,445)	(470,405)	718,241
Total assets	13,347,403	12,829,671	429,560	488,280	13,776,963	13,317,951
Total liabilities	9,438,168	8,409,564	711,292	799,177	10,149,460	9,208,741

16. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2016, 2015 and 2014 was 30% and will continue to 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 2014 Tax Law repealed the tax consolidation regime, an option was established, which allows groups of entities to determine a joint calculation of ISR (tax integration regime). The new regime allows groups of consolidated entities that share common direct or indirect ownership of more than 80%, certain benefits in the tax payment (when 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 2014, 2015 and 2016.

Pursuant to Transitory Article 9, section XV, subsection d) of the 2014 Tax Law, given that as of December 31, 2013, the Entity was considered to be a tax holding company and was subject to the payment scheme contained in Article 4, Section VI of the transitory provisions of the ISR law published in the Federal Official Gazette on December 7, 2009, or article 70-A of the 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 - The subsidiary operating in that country is subject to the payment of income tax at a rate of 35%.

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 amortization of prior year losses.

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

	2016	2015	2014
Current tax -			
Current ISR	$ 212,713	$ 120,397	$ 169,835
ISR previous years	97,902	111,881	-
	310,615	232,278	169,835
Deferred ISR benefit	(484,964)	(100,944)	(1,231,092)
Total income tax (benefit)	$ (174,349)	$ 131,334	$ (1,061,257)

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

	2016	2015	2014
Statutory rate	30%	30 %	30 %
Less:			
Effect of activation of tax loss carryforwards	1%	53 %	304 %
Reserve of individual tax loss carryforwards	(9)%	(70) %	-
Effects of permanent differences and effects of tax inflation	(2)%	(52) %	(21) %
Effective rate	20%	(39) %	313 %

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

	2016	2015	2014
Notes receivable	$ (825,990)	$ (732,510)	$ (266,234)
Allowance for doubtful accounts	120,533	88,811	95,425
Real estate inventory	(45,735)	(59,339)	(73,097)
Property and equipment	(220,183)	(156,132)	(230,681)
Intangible assets and other assets	(19,346)	(54,088)	(127,735)
Reserves and deferred income	640,859	651,687	341,961
Tax loss carryforwards	2,611,588	2,820,609	2,363,880
Reserve of tax loss carryforwards	(1,101,718)	(1,389,165)	(1,030,229)
Tax benefits (Conacyt)	21,932	10,077	(10,876)
Unrealized exchange rate fluctuation	(134,141)	-	-
SIBRAS tax effect	(389,281)	(1,006,396)	(993,332)
Recoverable IMPAC	-	-	3,528
	$ 658,518	$ 173,554	$ 72,610

d. The benefits of restated tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and tax credit, respectively, have been partially recognized, can be recovered subject to certain conditions. At December 31, 2016, 2015 and 2014, the tax loss carryforwards amounted to $8,705,291, $9,402,030 and $7,879,600, respectively.

e. Tax loss carryforwards

Expiration dates and restated amounts of tax loss carryforwards as of December 31, 2016, for which an asset for deferred tax has been partially recognized, are:

Year	Amount
2017	$ 13,733
2018	2,373,205
2019	478,536
2020	32,136
2021	1,823,392
2022	22,403
2023	620,695
2024	1,047,816
2025	1,800,262
2026	493,113
	$ 8,705,291

f. Tax consolidation

ISR liability as of December 31, 2016 related to the effects for benefits and tax deconsolidation is being paid as follows:

Year	Amount
2017	$ 159,143
2018	151,097
	310,240
Less - current portion	(159,143)
	$ 151,097

17. Long-term accrued liabilities

	2016	2015	2014
Return reserve for Vacation Club	$ 138,850	$ 157,394	$ 144,307
Employee benefits	137,453	134,691	115,152
Other accrued liabilities	183,373	212,449	140,751
	$ 459,676	$ 504,534	$ 400,210

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, amounting as of December 31, 2016, 2015 and 2014, $73,595, $81,739 and $69,780, respectively.

18. Employee benefits

The net period cost for obligations under the pension plan and related seniority premiums amounted to $6,802, $22,357 and $17,131 as of December 31, 2016, 2015 and 2014, 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 2016 overall strategy of the Entity has not been changed compared to 2015 and 2014.

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:

	2016	2015	2014
Debt (i)	$ 7,872,237	$ 6,243,681	$ 5,882,273
Cash, banks and investments in securities	1,770,097	1,213,810	1,516,865
Net debt	6,102,140	5,029,871	4,365,408
Stockholders' equity (ii)	$ 2,928,277	$ 3,627,503	$ 4,109,210
Index of net debt to equity	2.08	1.39	1.06

(i) Debt is defined as long and short-term borrowings in 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***

	2016	2015	2014
Financial assets			
Cash	$ 65,171	$ 109,345	$ 85,792
Held for trading	1,704,926	1,104,465	1,399,294
Investments held to maturity	-	-	31,779
Account and notes receivable	4,966,497	4,380,042	3,548,518
Financial assets held for sale	6,814	3,688	6,788
Financial liabilities			
Amortized cost	9,049,365	7,455,990	6,772,772

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, 2016, 100% of its debt is denominated in US dollars. Considering the net monetary position in US dollars as of December 31, 2016, 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 $656,249.

As of December 31, 2016, a portion of the Entity's revenues, generally around 25%, has been directly or indirectly denominated in US dollars. This is because the prices of the guestrooms in the coastal resorts (mainly Cancun and Los Cabos) have rates in US dollars and also because, historically, a portion of the sales and financing of the Vacation Club memberships have been denominated in US dollars.

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

The current exchange rates in Mexican pesos are as follows:

	December 31,			March 2
	2016	**2015**	**2014**	**2017**
Pesos per U.S. dollar	$ 20.6640	$ 17.2065	$ 14.7180	$ 19.9007

e. ***Interest rate risk management***

The Entity is exposed to low market risks related to fluctuations in interest rates, because their securities and bank loans at December 31, 2016 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, 2016, 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, 2016, the Entity does not have liquidity risk with respect to its current debt. 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 assets and liabilities, considering the reimbursement and payment periods agreed. The table was designed based on the undiscounted nominal cash flows of the financial assets and liabilities according to the date that the Entity must make the collections and payments. The contractual maturity is based on the minimum date on which the Entity must make the collections and payments.

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
Cash, cash equivalents and investments securities		$ 1,770,097	$ -	$ -	$ -	$ -	$ 1,770,097
Accounts receivable and other receivables		1,361,384	439,516	879,033	1,115,637	1,170,927	4,966,497
Total		$ 3,131,481	$ 439,516	$ 879,033	$ 1,115,637	$ 1,170,927	$ 6,736,594

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
Cash, cash equivalents and investments securities	-	$ 1,213,810	$ -	$ -	$ -	$ -	$ 1,213,810
Accounts receivable and other receivables	-	1,310,818	423,191	846,382	1,074,199	1,127,435	4,782,025
Total		$ 2,524,628	$ 423,191	$ 846,382	$ 1,074,199	$ 1,127,435	$ 5,995,835

As of December 31, 2014	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	1.875% y 6%	$ -	$ 179,652	$ 916,023	$ 5,281,186	$ -	$ 6,376,861
Suppliers	-	400,101	-	-	-	-	400,101
Other liabilities and accrued expenses	-	352,151	-	-	-	-	352,151
Total		$ 752,252	$ 179,652	$ 916,023	$ 5,281,186	$ -	$ 7,129,113
Cash, cash equivalents and investments securities	-	$ 1,516,865	$ -	$ -	$ -	$ -	$ 1,516,865
Accounts receivable and other receivables	-	1,193,436	385,295	770,590	978,006	1,026,475	4,353,802
Total		$ 2,710,301	$ 385,295	$ 770,590	$ 978,006	$ 1,026,475	$ 5,870,667

The amounts included as Debt are fixed interest rate debt financial instruments.

The Entity expects to fulfill its obligations with the cash flows from operations and any resources received from the maturity of financial assets. Additionally, as of December 31, 2016 the Entity has access to a committed line of credit with an undisposed balance of $200,000.

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

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

- The fair value of the financial assets and liabilities with standard terms and conditions, and negotiated in active liquid markets, are determined based on the prices quoted in the market.

- The fair value of the other assets and liabilities is determined in accordance with generally accepted price determination models, which are based on the analysis of discounted cash flows.

Fair value of the financial assets and liabilities - The Entity's management consider that the carrying amounts of the 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.

The fair value of the long-term 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:

	2016	2015	2014
Thousands of US dollars:			
2022 Senior Notes	US$ 354,581	US$ 320,655	US$ -
2017 Senior Notes	-	33,627	272,164
2015 Senior Notes	-	-	51,668
Euro-Commercial Paper	-	-	42,335
	US$ 354,581	US$ 354,282	US$ 366,167

20. Stockholders' equity

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

	Number of shares	
	2016 and 2015	2014
Authorized capital	512,737,588	512,737,588
Less -		
Repurchase of shares	(16,855,600)	(16,799,600)
	495,881,988	495,937,988

b. At December 31, 2016, the share capital is composed solely of Series “A” free subscription.

c. At the Extraordinary General Stockholders' Meeting held on March 15, 2016, the stockholders approved the maximum amount of resources that may be allocated to the purchase of own shares, with the limitations established by the Securities Market Law, of $535,000.

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

e. During a Stockholders’ Extraordinary General Meeting held on March 19, 2014 the cancellation of repurchase fund of 2,099,099 ordinary nominative shares was approved, representing Series “A” shares of the Entity, because the Entity’s management had no plans to reissue such shares.

f. During a Stockholders’ Extraordinary General Meeting held on March 19, 2014, the cancellation of the Trusts, which were holders of treasury shares, holders of the shares in the Chemuyil trust and holders of the shares held in trust assigned to executives, was approved, given that as of that date there were no further obligations guaranteed with shares of the Entity had expired, which were part of the assets of the aforementioned Trusts. As a result of the cancellation of the Trusts, a surplus was generated for the Entity in the amount of $10,991, which is presented as earned capital.

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

h. 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	$ -	$ 2,072,364
Profit for the year 2016	$ 30,774	$ -

21. Balances and transactions in foreign currency

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

	2016	2015	2014
Thousands of US dollars:			
Current:			
Monetary assets	46,071	62,918	80,238
Monetary liabilities	(6,051)	(11,078)	(107,107)
	40,020	51,840	(26,869)

	2016	2015	2014
Long-term:			
Monetary assets	42,422	62,859	87,762
Monetary liabilities	(400,023)	(388,413)	(310,000)
	(357,601)	(325,554)	(222,238)
Net liability position	(317,581)	(273,714)	(249,107)
Equivalent in thousands of Mexican pesos	$ (6,562,494)	$ (4,709,656)	$ (3,666,357)

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:***

	2016	2015	2014
Hotel operation	$ 4,063,087	$ 3,546,116	$ 2,997,630
Vacation Club	2,605,078	2,177,475	1,793,450
Administration fee, brand and other expenses	1,066,184	1,123,243	1,005,173
Sales of non-strategic properties	245,000	-	26,197
Other income	-	54,387	25,828
	$ 7,979,349	$ 6,901,221	$ 5,848,278

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

	2016	2015	2014
Hotel operation	$ 1,807,241	$ 1,607,559	$ 1,544,233
Vacation Club	1,748,656	1,593,635	1,201,483
Administration fee, brand and other expenses	846,424	900,589	807,232
Sales of non-strategic properties	136,626	-	26,197
	$ 4,538,947	$ 4,101,783	$ 3,579,145

c. ***Administration expenses:***

	2016	2015	2014
Salaries, employee benefits and other	$ 441,519	$ 425,802	$ 377,622
Electricity	180,259	169,992	179,520
Maintenance	110,375	98,574	80,943
Professional fees	73,478	44,049	40,552
Credit card commissions	48,336	40,588	36,905
Property taxes and duties	38,396	34,367	29,887
Office rentals	26,570	22,273	9,572
Services and supplies	16,438	15,722	16,759
Insurance and bonds	15,787	11,912	13,645
Equipment leasing	9,483	6,175	5,346
Doubtful accounts	6,800	3,759	-
Others	14,863	10,877	17,097
	$ 982,304	$ 884,090	$ 807,848

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

	2016	2015	2014
Salaries, employee benefits and other	$ 75,363	$ 69,902	$ 59,724
Marketing and publicity	162,862	75,291	56,290
Travel expenses	7,157	10,747	10,590
Subscriptions fees	2,234	2,651	60
Others	4,627	7,659	5,207
	$ 252,243	$ 166,250	$ 131,871

23. Related party transactions

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

	2016	2015	2014
Short and long-term benefits	$ 132,759	$ 101,543	$ 91,643
Termination benefits	$ 40,002	$ 2,092	$ 5,574

24. Information by business segments

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

Information by reportable segment for the year ended December 31, 2016 is as follows:

	Hotel operation	Vacation Club	Hotel management, brand and other	Corporate	Sale of non-strategic properties	Total	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	-	-	-	337,813	-	337,813	(18,744)	319,069
Other expenses, net	-	-	-	117,850	-	117,850	(129)	117,721
Depreciation, and amortization	-	-	-	410,699	-	410,699	-	410,699
Impairment of assets	-	-	-	57,064	-	57,064	-	57,064
Write-offs due to remodeling of fixed assets	-	-	-	127,588	-	127,588	-	127,588
Operating income (loss)	$ 923,670	$ 763,445	$ 309,985	$ (1,051,014)	$ 108,373	$ 1,054,459	$ -	1,054,459
Financial expenses and other expenses net								1,924,708
Loss before income taxes								$ (870,249)

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

Statement of comprehensive (loss) income:	Hotel operation	Vacation Club	Hotel management, brand and other	Corporate	Sale of non-strategic properties	Total	Eliminations	Total consolidated
Total revenues	$ 3,574,647	$ 2,200,492	$ 1,926,738	$ 54,054	$ -	$ 7,755,931	$ (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	-	321,144	(18,040)	303,104
Depreciation, and amortization	-	-	-	414,677	-	414,677	-	414,677
Other expenses, net	-	-	-	479	-	479	(333)	146
Operating income (loss)	$ 586,144	$ 541,569	$ 501,840	$ (682,246)	$ -	$ 947,307	$ -	947,307
							Financial expenses and other expenses net	(1,283,766)
							Loss before income taxes	$ (336,459)

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

Statement of comprehensive (loss) income	Hotel operation	Vacation Club	Hotel management, brand and other	Corporate	Sale of non-strategic properties	Total	Eliminations	Total consolidated
Total revenues	$ 3,026,606	$ 1,767,255	$ 1,746,246	$ 25,827	$ 26,197	$ 6,592,131	$ (743,853)	$ 5,848,278
Cost and general expenses	2,643,028	1,271,992	1,395,060	-	26,197	5,336,277	(743,853)	4,592,424
Corporate expenses	-	-	-	256,202	-	256,202	-	256,202
Depreciation, and amortization	-	-	-	409,265	-	409,265	-	409,265
Other expenses, net	-	-	-	45,669	-	45,669	-	45,669
Operating income (loss)	$ 383,578	$ 495,263	$ 351,186	$ (685,309)	$ -	$ 544,718	$ -	544,718
							Financial expenses and other expenses net	(896,452)
							Loss before income taxes	$ (351,734)

25. Commitments

a. At December 31, 2016, 2015 and 2014, 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, 2016, 2015 and 2014, lease expense was $445,125, $386,969 and $329,761, respectively. The minimum rent estimated for the following years is shown below:

Years	Amount
2017	$ 394,102
2018	432,237
2019	442,996
2020	452,337

b. At December 31, 2016, 2015 and 2014, the Entity has entered into rental contracts for computer equipment and other, which usually have a term of three years. Rental payments are based on the value of the rented equipment and vary in function with the requirements of the operational departments of the Entity. For the years ended December 31, 2016, 2015 and 2014, rental expense amounted to $80,594, $60,128 and $54,767, respectively. The estimated rental payments for the following years is shown below:

Years		**Amount**
2017	$	60,504
2018		36,629
2019		13,379
2020		126

26. Contingencies

a. There is a tax lawsuit for the year 2006, for an unpaid liability assessed by the International Tax Inspection Office of the Tax Administration Service (SAT) in the amount of $767,248, for which at the date of issuance of the consolidated financial statements, it is not possible to determine a result for the Entity. The tax authorities have alleged nonpayment of ISR, for which reason the Entity filed a motion for reconsideration with the SAT, which has yet to be resolved. The Entity has provided a guarantee in order to guarantee the tax liability in the amount of $846,000. 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, 2016, 2015 and 2014, 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 event

In February 2017, the Entity was notified by the tax authorities, through an administrative resolution, of a tax credit for the year 2007 for ISR, surcharges and fines, in the amount of $1,026,736, consisting of $355,358 of ISR (mainly SIBRAS tax effect) and $671,378 of accessories. The Entity considers that it has sufficient elements to accredit the proper compliance with the applicable tax regulations, and therefore, will interpose the pertinent legal means of defense.

The total deferred income tax arising from SIBRAS tax effect amounted to $1,042,439, of which $653,158 corresponds to nine of eleven properties that will be reported as taxable in the annual income tax return that will be filed in March 2017. The difference for an amount of $389,281 corresponds to the two properties object of the tax credit referred to in this note and is part of the deferred tax balance as of December 31, 2016, which is disclosed in Note 16 c.

28. Authorization to issue the financial statements

The accompanying consolidated financial statements were authorized to be issued on March 2, 2017, 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.

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