



GRUPO POSADAS, S.A.B. de C.V.
Prolongacion Paseo de la Reforma 1015, Torre A, Piso 9
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Mexico City, 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 this Annual Report, nor does it validate those acts which, if
applicable, were in violation of the law

ANNUAL REPORT PRESENTED IN KEEPING WITH THE GENERALLY
APPLICABLE PROVISIONS TO SECURITIES ISSUERS AND OTHER MARKET
PARTICIPANTS FOR THE CORPORATE YEAR ENDING
DECEMBER 31, 2017



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

Debt Instruments	Senior Notes
Ticker symbol	POSADA
Amount	US\$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 <i>per annum</i>
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 Citi Agency & Trust, as "Trustee"
Negotiable Instrument subordination	Priority of Payment (<i>Pari Passu</i>)
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 2 subsidiaries act as surety thereof
Trustee	Citi Agency & Trust, as "Trustee"
Rating by rating institution and its meaning*	S&P Global Ratings, "B+", Fitch Mexico S.A. de C.V., "B+" with negative outlook, Moody's de Mexico S.A. de C.V., "B2" *See websites: www.standardandpoors.com/es, www.fitchratings.mx, www.moodys.com/pages/default_mx.aspx
Common representative	Citi Agency & Trust, as "Trustee"
Depository	Citi Agency & Trust
Tax rules	Applicable withholding rate on date of this report, regarding interest paid on Senior Notes is subject (i) for Foreign resident individuals and legal entities, for tax purposes, to a 4.9% withholding rate provided that a series of conditions are met, (ii) if any of these conditions, such as in article 7, second paragraph of the LMV^{T.N.} is not met, residents abroad may be subject to a 10% withholding rate. In both cases, advisors should be consulted regarding the tax consequences of investing in Senior Notes, including the enforcement of specific rules relating to their particular situations. It is possible that the tax rules in force may be modified during the Program period and during the Issue term.
Calculation Agent	Citi Agency & Trust

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

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

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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", "Group" or "Posadas"	Shall mean Grupo Posadas, S.A.B. de C.V. and its subsidiaries.
"Issuer"	Grupo Posadas, S.A.B. de C.V.
"Audited Financial Statements"	The financial statements audited by Galaz, Yamazaki, Ruiz Urquiza, S.C. for the corporate years ending December 31, 2017, 2016 and 2015 included in the present Annual Report.
"Fibra"	Mexican trusts principally established to develop, acquire, lease, own and operate hotels.
"Report"	The present Annual Report.
"RNV"	National Securities Registry under the National Banking and Securities Commission.
"\$" or "Pesos" or "M.N."	Currency of legal tender in the United Mexican States.
"US" or "Dollars"	Currency of legal tender in the United States of America.
"M"	Millions.
"NIIF" or "IFRS", due to its initials in English	International Financial Reporting Standards
"Vacation Products"	Segment of the Company made up by Vacation Properties (Time share) and vacation plans.

b) Executive Summary

This summary is not intended to contain all information which may be material for making investment decisions regarding the securities that are herein mentioned. Therefore, the investing public should read all of the Annual Report, including the audited consolidated financial statements, as well as the corresponding notes complementing and clarifying the information contained in the consolidated financial statements before making an investment decision.

Grupo Posadas, S.A.B. de C.V. and Subsidiaries is the biggest hotel operator in Mexico based on the number of hotels and rooms, (Source: 2017 Posadas Chain Study with Information from Smith Travel Research Census Database to June, 2017).

As of December 31, 2017, there were 162¹ hotels and resorts operating under Posadas' brands, representing a total of 25,608 rooms, thus having the greatest concentration in Mexico with 25,408 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 2017, out of the 162 hotels, the Company was the majority owner of 14 hotels, operated 127, 7 in franchise modality and leased 14.

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 Live Aqua (Live Aqua Urban Resort, Live Aqua Beach Resorts, Live Aqua Boutique Resort, Live Aqua Residence Club, Grand Fiesta Americana (GFA), Fiesta Americana (FA), The Explorean, Fiesta Americana Vacation Villas, Fiesta Inn (Fiesta Inn Express, Fiesta Inn LOFT), Gamma and One Hotels.

Live Aqua, the Urban, Beach y Boutique Resorts brand, offer a wide variety of services and luxury rooms with avant-garde details and designs focused on creating unique experiences, seeking to attract high economic level tourism to beach destinations and executive business travelers to city destinations focused on adults.

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

Grand Fiesta Americana, is the luxury hotel chain located in the most important cities offering an exclusive and personalized lodging experience with superior service and quality expectations but without losing the warm hospitality that characterizes Mexico. It focuses on persons searching for an exclusive and personalized lodging experience in an amazing and luxurious environment, both traditional and contemporary.

Fiesta Americana is the leading 5 star hotel chain in Mexico centered on creating great memories for all the family. It is designed for persons traveling for pleasure and/or business pursuing for 5 star hotel complexes with all the services and amenities of large hotels.

The Explorean is the Resort Brand providing outdoor experiences and activities in natural environments, leaving behind the routine and coming into contact with nature without sacrificing the comfort of a 5 star hotel.

Fiesta Inn is the 4 star Business Class chain addressed to business travelers. It has the services necessary for a business trip, an excellent location, multifunctional areas, comfortable rooms and public areas that promote contact and connection, meeting rooms, event halls and restaurants.

¹ 162 hotels with 158 operating contracts.

The Gamma brand is a collection of 4 and 5 star hotels, under franchise, with each hotel keeping its unique decoration, design style and personality. It is directed to persons that, regardless of their reason for travelling, are looking for local traditional lodging locations and leave aside hotel chain standardization.

The One brand is self-service, practical and affordable, with modern design and accelerated development. It is designed for pleasure and/or business travelers searching for guaranteed hotels fairly priced with warm service in a variety of destinations and key locations, but without losing the security, comfort and cleanliness of a chain hotel.

2017 marked the first 50 years of Posadas during which the Company has consolidated sustainable growth, maintaining industry leadership by aligning all areas into the strategy laid out some years ago together with a growth trend and touristic sector consolidation in Mexico.

However, Company results during the 2017 second and third quarter were affected by the following events:

- i. Meteorological phenomena: Hurricane "Harvey" in the Caribbean affected the cities of Houston and Miami delaying US tourist flow to Mexico. The hurricane and tropical storms Irma, Katia and Lidia, mainly affected Cancun, Los Cabos and Veracruz.
- ii. Alerts issued by the US Government to US travelers affected various cities in the country. For the Cancun and Los Cabos destinations, said alerts were withdrawn on January 10, 2018.
- iii. The September 7th and 19th earthquakes that occurred in the states of Chiapas, Oaxaca, Morelos, Puebla, and Mexico City, affected occupancy and average rates in the second half of September. Although, hotel facilities of the Company suffered non-structural damages, and said hotels had insurance policies for property and business interruption damages, the reconditioning of rooms and public areas resulted in temporarily suspending inventory, and our clients modified or delayed their travel plans and programmed events, with no possibility for the Company to adjust the related expenses.

These events reduced by approximately \$50 million the earnings before interest, taxes, depreciation, and amortization of the 2017 third quarter, while the 2017 fourth quarter registered a performance above the forecast.

Regarding new hotel development, the Company strengthened the hotel portfolio with 11 openings during 2017:

1. Live Aqua Residence Club Los Cabos
2. Fiesta Inn Puerto Vallarta La Isla
3. Fiesta Inn Silao Aeropuerto del Bajío
4. Fiesta Inn Chihuahua Fashion Mall
5. Fiesta Inn Ciudad de Mexico Forum Buenavista
6. One Mexicali
7. One Guadalajara Expo
8. One Leon Antares
9. One Puebla Serdan
10. One Chihuahua Fashion Mall
11. Gamma Cuernavaca Puerta Paraíso.

Also, 13 long-term hotel operating renewal contracts were concluded. Additionally, 55 agreements were signed with varying contractual commitments for new hotels representing approximately 10,000 rooms for the hotel opening of all brands in the next three years.

The participation of Posadas as investor and operator in the Riviera Maya hotel project "Tulkal" was formalized. Two hotels will be built in this development: a Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms, both hotels operated by Posadas and their opening is planned for the beginning of 2021.

Live Aqua Residence Club opened the doors of its second vacation property next to the Grand Fiesta Americana Los Cabos All Inclusive Golf & Spa, with 109 rooms for a total of \$434 million pesos investment. Said development will be marketed under the vacation property modality.

As part of the Caribbean region expansion plan, two hotels operating contracts in Cuba were signed at the beginning of 2018:

- Fiesta Americana All Inclusive Punta Varadero with 633 rooms.
- Fiesta Americana All Inclusive Holguin Costa Verde, with 749 rooms.

Both were financed by local investments and are estimated to open in mid-2018.

Likewise, a 15 year contract to operate a Grand Fiesta Americana hotel in Punta Cana, Dominican Republic with 554 rooms, with a local investment will be operating in 2020.

Posadas seeks to focus on customers by offering comprehensive services meeting the needs of guests, as well as keeping pace with market trends through new brands and the continued evolution of already consolidated brands. This is why Posadas incorporates into its portfolio the new "LatinoAmerican" brand, a new hotel concept that provides an original Urban-(G) Local Hotels lodging category, adapted to a new traveler, hypermodern and relaxed, who moves in a globalized world.

Continuing the same trend of connecting with new customers, lifestyles and technological changes, the Company launched, "Re_Set", an exclusive family and friend group discount plan, providing more travel flexibility on more occasions, wherever they decide to travel, whether in Mexico or abroad.

The VIAJA Mexico promotional campaign was launched for the eighth consecutive year and continues to be the most important in the local tourism industry, generating 35,779 room nights and a \$709 million income, 57% more than the previous year.

In 2017, a new Fiesta Rewards image was released as well as the Santander Fiesta Rewards card, in order to celebrate the 30th loyalty program anniversary to reward our members. As of December 31st, 2017, there were more than 1.7 million Fiesta Rewards, Appreciare and Motiva members generating 1,854,917 room nights (32% of the system-wide occupancy).

The Company operates the following Vacation Products:

- Vacation Products (Time share):
 - Fiesta Americana Vacation Club (FAVC): a vacation club in which members purchase a "40 year right to use" represented by annual points. FAVC points may be exchanged for lodging at any of the complexes located in Los Cabos, Baja California Sur; Acapulco, Guerrero; Cancun, Cozumel (two complexes) and Kohunlich (Chetumal), Quintana Roo, as well as any operated Company hotel. Additionally, FAVC members may use their points at Resorts Condominium International ("RCI") complexes and Hilton Grand Vacation Clubs, or at any affiliated complex in different parts of the world. The Company has operated FAVC for more than 15 years.
 - Live Aqua Residence Club (LARC): is a vacation membership with a high-level hotel mosaic in which the members purchase a "40 year right to use" represented by annual

points which grant the right to use the residential developments located in Puerto Vallarta and Los Cabos, FAVC complexes, any of the hotels operated by the Company and The Registry Collection network hotels. It started operations three years ago.

- Vacation Plans:
 - KIVAC: 2017 was the 7th year benchmark of the Company's marketing of this product that consists of a point-denominated pre-sale of lodging services with an up to 5 year validity, exchangeable for accommodations at any of the Company hotels and at about one hundred affiliated real properties not operated under our brands
 - Re_SET: in response to connecting with new customers, lifestyles and technological trends, in 2017, the Company launched "Re_Set", an exclusive family and friend group discount plan, providing more travel flexibility.

In 2017 the following hotel sale agreements were executed:

- Hotel Fiesta Inn Aeropuerto with 327 rooms to Fibra UNO in August 2017, the Company formalized the hotel sale for \$435 million. Said hotel continues to be operated under a 15 year term lease agreement with a renewal option for 2 periods of 5 additional years.
- Hotel Fiesta Americana Hacienda Galindo with 168 rooms, the Company signed a lease contract subject to refurbishment stages in 2017. Likewise, it signed a sale contract subject to diverse conditions that must take place in no later than December 2019. The above must be formalized and paid in 2020. The price is a 10.06 times EBITDA multiple of the hotel during the 2019 corporate year minus investments and leases. After executing the corporate sale, Posadas will manage said hotel under an operating contract.
- Hotel Fiesta Americana Condesa Cancun with 507 rooms to FibraHotel ("FIHO") for a total \$2,892 million sale price. The Company and FIHO will invest in 2017 and 2018 approximately \$60 million each to remodel public areas without affecting the hotel inventory. As a part of the sale agreement, Posadas as lessee and FIHO as lessor signed a total 15-year term lease contract by virtue of which the Company continues operating the Hotel.
- In April 2018, the Company received a US\$510 thousand advance payment for the conveyance of the Hotel Ramada Plaza, located in Texas, United States. The conclusion of the sale is agreed on for June 1, 2018 with a Purchaser extension option to August, and the price balance to be paid in 12 monthly installments.

In the last 3 years more than \$3,000 million pesos have been invested in hotel maintenance and remodeling (mainly in Fiesta Americana Condesa Cancun, Fiesta Americana Guadalajara and Fiesta Americana Merida), distribution channel technology, as well as in the Company technological infrastructure.

In 2017, the Company closed with an EBITDA of \$1,652 million. This is the main source of cash which allowed to:

- Invest more than \$800 million in maintenance and remodeling.
- Invest \$351 million in projects (Riviera Maya - "Tulkal") and key money for operating contract renewals of relevant hotels.
- Comply with financial and tax liabilities resulting in a cash payment of \$1,384 million pesos to the end of 2017.

In 2017, the most important financial indicators grew organically. Consolidated revenues increased 12%, propelled by hotel occupancy increase and new members in the vacation club segment.

The Company operating performance improvement has contributed to maintain a net leverage index at 3.9 times EBITDA for 2017.

The Company balance continues strengthening; our assets total \$16,534 million with an 8.3% growth over the previous year.

The internal Corporate reorganization informed by the company in the 2014 and 2016 leaflets, continues, in order to reduce intercompany operations and streamline our organizational structure. As announced, in the corresponding leaflet, in 2017, six subsidiaries merged into Grupo Posadas (Administración Digital Conectum, S.A. de C.V., Posadas de Latinoamérica, S.A. de C.V., Desarrollos Inmobiliarios Posadas, S.A. de C.V., Servicios Administrativos Posadas, S.A. de C.V., Porto Ixtapa, S.A. de C.V. and Solosol Tours, S.A. de C.V.). Amongst the merged companies were real estate and payroll companies. Therefore, the Company assumed the total capital and liabilities of these merged companies. As a consequence of these mergers, the companies: Inversora Inmobiliaria Club, S.A. de C.V. and Operadora del Golfo de México, S.A. de C.V., are the guarantors of the 2022 7.875% Senior Notes issue.

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 amount of \$846 million updated to December 31, 2017, which is pending ruling. 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. *See section 3) Financial Information, c) Material Loan Information.*

On April 7, 2017, the Company announced several agreements with the Tax Administration Service (SAT) as a proactive means to clarify discrepancies in the application criteria of tax provisions and give more operating and financial certainty. With these agreements the audits, tax liabilities and observations received in the 2007 to 2013 tax years were duly resolved and justified. For additional information see section 3) *Financial Information, c) Material Loan Information.*

In 2017, net loss was \$484 million pesos mainly due to the aforementioned SAT agreement (*see the notes to the audited financial statements*).

The generation in USD of approximately 27% of the annual consolidated revenues works as a direct hedge for the coupons of our Senior Notes due in 2022. All hotels operated to December 31, 2017 have the hotel classification system record issued by the Ministry of Tourism.

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 2017, 2016 and 2015, 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 Management on the Operating Results and Financial Situation of the Company". Some figures may vary due to rounding off.

Audited Financials
(million pesos)
As of December 31st:

Financial Highlights	2017 - IFRS	2016 - IFRS	2015 - IFRS
Total Revenues	Ps. 8,907.0	7,979.3	Ps. 6,901.2
Corporate expenses	452.7	338.2	321.1
Depreciation, amortization, and real estate leasing	906.2	1,040.5	801.6
Impairment of assets	0.0	57.1	0.0
Operating income	1,221.6	1,054.5	947.3
Comprehensive financing cost	431.6	1,924.7	1,283.0
Taxes	1,262.6	(174.3)	131.3
Net income	(472.6)	(697.2)	(470.4)
Majority net income	(483.9)	(705.8)	(470.2)
Balance Sheet Data (End of Period):			
Current assets	Ps. 6,055.1	4,863.1	Ps. 4,163.4
Property and equipment, net(34)	4,601.2	6,483.1	6,666.5
Total assets	16,533.6	15,070.4	13,777.0
Current liabilities	2,931.7	2,500.3	2,068.9
Long-term debt	7,768.5	7,871.8	6,242.3
Total liabilities	14,110.6	12,142.1	10,149.5
Stockholders' equity	2,423.0	2,928.3	3,627.5
Other Financial Data			
EBIT / Revenues	13.7%	13.2%	13.7%
Net Income / Revenues	(5.3%)	(8.7%)	(6.8%)
EBITDA	\$1,652.3	\$1,649.8	\$1,362.0
EBITDA to Revenues	18.6%	20.7%	19.7%
Total debt to EBITDA	4.7 X	4.8 X	4.6 X
Current assets / Current Liabilities	2.07 X	1.95 X	2.01 X
Total Liabilities / Equity	5.82 X	4.15 X	2.80 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, 2017, amounts to approximately 496 M.

Series "A" shares have shown low trading according to the BMV's rating. Trading in Series "A" shares has never been suspended by the regulatory authorities.

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

POSADAS A	2013	2014	2015	2016	2017
Maximum Price	24.70	25.50	41.50	46.97	47.60
Minimum Price	20.50	22.50	27.00	41.50	35.00
Closing Price	24.70	25.50	41.50	46.00	38.00
Daily Average Volume (thousands of shares)	205.60	804.33	16.43	7.96	113.40

Source: 2013 to 2016 Bloomberg. 2017 Reuters. (The daily average volume is based on trading days).

For additional information regarding share performance see section 5) *Capital Market*, b) *Share Performance on the 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 risk 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.

Risks Relating to the Company

The global economic situation and its effects on financing markets, the economy of the countries in which we operate, as well as the economy of 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 Vacation Product hotel rooms and villas.

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

The Company has recently witnessed a recovery, in comparison to the 2008 levels (denominated in then Mexican pesos). Both our financial results, and our growth, may be significantly affected if this 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 increasing its brand portfolio. 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 25% of the rooms that we manage are in hotels classified as luxury hotels. Luxury hotels generally command higher room rates. In an economic downturn, these hotels are susceptible to decreased revenues since hotels in this segment generally target the business and high-end vacation travelers as compared to hotels in economy categories.

Likewise, the national and international perception of violence, as well as the alerts issued by other countries regarding states in the Mexican Republic, may adversely affect 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 touristic service industry- and the current strategy consists of staying focused on this industry and other related business, such as the Vacation Products, and the remaining lodging service sale modalities and contact centers. The Company has also undergone an ownership consolidation process of the hotels under its operation. To December 31, 2017, five investors only own 29 hotels, another investor is the owner of 64 hotels with 8,685 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.

This concentration level may have adverse effect on future contract negotiations, renewals and modifications, as may a systemic termination of current contracts may cause a negative impact in the Company's cash flows. In the same manner, it may affect the owners' investment capacity to bear maintenance or investment expenses, thus competitively affecting the properties and eventually the fees the Company receives due to their operation.

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 and new brand creation responsive to market trends and technology changes. 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 obtain 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. In January, 2018, the first franchise contract of the One Hotels brand was signed. This means a foray into a new market that, until now is unknown to Posadas, related to new construction hotel franchises 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, Company operations are principally concentrated in Mexico since 161 of the 162² hotels operated that is 99% of the rooms operated are located in Mexico and these represent 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.

During 2017, as part of its Caribbean expansion plan, the Company signed contracts to manage and operate hotels in Cuba and the Dominican Republic. 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 said countries. In the case of Cuba, complications related to United States government imposed restrictions that force to operate with new tools or adapting those existing, focus greater commercializing in other markets and adapt to mechanisms provided by the owner and the country's system. This may have a material adverse effect on Company operations, financial situation or its overall operating results

Amongst new operating markets risks are the following:

- US citizens and residents may not lodge, unless expressly allowed, in Company managed hotels in Cuba.
- Citizens, residents and persons subject to US jurisdiction may not facilitate Cuba-related operations or transactions. Applicable legal provisions may contain pertinent rules and exceptions, however, these may be unclear or ambiguous, leaving to US administration a broad interpretation margin.
- Some suppliers or clients, mainly subject to US legislation, may be barred or, even though not legally barred, decide to not continue their business relationships with Posadas.
- Cash flows whose purpose is to pay off Cuba-related hotel operations may be unnecessarily blocked or frozen by financial institutions, obligating Posadas to temporally do without such cash flows for an unforeseeable term.
- Use of US companies' provided technology services and software inherent to other services (or US company owned subsidiaries) may be interpreted as incurring penalties established by Cuba or any other US companies' contractual clause. This would possibly subject the Company to investigation, early termination or legal or contractual penalties.
- Risk that the enforceability of agreements and covenants, including Posadas fee payments, with hotel owners may be subject to Dominican and Cuban court resolutions, respectively.

Growth Strategy

The Company has designed a growth strategy for its hotel, Vacation Product and other service businesses in Mexico, primarily based on the execution of hotel operating agreements regarding third party realty, the execution of franchise contracts regarding third-party operated hotels, and the construction of new buildings allocated to

² 162 hotels with 158 operating agreements.

Vacation Products (under the time-share arrangements: FAVC and LARC) and the sale of prepaid vacation plans or discount club (KIVAC and Re_SET). The Company's expansion ability depends on a number of global economic factors including, but not limited to, the condition of the United States, Mexican and other Latin American countries' economies, the ability of investors to construct new properties for the Company to operate and/or lease, or to enter into franchise contracts concerning such properties, and the selection and availability of new hotel locations, and the availability of financing. There can be no assurance that Company expansion plans will be achieved, or that new hotels or Vacation Product development 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 new hotel and Vacation Product areas may be affected.

As part of the Caribbean expansion plan, in 2017 and beginning of 2018, the Company signed contracts with third party investment to manage and operate hotels in Cuba and the Dominican Republic, said management and operation depends on global economic, political, commercial, tax factors as well as on market knowledge and acceptance. Likewise, the suppliers that meet our brands' standards may not be able to operate in these countries, therefore the selection of new suppliers may generate additional expenses as well as the failure to fulfill the same standards may affect Company profitability.

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 entry. 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, 2017, the Company had 127 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 that may cause that Posadas is bound to distribute un-budgeted and un-recoverable amounts, otherwise the owner may cancel the contract if certain hotel performance standards are not achieved. However, this does not mean that the Company breached the operating contract. To date, no hotel operating contract has been anticipatorily terminated due to the previous circumstance.

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 are transferred will continue to be bound by said contracts. To date, no transmission of rights has significantly adversely affected the Company's contractual relationship with the owners, but we cannot ensure that this situation will continue to be in our favor in the future.

In special cases, Posadas has provided key money to ensure the signing of operating contracts. This key money is amortized during the contractual term; therefore if the contract terminates beforehand, Posadas may not recover the proportional part of said contribution.

Finally, the economic and financial capacity of the hotel owners may affect preservation of the brand standards under which the hotels operate and, in those cases in which hotel owners have taken control of the cash

balance, the fees of Posadas and its strategic suppliers may be affected. The Company may need to notify termination of brand licensing contracts for breach of said standards or of the owners' payment obligations, and this situation may adversely affect the hotel and fee income received.

On November 30, 2017, the Company stopped operations of the Hotel Fiesta Inn Reynosa and in September 2018, it will conclude the hotel One Reynosa operating contract.

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

Leasing contracts

Of the Company operated hotels to December 31, 2017, 14 operated under a leasing arrangement, and it is foreseen that great part of the Company growth will come from said arrangements. In the first 2018 quarter, the lease for the hotel Fiesta Americana Condesa Cancun and the modification and extension of the hotel Live Aqua Cancun lease contract became effective. The Company's operating and financial conditions may be adversely affected to the extent that income and operating profits are insufficient to make minimum lease payments stipulated in the lease agreements. In accounting terms, leases are not capitalized and are registered as expense as they accrue (according to enforceable accounting norms).

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

To December 31, 2017, we have complied with lease payments of all hotels.

Franchising Contracts

The Company has also resolved to grow through Gamma brand based franchising. As well as to expand the hotel segment franchised under the One Hotels brand designed for newly built hotels. 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 less experience. 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, or that their operating format does not negatively impact Posadas and its brands.

Finally, the economic and financial capacity of the hotel owners may affect preservation of the brand standards under which the hotels operate or the conservation of the hotels owned. The Company may need to notify termination of franchise contracts for breach of said standards or of the franchisees' payment obligations, and this situation may adversely affect Posadas' possibilities to receive the consideration stipulated in said franchise contracts. To December 31, 2017, 7 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 Konexo and Conectum, which on a consolidated basis, represented less than 10% of the Company's total revenues to December 31, 2017, 2016 and 2015. 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 results, operations and financial condition may be adversely affected.

Holding Company Structure

Based on the corporate restructuring information leaflets made public in 2014, 2016 and 2017, the administration has transformed 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, granting of franchises, realty holder, vacation product marketer, and other hotel service systems marketing, payroll, amongst others, searching that the issuer undertake the greatest number of possible activities and responsibilities.

The Issuer nowadays can be defined as a holding company which principal assets consist of the shares of its subsidiaries, entitlement to the right to use and full entitlement over various real properties, ownership of the Company's main brands, operating and franchising hotel contracts, employees of owned and managed hotels, executive committees employees of managed hotels, as well as headquarters employees. By virtue of the foregoing, the revenues of the Issuer primarily depend on the collection of dividends and fees arising from hotel operating, brand licensing, and franchising contracts. Beginning on June 1, 2016, the Issuer assumed 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.

In 2017, the merger of six subsidiaries into Grupo Posadas was carried out, amongst these the real property and payroll companies. Therefore, said Company assumed their total capital and liabilities. In meeting dated April 12, 2018, the Issuers' shareholders resolved to merge the company Servicios Gerenciales Posadas, S.A. de C.V. into Grupo Posadas, disappearing the first and assuming all capital and liabilities, mainly of an employment nature, of the merged corporation.

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. Joint liabilities as between the group corporations as to third parties do not circumscribe financial liabilities, these may extend to other liability types, such as those resulting from real property sale agreements or leasing agreements amongst others.

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

Corporate restructuring

The corporate movements, detailed by the Company in the informational leaflets made public by the Issuer on April 10, 2014, February 29, 2016 and August, 2017, as well as the resolutions of the shareholders meeting on April 12, 2018, 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 performance. Any

additional risks currently unknown to the Company or those which at this time may be deemed insignificant may adversely affect the outlined restructuring plan, the price of the shares representing Grupo Posadas, S.A.B. de C.V.'s corporate capital or its operations.

i) Creditors' Opposition

To the extent that the Company's corporate restructuring has been conducted by means of the execution of various mergers and which do not contemplate any agreement to pay in advance to its due date all debts of the future merged corporations, 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 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 creditors, all of which may adversely affect Posadas' financial situation or operating results, or the attainment of the efficiencies sought. To this date we have not been notified of timely presented oppositions to the aforementioned mergers, considering that the term to present opposition, in the case of 2017 approved mergers and prior, has concluded.

ii) Governmental authority authorizations

The corporate movements of some of the Issuer's Subsidiaries need, in the preliminary stage, 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 format resulting from the restructuring. The Issuer cannot ensure that in the authorization obtainment process, there will be no delays nor impediments that make it unable to obtain authorizations relevant to complete the corporate restructuring or normally operate or, if applicable, attain the efficiency expected.

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

Posadas continues to study and analyze certain aspects of the explained corporate restructuring projects which may affect the restructuring proposed or produce effects other than those set forth in the informational leaflet or the corporate acts authorizing the same. 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) Foreign legal provisions

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

v) Share price fluctuation

The corporate restructuring detailed in the informational leaflet may generate price fluctuations in 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 thus causing a material adverse effect or that the tax authorities may have different tax interpretation regarding such restructuring.

vii) Opportunity

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

Dependence on our key employees

Several of the Company's executives have vast operating experience, industry knowledge and these qualifications are recognized in the market. The Company depends on its executive staff to define strategy and manage its business, and it considers that their intervention is relevant to its operations. Consequently, the Company's inability to keep its executive officers or attract new ones may have an adverse effect on its operations and ultimately on its profitability. For additional information see section 4) *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 ability to pay its debts; (ii) increase, generally, its vulnerability to economic conditions and to industry conditions; (iii) require that the Company allocate a significant amount of its cash flow to debt payment; (iv) limit its flexibility to plan or react to changes in its business; (v) limit its ability to obtain additional financing, and (vi) increase the cost or make more expensive additional financing conditions.

The Company's ability to generate sufficient cash or foreign currency to pay its debt will depend on its operating performance and refinancing ability, which may be affected by prevailing economic conditions, 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 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, if necessary, a capital increase.

Taxes

Often tax legislation is amended by the competent authorities. These amendments or interpretations by the authority of applicable provisions may significantly adversely affect the Company's tax liabilities and 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.

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

In this regard and monitoring the 2006 tax claim, reported in the 2015 consolidated financial statements and pursuant to its current procedural stage, to December 31, 2017, and to this date, a guarantee of \$883.8 million was established. For additional information see section 3) *Financial Information*, c) *Material Loan Information*

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 official letters ruling revocation of the determined tax liabilities, for the purpose of issuing new official letters acknowledging the liquidation of the accessories charges (fines, updates and surcharges) for the entries which were the subject of observations, due to corrections to be made by the Company for these tax years. 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) *Material 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 in all cases the related reserves. However, in the opinion of 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.

As we have referred in other information, in 2017, Posadas, and other relevant defendants were the subject of a labor proceeding by two *Compañía Mexicana de Aviación* unions. The company has presented its defense and, procedurally, these proceedings have not progressed significantly.

Some subsidiaries are facing claims other than tax claims, arising from their normal operation or the ordinary course of business. Of these claims, only some principal amounts are covered by contingency reserves included in the consolidated financial position statement under long-term accumulated liabilities. The Company considers that said contingencies uncovered by reserves will not significantly affect the Company's consolidated 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 challenging the applicability or constitutionality of several norms. Although, the Company believes that it has all the legal elements to obtain a favorable ruling, a contrary interpretation 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 has been denominated in U.S. dollars. As of December 31, 2017, 97% of our total indebtedness was denominated in U.S. dollars and at fixed rates. As a result, we were slightly exposed to risks from fluctuations in interest rates.

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

Likewise, the night/room rates of certain hotels in Mexico are typically quoted in U.S. dollars, as well as the sale and financing of Vacation Product memberships, nevertheless we have seen 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, these are limited in amount and frequency, and we may so enter 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 instrument transactions may also be subject to the risk that our counterparties will seek commercial insolvency protection. Instability and uncertainty in financial markets have made it more difficult to assess the counterparty risk in derivatives contracts. Moreover, in light of the greater volatility in the derivatives and securities exchange markets, there may be fewer financial entities available with which we could continue entering into derivative financial instruments to protect the Company against currency exchange risks and the financial conditions of our counterparties may be adversely affected under stressful conditions.

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 management contracts terms, collective bargaining agreements or individual contracts, as well as the performance of certain service contracts executed with third parties that may render 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 third parties, nevertheless these 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 outsourcing, construction work, security, promotion or intermediation services suppliers, among other service providers, whose employees or auditing authorities such as the IMSS or INFONAVIT^{T.N.} may, despite all precautions, file lawsuits against us or make us jointly 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 and union activities administration. 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 work, coordination, supervision and equipment services for owned and leased hotels. 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 professionals and service providers hired 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.

Our insurance coverage may be insufficient to cover potential losses.

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

The policies contracted by the Company offer coverage terms and conditions that we believe are usual and customary for our industry. Generally, our "all-risk" policies 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 policy terms. Sub-limits exist for certain types of claims such as service interruption, debris removal,

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"

immediate costs or landscaping vegetation replacement, and other landscaping elements; however, the amounts covered by these sub-limits are significantly lower than the amounts covered under the overall coverage limit. Our policies also provide that, for coverage of earthquakes, hurricanes and floods, all claims from any hotel resulting from a covered event must be combined for purposes of the annual aggregate coverage limits and sub-limits. In addition, any such claims will be combined with the claims made by the owners of managed and franchised hotels that participate in our insurance program. Therefore, if covered events occur affecting more than one of our owned hotels and/or managed and/or franchised hotels that participate in our insurance program, the claims from each affected hotel will be added together to determine whether, depending on the claim type, the per-occurrence limit, annual aggregate limit or sub-limits have been reached. If the limits or sub-limits are exceeded, then each affected hotel would only receive a proportional share of the insurance proceed amount provided for under the policy. In addition, under those circumstances, claims by third-party owners would reduce the coverage available for our owned and leased hotels.

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 unlawful conduct) 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 that 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 is ineffective or that events arise that may be deemed or considered to fall outside coverage of the insurance or bond policies or that are uninsurable.

Violations to applicable anticorruption, money laundering, inappropriate use of databases, and other applicable unlawful activities laws

Our business operations in Mexico and abroad are subject to anticorruption laws which generally prohibit that enterprises and their intermediaries make inappropriate payments to government officers or to any other person in order to obtain or hold onto business, obtain government authorizations, non-application of the law; or to carry out operations with persons or with unlawful proceeds, and to periodically report operations denominated "vulnerable" as well compile files thereof.

Likewise, the most important activities of our businesses are regulated by the Federal Law for the Prevention and Identification of Operations with the Proceeds of Unlawful Activities whose purpose is to restrict certain cash operations or to identify risky high value operations considered one of the most important investment mechanisms of organized crime. Furthermore, we are responsible for generating information by way of reports to the administrative authorities.

The Company has policies applicable to our employees, managers and directors regarding compliance with anticorruption and money laundering laws, and we consider that we comply with said national provisions related to identification and prevention of operations with unlawful proceeds. However, we cannot ensure that none of our employees or executives contravene our internal or the authority's 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, unless a judicial order exists to the

contrary. However, it is possible that persons charged as probably responsible for committing unlawful activities by Mexican or foreign authorities, are unknown users of our services.

The Company makes reasonable efforts within a legal and preventive framework to deter criminal conduct in its installations and its operated hotels, but it cannot ensure success. However, employees, guests or clients using the installations may furtively, unperceivably or threateningly carry out other unlawful or violent conduct that may represent an all-around risk to the Company, its employees and guests, or 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 of Operations with the Proceeds of Unlawful Activities (LFPIORI, due to its initials in Spanish). However, we cannot guarantee that our interpretation of vulnerable activities coincides with that of the authority or that the reporting format limitations may result in a situation contrary to the provisions.

In case of contravention of the applicable normativity, the corresponding administrative, 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 Product Sales

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

At present, we bear the risk of defaults under purchase contracts for Vacation Product memberships. Members buy a 40 year right to use annually in any location of our Vacation Product 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 unsuccessfully passed through all recovery collection proceedings. At the time that a purchaser executes a Vacation Product installment purchase contract, the possible default on said sale are covered by a reserve. However, our reserve could be insufficient to offset breaches and negatively affect our financial statements.

Also, historically, our Vacation Product sales had been substantially denominated in U.S. dollars. Due to the financial crises, a significant portion of our Vacation Product revenues have been recalculated at the request of members facing liquidity difficulties, to Mexican pesos, albeit at a higher interest rate. The great majority of Mexican members that wanted to convert 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 currency redenomination of a significant portion of our Vacation Product receivables portfolio, many installment Vacation Product sales remain denominated in U.S. dollars. Accordingly, our results will still be affected by U.S. dollar-peso exchange rate fluctuations.

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

Nowadays, our Vacation Products have signed exchange agreements with RCI, Hilton, 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 Product memberships, thereby affecting sale and consequently affecting profits.

Vacation Product 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 its implementation and availability. Lack of inventory to sell timeshare arrangements could negatively impact sale possibilities of Vacation Product 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 in 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 for 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 on 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 supports or carries out its operations or processes. Systems are prone to failures arising from fires, floods, power outages, information or infrastructure theft, telecommunication failures, system failures, among other reasons. The occurrence of any failure may affect Posadas' operations, which may negatively impact its sales and/or operating costs. Even though there are some plans to reduce the impact of such failures, said plans may not be effective 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 to 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 obligated to comply with confidentiality obligations and the provisions under the Law for the Protection of Personal Information in the Possession of 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 interpretative criterion of the authorities different from 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 and eventually penalties and indemnity. Although plans exist to reduce the impact of said failures, said plans may be inefficient.

Information security and attacks to computer systems

The Company safeguards the correct functioning of computer security controls designed to reasonably guarantee the trustworthiness, compliance, confidentiality, integrity and availability of the information which it possesses and that which is under its safekeeping. It seeks to identify, evaluate and mitigate risks, vulnerabilities and threats that may adversely impact the information, data bases, systems and the continuity of operations, including the risk existing from the departure of personnel.

The Company maintains access control and registry of the systems to mitigate any unauthorized access to computer equipment and/or systems, as well as to minimize information misuse by way of strictly controlling the authorization and use of information access privileges.

The management of the personal and/or sensitive information business units is regulated by the Federal Law for the Protection of Personal Information, by, at first contact, referring to or placing at the clients' or third parties' disposal a clear and reliable privacy notice for the protection of their personal information. The privacy notice must indicate, amongst other things, the main purpose for which the clients' or third parties' information will be collected, used and disclosed.

The Company analyzes in detail the legal requirements to be fulfilled in order to implement control mechanisms that guarantee the privacy of the clients' or third parties' sensitive information under its safekeeping.

The Company has diverse policies to mitigate these risks:

- Corporate Information Security Policy
- Computer Equipment Renewal Policy
- Fund Monitor Policy
- Information Backup by disassociation Policy

The foregoing bolstered by the formulation of an annual internal audit plan integrating data and information protection control processes that define formal, continuous and timely review mechanisms, including specific organizational areas, persons and systems. The latter to comply with the normativity established by the Technology Division. Likewise, the Audit area informs its audit results to the CEO and follows up action plans compliance.

Although the Company considers that it carries out sufficient activities and efforts to mitigate these risks, these measures may be insufficient or ineffective and adversely affect the operation of systems and/or have a negative impact in information use or disposal.

Risk of outdated room distribution technology

Due to changes in the purchasing trends of travelers, there exists a greater demand for high-content hotel information in order to make purchasing decisions. Likewise, purchasing preferences may include different services such as 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 services connecting our products and the final consumer.

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

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 the program Live Aqua Residence Club (before The Front Door). In said purchase contract, the Company undertook diverse affirmative and negative covenants, amongst them to build the development in a limited term. Said development was concluded in 2017 fulfilling the obligations stipulated with 109 rooms and a total \$434 million pesos investment.

In the last 3 years, the Company has invested more than \$3,000 million pesos in maintaining and remodeling hotels, mainly the following: Fiesta Americana Condesa Cancun, Fiesta Americana Guadalajara and Fiesta Americana Merida.

In 2017, the Company acquired 6% of a trust to develop a hotel project in Riviera Maya, "Tulkal", where two hotels will be built: A Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms; both to be operated by Posadas and the planned opening is the beginning of 2021. Posadas investment is approximately \$450 million pesos and it has signed 20-year term operating and a brand license use contracts for said hotels, committing key money of USD\$10 million. In 2018, the Company intends to increase its holding in the trust to 12.5% by acquiring the holding of one of the Beneficiaries.

So far this year, Posadas' investment obligations regarding the refurbishment of the Fiesta Americana Condesa Cancun have been updated by \$60 million and regarding Live Aqua Beach Resort Cancun to \$187 million pesos.

Developing projects of this kind may imply greater leverage, they may not be as successful and profitable or their development may be delayed or not materialized, or the corresponding financing may not be obtained.

Disinvestment and Sales

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

In the case of the Fiesta Americana Hermosillo sale in 2016, the rent received represented a neutral net flow, since the sale price depends on the hotel's performance in the following three 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.

In 2017 sale agreements were executed subject to conditions precedent for the following hotels: Fiesta Americana Hacienda Galindo, Fiesta Inn Aeropuerto, Fiesta Americana Condesa Cancun. Of these, to the date of this report, the condition precedent for the contracts of Hotel Fiesta Inn Aeropuerto and Fiesta Americana Condesa Cancun were fully complied, therefore, both transactions were concluded.

For the hotel Fiesta Americana Hacienda Galindo sale, the risks that may be incurred are:

- Not comply with the condition precedent of the stipulated term, no later than December, 2019.
- Not successfully convey the bare ownership and use of the Hotel.
- Not perform the real property regularization or clarification obligations related to the real estate boundary limits of the property corresponding to the conveyed real property.
- The calculation of the transaction price based on 10.06 times EBITDA in 2019, is under the estimate.
- That the purchaser breaches their obligations established in the contract.

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

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

Non-compliance with requirements to keep 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 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 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.

^{T.N.}This is the Spanish for the Mexican Stock Exchange.

Risks Related to the Hospitality Industry

We are subject to all operating risks common to the hotel and vacation products 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 25,608 hotel rooms that the Company operated as of December 31, 2017 (including Vacation Products), 17% 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 15 hotels in beach locations (Resorts) 7 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.

In September 2017 meteorological phenomena and earthquakes occurred, thus deferring tourist flow and materially affecting occupancy in the second half of the month. Although some hotel facilities of the Corporation underwent non-structural damages, said hotels had insurance policies with coverage for real property damages and consequential losses. For further information, please see section: 1) *General Information*, b) *Executive Summary*.

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 or our interpretative criteria of the same 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 that these intermediaries obtain higher commissions, discounted rates, and other contract concessions from the Company. Moreover, some of these Internet travel intermediaries are attempting to convert hotel rooms into commodities, by increasing the use of generic price and quality indicators (such as "three-star downtown hotel") at the expense of brand identification. 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 Products business, must use cash flow or contract additional indebtedness to develop new units. Accordingly, the Company's financial results may be affected by the cost and availability of such funds.

Public Security

Diverse situations related to public security in different areas of the country may affect hotel operations, our clients and collaborators, which may lead us to decide to temporally or definitely close hotels in determined areas or conclude that they are economically unfeasible, such is the case of Reynosa.

The potential client's perception of insecurity in urban and beach 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.

Likewise, the travel alerts issued by other countries regarding several states of the Mexican Republic may adversely affect tourist flow to Mexico and/or delay their travel plans, thus affecting the Company operating results.

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 Mexican political, social and economic conditions.

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 2015, 2016 and 2017 the GDP was only 2.5%, 2.4% and 2.3% respectively, due to federal government efforts to implement government structural reforms, such as energy and tax legislative reforms. In 2017, the service industry was a propellant, however the industrial sector was weakened by both construction and oil mining dynamics.

In 2015 and 2016, the peso depreciated significantly against the United States dollar, representing a 16.91% depreciation for 2015 and 20.09% for 2016. This affected the Company's debt leverage and interest hedge index since most of its debt is denominated in United States dollars. However, in 2017 the peso appreciated by 4.49%.

Currency exchange fluctuations

As of December 31, 2017, 100% of our total indebtedness was denominated in U.S. dollars. While the majority of the Company's sales (approximately 73%) are peso denominated. An important portion of the accounts receivable are denominated in US dollars; see Notes 8, 11 and 17 in the Company's audited consolidated financial statements included in this Annual Report (Attachment). The peso has been subjected to significant past depreciations and may be depreciated in the future. Peso depreciation would negatively impact the Company's results and financial condition due to implicit increased financing costs. This 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 2017 was \$19.7354 pesos per United States Dollar that represented a 4.49% appreciation 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 a sell position of US\$14 M equivalent to \$242.8 M with due date on January 2016. To December 31, 2017 the Company did not have any financial derivative instrument signed.

Inflation

Given that a significant portion of the Company's operating costs are peso-denominated, a considerable inflation increase may in turn increase the Company's operating costs. Inflation may affect our client's purchasing power and, in this manner, it may adversely affect the demand for hotel rooms and Vacation Products memberships. Inflation fluctuations may importantly affect the Company's financial situation and operating results. The annual inflation rates, in accordance with the National Consumer Price Index ("INPC", due to its initials in Spanish) measurements published by *Banco de Mexico* have been 2.1%, 3.4% and 6.8% for 2015, 2016 and 2017, 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 2015, 2016 and 2017 are: 3.0%, 4.2% and 6.7% (at the corporate year closing 7.22%), 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, 2017, 34% of the total Company managed rooms are owned by a Fibra 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, 2017, approximately 17% of the Company's rooms are located in beach destinations, and the remaining 83% are urban hotels. The GDP growth for 2015, 2016 and 2017 was 2.5%, 2.4%, and 2.3% 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, the World Tourism Organization, the National Tourism Business Board, amongst others. Likewise, the Company has utilized a series of public sources information, including among others, the *Banco de Mexico*. That information which is not source-based has been prepared in good faith by the Company, based on its knowledge of the industry and the market in which it participates. The terms and methodology used by the different sources are not always congruent among themselves, and for these reasons, comparisons are difficult.

The present Annual Report includes certain statements concerning the future of Posadas. These statements appear in different parts of the Report and make reference to the intention, the opinion, or the present expectations of the Company or 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.

Based on the applicable regulations, neither the "2022 Senior Notes" nor related documents were submitted for review or approval before any federal or state securities commission or regulatory entity of any country.

Maintenance Requirements

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

I. Annual Information:

- (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 and 84 bis 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. Quarterly Information:

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

III. Legal Information:

- (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 of 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 National Securities Registry.

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 cancel, 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.

To this date, the number of shares in the repurchase fund amounts is 16,855,600, therefore 495,881,988 A Series shares are in circulation.

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 to adapt them to the legislative changes concerning publicity of corporate acts, the name of the corporate headquarters, and the broadening of its corporate purpose to include the operations of its subsidiaries merged into the issuer

In the Extraordinary and Ordinary Annual General Shareholders Meeting dated April 12, 2018, no change to the securities registered in the RNV nor modifications to clauses were made. The merger of Servicios Gerenciales Posadas, S.A. de C.V. as merged corporation into Grupo Posadas as the surviving Company was approved. According to the 2017 corporate year results and reports, dividends were declared in the ratio of \$0.40 cents of pesos per share in circulation, amongst other ordinary and annual resolutions.

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

At the end of the 80's, the Mexican hotel industry was going through a period of saturation and the Company realized that management of third party hotels reported more reservations than those 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 address the business traveler segment by opening the first Fiesta Inn in a city destination. In 1998, the Company began to expand to South America by acquiring the Caesar Park chain, along with brand rights in Latin America. Likewise, in 2001, the Company opened its first Caesar Business hotel in Sao Paulo, Brazil. In 2012, the Company sold the hotel operation business in South America.

The Company entered the Vacation Products business in 1999 opening the first resort under the brand Fiesta Americana Vacation Club in Los Cabos, Mexico. Since then Posadas has added three resorts under this concept in Cancun, in Acapulco, 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.

In 2008, development of non-hotel businesses continued with the consolidation of Ampersand which engages in the management of loyalty programs, and the Konexo call center.

In 2010, the Company launched the product "Kivac" which consists in the sale of points effective for 5 years exchangeable for lodging at any of the Company's hotels, and the company initiated conversion of three of its beach hotels to the "all inclusive" category. This situation consolidated in 2011. It also purchased 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 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 2013.

^{T.N.} The Spanish translates as "Stock Market Corporation" in English,

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 hotel equipment to 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 Fibrabotel, the Company has signed contracts to keep operating them.

In April 2013, Posadas created The Front Door, a new luxury brand in the Vacation Products Business 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, which concluded in 2017 with 109 rooms and a total investment of \$434 million pesos.

In connection with our traditional Fiesta Americana Vacation Club, in 2013 we allocated the Fiesta Americana Cozumel hotel to the timeshare system. The real property operates under the "all-inclusive" format. Finally, in 2013 and 2014, Phase III of our timeshare facility allocated to Vacation Products in Los Cabos, Baja California Sur, was finalized. Both projects are estimated at an approximate investment of \$450 million.

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

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 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 mandatory ten-year term lease agreement. Subsequently, Posadas terminated the lease contract for the Reforma 155 corporate offices and entered into a mandatory 10-year term lease contract with the same party in relation to offices located at Av. Prolongacion Paseo de la Reforma 1015, Torre A.

On August 30, 2013, the sale of the property located 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 \$143 million payment.

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

As part of its product renovation strategy, during 2014 Posadas developed and launched the new "Fiesta Americana" and "Grand Fiesta Americana" concept, an integral renovation encompassing image and logotype including public areas and rooms. Similarly, the Fiesta Inn Express and Fiesta Inn Loft brand expansion respond to the travelers' needs.

In 2015, with the creation of the Gamma brand the Company started its Franchise operations. Based on this brand, Posadas markets its services through franchising, thus recognizing that there are business opportunities in good quality Mexican hotels, with market presence but lacking new systems and distribution channels. Therefore, these hotels are not market-competitive for the principal corporate accounts and are in need of better marketing tools to increase market share. The foregoing allows, most of the time, the owners of said hotels or those legally entitled to freely convey them, to preserve their operation, increase quality standards and, at the same time, take advantage of the Franchisor's distribution channels infrastructure. This allows preservation of the local touch that makes them distinctive. To March 31, 2017, there are 7 Gamma hotels franchised.

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 million regarding the Turistica Hotelera Cabos XXI, S.A. de C.V. subsidiary.

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

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

As part of the Company's expansion plan in the Caribbean, in 2017, two contracts were signed in order to operate the following hotels in Cuba:

- Fiesta Americana All-Inclusive Punta Varadero with 633 rooms.
- Fiesta Americana All-Inclusive Holguin Costa Verde, located in Playa Pesquero, with 749 rooms.

Both hotels have local investment and they are planned to start operations in 2018.

Likewise, in 2017, the Company signed a 15 year operating contract for a Grand Fiesta Americana hotel in Punta Cana, Dominican Republic, with 554 rooms and it is planned that this local investment project will start operations in 2020.

In 2017, Grupo Posadas incorporated into its portfolio the "LatinoAmerican" brand, a new hotel concept that provides an original Urban-(G) Local Hotels lodging category, adapted to a new traveler, hypermodern and relaxed, who moves in a globalized world.

It also integrated Re_Set, an exclusive family and friend group discount plan providing more travel freedom on more occasions, should they decide to travel, whether in Mexico or abroad.

In the financial, corporate and realty field, the following activities stand out from 2015 to the publication of this report:

- In January 2015, the Issuer paid a balance of US\$51.7 M regarding the 2015 Senior Notes issue.
- On June 30, 2015, the Issuer carried out a debt issue for US\$350 M dollars in notes known as "2022 Senior Notes" by way of the Luxemburg 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 in November, 2016 since the Company made an add-on issue on May 16, 2016 of US\$50 M dollars of the "Senior Notes 2022" program at an annual 7.875% rate due in 2022. With the add-on issue, the "Senior Notes 2022" program amounted to US\$400 M dollars.
- In 2013, Posadas began its corporate restructuring project, which continues in 2017 in accordance with the plans published in the Corporate Restructuring information leaflets dated February 29 and August 15, 2017, the Company consolidated a part of the realty and payroll business, therefore the Company undertook the total patrimony and obligations of these subsidiaries. As a consequence of these mergers, the companies Inversora Inmobiliaria Club, S.A. de C.V. and Operadora del Golfo de Mexico, S.A. de C.V. became guarantors of the Senior Notes 7.875% issue with due date in 2022.
- 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.
- In 2016, the first construction stage of Villas Los Cabos was initiated and which opened in 2017. It became the second Live Aqua Residence Club vacation property, located beside the Hotel Grand Fiesta Americana Los Cabos All-Inclusive Golf & Spa, with 109 rooms and a total \$434 million pesos investment.
- 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 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.
- In 2017, the Company acquired 6% of a trust to develop a hotel project in Riviera Maya, "Tulkal", where two hotels will be built: A Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms; both to be operated by Posadas and the planned opening is the beginning of 2021. Posadas's investment is approximately \$450 million pesos and it has signed 20-year term operating and a brand license use contracts for said hotels, committing key money of USD\$10 million. On March 9, 2018, the Company increased its holding in the trust to 12.5% with an additional investment of \$535 million pesos.
- On June 22, 2017, the subsidiary Inmobiliaria del Sudeste, S.A. de C.V., owner of the Fiesta Americana Merida hotel hired a secured trust loan for \$200 million with a seven-year term. The funds will be used for corporate purposes including refurbishment of the hotel public areas. On January 23, 2018, the Company prepaid \$10 M, reducing the outstanding balance to \$200 M.

- Regarding the 2006 tax claim, reported in the 2015 consolidated financial statements and pursuant to its present procedural phase, an \$883.8 million security and bond was established to December 31, 2017.
- In compliance with the resolutions of the Extraordinary and Ordinary Annual General Shareholders Meeting dated April 12, 2018, a cash dividend payment of \$.40 (forty cents) per share was made to the Corporate shareholders on April 24, 2018.
- The Company agreed the sale and later lease of the Fiesta Americana Condesa Cancun hotel with 507 rooms to FibraHotel ("FIHO"), for a total sale price of \$2,892 million. The company and FIHO will invest approximately \$60 million each to remodel common areas in 2017 and 2018 without affecting the hotel inventory. As part of the sale-purchase agreement, Posadas as lessee and FIHO as lessor signed a total 15 year term lease contract by virtue of which the Company will continue operating the Hotel.
- As part of the Caribbean region expansion plan, at the beginning of 2018, two hotel operating contracts in Cuba were signed (Both with local investment and their opening is planned for summer 2018):
 - Fiesta Americana All Inclusive Punta Varadero with 633 rooms.
 - Fiesta Americana All Inclusive Holguin Costa Verde, with 749 rooms.
- Likewise, in 2017, the Company signed a contract to operate for 15 years a Grand Fiesta Americana hotel in Punta Cana, Dominican Republic, with 554 rooms. It is planned that this local investment project will start operations 2020.
- In April 2018, the Company received a US\$510 thousand advance payment for the conveyance of the Hotel Ramada Plaza, in Texas, United States. The conclusion of the sale is agreed for June 1, 2018 with a Purchaser extension option to August, and the price balance will be paid in 12 monthly installments

The 2017 detailed closing financial situation is presented in the Financial Statements to this report and demonstrates duly explained and classified the Corporation's profit and loss during the corporate year. Likewise, it presents the financial situation changes during said year, and evidences the 2017 corporate year changes in the entries that comprise the corporate patrimony. The necessary notes complementing and clarifying the information contained in the financial statements are also detailed in the Independent Auditors Report and the 2015, 2016 and 2017 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 2015-2017

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

The following explains the principal investments that the Company has made between 2015 and 2017:

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, Fiesta Americana Merida and Fiesta Americana Condesa Cancun.
- 9% was used for Vacation Products such as the first stage of the Live Aqua Residence Club villas in Los Cabos.
- The remaining 10% was used for corporate and technology purposes.

For 2017, the consolidated annual capital expenses totaled \$803 M:

- 50% was used for the maintenance and remodeling of hotels, specifically the Fiesta Americana Guadalajara, Fiesta Americana Merida and Fiesta Americana Condesa Cancun.
- 41% was used for Vacation Products such as the second stage of the Live Aqua Residence Club villas in Los Cabos.
- The 9% remaining was used for distribution channels as well as for technology infrastructure.

b) Business Description

i) Principal Activity

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

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 and in 2018 signed its first One Hotel brand franchise contract.

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

The Company plans to operate and franchise in Mexico 55 additional hotels with 9,966 rooms that are considered to start operating before the first half of 2021. This will represent a 38% room offer increase and, of this, 47% corresponds to the economy and business formats, including the Gamma brand. Of these hotels, 3 operate as a Live Aqua, 2 as Grand Fiesta Americana, 6 under the brand Fiesta Americana, 1 as Live Aqua Residence Club (previously The Front Door), 1 as The Explorean, 16 operate under the brand Fiesta Inn, 14 under the three star hotel chain "One Hotels", and 6 under the Gamma brand. Of the projected hotels, 21 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 aforementioned Mexican development plan at approximately \$26,818 million (US\$1,359 M) of which Posadas will contribute with a 6.5% 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 and Fiesta Americana standards, which are in the development stage. A long-term accommodation product under the 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 an important purchaser of goods and services in the industry in Mexico. In 2016, a reengineering of the Group supply chain was initiated to take advantage of its profitability per scale and contribute to the 2020 strategy. This initiative under the Corporate Procurement Division has the goal of implementing better global practices focusing on process automation, operating efficiency, cost reduction, policy compliance, expense transparency, risk control and sustainability. This Procurement institutionalization model had meaningful advances in 2017 such as supplier consolidation, hotel purchase centralization in the SAP Ariba platform, and the issuance of a responsible procurement policy. In this last category, the Company continues its efforts to detect and eliminate business relationships with companies that damage the environment, do not respect human rights, use child or forced labor, and discriminate in any sense, amongst others. The Company intends to continue analyzing and making future decisions regarding the best practices of its suppliers that have an impact not only in price but also in quality. These measures have translated into significant savings, better brand standard control and reputation of the Company.

Some of its main suppliers are: Accenture, Deloitte, Axa Seguros, Lexmark, Oracle, SAP Ariba, Dell, LG, Duetto Research, Colchones America, Jianlu, Atlantic Prime, X.O. de Chihuahua, Food Service, Scholastico, Wish Socios Creativos, PSAV, Beta Procesos, Jypessa, Europorcelanas, amongst others. It should be mentioned that the Issuer is not dependent on any supplier.

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 Loyalty program operates under the brand "Fiesta Rewards". The Company continues with 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. To December 31, 2017 there were more than 117,000 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 2017, a new Fiesta Rewards image was released through mass media as well as the Santander Fiesta Rewards card in order to celebrate the 30th anniversary of the program that knows and rewards our members. To date, we have more than 1.7 million Fiesta Rewards, Apreciare and Motiva members generating 1,854,917 room nights (32% of the total occupancy)

Currently the loyalty program has commercial alliances with American Express, Thanks Again, Club Premier and Iberia Plus, amongst others. To December 31, 2017, there were 226 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, 2017, the Kivac program members total 40,000 which generated 160,000 room nights.

In 2017, as a response to connect new customers, lifestyles and technology changes, the Company created "Re_Set", an exclusive discount plan with which families and friend groups are free to travel a greater number of times, whenever they decide so, either in Mexico or abroad

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 Products experience by providing them with complementary passes, and through a local sale program and showroom network. Vacation Products sales costs around 35% of the product and are normally executed by means of third parties contracted for such purpose.

With respect to Vacation Products sales and Kivac, the Company usually offers its clients a five-year deferred payment plan for both programs. Most sales for both programs are made in installments. Regarding Kivac,

clients may only use their effectively paid points. In connection with timesharing, payment is not related to membership rights, which are sold for 40 years. In the Vacation Products marketing, the clients pay a financing cost for the granting of a payment term.

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

Company:	CERVECERIA CUAUHEMOC MOCTEZUMA S.A. DE C.V.
Company:	SERVICIOS EJECUTIVOS SORIANA, SA. DE C.V.
Company:	HUAWEI TECHNOLOGIES ENGINEERING DE MEXICO SA DE CV
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 2017, all our sale segments grew:

- Room income generated through "Corporate" increased from 8.8% to 9.3% representing a 10% growth compared to 2016.
- In the Corporate Accounts segments, more than 895 million pesos were sold, 11% more than in 2016.
- In OTAS (Online Travel Agencies), 18% room and 14% income increase were obtained.
- The Wholesale segment had 16% in room and 20% income increase were obtained.

iii) Patents, Licenses, Brands and Other Contracts

The Company operates its hotel business under four principal models: (i) owned hotels and leased hotels commercially exploited to the benefit of Posadas; (ii) third party hotels managed by Posadas to the benefit of said third parties; (iii) hotels leased to third parties but managed by Posadas to the benefit of the lessors and (iv) franchised hotels.

The Company considers that its experience as a hotel operator, that it has its very own reservations system, technological investments as well as a loyalty reward system are the principal attributes with which it can add value for independent hotel owners. For the purpose of increasing yield on invested capital, in recent years the Company'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 brands. In 2014, the Company put on the market a new system to provide franchising services under the Gamma brand and in 2018 it has extended its franchise program for newly constructed hotels to the One Hotel 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, this is the case of hotel Holiday Inn Merida

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

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

As part of the Company's strategy to create new brands aligned to current market trends (*millennials*), in 2017, it incorporated into its portfolio the "LatinoAmerican" brand, a new hotel concept that provides an original Urban-(G) Local Hotels lodging category, adapted to a new traveler, hypermodern and relaxed, who moves in a globalized world.

To December 31, 2017, the average life of the Company's hotel management contracts (except its owned and leased hotels) was 13.8 years. Detailed per brand, it was: 12.9 years for Live Aqua, 12.7 years for Grand Fiesta Americana, 10.1 years for Fiesta Americana, 14.9 years for Fiesta Inn, 19.3 years for Fiesta Inn Loft, 13.8 years for Gamma and 13.8 years for One Hotels. Generally, once the contract terminates, the owner may choose to renew the management contract, normally for periods shorter than the initial period. See chapter "Risk Factors" for more information related to contract renewal.

Currently, the Company provides hotel services basically under 9 brands:

Posadas Mix of Brands					
Brand	Category	Hotel Rooms	Rooms by range	Location	Segment
	Luxury	2 125	20-100	Luxury residences for Vacation Properties	International tourists and high end locals
	Boutique	1 60	60-100	Upscale Resorts and large cities	International tourists and high end locals
	Luxury	3 580	130-400	Upscale Resorts and large cities	International tourists and high end locals
	Grand Tourism	8 2,226	200-600	Large cities and upscale Resorts	Domestic and International tourists and business travellers
	5-Stars	12 3,530	80-650	Large cities and upscale Resorts	Domestic and International tourists and business travellers
	4-Stars	69 9,640	90-220	Small and mid size cities	Domestic and International business travellers
	4-Stars	2 164	40-150	Small and mid size cities and suburbs of large cities	Domestic and International business travellers, longer stays
	4-Stars	12 1,653	80-200	Small and mid size cities	Domestic and International business travellers
	3-Stars	45 5,620	100-140	Mid and large size cities in industrial locations	Domestic business travellers
	5-Stars	4 1,501	100-300	Resorts	Domestic and International tourists
	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		162 25,608			

Source: Posadas

The Company has entered into strategic alliances regarding certain products and services offered to third parties or offered jointly by Posadas and the third parties, such as the shared-brand Santander-Fiesta Rewards credit card mentioned herein in section: 1) General Information, subsection b) Executive Summary and section 2) The Company in this document.

The Company moves its vacation products inventory by marketing 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 Products, it has alliances with the Company's own hotels, Hilton Grand Vacation Club and with Resort Condominiums International (RCI); these last alliances have allowed us to better penetrate foreign markets.

To finance its operations and growth, to December 31, 2017, the Company had placed only one bond issues abroad. See section 3) *Financial information*, c) *Material Loan Information*.

The Vacation Product segment of the Company has three lodging service marketing modalities. On one hand, it has two timeshare products both granting, in relation to hotel properties, a 40 year right to use represented by annual points. These modalities are our traditional Fiesta Americana Vacation Club and the product Live Aqua Residence Club (LARC); this last one addressed to a high purchasing power level. FAVC points may be exchanged for lodging at any of the 7 FAVC complexes located in Los Cabos, Acapulco, Cancun, Cozumel and Kohunlich, as well as at any Posadas operated hotel. LARC points may be exchanged in Puerto Vallarta, Cozumel and Los Cabos, in addition to the aforementioned destinations. Additionally, FAVC members may use their points at Resorts Condominium International ("RCI") complexes and Hilton Grand Vacation Club or at any complexes affiliated thereto in different parts of the world.

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

Other relevant contracts

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

Furthermore, Posadas executed with Accenture, and other technological service and license suppliers such as Oracle 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 occasionally uses derivative financial instruments by relating hedges to debt incurred. The derivative financial instruments which have been used are those involving the exchange of principal and interest from one currency to another (CCS) and instruments to fix variable debt interest rates (IRS). The preceding is for economic hedging purposes.

The reference or underlying variables of derivative financial instruments applicable to *Cross Currency Swaps* ("CCS") held by the Issuer may be subject to market, loan and operation risks that may result in unexpected and material losses. A fall in asset valuation, an unanticipated financing event or unforeseen circumstances causing a correlation of factors that were previously uncorrelated, may cause losses resulting from risks unaccounted for when a derivative financial instrument was structured and traded. Some of these factors are the exchange rate ("FX"), Libor rate changes represented in basis points ("pbs"), changes in *Spread* or *Basis* pbs and changes in the TIIE rate represented in pbs. Currently, the notional value of these instruments has been considerably reduced and the hedge by these instruments is maintained, and the depreciation corresponding to monthly markets valuations are recorded in the net profit and loss statement of savings corresponding to monthly flow exchanges for each coupon in pesos and dollars as part of the Comprehensive Financial Result ("RIF", due to its initials in Spanish). For greater detail please see section: 3) *Financial Information*, ii) *Financial Situation, Liquidity and Capital Resources*, *Derivative Financial Instruments*.

iv) Principal Clients

Given the nature of the hotel industry, the Company considers that it is not significantly dependent on any or several clients as users of hotel services which if lost would adversely affect the Company's operating results or financial situation. The Company has a business strategy based on targeting the Mexican business and vacation market segments through the Grand Fiesta Americana, Fiesta Americana, Fiesta Inn, Gamma and One Hotels brands; the wholesale segment in the North American market, 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. The restrictions for US travelers to Cuban destinations presuppose that Posadas must look for new originating markets for these hotels, thus, the delay in the consolidation of these new markets or competition from other destinations geographically closer and economically more competitive may complicate the operating results of these markets.

Furthermore, there is a trend to consolidate hotel ownership in groups such as FibraHotel and other institutional real property investors. At present, we operate 64 hotels owned by FibraHotel representing the 40% of the total hotels operated by the Company and 5 other owners concentrate the operation of 29 third party hotels representing a 18% of the total.

Of the total fees registered in 2017, Fibras represent 37%, owned and leased hotels 36%, owners with more than four hotels 15% and other owners 12%.

This trend is expected to continue in the near future. The loss of FibraHotel or other family groups as a client, would seriously and adversely affect the Company's operating results and financial situation.

v) Applicable Legislation and Tax Situation

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

In January 2018, the Mexican Congress approved an amendment to the Federal Consumer Protection Law which impacts upon the diverse marketing and publicity modalities of our offered services, on our clients' information and on some service contracting mechanisms.

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

We have no knowledge of contingencies that, consequently, may have result in the assumption of, or cause a material adverse damage to the hotels' operation related to the obtainment or compliance with said authorizations or the modification of said norms. 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, are 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.

Mexican Tax Regulations

Mexican enterprises are subject to Income Tax ("ISR", due to its initials in Spanish) which continues in force to this report publication date. The ISR is calculated by considering certain inflationary effects as taxable or deductible, such as depreciation calculated on constant price values.

ISR -The rate was 30% in 2017 and 2016 and years thereafter. Due to the repeal of the Income Tax Law in effect until December 31, 2013, the tax consolidation rules were eliminated. Therefore, the Issuer is obligated to pay the deferred income tax determined as of that date in the subsequent 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. The updated balance to December 31, 2016 after 3 annual payments amounted to \$309 M, recognizing the corresponding short and long-term liabilities. Notwithstanding the foregoing, the SAT reviewed the decision of the aforementioned deferred tax, derived from the agreement resulting from the difference of criteria of the applicable legislation, the Company closed this audit with the SAT with diverse agreements. For further detail, see section: 3) *Financial Information*, c) *Material Loan Information*.

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

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

In December 2013, the 0% tax rate for hotel services rendered to 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.

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, 2017, the Company had 18,157 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.

The Company has established pension and retirement plans for collaborators, which to December 31, 2017, report a total accumulated reserve of \$84.2 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.

The Company stands out not only because of its management in the industry, but also for its Human Capital talent. Proof of this is that for second consecutive year the Company obtained certification from the Great Place to Work organization. It climbed two positions in comparison to the previous year, obtaining number 8 amongst the Best Companies to Work for in Mexico with more than 5,000 collaborators.

As part of the 2017 training program focused on three programs: Service School, Attitude, Magic and Action and Sales School. In 2017, 13,000 collaborators were given different courses: Attitude, Magic and Action; Leadership and Top Talent Transformation provided by Harvard Business Publishing.

Likewise, the company continues its evaluation plan to manage and detect internal talent as well as to formulate succession plans.

Due to respect, diversity and inclusion practices, the Company received in December 2017, the Inclusive Company Award "Gilberto Rincon Gallardo", which certifies all the employment centers, including up to 2022 openings.

Likewise, in 2017, the Company carried out the following actions:

- Stated its commitment to implement the National Conduct Code for the Protection of Children and Adolescents in the Travel and Tourism Sector (SECTUR)
- Established in Company guideline documents (Ethics Code, Internal Regulations and Posadas Foundation Policy) our commitment against the sexual and labor exploitation of children and adolescents.
- Raised awareness and trained all its collaborators at 100% of the hotels regarding the prevention of sexual and labor exploitation.
- Implemented an action protocol to ensure that our collaborators know how to act in acts of presumably sexual and labor exploitation of children and adolescents.
- Formed collaboration networks with other institutions to prevent, evaluate and report at risk cases.
- Informed guests of its commitment against labor exploitation of children and adolescents.
- Promotes the conditions necessary to create a dignified and non-discriminatory employment.
- Offers benefits superior to those stipulated by law (breastfeeding room, savings fund, grocery vouchers, major medical expenses insurance).
- Offers professional growth opportunities, training programs and personal development focused on sustainability.
- Promotes healthy working practices in a clean and safe environment.
- Promotes a value-centered culture and a positive environment, encouraging balancing family with flexible working schedules and home office initiatives.
- Maintains a Health Program "*Vive Salud*" seeking its collaborators' comprehensive welfare, taking care of their health and performance.

vii) Environmental Performance

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

The Company has an internal environmental and safety compliance program aimed at ensuring that all its operating and under construction properties and businesses comply with applicable environmental laws and regulations. In Mexico, most hotels have entered into agreements with the Federal Environmental Protection Agency submitting themselves to exhaustive policy and procedure reviews to deserve the Environmental Tourism Quality

Certificate conferred by *Profepa* upon proving that all environmental rules have been complied. The degree of progress made in said procedures is satisfactory and varies from hotel to hotel.

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

All real properties managed by Posadas are focused on complying with the National Fire Protection Association (NFPA) normativity, certifying it in fire protection. In all Posadas' properties there are prevention 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 2017 are:

- In 2017, due to promoting sustainable practices in touristic establishments, 75 Company hotels received the "Green Key" award from The Foundation for Environmental Education (FEE), non-governmental and non-profit organization that promotes the sustainable development through environmental education.
Each hotel was subjected to a strict thirteen category evaluation including environmental management, personnel participation, social responsibility, green activities, and administration, amongst others. The Company plans to have all its properties certified by 2018.
- PROFEPA "S" Award: The Office of the Federal Attorney General for Environment Protection and the Ministry of Tourism (SECTUR) awarded Posadas with 12 "S" awards for its compliance with environmental normativity, implementation of good operating and engineering practices, as well as closeness with the community policies, offering a solid sustainable development base. The 4 hotels who received this award were: Fiesta Americana Queretaro, Fiesta Inn Oaxaca, Fiesta Americana Veracruz, Fiesta Inn Toluca Tollocan, Fiesta Americana Reforma, Fiesta Inn Insurgentes Viaducto, Fiesta Inn Tuxtla, Holiday Inn Merida, Fiesta Americana Grand Los Cabos, Fiesta Inn Cancun Las Americas, Hotel One La Paz Centro.
- Approximately 15 hotels obtained Touristic Environmental Quality Certificates granted by PROFEPA.
- From TripAdvisor, 78 hotels have an Excellence Certificate and 60 hotels with the Eco-leaders award.
- FORBES Magazine. Article about the 30 "Companies with Environmental Commitment" obtaining a Tenth Place ranking.

- “Environmental Commitment” Certificate for the hotels One Guadalajara Centro, Fiesta Americana Grand Guadalajara and Fiesta Inn Guadalajara Expo; granted by the Government of Jalisco.
- “Certify Yourself Green” for the hotel Fiesta Inn Cancun Las Americas; given by the Government of Quintana Roo.
- Certificate for planting 236 trees for the edible recycled oil used for Biodiesel granted by Sonne Energeticos and The Green Earth Appel.
- Posadas Foundation “2017 Funpos Reforestation”, planted 16,000 trees on 8 hectares.
- SEMARNAT, “ Green Hotels Certification Project”, Grupo Posadas participates in drafting the Norm and participates in the Pilot Program in the hotel Fiesta Americana Grand Chapultepec.

The market shows a marked trend to consume sustainable products and services. In this sense, our clients are not the exception therefore sustainable operation of our hotels is key to marketing our services. For this reason, gradually, the company has been implementing sustainable consumption and management policies.

According to publicly accessible information, climate changes could be a factor, among many others, that may result in unusual or unpredictable catastrophic 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. Despite that in 2017 new terrorist attacks in Europe, unusually violent events against tourists in Las Vegas, hurricanes and earthquakes took place, as well as a series of geopolitical environment tensions, tourism results were extraordinary. For 2017, world tourism showed positive behavior by presenting a 6.7% increase in international tourist arrivals reaching a total of 1,322 million. It is important to highlight that this variable has grown for 8 consecutive years.

Globally speaking, Asia and Africa had an annual international tourist arrival growth of 5.8% and 7.9% respectively. The Middle East had a light increase of 4.9%.

Europe maintained a solid 8.5% growth representing half of the global arrivals, in comparison to America that only grew 2.9% due to the United States' negative results.











France recovered 8.1% obtaining 89.3 million arrivals in comparison to the United States, which, in spite of keeping its ranking position, had a significant 4.0% tourist decrease due to the appreciation of its currency, and the uncertainty derived from its current administration.

China and Italy maintain their positions with a 3.5% and 9.7% growth respectively.

Regarding arrival growth, 2 countries stand out: Mexico and Turkey, with a 12.0% and 29.5% growth respectively.

During the last five years, the arrival of international tourists to Mexico has grown at a 67.9% average annual rate and currency income per international tourists grew 8.6%.

The following chart shows the countries with the highest international tourist arrivals in 2017 (Source: Tourist Activity Outlook number 23 of the National Tourism Business Council "CNET and World Tourism Organization "WTO").

Ranking WTO					
2016	2017	International Tourist Arrivals			
#	#	Country	Million people	Growth Rate	
1	1	 France	89.3	8.1%	
3	2	 Spain	82	8.9%	
2	3	 United States	72.9	(4.0%)	
4	4	 China	61.4	3.5%	
5	5	 Italy	57.5	9.7%	
8	6	 México	39.3	12.0%	
10	7	 Turkey	39.1	29.5%	
6	8	 United Kingdom	38.4	7.2%	
7	9	 Germany	37.5	5.2%	
9	10	 Thailand	35.4	8.6%	

The World Tourism Organization foresees that international tourist arrivals will increase approximately 4% and 5% around the world in 2018.

Tourism in Mexico (Source: Consejo Nacional Empresarial Turístico, World Tourism Organization, Bank of Mexico, Ministry of Tourism)

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

According to the WTO estimated numbers, Mexico received 39.3 million international tourists in 2017, which is a number greater than that of the previous year by 12%. The greatest number of foreign visitors traveling by airplane were from the United States and Canada with 10.5 and 1.9 million tourists, respectively. The latter expresses an increase of 9.6% and 12.8% in comparison to the preceding year.

It is estimated that the economic disbursement by international visitors to Mexico was US\$21.3 thousand million in 2017, which represented an increase of approximately 8.6% as compared with 2017. According to the Banco de Mexico, with this closing of US\$21.3 thousand millions, tourism is the third generator of currency in the country.

The Tourism Balance in 2017 surpassed 10.5 thousand millions of dollars, and represented a 12.4% increase with respect to 2016.

Domestic. Domestic market evolved favorably with national tourist arrivals to hotel rooms in destinations of more than 1,000 inhabitants increased by a 5.8%.

Hotel occupancy levels. In general, based on the 25 principal destinations in the country (including beach destinations), there was an increase of the available hotel rooms demand average of 4.7% derived from a 3.5% increase in the total hotel room arrivals.

The destinations with greater occupancy percentage registry in 2017 were beach destinations such as: Riviera Maya with 82.6% (2.4 pp), Cancun with 76.5% (-0.3 pp), Riviera Nayarit with 75.2% (12.6% pp) and Puerto Vallarta with 74% (2.1pp).

Competition

The hotel industry is highly competitive. In general, the Company's hotels compete against diverse Mexican and International hotel operators, some of which are 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 program.

In order to automatize and speed up the information collection process, in 2017 the information source was modified to report according chains to the STR Census Database (Smith Travel Research) leading hotel industry information provider.

The principal competitors of Live Aqua and Grand Fiesta Americana according to room numbers are other international and Mexican chains such as: Secrets, Dreams, Hard Rock, amongst others. While the competitor of Live Aqua Residence Club is Inspirato.

The principal competitors of the Fiesta Americana brand, including the Vacation Product Industry and Explorea regarding room numbers are: Barcelo, Riu Hoteles & Resorts, Camino Real, Palace Palladium, Marriott, Crowne Plaza, Hilton and Sheraton.

The principal competitors of Fiesta Inn hotels as to room numbers are independent local operators and Mexican and international chains such as: Holiday Inn, Courtyard, Wyndham Garden, Hoteles NH, Ramada, amongst others.

The principal competitors of Gamma hotels in room numbers are: Best Western Plus, Best Western, Mision Express, Quality Inn, Comfort Inn, Real de Minas and Ramada, amongst others.

The principal competitors of One hotels in room numbers are: IBIS, IBIS Styles, IBIS Budget, City Express Junior, Hoteles Vista and Zar, amongst others.

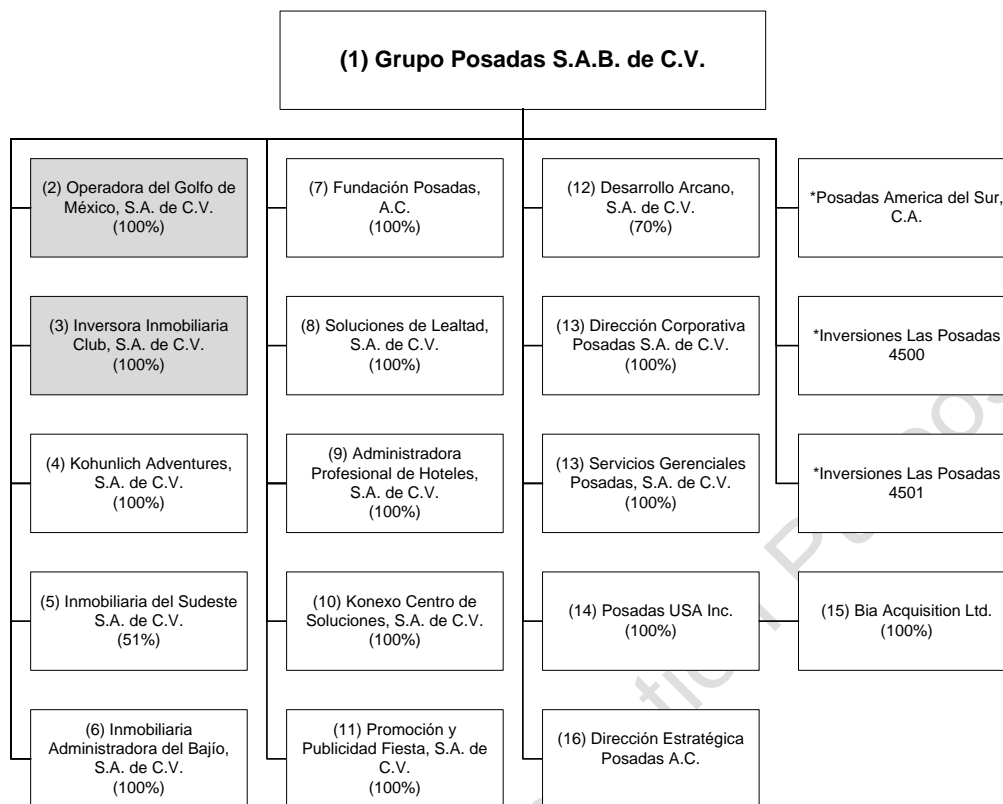
Although the Company considers itself a leader in Mexico as to the number of operated hotels and rooms, there is no official publication proving the market participation of its hotels in relation to existing competitors or its competitive position. The information regarding competitors has its study source that of Posadas Chains 2017 with information of STR Census Database (Smith Travel Research) to June 2017.

In reference to total rooms (including own, leased and operated rooms) in Mexico and based on the 2017 Posadas Chains study with STR Census Database information, June 2017, for Hotel Groups, the Posadas brands jointly have a 20% market participation. Per brand in the competitor set: luxury hotels corresponding to brands Live Aqua, including Live Aqua Residence Club have a 3% market share; Grand Tourism hotels (Grand Fiesta Americana) have a 9% market share; in the five star category, the hotels operating under the Fiesta Americana brand (including FAVC & Explorea) have a 13% market share; in the four star category, Fiesta Inn has a 36% market share; while the Gamma brand has a 9% market share. In the "economy" three star segment, the brand One Hotels has a 37% market share. The foregoing information includes the total availability inventory of the top 10 corresponding to each brand.

ix) Corporate Structure

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

The following organizational chart illustrates how the Company's principal subsidiaries are organized, as well as the principal activities of each entity to March 31, 2018.



Source: Posadas

■ Guarantors of the Senior Notes 2022

- (1) Grupo Posadas, S.A.B. de C.V.:
 - a. Owns hotel trademarks, under which it operates hotels in Mexico through management and/or franchise contracts, and it receives net cash flows from owned and leased hotels. This Entity pays rents for leased hotels to third parties. This Entity hires employees for the corporate offices as well as owned and leased hotels.
 - b. Manages our loyalty program *Fiesta Rewards*.
 - c. Sells time share rights in Los Cabos (owned property), Cozumel (beneficially owned), Acapulco, Cancun, Marina Vallarta and Kohunlich (that are leased from another subsidiary). It also manages our vacation club exchange program.
 - d. Markets our Kivac and Re_Set vacation products
 - (2) Operadora del Golfo de México, S.A. de C.V., is the owner of the bare title for all our owned hotels in Mexico, except for the FA Mérida hotel.
 - (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.
 - (4) Kohunlich Adventures, S.A. de C.V., Holds our federal ground transportation permits for transportation of our hotel guests.
 - (5) Inmobiliaria del Sudeste S.A. de C.V., Is the owner of, and receives all of the cash flows of, the FA Mérida hotel.
 - (6) 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) Soluciones de Lealtad, S.A. de C.V., Does not have operations.
 - (9) Administradora Profesional de Hoteles, S.A. de C.V., Does not have operations.
 - (10) Konexo Centro de Soluciones S.A. de C.V., Holds our Konexo's call center business.
 - (11) Promoción y Publicidad Fiesta, S.A. de C.V., Manager the marketing funds for all of our hotels.
 - (12) Desarrollo Arcano, S.A. de C.V., Developer of a residential venture in Ixtapa, Mexico, still holds two plots of land in Ixtapa available for sale.
 - (13) Dirección Corporativa Posadas, S.A. de C.V., Servicios Gerenciales Posadas, S.A. de C.V. Payroll entities for corporate and hotel executive committee employees.
 - (14) Posadas USA Inc., Performs sales, marketing and collection activities in the United States.
 - (15) Bia Acquisition Ltd., Is the subsidiary through which we own one hotel located in Laredo, Texas, that is in process of being sold.
 - (16) Dirección Estratégica Posadas A.C., Is the Company savings account for certain executive members.
- * Inversiones Las Posadas 4500, C.A., Inversiones Las Posadas 4501, C.A., Posadas América del Sur, C.A are entities that we plan to liquidate, pursuant to our on-going corporate restructuring

Grupo Posadas' board of directors continues with the internal restructuring plan whose trend is to consolidate its operations and companies in the issuer. The restructuring plan, which was the subject of three

informational leaflets published on April 10, 2014, February 26, 2016 and August 15, 2017 and to which the reader is remitted for greater detail, consists of an internal corporate structure reorganization of certain businesses of Posadas. It is underlined that no corporation which is not currently a direct or indirect subsidiary of Posadas participates in the corporate restructuring, and as to those corporations in which third party minority participation exists, it is foreseen that said third parties will not acquire interest in corporations or assets in which they did not have an interest or a holding. For this reason, the consolidated assets and operations of Posadas as a corporate group have not undergone substantial changes after the Company's corporate restructuring. Along these lines, Posadas has implemented a series of corporate movements that solely involve subsidiaries controlled (that is to say, corporations where the Issuer owns 51% or more of the corporate capital), directly or indirectly. The corporate restructuring does not imply the Company's incursion into a new business line, and in no manner, affects the existence or legal capacity of Posadas as a Publicly-Traded Corporation, nor will it affect in any manner the products and services that the Company offers to its clients. Neither will the corporate restructuring affect the Company's work force. The corporate restructuring of Posadas' Subsidiaries is intended to reduce and make more efficient the Issuer's corporate structure.

In September 2017, Posadas merged its subsidiaries: Administracion Digital Conectum, S.A. de C.V., Posadas de Latinoamerica, S.A. de C.V., Desarrollos Inmobiliarios Posadas, S.A. de C.V., Servicios Administrativos Posadas, S.A. de C.V., Porto Ixtapa, S.A. de C.V. and Solosol Tours, S.A. de C.V. Said merger did not affect the consolidated financial statements. Once the merger became effective, Posadas fully absorbed with all rights and liabilities the totality of the assets and liabilities, obligations and guarantees of the companies merged. Likewise, in extraordinary shareholders meeting on April 12, 2018, Posadas' shareholders resolved to merge the company Servicios Gerenciales Posadas, S.A. de C.V. into Grupo Posadas, disappearing the first and the second fully assumed with all rights, the assets, liabilities and obligations of the company merged, with accounting and tax effects as of May 1, 2018.

x) Description of the Company's Principal Assets

Herein below is a list of the Company's hotels to December 31, 2017, including number of rooms, age, location and type (franchised, owned, managed or leased):

(This space was intentionally left blank)

Hotel	Opening	Country	Type of Contract	Number of Rooms
Live Aqua Urban Resort México	2012	Mexico	Managed	135
Live Aqua Beach Resort Cancún	2004	Mexico	Leased	371
Live Aqua Boutique Resort Playa del Carmen	2015	Mexico	Managed	60
Live Aqua Residence Club Los Cabos	2017	Mexico	Owned	109
Live Aqua Urban Resort Monterrey	2016	Mexico	Managed	74
Grand Fiesta Americana Al Parks Vallarta	2015	Mexico	Managed	444
Grand Fiesta Americana Coral Beach	1990	Mexico	Managed	602
Grand Fiesta Americana Chapultepec	2001	Mexico	Managed	203
Grand Fiesta Americana Guadalajara Country Club	2007	Mexico	Managed	207
Grand Fiesta Americana Puebla	2016	Mexico	Managed	168
Grand Fiesta Americana Monterrey Valle	2016	Mexico	Managed	180
Grand Fiesta Americana Los Cabos Golf & Spa Resort	2000	Mexico	Owned	249
Grand Fiesta Americana Querétaro	2003	Mexico	Managed	173
Fiesta Americana Aguascalientes	1993	Mexico	Managed	192
Fiesta Americana Condesa Cancún	1989	Mexico	Leased	507
FA Cuernavaca, Hacienda San Antonio El Puente	2011	Mexico	Managed	131
FA Guadalajara	1982	Mexico	Owned	391
FA Hacienda Galindo	1977	Mexico	Managed	168
FA Hermosillo	1982	Mexico	Managed	221
FA Mérida	1995	Mexico	Owned	350
FA Monterrey Pabellon	2016	Mexico	Managed	178
FA Puerto Vallarta	1979	Mexico	Managed	291
FA Reforma	1970	Mexico	Owned	616
FA México Toreo	2016	Mexico	Managed	252
FA Veracruz	1995	Mexico	Managed	233
FAVC Cancún	1981	Mexico	Owned	310
FAVC Condesa Acapulco	1971	Mexico	Owned	560
FAVC Cozumel Dive Resort	1991	Mexico	Owned	174
FAVC Explorean Cozumel	2014	Mexico	Owned	56
FAVC Explorean Kahunlich	1999	Mexico	Owned	40
FAVC Los Cabos Villas	2000	Mexico	Owned	457
FAVC Puerto Vallarta - Nima Bay	2013	Mexico	Owned	16
FI Aeropuerto Ciudad de México	1970	Mexico	Leased	327
FI Aguascalientes	1993	Mexico	Managed	125
FI Cancun Las Americas	2012	Mexico	Leased	152
FI Celaya	2003	Mexico	Managed	124
FI Centro Histórico	2003	Mexico	Leased	140
FI Ciudad de México Forum Buena Vista	2017	Mexico	Managed	129
FI Ciudad del Carmen	2003	Mexico	Managed	131
FI Ciudad Obregón	2007	Mexico	Managed	141
FI Ciudad Juárez	1999	Mexico	Managed	166
FI Colima	2004	Mexico	Managed	104
FI Cuautitlán	2004	Mexico	Leased	128
FI Cuernavaca	2008	Mexico	Managed	155
FI Culiacán	2003	Mexico	Leased	146
FI Chetumal	2013	Mexico	Managed	131
FI Chihuahua	1993	Mexico	Managed	152
FI Chihuahua Fashion Mall	2017	Mexico	Managed	156
FI Coatzacoalcos	2008	Mexico	Managed	122
FI Durango	2008	Mexico	Managed	138
FI Ecatepec	2005	Mexico	Leased	143
FI Guadalajara	1995	Mexico	Managed	158
FI Hermosillo	2002	Mexico	Managed	155
FI Insurgentes Sur	2011	Mexico	Leased	162
FI Insurgentes Viaducto	2003	Mexico	Leased	210
FI León	1995	Mexico	Managed	160
FI Los Mochis	2016	Mexico	Managed	125
FI Mérida	2014	Mexico	Managed	166
FI Mexicali	2004	Mexico	Managed	150
FI Monclova	1996	Mexico	Managed	121
FI Monterrey Fundidora	2007	Mexico	Managed	155

Hotel	Opening	Country	Type of Contract	Number of Rooms
FI Monterrey La Fe - Aeropuerto	1998	Mexico	Managed	161
FI Monterrey Tecnológico	2010	Mexico	Managed	201
FI Monterrey Valle	1994	Mexico	Managed	177
FI Naucalpan	1997	Mexico	Managed	119
FI Nogales	2004	Mexico	Managed	107
FI Nuevo Laredo	2011	Mexico	Managed	120
FI Oaxaca	1993	Mexico	Managed	145
FI Pachuca Gran Patio	2016	Mexico	Managed	156
FI Perinorte	1996	Mexico	Managed	127
FI Perisur	2001	Mexico	Leased	212
FI Plaza Central	2014	Mexico	Managed	169
FI Playa del Carmen	2016	Mexico	Managed	129
FI Poza Rica	2005	Mexico	Managed	107
FI Puebla las Animas	2012	Mexico	Leased	140
FI Puebla FINSA	2006	Mexico	Managed	123
FI Puerto Vallarta la Isla	2017	Mexico	Managed	144
FI Querétaro	2000	Mexico	Managed	175
FI Querétaro Centro Sur	2014	Mexico	Managed	134
FI Saltillo	1997	Mexico	Managed	149
FI San Cristobal de las Casas	2011	Mexico	Managed	80
FI San Luis Potosí Glorieta Juárez	1996	Mexico	Managed	135
FI San Luis Potosí Oriente	2004	Mexico	Leased	140
FI Silao Aeropuerto del Bajío	2017	Mexico	Managed	142
FI Tampico	2002	Mexico	Managed	124
FI Tepic	2008	Mexico	Managed	139
FI Tijuana Otay	2005	Mexico	Leased	142
FI Tlalnepantla	1994	Mexico	Managed	131
FI Toluca Toluca	1998	Mexico	Managed	144
FI Toluca Aeropuerto	2013	Mexico	Managed	150
FI Toluca Centro	2009	Mexico	Managed	85
FI Torreón Galerías	2005	Mexico	Managed	146
FI Tuxtla Gutiérrez	2007	Mexico	Managed	120
FI Veracruz Boca del Río	1999	Mexico	Managed	144
FI Veracruz Malecón	2001	Mexico	Managed	92
FI Villahermosa	2015	Mexico	Managed	159
FI Xalapa	1993	Mexico	Managed	119
FI Zacatecas	2011	Mexico	Managed	146
FI Loft Ciudad del Carmen	2015	Mexico	Managed	120
FI Loft Irapuato	2015	Mexico	Managed	44
FI Loft Monterrey La Fe	2016	Mexico	Managed	48
FI Loft Monclova	2014	Mexico	Managed	37
FI Loft Querétaro	2014	Mexico	Managed	50
One Acapulco Costera	2008	Mexico	Managed	126
One Aguascalientes Ciudad Industrial	2008	Mexico	Managed	126
One Aguascalientes San Marcos	2009	Mexico	Managed	126
One Cancún Centro	2014	Mexico	Managed	126
One Chihuahua Fashion Mall	2017	Mexico	Managed	126
One Ciudad del Carmen Concordia	2012	Mexico	Managed	126
One Ciudad de México Patriotismo	2007	Mexico	Managed	132
One Ciudad de México Alameda	2014	Mexico	Managed	117
One Culiacan Forum	2012	Mexico	Managed	119
One Coahuila Forum	2007	Mexico	Managed	126
One Guadalajara Centro Historico	2012	Mexico	Managed	146
One Guadalajara Expo	2017	Mexico	Managed	126
One Guadalajara Periferico Norte	2011	Mexico	Managed	132
One Guadalajara Periferico Vallarta	2014	Mexico	Managed	121
One Guadalajara Tapatio	2013	Mexico	Managed	126
One Irapuato	2013	Mexico	Managed	126
One La Paz	2014	Mexico	Managed	126
One León Antares	2017	Mexico	Managed	126
One León Poliforum	2014	Mexico	Managed	126
One Mexicali	2017	Mexico	Managed	120
One Monclova	2014	Mexico	Managed	66

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 Galerías	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 Puebla Serdán	2017	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 Cuernavaca Puerta Paraíso	2017	Mexico	Franchise	102
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

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

Moreover, the Company is the holder of certain real property destined for office use in Morelia and at present is the owner of 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 would be conditioned on obtaining financing.

In August 2017, the Company formalized the sale of Hotel Fiesta Inn Aeropuerto with 327 rooms in \$435 million pesos to Fibra UNO. Said hotel continues to be operated by Posadas under a 15 year term lease agreement and with a renewal option of 2 periods of 5 additional years.

Because the Company signed a lease contract, the Hotel Fiesta Americana Hacienda Galindo with 168 rooms was remodeled in stages in 2017. Likewise, it signed a sale-purchase contract subject to diverse conditions that must take place no later than December 2019, formalized and paid in 2020. The price is a multiple of 10.06 times EBIDTA of the hotel during the 2019 corporate year minus investments and leases. After executing the corporate purchase-sale, Posadas will manage said hotel under an operating contract.

The Company agreed to the sale and subsequent lease of the hotel Fiesta Americana Condesa Cancun to Fibra Hotel in 2017 subject to condition precedents. In February 2018, the Company informed the satisfaction of the conditions precedent so that the sale-purchase contract became effective. Therefore, the lease contract entered into force for a total 15-year term.

As part of the Company's Caribbean expansion plan, the following contracts to manage and operate hotels with third party investment were signed:

Cuba:

- Fiesta Americana All Inclusive Punta Varadero with 633 rooms.
- Fiesta Americana All Inclusive Holguin Costa Verde, with 749 rooms.

Dominican Republic:

- Grand Fiesta Americana en Punta Cana, with 554 rooms.

In 2017, the Company formalized its participation as investor and operator of a hotel project on the Riviera Maya, "Tulkal", where two hotels will be built: A Fiesta Americana with 515 rooms and a Live Aqua with 340 rooms; both will be operated by Grupo Posadas and their opening is planned for the beginning of 2021.

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

In January 23, 2018, the Hotel Fiesta Inn Ciudad del Carmen Laguna de Terminos initiated operations with 133 rooms under an administration modality, while on March 12, and March 20, 2018, respectively, the hotels Fiesta Inn Morelia Altozano with 155 rooms under the administration modality and Gamma Tampico initiated operations with 136 rooms under the franchise contract.

During 2017, the Company opened 11 hotels representing a total of 1,411 additional rooms:

Hotel	Rooms	Type of Contract
Fiesta Inn Puerto Vallarta La Isla	144	Managed
One Mexicali	120	Managed
One Guadalajara Expo	126	Managed
Fiesta Inn Silao Aeropuerto del Bajío	142	Managed
One León Antares	126	Managed
One Puebla Serdán	126	Managed
Fiesta Inn Chihuahua Fashion Mall	156	Managed
One Chihuahua Fashion Mall	126	Managed
Fiesta Inn Ciudad de México Fórum Buenavista	129	Managed
Gamma Cuernavaca Puerta Paraíso	102	Franchise
LARC Los Cabos	109	Owned
Fiesta Americana Condesa Cancún Room Incremental	5	Owned
Total	1,411	

With respect to remodeling investment plans for own and leased hotels and the Live Aqua Residence Club in Los Cabos to be allocated to our Vacation Product segment, please see section Vacation Products (Vacation

Products) refer to section 1) *General Information*, b) *Executive Summary* and section 2) *The Company, History and Development* in this Annual Report.

xi) Judicial, Administrative or Arbitral Proceedings

As of December 31, 2017, 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 holding the 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.

As we have referred in other statements, in 2017, Posadas, and other material defendants were sued in a labor proceeding by two unions of *Compañía Mexicana de Aviación*. The company has presented its defense and the procedural status of this proceedings has not significantly progressed.

An old subsidiary of the Company has been ordered to pay expenses and costs of a judicial proceeding filed in Argentina. The proceeding is in process of determining the payable amount.

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. Within these proceedings, there are proceedings and investigations under the National Institute of Information Access related to the processing of private information.

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

xii) Representative Shares of Corporate Capital

As of December 31, 2017, the Company’s corporate capital is made up of 512,737,588 no par value shares, fully subscribed and paid, of which 495,881,988 were in circulation and 16,855,600 shares have been repurchased by the Issuer in terms of the third paragraph of article 56 of the Securities Exchange Law. To said date, 512,684,913 shares out of the total of 512,737,588 were deposited with the S.D. Ineval, *Institución para el Depósito 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	2017	2016	2015
	Series "A"	Series "A"	Series "A"
Capital	512,737,588	512,737,588	512,737,588
Minus- Repurchase of shares	(16,855,600)	(16,855,600)	(16,855,600)
	495,881,988	495,881,988	495,881,988

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

As of December 31, 2017, the legal reserve is presented in accumulated earnings and amounts to \$99.2 million (face value), and represents 20% of the nominal corporate capital. Said reserve cannot be distributed in dividends to shareholders.

The General Ordinary Shareholders Meeting held on April 12, 2018 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, 2017.

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

- (i) The Issuers' Extraordinary General Shareholders Meeting, on April 14, 2015 resolved to modify the twelfth clause of the corporate by-laws.
- (ii) The Issuers' Ordinary General Shareholders Meeting, on June 18, 2015 resolved to refinance its debt by way of a "Senior Notes" issue.
- (iii) 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.
- (iv) 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 Juarez, S.A. de C.V., Sistema Director de Proyectos, S.A. de C.V., Comisiones and Incentivos Fiesta, S.A. de C.V., Comercializadora Reservas Posadas, S.A. de C.V.
- (v) The Extraordinary and Ordinary Shareholders Meeting dated August 31, 2017 resolved to reformulate the fifth clause of the Corporate Bylaws, approved the sale and lease of the hotel Fiesta Americana Condesa Cancun and merge into Grupo Posadas 6 corporations as merged: Posadas de Latinoamerica, S.A. de C.V., Desarrollos Inmobiliarios Posadas, S.A. de C.V., Servicios Administrativos Posadas, S.A. de C.V., Administracion Digital Conectum, S.A. de C.V., Porto Ixtapa, S.A. de C.V., and Solosol Tours, S.A. de C.V.
- (vi) 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.
- (vii) The Extraordinary and Ordinary Shareholders Meeting dated April 12, 2018 resolved the merger of Servicios Gerenciales Posadas, S.A. de C.V., with and into Grupo Posadas, S.A.B. de C.V., disappearing the first corporation in its capacity of merged company and the last surviving in its capacity as merging company. As a result of the merger, the corporate capital of Grupo Posadas, S.A.B. de C.V. will remain unaltered with no transactions. Likewise, the meeting approved the order and payment of a cash dividend to the shareholders of \$0.40 (forty cents) per share, therefore, the total dividend paid on April 24, 2018 amounted to \$200 M.

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.

In the Extraordinary and Ordinary Annual General Shareholders Meeting dated April 12, 2018, approved the declaration and payment of a cash dividend to the shareholders of \$0.40 (forty cents) per share, therefore, the total dividend payable on April 24, 2018 amounted to \$200 M.

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	2017 - IFRS	2016 - IFRS	2015 - IFRS
Total Revenues	Ps. 8,907.0	7,979.3	Ps. 6,901.2
Corporate expenses	452.7	338.2	321.1
Depreciation, amortization, and real estate leasing	906.2	1,040.5	801.6
Impairment of assets	0.0	57.1	0.0
Operating income	1,221.6	1,054.5	947.3
Comprehensive financing cost	431.6	1,924.7	1,283.0
Taxes	1,262.6	(174.3)	131.3
Net income	(472.6)	(697.2)	(470.4)
Majority net income	(483.9)	(705.8)	(470.2)
Balance Sheet Data (End of Period):			
Current assets	Ps. 6,055.1	4,863.1	Ps. 4,163.4
Property and equipment, net(34)	4,601.2	6,483.1	6,666.5
Total assets	16,533.6	15,070.4	13,777.0
Current liabilities	2,931.7	2,500.3	2,068.9
Long-term debt	7,768.5	7,871.8	6,242.3
Total liabilities	14,110.6	12,142.1	10,149.5
Stockholders' equity	2,423.0	2,928.3	3,627.5
Other Financial Data			
EBIT / Revenues	13.7%	13.2%	13.7%
Net Income / Revenues	(5.3%)	(8.7%)	(6.8%)
EBITDA	\$1,652.3	\$1,649.8	\$1,362.0
EBITDA to Revenues	18.6%	20.7%	19.7%
Total debt to EBITDA	4.7 X	4.8 X	4.6 X
Current assets / Current Liabilities	2.07 X	1.95 X	2.01 X
Total Liabilities / Equity	5.82 X	4.15 X	2.80 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 currently guaranteed by two 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 section 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)						
	2017 - IFRS		2016 - IFRS		2015 - IFRS	
	Revenues	%	Revenues	%	Revenues	%
OWNED AND LEASED HOTELS	4,347.1	48.8%	4,063.1	50.9%	3,544.4	51.4%
MANAGEMENT	1,017.9	11.4%	922.2	11.6%	782.3	11.3%
VACATION PROPERTIES	2,982.4	33.5%	2,605.1	32.6%	2,200.5	31.9%
OTHER BUSINESSES	559.7	6.3%	389.0	4.9%	319.7	4.6%
OTHER REVENUES	0.0	0.0%	0.0	0.0%	54.4	0.8%
TOTAL	8,907.0	100%	7,979.3	100%	6,901.2	100%

Source: Posadas

c) Material Loan Information

Section B. *Financial Situation, Liquidity and Capital Resources*, found later in this Report, contains a detailed discussion of the Company's total debt structure composition. As of December 31, 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, due to its initials in Spanish) for an updated \$883.8 million amount to December 31, 2017 which is pending ruling by the Federal Administrative Justice Court. Therefore, it is not possible to predict a result for the Company to the date of this annual report. The tax authorities have alleged failure to pay Income Tax, reason for which the Company presented a revocation remedy before the SAT which was decided contrary to its interests. Thus the Company filed a null and void remedy, resulting in the aforementioned proceeding. According to our external advisors on this issue, there are sufficient arguments to obtain a favorable result in said proceeding. It is important to mention that the Company constituted a guarantee in order to comply with the tax interest on its determined tax liability. Although the Company has announced that it is constantly and closely communicating with the authority in order to resolve these proceedings, there is no guarantee that the Company will be successful.

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

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

Eliminate from the calculation 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 an additional payment obligation for the total amount, in different corporate years, of \$2,452 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 is to be paid in annual payments between 2018 and 2023, subject to updates, for an approximate amount of \$309 million pesos each one, numbers to be updated each corporate year with payment obligation.

- b. A profit loss registered only once in 2017 for \$930 million pesos, as the consequence of the long-term 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 agreements, subject to the corresponding formalization, the audits, tax liabilities and observations received to date for the aforementioned concepts related to the 2007 to 2013 tax years, have been duly resolved.

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

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 of the purchase price of various real properties that were conveyed separating the right to use from the remaining bare ownership rights.

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

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

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

In the Month of April, 2017, the Company made corrections related to tax years 2007, 2008 and 2009, paying only the surcharges for the entries which were the subject of observations. Accordingly, the Company presented an authorization request to obtain a favorable ruling from the SAT to benefit from article 70-A of the Federal Tax Code (surcharges at the extension rate and elimination of fines).

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

On December 9, 2016, the Central Auditing Administration of the Financial Sector of the General Large Taxpayers Administration under the Tax Administration Service remitted to the company the official letter number 900-02-00-00-00-2016-80249 dated December 5, 2016 by means of which diverse documentation and information was requested. This in order to verify the Company's tax situation regarding the tax year from January 1, to December 31, 2011.

Derived from diverse meetings held with tax authorities and based on the provisions of the eighth paragraph of article 76 of the Federal Tax Code, the company could have been finally penalized because it stated a tax loss greater than that the actual company loss. Said penalty would be between a 30% and 40% of the difference resulting from the stated loss and the real loss. However, on March 23, 2018, the company presented written document requesting the benefit of article 70-A of the Federal Tax Code in order to obtain pardon of 100% of the \$30 million peso fine for having stated a tax loss greater than the actual loss. This pardon which was granted at 100% through official letter notified April 13, 2018. It is considered that the audit closing official letter (without observations) will be notified to the Company in the first days of May 2018.

On June 22, 2017, the subsidiary Inmobiliaria del Sudeste, S.A. de C.V., owner of hotel Fiesta Americana Merida hired a secured trust loan for \$210 million with a seven-year term. The funds will be used for corporate purposes including remodeling of the hotel public areas. On January 23, 2018, the Company prepaid \$10 M, reducing the unpaid balance to \$200 M.

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

i) Operating Results

2017-2016

**Corporate year ending December 31, 2017
Compared with corporate year ending December 31, 2016
Information according to International Financial Reporting Standards (IFRS)**

**Consolidated Comprehensive Operating Results Statement
For the years ending December 31, 2017 and 2016
(In thousands of Mexican pesos)**

	Notes	2017	2016	2015
Continuous operations				
Revenues	22	\$ 8,906,990	\$ 7,979,349	\$ 6,901,221
Sale cost	22	<u>5,346,489</u>	<u>4,538,947</u>	<u>4,101,783</u>
Gross profit		3,560,501	3,440,402	2,799,438
Administration expenses	22	1,105,068	982,304	884,090
Sale and development expenses	22	272,308	252,243	166,250
Depreciation, amortization, lease, asset retirement cost and wear and tear		906,225	1,040,475	801,646
Other expenses, net		55,262	110,921	145
Interest expense		641,173	643,592	508,840
Interest revenue		(60,399)	(46,802)	(34,457)
Commissions and financial expenses		147,657	93,474	100,080
Exchange loss, net		(296,806)	1,234,444	708,553
Equity in earnings of associated companies		<u>-</u>	<u>-</u>	<u>750</u>
		<u>2,770,488</u>	<u>4,310,651</u>	<u>3,135,897</u>
Profit (loss) prior to earnings tax		790,013	(870,249)	(336,459)
Earnings (Benefit) tax	16	<u>1,262,607</u>	<u>(174,349)</u>	<u>131,334</u>
Loss from continuous operations		(472,594)	(695,900)	(467,793)
Discontinued operations:				
Loss from discontinued operations		<u>-</u>	<u>(1,279)</u>	<u>(2,612)</u>
Loss Consolidated for year		<u>(472,594)</u>	<u>(697,179)</u>	<u>(470,405)</u>
Other comprehensive results				
Foreign currency conversion (Loss) gain, to be later reclassified into profit and loss		(3,195)	32,195	7,516
Recalculation of defined benefit obligations, not to be later reclassified into profit and loss		(11,670)	(23,820)	18,091
Earnings Tax		<u>3,501</u>	<u>7,146</u>	<u>(5,427)</u>
		<u>(11,364)</u>	<u>15,521</u>	<u>20,180</u>
Consolidated Comprehensive Results for year		<u>\$ (483,958)</u>	<u>\$ (681,658)</u>	<u>\$ (450,225)</u>

	2017	2016	2015
Consolidated loss for the year attributable to:			
Controlling interest	\$ (483,905)	\$ (705,819)	\$ (470,208)
Non-controlling interest	<u>11,311</u>	<u>8,640</u>	<u>(197)</u>
Consolidated loss for the year	<u>\$ (472,594)</u>	<u>\$ (697,179)</u>	<u>\$ (470,405)</u>
Consolidated comprehensive loss for the year attributable to:			
Controlling interest	\$ (495,269)	\$ (690,298)	\$ (450,028)
Non-controlling interest	<u>11,311</u>	<u>8,640</u>	<u>(197)</u>
Consolidated comprehensive loss for the year	<u>\$ (483,958)</u>	<u>\$ (681,658)</u>	<u>\$ (450,225)</u>
Loss per share:			
From continuing and discontinued operations -			
Basic and diluted loss per common share (in pesos)	<u>\$ (0.98)</u>	<u>\$ (1.42)</u>	<u>\$ (0.95)</u>
From continuing operations -			
Basic and diluted loss per common share (in pesos)	<u>\$ (0.98)</u>	<u>\$ (1.42)</u>	<u>\$ (0.94)</u>
Weighted average number of shares	<u>495,881,988</u>	<u>495,881,988</u>	<u>495,929,856</u>
	(End)		

In this context, at the end of 2017, the following material events occurred. (Additionally, reference may be made to section 2) *The Company, subsection a) History and Development of the Company.*

Profit and Loss Statement - IFRS (million pesos)	2017		2016		Var%
	\$	%	\$	%	
Total Revenues	8,907.0	100.0	7,979.3	100.0	11.6
Owned and Leased Hotels					
Revenues	4,347.1	100.0	4,063.1	100.0	7.0
Direct Cost	3,360.2	77.3	3,161.0	77.8	6.3
Contribution	986.9	22.7	902.0	22.2	9.4
Management					
Revenues	1,017.9	100.0	922.2	100.0	10.4
Direct Cost	745.5	73.2	687.8	74.6	8.4
Contribution	272.4	26.8	234.4	25.4	16.2
Vacation Properties					
Revenues	2,982.4	100.0	2,605.1	100.0	14.5
Direct Cost	2,101.5	70.5	1,748.7	67.1	20.2
Contribution	880.9	29.5	856.4	32.9	2.9
Other Businesses					
Revenues	559.7	100.0	389.0	100.0	43.9
Direct Cost	539.8	96.5	295.3	75.9	82.8
Contribution	19.8	3.5	93.7	24.1	(78.8)
Corporate expenses	440.0	4.9	319.1	4.0	37.9
Depreciation / Amort. & Leases	430.6	4.8	538.3	6.7	(20.0)
Impairment of assets	0.0	0.0	57.1	0.7	na
Other (revenues) and expenses	67.7	0.8	117.7	1.5	(42.5)
Other revenues	0.0	0.0	0.0	0.0	na
EBIT	1,221.6	13.7	1,054.4	13.2	15.9
EBITDA	1,652.3	18.6	1,649.8	20.7	0.1

2017-2016 Total Revenue

The Company's total revenue increased by 11.6% from \$7,979.3 M in 2016 to \$8,907 M in 2017. The preceding was principally due to the extraordinary performance of the owned hotels and membership sales of the Vacation Products (Vacation Properties and Vacation Plans).

Note: The 2017 Annual Report numbers of the Company were reclassified in some categories in relation to previous Annual Reports and audited Financial Statements, however these differences do not represent a risk to interpretation by users of the information.

2017-2016 Owned and Leased Hotels

Owned and Leased Hotels	Total		Urban		Coastal	
	2017	% Var.	2016	% Var.	2015	% Var.
Accumulated						
Average rooms available	4,807	(2.4)	3,622	(6.2)	1,185	11.1
ADR	1,742	9.9	1,527	10.0	2,394	4.1
Occupancy (Var. in pp)	75%	(1.1)	75%	(1.3)	76%	(0.4)
RevPar	1,310	8.4	1,144	8.2	1,816	3.5

2017 was characterized by a very good operating performance, propelled by an 8.4% effective growth rate

Owned hotels include revenues and expenses derived from the operation of the owned and leased hotels operated by the Company. The 7.0% revenue increase of Owned and Leased Hotels from \$4,063.1 million in 2016 to \$4,347.1 M in 2017 is mainly attributed to better performance by urban hotels. From the operative point of view: (i) the result of a higher effective rate (RevPar) of 8.2% of \$1,144 in 2017 from \$1,195 in 2016 and (ii) the 6.2% decrease in the average number of rooms available due to the sale of two hotels, with a sustained 10.0% increase in the average daily rate and a 8.2% effective rate (RevPar).

Beach hotels operated 11.1% more rooms due to the Fiesta Americana Condesa Cancun remodeling and the inventory increase. On the other hand, said hotels had a 4.1% increase in the average rate with a 0.4 pp. occupancy increase. The foregoing resulted in a better effective rate of 3.5% increase in comparison with that of the previous year due in part to a tourist flow increase to beach destinations, principally coming from the United States.

Departmental costs of owned and leased hotels by the Company consist of salaries related to room housekeeping personnel. In addition, it includes costs for food and beverages, as well as other expenses, such as commissions to agencies, reservation fees and room amenities and laundry services. Departmental costs and expenses equal \$3,360.2 million for 2017, representing an increase of 6.3% in comparison with the \$3,161.0 million for the same period in 2016. The Departmental result (revenue minus departmental costs and expenses) was \$986.9 million for 2017, thus it represented a 9.4% increase in comparison with \$902.0 million for the comparable 2016 period.

General Expenses related to the Company's own and leased hotels 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 12.5% to \$ 1,105.1 million during 2017 in comparison with \$982.3 million for the 2016 comparable period. This increase was attributed to the double-digit increase in the maintenance and energy categories with a 10% and 18% growth respectively.

2017-2016 Management

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.

2017 revenue increased 10.4% in comparison with 2016, obtaining \$1,017.9 million in 2017 in comparison with \$922.2 million in 2016. Growth of a 7.6% increase in the effective rate which resulted from higher occupancy and a 6.9% increase in average availability rate.

Direct costs and corporate expenses related to Grupo Posadas Hotel Management, Brands and Others business line include, principally costs and expenses of its corporate sales, as well as hotel operations. Pursuant to note 24, on Information of Business segments from the audited consolidated Financial Statements, these costs and expenses increased by 8.4% to \$745.5 million in comparison with the same period in 2016 in which they represented \$687.8 million.

Management	Total		Urban		Coastal	
	2017	% Var.	2016	% Var.	2015	% Var.
Accumulated						
Average rooms available	22,258	7.0	19,736	7.3	2,522	4.9
ADR	1,353	6.9	1,185	6.9	2,562	5.4
Occupancy (Var. in pp)	67%	0.4	67%	(0.0)	72%	3.9
RevPar	912	7.6	792	6.8	1,854	11.3

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

Management	Total		Urban		Coastal	
	2017	% Var.	2016	% Var.	2015	% Var.
Accumulated						
Average rooms available	19,165	1.2	16,643	0.7	2,522	4.9
ADR	1,347	6.7	1,154	5.6	2,562	5.4
Occupancy (Var. in pp)	69%	0.9	69%	0.4	72%	3.9
RevPar	934	8.0	795	6.2	1,854	11.3

The Company has opened 11 new hotels in 2017. For 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 0.7%, with a 5.6% average rate improvement, increasing occupancy by 0.4 pp to attain an effective rate of 6.2%.

Beach hotels presented an increase of 4.9% in the average rooms. The average rate climbed to 5.4% with an occupancy higher than 3.9 pp, thus the effective rate increased to 11.3%.

2017-2016 Vacation Properties (Vacation Properties and Vacation Plans)

This segment mainly includes the income derived from the sale of vacation properties: Fiesta Americana Vacation Club (FAVC), Live Aqua Residence Club (LARC) and vacation plans (KIVAC).

The income from the Vacation Products increased by 14.5% to \$2,982.4 million in 2017, from \$2,605.1 million in the 2016 comparable period. Growth defined the vacation properties business; to December 31, 2017, there were more than 30,000 FAVC members, 670 LARC members and 40,000 KIVAC program members.

It is worth mentioning that the Food and Beverage area grew 17%. On the other hand, the margin for the 12 months in 2017 is 3.3 pp (IFRS) less in comparison to that of the same period in the previous year and is 4.2 pp for business margin.

Expenses for the Vacation Products include, principally: expenses related to sales, financing, administration and operating expenses of our destinations. These costs increased 20.2% to \$2,101.5 million in comparison to \$1,748 million for the same period in 2016.

To December 31, 2017 the portfolio profile of vacation products, valued at approximately US\$4,389 million, improved substantially. The soundness of the portfolio is demonstrated by the fact that 91.5% of the same is within the normal collection period of less than 90 days.

2017-2016 Other Businesses

This segment presents third parties operations related to the Ampersand, Konexo and Conectum, GloboGo, Promocion y Desarrollo, and Summas, as well as the sale of the Fiesta Inn Aeropuerto and Fiesta Inn Monterrey Valle in order to independently measure their performance.

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

2017-2016 Corporate Expenses

Company corporate expenses include expenses such as salaries, administrative expenses, legal advisory fees or the payment of corporate restructuring fees, as well as diverse payments related to its financial, corporate human resources and technology departments, as well as those of the Office of the General Director. Corporate expenses (according to the Segment Note) in 2017 represented \$440 million, which was a 37.9% percentage increase in comparison with the \$319.1 million that this category represented for the same period in 2016. The percentage of the Company revenues, corporate expenses represented 4.9% of its total income in 2017, 0.9 pp more than that of the previous year.

2017-2016 Depreciation, Amortization and Real Property Leasing and Wear and Tear

Grupo Posadas had depreciation, amortization and leasing expenses from real property for an amount equal to \$906.2 million in 2017. This represented a decrease of 12.9% in comparison to \$1,040.5 million expended for this concept in the comparable 2016 period. The increase was principally due to the deterioration of assets caused by the remodeling of the Fiesta Americana Hermosillo hotel in 2016 and hotel leases which recorded a decrease due to the appreciation of the Mexican currency in relation to the US dollar.

2017-2016 Operating Results

The operating results for Grupo Posadas consolidate the revenues from its lines of own hotels, administration of hotels, brands and others, Vacation Properties and other business lines and deducts its corporate expenses and expenses due to depreciation, amortization, leasing of real property and deterioration of assets. Consequently, because of the preceding, its consolidated operating loss was \$472.6 million for 2017 and of \$697.2 million reported in 2016.

2017-2016 Comprehensive Financial Result

Concept	2017	2016
Interest gained	(60,399)	(46,802)
Interest paid	641,173	643,592
Exchange rate (gain) loss	(296,807)	1,234,444
Comissions and financial	147,657	93,474
Total	431,625	1,924,708

(Numbers in thousands of pesos)

In 2017, the global financial result of the Company was \$431.6 million, a decrease when compared with \$1,924.7 million for 2016. Interest expenses marginally grew by 0.4% to \$641.2 million in 2017, in comparison to \$643.6 million for the 2016 comparable period. Currency exchange effects related to Posadas foreign operations translated into a loss of \$296.8 million in 2017, in comparison with the 2016 currency exchange loss of \$1,234.4 million, since the Mexican peso depreciated 4.5% during 2017, exchange rate at the end of the period minus exchange rate at the beginning of the period.

To close of 2017, the net interest hedge of EBITDA was 2.8 times, keeping a level similar to that of 2016.

2017-2016 Revenue from discontinued operations, net income tax

On the other hand, as a consequence of the agreement with Mexican tax authorities (SAT) in relation to and the extinction of benefits under the SIBRAS rules, the Company registered a \$1,262.6 million tax in 2017 while in the

previous year, a \$174.3 million tax was in favor of the Company. This category was affected by the material event described in section h of the external audit Report attached and in 3) *Financial Information*, c) *Material Credit Information*.

2017-2016 Majority Net Result

Our financial statements report a consolidated net loss of \$483.9 million for 2017, 32.2% less than the \$705.8 million loss in 2016.

2017-2016 Financial Situation

The cash balance to December 31, 2017 was \$1,384 million (US\$70 million).

The Company's total assets to December 31, 2017 amount to \$16,533.6 million (US\$837.8 million).

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

To 2017 closing, the total debt amounted to \$7,780 (US\$394 million) million net of issuance expenses, while the net debt according to IFRS was \$6,396 million (US\$324 million). The ratio of Net Debt to EBITDA was 3.7 times, which is at the same level as that reported to December 31, 2016.

The Total Debt mix at close of 2017 was the following: almost 100% long-term, 97% in USD and 100% at fixed rate. The average debt life was 4.6 years and only 3% of the debt was guaranteed with real property assets.

To this report publication date, the corporate ratings were:

Moody's: global scale "B2" with positive outlook.

S&P Global Ratings: global scale "B+" with positive outlook.

Fitch Ratings: global scale Issuer Default Rating (IDR) "B" and local scale "BB+(mex)", both with stable outlook.

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

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

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 Comprehensive 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	<u>4,538,947</u>	<u>4,101,783</u>	<u>3,579,145</u>
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, 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		<u>-</u>	<u>750</u>	<u>12,595</u>
		<u>4,310,651</u>	<u>3,135,897</u>	<u>2,620,867</u>
Loss prior to earnings tax		(870,249)	(336,459)	(351,734)
Earnings (Benefit) tax	16	<u>(174,349)</u>	<u>131,334</u>	<u>(1,061,257)</u>
(Loss) Profit from continuous operations		(695,900)	(467,793)	709,523
Discontinued operations				
(Loss) Earnings from discontinued operations		<u>(1,279)</u>	<u>(2,612)</u>	<u>8,718</u>
(Loss) Consolidated earnings for year		<u>(697,179)</u>	<u>(470,405)</u>	<u>718,241</u>
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		<u>7,146</u>	<u>(5,127)</u>	<u>4,107</u>
		<u>15,521</u>	<u>20,180</u>	<u>1,262</u>
Consolidated Comprehensive Results for year		<u>\$ (681,658)</u>	<u>\$ (450,225)</u>	<u>\$ 719,503</u>

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

(End)

In this context, at the close of 2016, the following material 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 membership sales of the vacation properties.

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

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 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.

Beach 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 decrease. 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 owned and leased hotels by the Company consist of salaries related to room housekeeping personnel. In addition, it includes costs for food and beverages, as well as other expenses, such as commissions to agencies, reservation fees and room amenities and laundry services. Departmental costs and expenses equal \$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 higher occupancy and an 8.4% increase in average 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 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 a 6.0% average rate improvement, increasing occupancy by 3.1 pp to attain an effective rate of 11.1%.

Beach 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% YY growth. Total collection improved by 15% YY, with a true collection of 91.5%, 1 pp higher than the previous year.

It is worth mentioning that the Food and Beverage area grew 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 for business margin.

Expenses for the Vacation Properties include, principally, expenses related to sales, financing, administration and operating expenses of 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 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 Summas, 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 it strategically necessary to focus on 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 caused by the remodeling of the Fiesta Americana Hermosillo hotel and 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 operating 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, 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 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 the 2015 currency exchange loss of \$708.5 million, since the Mexican peso depreciated 20.1% during 2016.

To close of 2016, the net interest hedge of 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, because of 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 December 31, 2016, the corporate ratings were:

Moody's: global scale "B2" with positive outlook.

S&P Global Ratings: global scale "B+" with stable outlook.

Fitch Ratings: global scale Issuer Default Rating (IDR) "B" and local scale "BB+(mex)", both with stable outlook.

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

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

2015-2014

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

Consolidated Comprehensive 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	<u>4,209,784</u>	<u>3,667,834</u>
Gross profit	2,691,437	2,180,444
Administration expenses	815,126	745,305
Sale and development expenses	126,879	105,726
Depreciation, amortization, lease and wear and tear	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	<u>750</u>	<u>12,595</u>
	3,027,896	2,532,178
Loss prior to earnings tax	(336,459)	(351,734)
Earnings (Benefit) tax	<u>131,334</u>	<u>(1,061,257)</u>
(Loss) Profit from continuous operations	(467,793)	709,523
Discontinued operations		
(Loss) Earnings from discontinued operations	<u>(2,612)</u>	<u>8,718</u>
(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	<u>12,664</u>	<u>(9,582)</u>
	<u>20,180</u>	<u>1,262</u>
Consolidated Comprehensive Results for year	<u>\$ (450,225)</u>	<u>\$ 719,503</u>

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

In this context, at 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 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 the sale of 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

2015 was characterized by very good operating performance, propelled by a relevant 20.7% growth in the effective rate.

Owned and Leased hotels include revenues, costs 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 beach hotels. From the operative point of view, the following: (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. 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.

Beach hotels practically operated the same number of rooms; (0.3%) more rooms on the average, including LAT20 hotel by Live Aqua which lease contract began 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 a revenue RevPar increase of 30.1% in comparison with that of the previous year, confirming the All Inclusive plan consolidation (meals and activities included in the room cost), as well as a tourist flow increase to beach destinations, principally 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%.

Beach 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 beach 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 Properties 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 twelve-month margin for 2015 was 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 was 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 the residential complex Cabo del Sol beside the hotel Grand Fiesta Americana Los Cabos to continue developing the Live Aqua Residence Club (previously The Front Door). 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 on 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 one-time 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 December 31, 2015, 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: Ben Hough, bhough@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 strategy has consisted of growth through hotel management contracts, which implies less capital expenses. As a result of these transactions, in these last 3 years we have been able to invest more than \$3,000 million in hotel maintenance and remodeling of our hotels (especially in Fiesta Americana Condesa Cancun, Fiesta Americana Guadalajara and Fiesta Americana Merida), in technology for distribution channels, as well as technology infrastructure of Grupo Posadas.

To December 31, 2017, 2016 and 2015 the financial debt was integrated as follows (interest rates in force to December 31, 2017 – 2015, respectively):

USD (Thousands)	2017	2016	2015
"Senior Notes 2022" fixed interest rate 7.875%	7,569,715	7,871,765	5,593,072
"Senior Notes 2017" fixed interest rate 7.875%			649,210
MXN (Thousands)	2016	2015	2014
Loan at anual rate 9.175%	210,000		
Other loans at variable rates of 3.32%		472	1,399
	7,779,715	7,872,237	6,243,681
Minus			
Long-term maturities	(11,232)	(472)	(1,399)
Long-term debt	7,768,483	7,871,765	6,242,282

To December 31, 2017, 100% of the Company's debt was at a fixed rate. Its nominal weighted interest rate with tax withheld at the close of 2017 was 8.28% in US Dollars.

The long-term debt maturity dates to December 31, 2017 are as follows:

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

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, to December 31, 2016.

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 Luxembourg 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 principal due date of June 30, 2022. The interest is bi-annually 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 a 6%, annual interest rate, due on November 18, 2015. The interests were recorded in the consolidated comprehensive 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, which was paid pre-paid on November 30, 2016.

Principal restrictions and negative covenants stipulated in the debt contracts to December 31, 2017:

- 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.

To December 31, 2017, and to the publication date 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 for the prepayment of the previous issue, that were registered in “Financial commissions and expenses” in the consolidated comprehensive 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, 2017)	Grupo Posadas & Guarantors		Non Guarantors		Consolidated	
	2017	2016	2017	2016	2017	2016
Total Revenues	8,412	7,845	495	494	8,907	7,979
Impairment, depreciation and amort.	380	537	51	58	431	595
Leases	476	445	-	-	476	445
(Net Loss)	(484)	(750)	11	52	(473)	(697)
Total Assets	15,414	13,632	1,120	1,438	16,534	15,070
Total Liabilities	13,595	11,435	516	707	14,111	12,142

As of July 21, 2017, Citibank, N.A., was appointed trustee of the "7.875% 2022 Senior Notes"

Credit lines contracted, in effect and undrawn

The Company had a revolving credit line with Banco Santander S.A. for a total amount of \$200 million for a twelve-month term with due date September 26, 2017. This line had a real property guarantee. This line has determined fund borrowing limitations related to breach of payment of principal and interest, accelerated maturity if any of the Issuer's other debt should be subject to accelerated maturity, breach of affirmative and negative covenants, declaration or request of bankruptcy, liquidation or commercial insolvency proceeding, delivery of inaccurate or false material information and change of control, among others.

To the due date September 26, 2017, the Company decided not to renew the revolving credit line with Banco Santander S.A.

Supply Chain Program

The Company established four supply chain programs with: Banco Santander (Mexico) S. A., Banco Actinver, S.A., BBVA Bancomer S.A. and Banco Monex S. A., for a total amount of up to \$333 million. To December 31, 2017, the Company had used 21% of these lines.

Additional Information regarding Financing

As of December 31, 2017, the financial debt in effect of Grupo Posadas does not include mortgage guarantees. The Company has also guaranteed, in the ordinary course of its businesses, obligations with third parties, clients or suppliers.

On June 22, 2017, the subsidiary Inmobiliaria del Sudeste, S.A. de C.V., owner of the Fiesta Americana Merida hotel hired a loan for \$210 million with a seven-year guarantee trust. The funds will be used for corporate purposes including remodeling of the hotel public areas. On January 23, 2018, the Company prepaid \$10 M, reducing the outstanding balance to \$200 M.

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, 2017, 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 2017, capital expenses amounted to \$803 million; of which 50% was allocated to hotels, 9% for corporate use, and 41% to vacation products. 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 2017, 2016 and 2015 corporate years, the company is adopting IFRS which principally affects the items of fixed assets, credit risks, Vacation Properties reserves and deferred taxes, amongst others.

Unregistered operations. As of December 31, 2017, 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.

In order to mitigate risks and continue strengthening the Corporate Government, the Company has an Internal Audit and Risk Administration Division independent from the selfsame and which directly reports to the General Division and to the Audit Committee,

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

The Risk Administration area carries 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 aided by a technological tool which allows efficient administration the functional and operating needs of the Risk Administration area.

In 2017 configuration and information load works were made with the tool that allows the Company to manage systematically and uniformly strategic and operating risks. Additionally, on the same platform the projects of the internal audit area are controlled.

By way of this division, the internal control environment is strengthened and a Risk Administration culture is promoted in the Company.

e) Critical Estimates, Accounting Allowances or Reserves

See Note 5 of the Audited Financial Statements in Attachment.

The critical accounting opinions and key uncertainty sources when applying the estimates made to the date of the consolidated financial statements December 31, 2017 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, 2017 the return reserve of Vacation Properties according to IFRS amounts to \$129.6 M.

ii. Recognition of Vacation Club income

Said income is 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 for 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 value in use assigned to the real properties. The calculations of value in 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 (2002-2017) Galaz, Yamazaki, Ruiz Urquiza, S.C., a member firm of Deloitte Touche Tohmatsu Limited, has conducted the independent audit.

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

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

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

The additional or complementary services provided by Galaz, Yamazaki, Ruiz Urquiza, S.C. included: (i) limited review of the Company's 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 of the tax authorities regarding 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, 2017, 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. Thus, the Audit Committee advised the Board of Directors to not consider the excess, because the type of services that originated the selfsame are not referenced to a recurring operation nor expenditure.

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 simplify 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 2017 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 2017, 2016 and 2015 in the Opinion of the Independent Auditors which is found in Attachment. For further detail regarding payments to Material Directors, see note 18 of the Audited Financial Statements attached hereto.

The Corporate Practices Committee informed the Board of Directors of the Issuer that it had information regarding specific operations between the Company's subsidiaries or between the Company's subsidiaries and the Company which were ordinary or customary for the business. Said operations were considered to have been concluded at market price and operations (i) with related persons or affecting related persons, consisting of the supply of pastry and bakery products, rendering hotel related and administrative processing before authorities, and the 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 continuation 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 in 2016 a favorable opinion.

As of December 31, 2017, material officers and other Company employees had received loans and, to that date, the unpaid aggregated balance thereof amounted to approximately US\$2.9 M.

c) Administrators and Shareholders

The Board of Directors.

According to the Company corporate by-laws, the Company's management is the responsibility of a Board of Directors, whose members are annually elected or ratified at a General Ordinary Shareholders Meeting. The corporate by-laws provide that the Board of Directors must meet at least every three months. The Company corporate by-laws establish, amongst others, that the Issuer companies must have a minimum of 5 directors and a maximum of 21, and that at least 25% of the members must be independent. The Permanent and Alternate Secretaries are not part of the Board of Directors. The Board of Directors appointed by the Company's Ordinary Shareholders Annual Meetings both dated April 12, 2018, is composed of 10 permanent directors as listed below:

Members of the Board of Directors:

Member	Age	Occupation	Appointed Date
Pablo Azcárraga Andrade	59	Chairman of the Board of Directors of Grupo Posadas	29-Apr-97
Enrique Azcárraga Andrade	53	Director General, EXIO, S.C.	31-May-91
Fernando Chico Pardo	65	Chairman, Promecap, S.C.	26-Jul-95
José Carlos Azcárraga Andrade	52	Chief Executive Officer of Grupo Posadas	30-Apr-08
Juan Servitje Curzio	60	Chairman of the Board of Directors of Productos Rich S.A. de C.V.	30-Apr-12
Jorge Soto y Gálvez*	74	Independent Consultant	27-Apr-06
Silvia Sisset de Guadalupe Harp Calderoni	46	Private Investor	05-Apr-10
Carlos Levy Covarrubias	56	Private Investor	27-Apr-06
Luis Alfonso Nicolau Gutiérrez*	56	Independent Consultant	30-Apr-12
Benjamín Clariond Reyes-Retana*	69	Independent Consultant	27-Mar-13

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

Jose Carlos Azcarraga Andrade

Mr. Azcarraga is an industrial engineer from the Universidad Anahuac, with a Master's Degree in Business Administration from Kellogg University. He has held various positions in the Company, such as General Director of

Vacation Properties Posadas, and since November 11, 2011, he is General Director of Grupo Posadas, S.A.B. de C.V.

Juan Servitje Curzio

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

Jorge Soto y Galvez

Mr. Soto holds an Accounting Degree from UNAM (Universidad Nacional Autonoma de Mexico). 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 Managing 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 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 (Fullbright Scholar). Since 1999 is a partner of the law firm Ritch, Mueller, Heather y Nicolau, S.C. Member of the Board of Directors of Coca-Cola FEMSA, KIO Networks, Morgan Stanley Mexico, Grupo Financiero Credit Suisse, UBS Asesores Mexico and Lazard Mexico. Member of the Investment Committee of Ignia Fund and of Promotora Social Mexico, A.C., and a member of the Supervisory Committee of the Mexican Stock Market. Author of diverse stock market, corporate government, mergers, and acquisitions publications

Benjamin Clariond Reyes-Retana

Mr. Clariond has a degree in Business Administration from the *Instituto Tecnologico y de Estudios Superiores de Monterrey*, a certificate in upper-level corporate management from the Industrial Studies Center in Geneva, and a certificate in Family-owned Enterprise Management from the Wharton School, incorporated into the University of Pennsylvania. He has held various upper-level executive positions in Grupo IMSA in Monterrey and was chairman and board member of industrial, banking and service institutions. He has been a legislative deputy elected to the LIV Legislature for the 1st Federal Electoral District of Nuevo Leon, at that time he was a member of the Committees for Human Settlements and Public Works, Industrial Capital and Promotion and Communication and Transportation, and was also on the technical committee of the Chamber of Deputies. He was the Municipal President of Monterrey from January 1, 1992 to October 31, 1994 and on April 17, 1996 the State Congress designated him interim Governor of the state of Nuevo Leon. He is 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 alternate's appointment or if the latter does not take possession of their position, without applying the Article 154 provisions of the General Law of Business Corporations. Should this be the case, the Board may appoint temporary directors without 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 operations different from the Company's ordinary business, and which, amongst others, include: (i) the Company's general strategy, (ii) operations with related parties, except if these are immaterial to the Company due to their amount, (iii) non-recurring and unusual transactions and the purchase or sale of assets with a value equal to or greater than 5% of the Company's consolidated assets, and (iv) granting guarantees or undertaking liabilities in an amount equal to or greater than 5% of the Company's consolidated assets.

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

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

Duties of Due Diligence and Loyalty

The LMV (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 severally responsible for actual and consequential damages caused to the Company or its subsidiaries.

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

from disclosing false information and from ordering or causing the omission of recording transactions carried out by the Company affecting any financial statement concept.

Directors who breach their duty of loyalty are considered 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 Directors, exercise the duties previously carried out by the Statutory Auditor in keeping with the General Law of Business Corporations.

Remunerations of Directors and Executive Committee

Grupo Posadas' General Ordinary Shareholders Meeting held on April 12, 2018 approved an amount equal to two *Centenario* gold coins or their equivalent as remuneration for the permanent directors and the secretary for corporate year 2018, until the following Annual Ordinary General Shareholders Meeting, for their attendance at each Board 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* gold coins 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 take office. The Executive Committee is in charge of analyzing the Company issues, matters or problems regarding its business or new businesses, taking into consideration the economic, legal or any perspectives considered relevant. The Committee may present proposals before the Board of Directors regarding the matters under discussion and it may only act as representative of the company when the Board of Directors so decides. The members of the Executive Committee do not receive any remuneration for carrying out their duties. The Board of Directors may delegate to said Committee certain responsibilities in addition to the ones stipulated in the corporate by-laws.

Audit Committee and Corporate Practices Committee

At the present time, the Audit Committee is composed of three members: 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 April 12, 2018 and the remaining members were appointed or confirmed by the Board of Directors on April 25, 2018. 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 April 12, 2018), 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 25, 2018. 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 formulation of the financial statements, (iii) presenting a report on the effectiveness of the internal control systems before the board of directors, (iv) requesting reports from the members and 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 drafting annual reports and fulfilling all other information presentation obligations.

The Chairman of the Audit Committee shall prepare an annual activity report for said committee and present it to the board of directors. Such annual report shall include, at least: (i) the status of the internal control and internal audit system and, if applicable, the descriptions of its deficiencies and deviations, as well as the aspects requiring improvements, taking into consideration the opinions, reports, communiques and the external audit report, as well as the reports issued by independent experts; (ii) report and monitor prevention and corrective measures implemented based on investigative results related to breaches of the Company's operating and accounting registration guidelines and policies; (iii) a performance assessment of the legal entity rendering 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 report of the activities of said body and present it to the board of directors. Said annual report shall comprise, at least: (i) the performance of the material 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 Azcárraga Andrade	59	Chairman of the Board of Directors	33
José Carlos Azcárraga Andrade	52	Chief Executive Officer of Grupo Posadas	27
Javier Barrera Segura	55	Franchise Vice-President	29
Jorge Carvallo Couttolenc	61	Real Estate Vice-President	24
Arturo Martínez del Campo Saucedo	51	Chief Financial Officer	3
Enrique Calderón Fernández	51	Hotel Operations Vice-President	11
Gerardo Rioseco Orihuela	54	Vacation Properties Vice-President	18

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

Enrique Calderon Fernandez

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

Gerardo Rioseco Orihuela

Mr. Rioseco is an Industrial Engineering graduate from the Universidad Anahuac del Sur. With prior experience in the finance and tourism sectors, he joined the Company in 1999 participating in the launch of Fiesta Americana Vacation Club as Project Director in Los Cabos. From 2002 on, he is the Commercial Director of FAVC and subsequently Vacation Properties Vice-President. In November 2011, he was appointed Vice-President of Vacation Properties. He is Vice-President of the Mexican Association of Tourism Developers (AMDETOUR) and a board member of the American Resort Development Association (ARDA).

Remunerations of Executive Committee (Management) members and principal officers

For the year ending on December 31, 2017, the cash remunerations paid to the aforementioned officers and persons deemed related persons as a whole represented approximately 1.4% of the Company's total income. Said amount includes the payments of wages, vacation bonuses, legal Christmas bonuses and performance bonuses. Performance bonuses are determined based on individual performance and Company performance.

The Company has established an Executive Committee retirement and pension plan which to December 31, 2017, reports a total accumulated reserve of \$6.6 million.

Principal Shareholders

According to the information obtained as of April 4, 2018, (date of the S.D. Indeval S.A. de C.V. report due to the extraordinary and ordinary general shareholders meeting held on April 12, 2018), from the information disclosed by the 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 equity of the Company:
 - a. Accivalmex Patrimonial, S.A. de C.V., *Fondo de Inversion de Renta Variable*. We have no information that allows us to identify a "shareholder beneficiary" of this corporate capital holding.
 - b. A group of the members of the Azcarraga Andrade family are the holder of more than 10% of the equity of the Company. Said persons are: Maria 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.
- (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 General Director (CEO) 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 Carlos Felipe Levy Covarrubias, jointly hold in aggregate, directly or indirectly, 8.6% of the Issuer's equity.

Code of Ethics and Conduct

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

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

In 2017, the Ethics and Conduct Committee has continued working and holding sessions in the same manner (quarterly), keeping the same documents (bylaws, flow charts, and Code of Ethics and Conduct) as well as the same members. However, in 2018, it will be creating a Penalty Policy.

d) Corporate By-laws and Other Agreements

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

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

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

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

On August 31, 2017, the Extraordinary and Ordinary Shareholders Meeting of the Company resolved to again modify the fifth clause of the by-laws in order to again expand its corporate purpose and include all the activities that the Issuer will acquire as a result of the Corporate reorganization plan made public in the information leaflet on August 15, 2017.

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

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

To consider legally convened an extraordinary general shareholder's meeting at first call at least 75% of the ordinary Series "A" shares should be represented. At second or subsequent calls, the aforementioned Extraordinary General Shareholders' Meeting shall be considered validly convened if at least 50% of the Series "A" shares are represented.

In accordance with the Company's by-laws, the Board of Directors has, amongst others, the following faculties: 1) general power of attorney for collections and lawsuits with all the general and special powers that require a special clause in accordance with the Law; 2) general power of attorney to manage business and corporate assets on the broadest terms in compliance with the provisions of the respective law; 3) general power of attorney for acts of ownership, pursuant to the provisions of the respective law; 4) the Board of Directors shall have general legal representation powers by the delegation of legal representation of the corporate principal to represent it in trials or labor proceedings under the terms of the Federal Labor Law in force; 5) general power of attorney to draw, accept, endorse, negotiate, issue, guarantee, certify and in any other manner subscribe negotiable instruments on behalf and representation of the company, on the terms established in the General Law of Negotiable Instruments and Credit Operations; 6) powers to open and cancel bank, investment or other accounts as well as to make deposits and draw on said accounts through the person or persons designated by the Board of Directors; 7) powers to appoint and remove the chief executive officer of the company and lower-ranking officers, as well to determine their attributions, powers, performance bonds, employment conditions and remunerations; 8) powers to grant general or special powers of attorney, as well as to substitute or delegate the powers granted to it, always reserving the right to exercise the same, and to revoke any of the powers granted, substituted or delegated; 9) the Board of Directors, through its chairperson, secretary or vice-secretary, may call Ordinary or Extraordinary General Shareholders' Meetings, in all the cases set forth in these By-laws or when deemed convenient, and to set the date, time and order of business for said Meetings; 10) to execute the resolutions adopted by 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 resolutions when directors state to have a conflict of interest are done 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 bring an action to determine the responsibility of any director, subject to satisfaction of certain legal requirements.
- The right of holders of at least 10% of the shares with the right to vote and represented in the respective shareholders' meeting to request postponement of the vote on any matter on which they believe they lack sufficient information.
- The right of holders of at least 20% of the shares representing the Company's corporate capital to 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, the Corporate By-Laws and the Board of Directors, the Company has implemented diverse corporate government practices, including: 1. The establishment and operation of an Audit Committee and a Corporate Practices Committee that convene periodically. 2. The inclusion of independent members on its Board of Directors. 3. The Shareholder's Meeting establishing the feasibility of alternate Directors in the sessions of the Board of Directors, at present, only two directors have assigned alternate directors. 4. The holding of sessions by the Board of Directors convening at least once every three months to present the results of the immediately preceding quarter. 5. That, in addition, company information is available to all Directors and the Issuer has made available technological tools to ease said informational access. 6. The establishment and operation of a Planning and Finance Committee which shall hold sessions periodically.

The Company has an internal audit and risk management area which directly reports to the Audit Committee and the General Director. 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.

In 2017 and 2018, the company plans to establish a Sustainability Policy Committee to coordinate efforts in this area in the organization and focused on society.

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
CP8	21-12-98	10,000	A
1	15-10-14	512,424,496	A
2	18-06-15	260,417	A
3	12-06-17	42,675	A

Shares have shown low trading according to the selfsame BMV's rating, 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, only the Series "A" shares are traded.

b) Share Performance on the Stock Market

Source: 2013 to 2016 Bloomberg/ 2017 Reuters (The daily average volume is based on trading days)

Annual performance in the past 5 years

POSADAS A	2013	2014	2015	2016	2017
Price Max.	24.70	25.50	41.50	46.97	47.60
Price Min.	20.50	22.50	27.00	41.50	35.00
Price at closing	24.70	25.50	41.50	46.00	38.00
Daily operated volume (thousands of shares)	205.60	804.33	16.43	7.96	113.40

Quarterly last 2 years

POSADAS A	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Price Max.	43.00	46.97	45.60	46.00	46.00	47.60	44.80	39.70
Price Min.	41.50	44.50	45.60	42.00	46.00	42.50	39.50	35.00
Price at closing	43.00	45.60	45.60	46.00	46.00	44.80	39.50	38.00
Daily operated volume (thousands of shares)	10.9	5.3	14.2	3.9	0.3	5.9	186.8	164.2

Monthly last 6 months

POSADAS A	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	*Apr-18
Price Max.	39.70	38.00	38.60	37.20	31.00	33.00
Price Min.	35.00	38.00	38.00	30.50	30.00	32.00
Price at closing	39.70	38.00	38.60	32.90	31.00	33.00
Daily operated volume (thousands of shares)	183.9	133.3	41.2	17.0	512.7	172.0

(*Information as of April 26, 2018)

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 and the approval of the Board of Directors of the Issuer.

Name	Position	Institution
Ing. Jose Carlos Azcarraga Andrade	General Director (CEO)	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.
C.P. 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, 2017, 2016 and 2015.

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

Consolidated Financial
Statements for the Years
Ended December 31, 2017,
2016 and 2015, and
Independent Auditors'
Report Dated March 5, 2018

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

Independent Auditors' Report and Consolidated Financial Statements for 2017, 2016 and 2015

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Consolidated Statements of Comprehensive (Loss) Income	9
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Independent Auditors' Report to the Board of Directors and Stockholders of Grupo Posadas, S.A.B. de C.V.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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



Key Audit Matter	Audit procedures performed
Revenues from Vacation Club	
<p>Revenues generated from Vacation Club operations represent approximately one third of the Entity's consolidated revenues.</p> <p>Under International Accounting Standard 18 <i>Revenues</i>, revenues from the sale of Vacation Club memberships and of Kívac points must be recognized when all of the following conditions are fulfilled:</p> <ul style="list-style-type: none"> 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. 	<p>The audit tests applied to revenues generated from these services were significant for our audit because the business processes are complex and highly dependent on system generated reports, which should be reconciled to the accounting records. As a result, our audit procedures included, among others:</p> <ul style="list-style-type: none"> i) review of the design and implementation and operating effectiveness tests of the internal controls and substantive tests of the report issued by the system and supports the recording of income of the operation of Vacation Club; ii) documentation review, based on random sampling, of the integrity of the contracts signed with customers; iii) analysis and review of the assumptions and methodologies used by the Entity to receive the minimum payments which guarantee that the collection is reasonably assured; iv) review of hotel operation reports which support the amount of the services contracted and collected, recognized as revenues when rendered to the customers, with their respective costs and expenses; and v) review and evaluation of historical information on the amount of services contracted and collected, which have not been used before their expiration. <p>Our work also included reviewing the adequacy of the Entity's disclosures on the accounting assumptions and policies for revenue recognition of the Vacation Club business, which are included in Note 4t to the accompanying consolidated financial statements.</p>

Key Audit Matter	Audit procedures performed
Vacation Club Reserve for refunds	
<p>The amount of this reserve represents approximately 7% of the total current and long-term Vacation Club notes receivable, which are presented in the consolidated statement of financial position.</p>	<p>We analyzed with the Entity's Management the methodology used to determine the amount of the reserve, its consistent application with previous years and the support for the variables used in the calculation model, we discussed it with the Audit Committee members and found that the use of the model is appropriate.</p>



Key Audit Matter	Audit procedures performed
Vacation Club Reserve for refunds	
<p>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.</p> <p>As a supplement to this key audit matter, the Entity analyzes transactions to identify revenues, which recoverability is uncertain. This implies that the amounts shown as Notes Receivable from Vacation Club on the consolidated statement of financial position might not be recoverable.</p> <p>The amount recognized as the reserve is the best estimate on the Vacation Club inventory returns of the members who would not meet their contractual payment obligations, for which, the probability of default for all notes receivable is considered, regardless of their aging.</p> <p>In addition to probability, recent collection efforts, communications with the members, and experiences of default are taken into account.</p>	<p>Our audit procedures also included, among others:</p> <ul style="list-style-type: none"> i) tests of the Entity's controls related to the information used within the model, and used to determine the balance of the reserve; ii) analysis of balances related to the sufficiency of the reserve in previous years; iii) review of the classification of the portfolio aging based on payment defaults, and the recalculation of the amounts to be reserved based on probability default; iv) evidence of new operating strategies and those communicated to members in order to support the restructuring and recovery of overdue portfolio or about to expire; and v) confirmation that the assumptions used by Management in the calculation and determination of the reserve reflect the business strategies aimed to recover the Vacation Club inventory due to defaults which have occurred or are expected to be incurred by members to pay their debts.

Key Audit Matter	Audit procedures performed
Tax liabilities	
<p>In its regular course of operations, the Entity is engaged in different lawsuits. The International Accounting Standard 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> establishes the steps to follow to evaluate and if applicable, to determine the monetary effect and the necessary disclosures to include in the consolidated financial statements. Therefore Management has recorded liabilities and has determined reserves to cover these tax liabilities and contingencies.</p>	<p>Given the significance of the amounts resulting from the agreements reached during 2017 with SAT and the effect on income for the year, our audit procedures included the following:</p> <ul style="list-style-type: none"> i) we involved our tax experts in the analysis of the legal documents related to the conclusion of the lawsuit and the conclusive agreement supporting the amounts recorded in results and as liability in the consolidated financial statements of the year;



Key Audit Matter	Audit procedures performed
Tax liabilities	
<p>With respect to the main tax contingencies in effect at the 2016 year end close, in April 2017, a series of agreements were reached with the Tax Administration Service (SAT) to resolve differences of criterion concerning the amortization of trademarks, the deduction of interest derived from the acquisition of those trademarks, the tax treatment given to real estate investment funds, the amortization of usufruct rights and, more specifically, the effects generated by the termination of the tax consolidation regime, which resulted in the recognition of a payment obligation in different years, primarily income taxes, for a total amount of \$2,376 million pesos.</p> <p>The Entity's accounting policy to record liabilities and provisions, and disclose tax liabilities are included in Notes 4r, 17 and 26, respectively, to the accompanying consolidated financial statements.</p>	<p>ii) iobtained written confirmations from the outside attorneys responsible for advising the Entity in its lawsuit against tax credits determined by the tax authorities, to ascertain their opinion on the current status of the proceeding not covered by the agreements;</p> <p>iii) held meetings with the Entity's Tax Department in order to understand and confirm the status of the lawsuit, and;</p> <p>iv) evaluated the reasonableness of the sufficiency of the reserve recorded in the Long-term accrued liabilities caption in the accompanying consolidated statement of financial position, to cover possible adverse lawsuits outcome.</p>

Key Audit Matter	Audit procedures performed
Deferred income taxes	
<p>As explained in Notes 4q to the consolidated financial statements, the Entity recognizes deferred income taxes for all the differences between the carrying values and the tax bases of its assets and liabilities, and the benefits of tax loss carryforwards are taken into account.</p> <p>As of December, 31, 2017 the amount of tax loss carryforwards is \$6,925,639,000, which represents a deferred income tax benefit of \$2,077,692,000 and may be applied as long as the individual entities which incurred them, generate in the future sufficient taxable income before the aforementioned tax losses expire.</p>	<p>A change in assumptions and conditions on the recovery of tax losses might originate a material effect in the amount of the deferred income tax benefit recorded in the consolidated financial statements. Therefore, the test of the estimate was significant for our audit because the evaluation process is complex and is based on assumptions which are affected by future expectations from hotel operation results and from proper execution of the corporate restructuring.</p> <p>Our audit procedures included involvement of our tax experts to assess the recognition of benefits from tax loss carryforwards, including:</p> <p>i) evaluate and challenge the assumptions and methodologies used by the Entity;</p> <p>ii) analysis of individual entities' trend of their tax results from previous years;</p>



<i>Key Audit Matter</i>	<i>Audit procedures performed</i>
<i>Deferred income taxes</i>	
International Accounting Standard 12 <i>Taxes on Income</i> , requires that the carrying value of a deferred tax asset be subjected to review and must be reduced when it is considered likely that there will not be sufficient taxable income to enable all or part of the asset to be recovered. Therefore, as of December 31, 2017, the Entity has not recognized a benefit of \$49,685,000 for the uncertainty related to the realization of this asset.	<p>iii) review the financial and tax projections to determine if the generation of taxable income in the future will enable the tax losses to be recovered before they expire, and</p> <p>iv) review the progress achieved in the corporate restructuring process.</p> <p>We believe that the Entity's disclosures in relation to the main captions originating the deferred income tax balances are appropriate in Note 16 to the consolidated financial statements.</p>

Other information included in the document containing the consolidated financial statements

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

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

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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



Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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



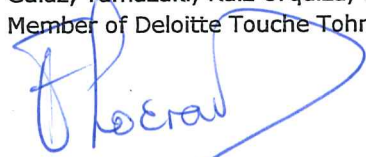
We also provide Entity's Management and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable,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

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

Other Matter

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

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Fernando Loera Aguilar

March 5, 2018



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

Consolidated Statements of Financial Position

As of December 31, 2017, 2016 and 2015
(In thousands of Mexican pesos)

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

Liabilities and stockholders' equity	Notes	2017	2016	2015
Current liabilities:				
Current portion of long-term debt	15	\$ 11,232	\$ 472	\$ 1,399
Trade accounts payable	14	436,100	497,753	438,432
Other liabilities and accrued expenses		1,247,588	1,061,833	1,032,469
Income tax payable	16	321,684	362,454	240,885
Other tax payable		294,303		
Deferred income from Vacation Club		508,910	435,627	253,639
Current portion of long-term value-added tax		111,899	134,955	95,726
Liabilities directly associated with assets classified as held for sale	2	<u>-</u>	<u>7,200</u>	<u>6,384</u>
Total current liabilities		<u>2,931,716</u>	<u>2,500,294</u>	<u>2,068,934</u>
Long-term liabilities:				
Debt	15	7,768,483	7,871,765	6,242,282
Accrued liabilities	17	490,156	459,676	504,534
Value-added tax payable		394,074	318,954	319,932
Deferred income from Vacation Club		918,687	840,307	703,538
Liabilities directly associated with property and equipment committed for sale	10	6,330		
Income tax payable	16	<u>1,601,193</u>	<u>151,097</u>	<u>310,240</u>
Total long-term liabilities		<u>11,178,923</u>	<u>9,641,799</u>	<u>8,080,526</u>
Total liabilities		<u>14,110,639</u>	<u>12,142,093</u>	<u>10,149,460</u>
Stockholders' equity:				
Contributed capital:				
Capital stock	21	495,881	495,881	495,881
Contributions for future capital increases		-	704	4,828
Share repurchase reserve		16,856	16,856	16,856
Additional paid-in capital		<u>157,429</u>	<u>157,429</u>	<u>157,429</u>
		670,166	670,870	674,994
Earned capital:				
Share repurchase reserve		535,000	535,000	535,556
Retained earnings		983,611	1,467,516	2,172,779
Retained comprehensive earnings		<u>51,581</u>	<u>62,945</u>	<u>47,424</u>
		<u>1,570,192</u>	<u>2,065,461</u>	<u>2,755,759</u>
Total controlling interest		2,240,358	2,736,331	3,430,753
Non-controlling interest		<u>182,594</u>	<u>191,946</u>	<u>196,750</u>
Total stockholders' equity		<u>2,422,952</u>	<u>2,928,277</u>	<u>3,627,503</u>
Total liabilities and stockholders' equity		<u>\$ 16,533,591</u>	<u>\$ 15,070,370</u>	<u>\$ 13,776,963</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive (Loss) Income

For the years ended December 31, 2017, 2016 and 2015

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

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

(Continued)

	2017	2016	2015
Consolidated loss for the year attributable to:			
Controlling interest	\$ (483,905)	\$ (705,819)	\$ (470,208)
Non-controlling interest	<u>11,311</u>	<u>8,640</u>	<u>(197)</u>
Consolidated loss for the year	<u>\$ (472,594)</u>	<u>\$ (697,179)</u>	<u>\$ (470,405)</u>
Consolidated comprehensive loss for the year attributable to:			
Controlling interest	\$ (495,269)	\$ (690,298)	\$ (450,028)
Non-controlling interest	<u>11,311</u>	<u>8,640</u>	<u>(197)</u>
Consolidated comprehensive loss for the year	<u>\$ (483,958)</u>	<u>\$ (681,658)</u>	<u>\$ (450,225)</u>
Loss per share:			
From continuing and discontinued operations -			
Basic and diluted loss per common share (in pesos)	<u>\$ (0.98)</u>	<u>\$ (1.42)</u>	<u>\$ (0.95)</u>
From continuing operations -			
Basic and diluted loss per common share (in pesos)	<u>\$ (0.98)</u>	<u>\$ (1.42)</u>	<u>\$ (0.94)</u>
Weighted average number of shares	<u>495,881,988</u>	<u>495,881,988</u>	<u>495,929,856</u>

(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, 2017, 2016 and 2015
(In thousands of Mexican pesos)

	Contributed capital				Earned capital				
	Capital stock	Contributions for future capital increases	Shares repurchase reserve	Additional paid-in capital	Shares repurchase reserve	Retained earnings	Other items of comprehensive income	Non-controlling interest	Total stockholders' equity
Beginning balance, 2015	\$ 495,937	\$ 12,516	\$ 16,800	\$ 157,429	\$ 535,556	\$ 2,645,031	\$ 27,244	\$ 218,697	\$ 4,109,210
Repurchase of shares	(56)	-	56	-	-	(2,044)	-	-	(2,044)
Partial payment of convertible debt	-	(7,688)	-	-	-	-	-	-	(7,688)
Change in the value of non-controlling interest	-	-	-	-	-	-	-	(21,750)	(21,750)
Consolidated comprehensive loss	-	-	-	-	-	(470,208)	20,180	(197)	(450,225)
Balance as of December 31, 2015	495,881	4,828	16,856	157,429	535,556	2,172,779	47,424	196,750	3,627,503
Repurchase of shares	-	-	-	-	(556)	556	-	-	-
Partial payment of convertible debt	-	(4,124)	-	-	-	-	-	-	(4,124)
Change in the value of non-controlling interest	-	-	-	-	-	-	-	(13,444)	(13,444)
Consolidated comprehensive loss	-	-	-	-	-	(705,819)	15,521	8,640	(681,658)
Balance as of December 31, 2016	495,881	704	16,856	157,429	535,000	1,467,516	62,945	191,946	2,928,277
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	(19,188)	(19,188)
Payment of convertible debt	-	(704)	-	-	-	-	-	-	(704)
Change in the value of non-controlling interest	-	-	-	-	-	-	-	(1,475)	(1,475)
Consolidated comprehensive loss	-	-	-	-	-	(483,905)	(11,364)	11,311	(483,958)
Balance as of December 31, 2017	<u>\$ 495,881</u>	<u>\$ -</u>	<u>\$ 16,856</u>	<u>\$ 157,429</u>	<u>\$ 535,000</u>	<u>\$ 983,611</u>	<u>\$ 51,581</u>	<u>\$ 182,594</u>	<u>\$ 2,422,952</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos)

	2017	2016	2015
Cash flows from operating activities:			
Consolidated loss for the year	\$ (472,594)	\$ (697,179)	\$ (470,405)
Adjustments for:			
Income tax expense (benefit)	1,262,607	(174,349)	131,334
Depreciation, amortization, cost of disposal and asset impairment	430,635	595,350	414,677
Amortization of debt issue expenses	72,097	72,642	49,985
Equity in associates	-	-	750
Income on sale of strategic fixed assets	(103,017)	(108,374)	-
(Income) loss on sale of fixed assets	(2,439)	(11,754)	88,134
Interest expense	641,173	643,592	508,840
Interest income	(60,399)	(46,802)	(34,457)
Unrealized foreign exchange (income) loss	<u>(371,912)</u>	<u>1,439,926</u>	<u>932,462</u>
	1,396,151	1,713,052	1,621,320
Transactions in working capital:			
Accounts and notes receivable – Net	(533,807)	(189,819)	(442,161)
Inventories	339	9,243	318
Prepaid expenses	(57,439)	52,980	(25,486)
Vacation Club inventory	(138,737)	45,208	88,483
Trade accounts payable	(61,653)	59,321	38,331
Other liabilities and accrued expenses	440,160	(46,543)	484,463
Vacation Club deferred income	151,663	318,757	382,497
Payment of income taxes	<u>(816,208)</u>	<u>(218,829)</u>	<u>(466,581)</u>
Net cash generated by operating activities	<u>380,469</u>	<u>1,743,370</u>	<u>1,681,184</u>
Cash flows from investing activities:			
Purchase of property and equipment	(400,535)	(573,995)	(600,573)
Vacation Club inventory in construction	(67,818)	(128,734)	(11,827)
Intangible assets and other assets	(131,634)	(202,893)	(184,766)
Investments in securities	450,000	-	69,073
Contributions of investment in associates	(225,000)	-	-
Interest collected	60,399	46,802	33,066
Sale of property and equipment	6,983	15,632	5,664
Cash flows from sales of non-strategic properties	<u>435,000</u>	<u>245,000</u>	<u>-</u>
Net cash generated by (used in) investing activities	<u>127,395</u>	<u>(598,188)</u>	<u>(689,363)</u>

(Continued)

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

(Concluded)

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos)

1. Activities

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

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

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

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

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

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

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

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

2. Significant events

a. *Issuance of “Senior Notes 2022” and prepayment of “Senior Notes 2017”*

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

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

b. *Sales of non-strategic sales*

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

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

c. *Assets available for sale*

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

d. *Property and equipment committed for sale*

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

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

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

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

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

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

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

e. ***Renewal of hotel operation contracts***

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

f. ***Execution of a contract in the Dominican Republic***

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

g. ***Mayan Riviera Trust***

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

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

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

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

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

- i. For the year 2013, a loss derived from a sale of shares was eliminated from the calculation of the termination of the tax consolidation regime, thus resulting in the recognition of an additional payment obligation in different years for the total amount of \$2,376 million. Of this amount, the Entity settled \$524 million in April 2017; the remaining will be settled through annual payments from 2018 through 2023, for the approximate amount of \$308.6 million each, subject to inflation indexing. As part of the agreements reached with SAT, \$72.6 million of 2007 tax was included in the calculation and the payment period determined for the termination of the tax consolidation regime.

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

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

- iii. The Entity obtained audit close documents for 2010 and 2013 with the same conclusion as those mentioned in the preceding numerals i) and ii). For 2007, 2008 and 2009, the Entity received notification documents through which the authorities resolved to revoke the rulings that determined the respective tax liabilities. It is important to mention that the agreements reached for 2007, 2008 and 2009 were ratified in August 2017 when the Entity obtained conclusive agreements issued by the Taxpayer's Defense Office.
 - iv. In the case of the subsidiary entities Gran Inmobiliaria Posadas, S.A. de C.V. and Inversora Inmobiliaria Club, S.A. de C.V. (both considered as SIBRAs), the tax authorities determined that the amortization rate used for the usufruct rights contributed by Posadas be modified beginning 2013, thus resulting in additional payments of \$56.4 and \$13.3 million, respectively.
- i. ***Credit granted to the Fiesta Americana Mérida Hotel***
- In June 2017, a subsidiary of the Entity, 51% owner of the shares of the Fiesta Americana Mérida hotel, contracted a credit for a seven-year period for the amount of \$210,000 at the annual 9.175% interest rate with a fiduciary warranty with Banco Nacional de México, S. A. (Banamex). Proceeds were used to pay taxes, remodel the hotel's public areas and for other corporate purposes. This amount is presented as "long-term debt" in the consolidated statements of financial position, except for the amount payable in 2018, which is presented as short-term. On January 23, 2018, a \$10,000 principal prepayment was made.
- j. ***Corporate Restructuring Process***
- On September 2017, Posadas merged its subsidiaries Administración Digital Conectum, S.A. de C.V., Posadas de Latinoamérica, S.A. de C.V., Desarrollos Inmobiliarios Posadas, S.A. de C.V., Servicios Administrativos Posadas, S.A. de C.V., Porto Ixtapa, S.A. de C.V. and Solosol Tours, S.A. de C.V. This merger did not generate any effects in the accompanying consolidated financial statements. When the merger is effective, Posadas will absorb under general title all the assets and liabilities, obligations and warranties of the merged entities.
- k. ***Earthquake in Mexico City, hurricanes and other events***
- September, 2017 was significantly affected by the following events:
- i. *Meteorological phenomena:* Hurricane "Harvey" in the Caribbean affected the cities of Houston and Miami, while diverting the flow of US tourists to Mexico. Hurricane and tropical storms Irma, Katia and Lidia primarily affected Cancun, Los Cabos and Veracruz.
 - ii. The travel alerts issued by the United States of America government for North American travelers affected several cities; in the case of Cancun and Los Cabos, these alerts were withdrawn on January 10, 2018.
 - iii. The September 7 and 19 earthquakes affected the states of Chiapas, Oaxaca, Morelos, Puebla and Mexico City, which significantly affected the second half of the month's occupation percentages and the system's average rate.

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

3. Application of new and revised International Financial Reporting Standards

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

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

Amendments to IAS 7 Disclosure Initiative

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

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

Annual Improvements to IFRS 2014-2016 Cycle

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

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

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

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

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

IFRS 9 Financial Instruments

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

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

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

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

IFRS 15 Revenue from Contracts with Customers

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

- 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.

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

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

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

IFRS 16, *Leases*

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

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

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

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

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

4. Significant accounting policies

a. *Statement of compliance*

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

b. *Basis of preparation*

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

i. Historical cost

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

ii. Fair value

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

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

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

c. ***Basis of consolidation***

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

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

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

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

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

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

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

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

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

Entity	Participation (%) 2017, 2016 and 2015
Promotora Inmobiliaria Hotelera, S.A. de C.V. y Subsidiarias (1)	100
Controladora de Acciones Posadas, S.A. de C.V. y Subsidiarias (1)	100
Administración Digital Conectum, S.A. de C.V. y Subsidiarias (2)	100
Posadas USA, Inc. y Subsidiarias	100
Hoteles y Villas Posadas, S.A. de C.V. (1)	100
Inversora Inmobiliaria Club, S.A. de C.V.	100
Gran Inmobiliaria Posadas, S.A. de C.V. (1)	100
Soluciones de Lealtad, S.A. de C.V.	100
Konexo Centro de Soluciones, S.A. de C.V.	100
Inmobiliaria del Sudeste, S.A. de C.V.	51

(1) Subsidiary entities merged into Posadas during 2016.

(2) Subsidiary entities merged into Posadas during 2017.

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

Changes in the Entity's ownership interests in existing subsidiaries

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

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

d. **Financial instruments**

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

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

e. ***Financial assets***

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

1. Effective interest method

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

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

2. Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated at FVTPL.

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

3. Held-to-maturity investments

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

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

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

Listed redeemable notes held by the Entity that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Other changes in the carrying amount of assets classified as held for sale are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. Interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

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

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

5. Loans and receivables

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

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

6. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

7. Derecognition of financial assets

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

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

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

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

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

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

g. ***Inventories***

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

h. ***Vacation Club inventory***

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

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

i. ***Property and equipment***

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

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

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

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

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

Land is not depreciated.

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

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

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

j. ***Intangible assets and other assets***

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

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

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

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

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

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

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

2. Derecognition of intangible assets

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

k. ***Impairment of tangible and intangible assets***

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

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

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

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

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

l. ***Assets classified as held for sale***

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

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

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

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

m. ***Investments in associates***

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

n. ***Leasing***

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

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

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

o. ***Foreign currencies transactions***

In preparing the financial statements of each entity, transactions in currencies other than the Entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

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

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

Country	Recording and functional currencies
United States of America	U.S. dollar

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

p. ***Employee benefits***

Retirement benefits costs from termination benefits

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

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

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

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

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

Short-term and other long-term employee benefits

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

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

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

Statutory employee profit sharing (PTU)

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

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

q. ***Income taxes***

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

1. Current tax

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

2. Deferred income tax

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

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

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

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

3. Current and deferred tax for the year

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

r. ***Provisions***

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

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

1. Restructurings

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

2. Reserve for returns related to the Vacation Club

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

s. ***Financial liabilities and equity instruments***

1. Classification as debt or equity

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

2. Equity instruments

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

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

3. Financial liabilities

Financial liabilities are classified as either financial liabilities “at FVTPL” or “other financial liabilities”.

4. Other financial liabilities

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

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

5. Derecognition of financial liabilities

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

t. ***Revenue recognition***

The Entity recognizes its revenues as follows:

- i. Revenues from the hotel operation, which includes the operation of proprietary hotels and leased hotels, are recognized as the hotel services are rendered to the guests, which include the rental of guestrooms and rooms for events, sale of food and beverages, etc.;

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

- ii. Revenues from the sale of Kívac points are recognized once the hospitality service is rendered, net of an estimate of those points which will not be used by the program members at their expiration date. The amount of the unused services contracted is presented under the heading “Deferred income from Vacation Club”, as short-term and long-term in the consolidated statement of financial position;
- iii. Revenues from management and brand fees are recognized as they are accrued based on a percentage of the revenues and the profit from hotel operation, as established in the respective contracts; and
- iv. Revenues derived from loyalty programs with third parties, are recognized when the management service of the programs is rendered or due to the redemption of prizes in conformity with the contracts signed.
- v. Revenues from the sale of strategic assets are recognized once the risks and rewards are transferred to the buyer and/or the precedent conditions of the purchase-sale contracts are fulfilled.

u. ***Classification of costs and expenses***

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

v. ***Statements of cash flows***

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

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

w. ***Loyalty programs***

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

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

Basic (loss) earnings per share are calculated by dividing the net (loss) attributable to the controlling interest by the weighted average number of shares outstanding during the period. As of December 31, 2017, 2016 and 2015, the Entity does not have ordinary shares with potential dilution effects.

5. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

i. The reserve for doubtful accounts and refunds related to the Vacation Club

Estimates are used to determine the reserves for doubtful accounts considering mainly arrears in collection according to the established financing plans. The Vacation Club cancellation estimate is determined based on the probability of a percentage of membership cancellations; the recovery of the value of the Vacation Club inventory is considered.

ii. Revenue recognition of Vacation Club

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

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

Kívac points that are expected to be utilized during the following 12 months from the date of the consolidated statement of financial position are classified as current, considering the expected Kívac collection, which is the trigger that entitles the purchasers to use the hospitality service of this product.

- iv. Financial projections for asset impairment

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

- v. The future benefit of tax losses

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

- vi. The effects of the contingencies faced by the Entity

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

- vii. The useful life and residual value of properties

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

- viii. Classification criteria of the Entity's operating segments

The Entity classifies its businesses into four operating segments, based on internal reports prepared under a managerial approach.

- ix. The estimated amount of investments in securities other than cash equivalents

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

6. Cash and cash equivalents

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

7. Investments in securities

	2017	2016	2015
Trading:			
Overnight investments	\$ <u>-</u>	\$ <u>450,000</u>	\$ <u>450,000</u>

8. Accounts and notes receivable

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

(a). Notes receivable from Vacation Club

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

Composition of the trading portfolio

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

(b). Accounts receivable from clients and agencies

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

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

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

9. Vacation Club inventory

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

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

10. Property and equipment committed for sale

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

11. Long-term notes receivable

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

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

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

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

12. Property and equipment

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

	Land	Buildings	Furniture and equipment	Computers	Vehicles	Construction in progress	Total
Cost							
Beginning balance as of January, 2015	\$ 2,129,829	\$ 6,563,629	\$ 1,481,450	\$ 433,202	\$ 35,139	\$ 427,899	\$ 11,071,148
Additions	88,285	74,703	113,194	13,736	5,058	305,597	600,573
Transfers from construction in progress	-	109,943	78,546	131	-	(188,620)	-
Reclassified as held for sale	-	(144,869)	(74,613)	(7,913)	(4,677)	-	(232,072)
Derecognition of fully depreciated assets	<u>-</u>	<u>-</u>	<u>(371,519)</u>	<u>(21,179)</u>	<u>(5,388)</u>	<u>-</u>	<u>(398,086)</u>
Balance as of December 31, 2015	2,218,114	6,603,406	1,227,058	417,977	30,132	544,876	11,041,563
Additions and remodeling	821	44,080	129,640	6,252	4,806	325,008	510,607
Transfers of prepayments and other assets	824	20,814	28,945	274	784	(32,749)	18,892
Transfers from construction in progress	-	289,854	144,864	-	3,650	(438,368)	-
Disposals from remodeling	-	(376,607)	-	-	-	-	(376,607)
Disposals	<u>(35,040)</u>	<u>(150,089)</u>	<u>(51,505)</u>	<u>(2,450)</u>	<u>(2,279)</u>	<u>-</u>	<u>(241,363)</u>
Balance as of December 31, 2016	2,184,719	6,431,458	1,479,002	422,053	37,093	398,767	10,953,092
Additions and remodeling	-	69,953	54,296	2,409	2,019	204,982	333,659

	Land	Buildings	Furniture and equipment	Computers	Vehicles	Construction in progress	Total
Transfers of prepayments and other assets	-	132,286	74,399	1,453	-	520	208,658
Transfers to assets classified as held for sale	(800,570)	(1,400,770)	(173,795)	(746)	(799)	-	(2,376,680)
Transfers from construction in progress	-	305,968	105,497	807	-	(421,745)	(9,473)
Disposals from remodeling	-	(1,142)	(51,034)	(1,146)	-	-	(53,322)
Disposals	<u>(132,550)</u>	<u>(526,820)</u>	<u>(49,247)</u>	<u>(39,803)</u>	<u>(6,376)</u>	<u>-</u>	<u>(754,796)</u>
Balance as of December 31, 2017	<u>\$ 1,251,599</u>	<u>\$ 5,010,933</u>	<u>\$ 1,439,118</u>	<u>\$ 385,027</u>	<u>\$ 31,937</u>	<u>\$ 182,524</u>	<u>\$ 8,301,138</u>
<i>Accumulated depreciation and impairment</i>							
Beginning balance as of January, 2015	\$ -	\$ (3,073,520)	\$ (1,009,554)	\$ (401,984)	\$ (26,565)	\$ -	\$ (4,511,623)
Depreciation expense	-	(178,648)	(189,558)	(26,659)	(4,956)	-	(399,821)
Disposals of assets	-	54,189	73,799	6,655	3,631	-	138,274
Derecognition of fully depreciated assets	<u>-</u>	<u>-</u>	<u>371,519</u>	<u>21,179</u>	<u>5,388</u>	<u>-</u>	<u>398,086</u>
Balance as of December 31, 2015							
Depreciation expense	-	(216,631)	(158,143)	(9,268)	(3,649)	-	(387,691)
Disposals of assets	-	77,130	21,230	1,756	741	-	100,857
Remodeling derecognition	-	249,019	-	-	-	-	249,019
Asset impairment	<u>-</u>	<u>(57,064)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,064)</u>
Balance as of December 31, 2016	-	(3,145,525)	(890,707)	(408,321)	(25,410)	-	(4,469,963)
Depreciation expense	-	(178,955)	(184,735)	(7,717)	(3,765)	-	(375,172)
Disposals of assets	-	374,187	50,895	39,282	5,083	-	469,447
Transfers to assets classified as held for sale	-	615,378	36,097	464	450	-	652,389
Remodeling derecognition	<u>-</u>	<u>186</u>	<u>22,486</u>	<u>667</u>	<u>-</u>	<u>-</u>	<u>23,339</u>
Balance as of December 31, 2017	<u>\$ -</u>	<u>\$ (2,334,729)</u>	<u>\$ (965,964)</u>	<u>\$ (375,625)</u>	<u>\$ (23,642)</u>	<u>\$ -</u>	<u>\$ (3,699,960)</u>
<i>Total net investment at December 31, 2017</i>							
	<u>\$ 1,251,599</u>	<u>\$ 2,676,204</u>	<u>\$ 473,154</u>	<u>\$ 9,402</u>	<u>\$ 8,295</u>	<u>\$ 182,524</u>	<u>\$ 4,601,178</u>

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

13. Intangible assets and other assets

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

14. Suppliers

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

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

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

15. Long-term debt

a. Long-term debt is as follows:

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

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

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

- b. On June 22, 2017, a subsidiary of the Entity contracted a fiduciary warranty loan (based on the hotel's collection through credit cards) with Banamex for the amount of \$210 million at an annual 9.175% interest rate, and maturity in 2024.
- c. On May 16, 2016 an additional issuance was made for US\$50 million as part of the "Senior Notes 2022" program, accruing interest at an annual rate of 7.875%, maturing in 2022. With this additional issuance of "Senior Notes 2022", in November 2016 the balance of US\$38.3 million of the debt known as "Senior Notes 2017", with maturity in 2017, was paid in advance.

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

- d. On June 30, 2015 the Entity completed a debt issuance for US\$350 million in notes known as "Senior Notes 2022" through the Luxembourg Stock Exchange. The intention was to substitute the issuance of US\$310 million known as "Senior Notes 2017" held by the Entity as of December 31, 2014, for which US\$1,060 was offered for each \$1,000 of the previous issuance. As a result of the offering it was possible to tender US\$271.7 million of the "Senior Notes 2017", equivalent to 87.63% of principal. The "Senior Notes 2022" accrue interest at the annual rate of 7.875%, with principal maturing on June 30, 2022. The interest is payable semiannually, beginning on December 30, 2015.
- e. On November 28, 2014, the Entity obtained US\$47.2 million through a program known as "Euro-Commercial Paper", which accrued annual interest at a rate of 6% and matured on November 18, 2016. Interest was recognized in the consolidated statement of comprehensive (loss) income as accrued, and was paid on November 18, 2015, due date of the principal.
- f. On November 30, 2012, the Entity issued a bond for US\$225 million known as the "2017 Senior Notes", with maturity on November 30, 2017, accruing interest at annual fixed interest rate of 7.875%. On November 30, 2013, the Entity issued a supplement for US\$50 million of "Senior Notes 2017", with the same characteristics mentioned above, resulting in a total debt of US\$275 million.

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

g. The most significant restrictions and obligations contained in debt agreements as of December 31, 2017, prohibit the Entity from:

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

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

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

16. Income taxes

The Entity is subject to ISR. Under the ISR Law the rate for 2017, 2016 and 2015 was 30% and will continue 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 ISR Law repealed the tax consolidation regime, an option was established, which allows groups of entities to determine a joint calculation of ISR (tax integration regime). The new regime allows groups of consolidated entities that share common direct or indirect ownership of more than 80%, certain benefits in the tax payment (when both profit and loss entities are included within the Entity in the same period), which can be deferred over three years and paid, plus interest and inflation, at the filing date of the tax return corresponding to the tax year following the completion of the aforementioned three-year period.

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

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

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

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

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

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

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

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

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

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

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

e. Tax loss carryforwards

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

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

f. Tax credits

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

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

17. Long-term accrued liabilities

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

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

18. Employee benefits

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

19. Financial instruments

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

a. *Capital risk management*

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

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

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

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

Debt index

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

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

- (i) Debt is defined as short and long-term borrowings in national and foreign currency, as described in Note 15.
- (ii) Stockholders' equity includes all capital stock and reserves that are managed as capital.

b. *Categories of financial instruments*

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

c. **Market risk**

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

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

d. **Foreign currency risk management**

The Entity believes that the risk is material because as of December 31, 2017, 97% of its debt is denominated in US dollars. Considering the net monetary position in US dollars as of December 31, 2017, a 10% appreciation (or appreciation) of the Mexican peso against the US dollar would cause an exchange loss or (gain) in results and in the stockholders' equity of the Entity of approximately \$610,447.

The current exchange rates in Mexican pesos are as follows:

	2017	December 31, 2016	2015	March 5 2018
Mexican pesos per U.S. dollar	\$ <u>19.7354</u>	\$ <u>20.6640</u>	\$ <u>17.2065</u>	\$ <u>18.8909</u>

e. **Interest rate risk management**

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

f. **Credit risk management**

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

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

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

g. **Liquidity risk management**

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

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

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

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

As of December 31, 2017	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	7.875% and	\$ 4,817	\$ 331,772	\$ 347,656	\$ 1,389,429	\$ 9,056,176	\$ 11,129,850
Suppliers	9.175%	436,100	-	-	-	-	436,100
Other liabilities and accrued expenses		<u>794,630</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>794,630</u>
Total		<u>\$ 1,235,547</u>	<u>\$ 331,772</u>	<u>\$ 347,656</u>	<u>\$ 1,389,429</u>	<u>\$ 9,056,176</u>	<u>\$ 12,360,580</u>
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		<u>674,897</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>674,897</u>
Total		<u>\$ 1,172,650</u>	<u>\$ 325,458</u>	<u>\$ 325,930</u>	<u>\$ 1,301,832</u>	<u>\$ 10,543,806</u>	<u>\$ 13,669,676</u>
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	-	<u>334,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,324</u>
Total		<u>\$ 772,756</u>	<u>\$ 263,097</u>	<u>\$ 264,496</u>	<u>\$ 1,711,948</u>	<u>\$ 8,156,419</u>	<u>\$ 11,168,716</u>

The amounts included as Debt are fixed interest rate debt.

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

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

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

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

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

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

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

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

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

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

20. **Stockholders' equity**

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

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

- b. As of December 31, 2017, the share capital is composed solely of Series “A” free subscription.
- c. At the Extraordinary General Stockholders' Meeting held on March 22, 2017, the stockholders approved \$535,000 as the maximum amount of resources that may be allocated to the purchase of own shares, with the limitations established by the Securities Market Law.
- d. As of December 31, 2017, 2016 and 2015, the legal reserve fund, presented within retained earnings, amounts to \$99,187 (nominal value) and represents 20% of the nominal capital. This reserve fund may not be distributed to stockholders except in the form of dividends.
- e. Stockholders' equity, except for restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

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

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

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

21. Balances and transactions in foreign currency

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

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

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

22. Revenue, cost of sales and operating expenses

a. *Revenue:*

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

b. *Cost of sales:*

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

c. *Administrative expenses:*

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

d. *Sale and development expenses:*

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

23. Related party transactions

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

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

24. Information by business segments

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

- a. **Hotel operation** - Revenues generated by this segment are represented by the rental of hotel rooms, the sale of food, beverages and related services (laundry, telephones, spa, etc.) to guests. The expenses incurred by the segment are related to the payroll of the personnel that attend guests in hotels, the cost of food and beverages and hotel operating expenses, including sales and administrative personnel, office expenses, electricity, insurance and property taxes. In the case of leased hotels, an additional rent expense is generated.
- b. **Vacation Club** - Revenues generated by this segment include the sale of memberships, interest income generated by financed sales, annual membership fees and income from the effective use of the "Kivac" program. Costs and expenses include the value of real property sold under this regime, marketing expenses incurred for prospective clients, collection expenses, payroll of personnel located at the sites where Vacation Club operates, including electricity and insurance, the payroll and office expenses of sales and administrative personnel, together with the cost of hotel exchanges.
- c. **Hotel management, brand and other** - Revenues generated by this segment include fees billed to hotels under the terms of hotel operating contracts; brand use and franchises, as well as billing of different centralized services. The costs and expenses incurred by this segment primarily involve payroll of the personnel that supervise hotel operations, the cost of the reservation service, centralized accounting, purchasing and technology service expenses and the recovery of Global Distribution System costs.
- d. **Sale of non-strategic properties** - As discussed in Note 1, the Entity has focused on holding strategic assets. As part of this strategy, it has sold and is in the process of selling hotel properties and other non-strategic assets. This segment includes the results obtained from the sale of these assets.

2017

	Hotel operation	Vacation Club	Hotel management, brand and other	Sale of non- strategic properties	Total	Other corporate expenses	Eliminations	Total consolidated
Statement of comprehensive (loss) income:								
Total revenues	\$ 4,374,035	\$ 2,982,385	\$ 1,441,910	\$ 435,000	\$ 9,233,331	\$ -	\$ (326,340)	\$ 8,906,990
Cost and general expenses	3,129,415	2,201,065	1,398,097	331,983	7,060,560	-	(313,604)	6,746,956
Corporate expenses	-	-	-	-	-	452,682	(12,648)	440,034
Other expenses, net	-	-	-	-	-	430,635	-	430,635
Depreciation, and amortization	-	-	-	-	-	67,817	(88)	67,729
Other expenses								
Operating income (loss)	<u>\$ 1,244,620</u>	<u>\$ 781,320</u>	<u>\$ 43,814</u>	<u>\$ 103,017</u>	<u>\$ 2,172,770</u>	<u>\$ (951,133)</u>	<u>\$ -</u>	1,221,638
								Financial expenses, net
								<u>(431,625)</u>
								Income before income taxes
								<u>\$ 790,013</u>

2016

	Hotel operation	Vacation Club	Hotel management, brand and other	Sale of non- strategic properties	Total	Other corporate expenses	Eliminations	Total consolidated
Statement of comprehensive (loss) income:								
Total revenues	\$ 4,092,983	\$ 2,605,078	\$ 1,616,772	\$ 245,000	\$ 8,559,833	\$ -	\$ (580,484)	\$ 7,979,349
Cost and general expenses	3,169,313	1,841,633	1,306,787	136,627	6,454,360	-	(561,611)	5,892,749
Corporate expenses	-	-	-	-	-	338,166	(18,744)	319,422
Depreciation, and amortization	-	-	-	-	-	528,196	-	528,196
Impairment of assets	-	-	-	-	-	57,064	-	57,064
Write-offs due to remodeling of fixed assets	-	-	-	-	-	127,588	(129)	127,459
Operating income (loss)	<u>\$ 923,670</u>	<u>\$ 763,445</u>	<u>\$ 309,985</u>	<u>\$ 108,373</u>	<u>\$ 2,105,473</u>	<u>\$ (1,051,014)</u>	<u>\$ -</u>	1,054,459
								Financial expenses, net
								<u>(1,924,708)</u>
								Loss before income taxes
								<u>\$ (870,249)</u>

2015

	Hotel operation	Vacation Club	Hotel management, brand and other	Sale of non- strategic properties	Total	Other corporate expenses	Eliminations	Total consolidated
Statement of comprehensive (loss) income:								
Total revenues	\$ 3,574,647	\$ 2,200,492	\$ 1,926,738	\$ -	\$ 7,755,931	\$ 54,054	\$ (854,710)	\$ 6,901,221
Cost and general expenses	2,988,503	1,658,923	1,424,898	-	6,072,324	-	(836,337)	5,235,987
Corporate expenses	-	-	-	-	-	321,144	(18,040)	303,104
Depreciation, and amortization	-	-	-	-	-	414,677	-	414,677
Other expenses, net	-	-	-	-	-	479	(333)	146
Operating income (loss)	<u>\$ 586,144</u>	<u>\$ 541,569</u>	<u>\$ 501,840</u>	<u>\$ -</u>	<u>\$ 1,683,607</u>	<u>\$ (682,246)</u>	<u>\$ -</u>	<u>947,307</u>
								Financial expenses, net
								<u>(1,283,766)</u>
								Loss before income taxes
								<u>\$ (336,459)</u>

25. Commitments

- a. As of December 31, 2017, 2016 and 2015, the Entity has entered into long-term contracts to lease hotel and corporate properties, which generally have terms of 10 years. Lease payments are calculated based on percentages applied to income generated from hotel operations, varying between 12% and 25%. During the years ended December 31, 2017, 2016 and 2015, lease expense was \$475,590, \$445,125, and \$386,969, respectively. The minimum lease estimated for the following years is shown below:

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

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

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

26. Tax liabilities

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

As of December 31, 2017, 2016 and 2015, the Entity has established a reserve to cover contingencies, which is recorded under the long-term liability heading “Accrued liabilities” in the consolidated statement of financial position.

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

27. Subsequent events

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

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

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

28. Authorization to issue the financial statements

The consolidated financial statements as of December 31, 2016 and 2015 were approved in General Stockholders Meetings held on March 23, 2017 and March 15, 2016, respectively. The accompanying consolidated financial statements as of December 31, 2017 were authorized to be issued on February 21, 2018, by Ing. Arturo Martínez del Campo Saucedo, Corporate Chief Financial Officer and the Audit Committee; consequently, they do not reflect events after this date, and are subject to the approval of the Ordinary Stockholders Meeting of the Entity, who may modify them in accordance with the provisions of the General Corporate Law.

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