Annual Report 2006 | Grupo Posadas

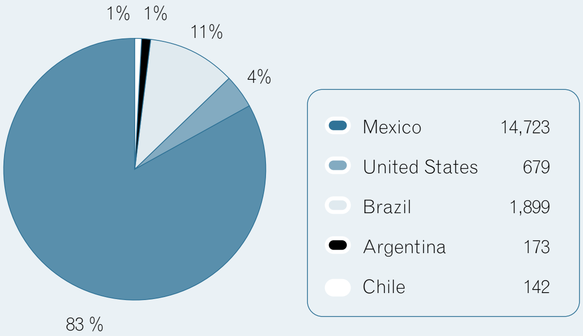
Financial Highlights

(Millions of constant pesos as of December, 2006)	**2006**	2005	Real Var.
Total Revenue	5,229,610	5,370,949	-2.6%
Operating Income	941,881	864,997	8.9%
Operating Margin	18.0%	16.1%	1.9%
Majority Net Profit	394,462	423,037	-6.8%
Net Resources Generated by Operations	881,719	838,095	-5.2%
EBITDA	1,360,067	1,306,923	4.1%
Total Liabilities/Total Assets	0.56	0.56	
Total Debt/Total Assets	0.34	0.33	

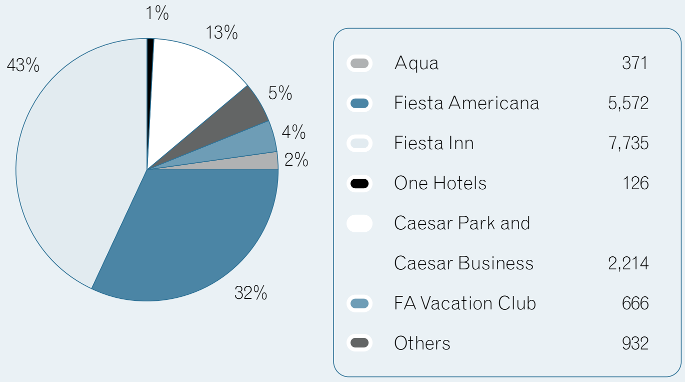
Hotels by Brand

	AQUA	Fiesta Americana Grand	Fiesta Americana	Fiesta Inn	One	Caesar Park	Caesar Business	**Others**	Fiesta Americana Vacation Club	**Total**
Mexico	1	3	16	52	1	-	-	2	3	78
USA	-	-	-	-	-	-	-	3	-	3
Brazil	-	-	-	-	-	3	7	-	-	10
Argentina	-	-	-	-	-	1	-	-	-	1
Chile	-	-	-	-	-	-	1	-	-	1
Total	1	3	16	52	1	4	8	5	3	93

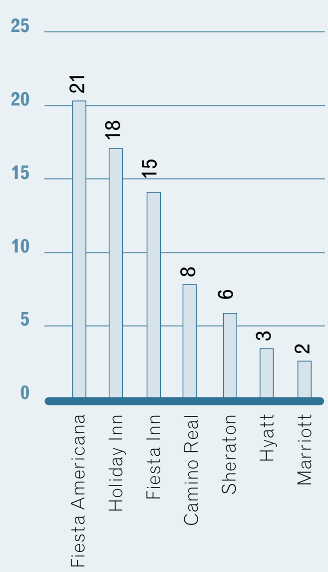
Hotel Room Inventory Mix by Country 2006



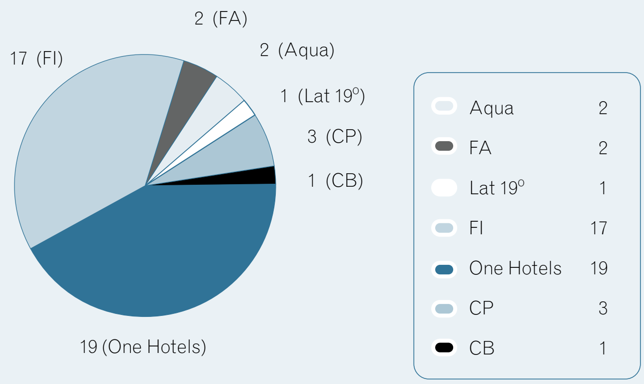
Hotel Room Inventory Mix by Brand 2006



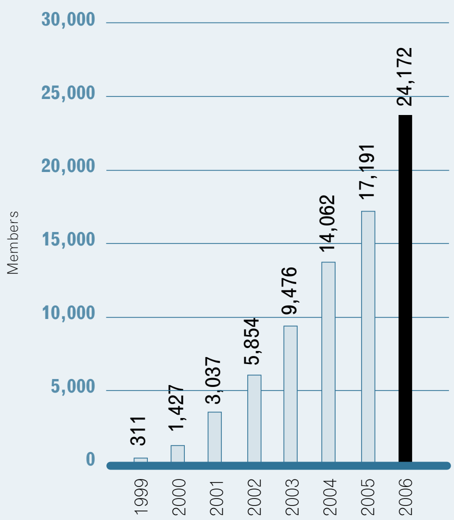
Top of Mind/Hotel Brand Recognition 2006



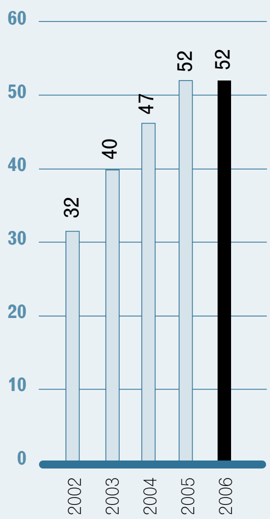
Hotels under Development



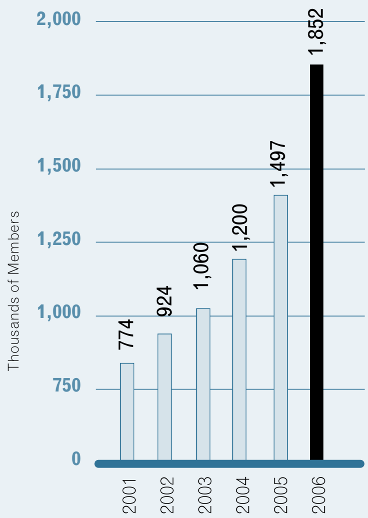
Number of FA Vacation Club Members



Number of Fiesta Inn Hotels



Hotel Loyalty Program Fiesta Rewards Members



AQUA BY A

FIESTAMERICANA® Grand
HOTELS & RESORTS

FIESTAMERICANA®
HOTELS & RESORTS

Lat :-) 19°
Hotels

FIESTA INN®
BUSINESS CLASS HOTELS

one
hotels®

CÆSAR PARK®
HOTELS & RESORTS

CÆSAR BUSINESS®
HOTELS

Letter to Shareholders

Dear Shareholders:

We are pleased with the results obtained this year. In 2006, Mexico's economy had its best performance in recent years, growing 4.8%. This increased activity resulted in higher demand for the hotels operated by Grupo Posadas and in the company's accelerating its hotel development plans.

In South America, especially in Argentina and Brazil, the economy also grew substantially, creating demand particularly in cities such as Buenos Aires, Rio de Janeiro and São Paulo.

Thus, with the exception of some hotels that had to face external events that curbed their results, Grupo Posadas' commercial, operating and franchising progress is evident and is broadly reflected in our results.

In 2006, the company reported sales of 5,229.6 million pesos and an operating income of 941.9 million pesos, 8.9% above the previous year. EBITDA, in turn, was 4.1% higher than 2005 in real terms. This achievement allowed us to pay our stockholders a dividend of 113 million pesos and backed up the company's strength in the financial markets.

These figures can be attributed to the excellent performance of our human team and, as a result, to having achieved the objectives we had proposed to ensure both the company's leadership as well as its ongoing success in its development and growth plans.

Beyond the numbers, Grupo Posadas' accomplishments for 2006 are predominantly in alignment with the following fronts:

> Growth of the Hotel Brand Portfolio

Intent on capitalizing on the opportunities of an increasingly mature market that demands specialized products, our brand portfolio flourished this year with the launching of One Hotels in the three-star Economy Class segment and Lat 19° in the five-star Business Style category.

Gastón Azcárraga

Chairman

These brands—much like Aqua in the deluxe Lifestyle segment—allow us to explore new paths to growth and achieve the pace we pursue to successfully penetrate profitable markets in which we can capitalize on our competitive advantages, offer our owners more options, attract new investors and add satisfied customers.

>Hotel Openings

In regard to our traditional brands, we opened Fiesta Americana Santa Fe in Mexico City, Fiesta Inn Reynosa in Tamaulipas, Fiesta Inn Finsa Puebla and Fiesta Inn Santa Fe in Mexico City. During the year, the first One Hotels was also opened in Monterrey.

In South America, we added to our inventory Caesar Park Eco Resort do Cabo, in Santo Agostinho, in the state of Pernambuco in northeastern Brazil, and Caesar Business Santiago Centro, the brand's first hotel with which we entered Santiago, Chile.

In 2007, we will multiply our openings. In Mexico—where we will also be opening new Fiesta Inns—we are getting ready to launch Lat 19°, with its first hotel in Mexico City, and for the straight-forward kick off of the One Hotels development plan, including 70 hotels in six years, 14 of which are already under way.

> Capacity to Bounce Back after Hurricane Wilma

After the serious problems brought on by the passing of Wilma through the Caribbean, our hotels in Cancún and Cozumel reopened in record time. By January and February 2006 all of them were operating, with the exception of Aqua that will resume activities in the second half of 2007.

In this event, it is important to acknowledge our teams' fast capacity to respond, intent on preserving the leadership of our properties at these destinations. Their effort not only allowed us to recover a location such as Cancún—which is so important to the company—but also to offer our guests facilities and a service promise even better than what they were accustomed to at these hotels.

> Expansion and New Developments for Fiesta Americana Vacation Club

The vision for Grupo Posadas' vacation club is to be one of the three most important players in this segment in Mexico, and our figures confirm that this vision is already a reality. At year-end, net sales were US$78 million for this business, and the cost of sales and marketing were well below industry standards. Thus we have continued with projects that boost the vacation club inventory and have launched the most ambitious real estate project in our history: Chemuyil on the Mayan Riviera. This magnificent development, situated between Cancún and Tulum, will have a hotel, vacation club and other vacation property products in an amazingly beautiful location. The project confirms that we can grow in other markets, with new products, if we have trust and know how to create value based on our competitive advantages.

> Image Campaign for Fiesta Inn

Under the motto "We Take Care of Working People", a project was started up this year to support the service, performance and differentiation of Grupo Posadas' fastest growing brand. Thanks to this ongoing effort, today our guests recognize in each Fiesta Inn "a hotel that is aware of and understands their needs". In this way we confirm the advantage that our brand has over its competition and strengthen the loyalty bond with our guests.

> Takeoff of Fundación Posadas

After seriously planning its social responsibility activities, in 2006 we witnessed the final takeoff of our Foundation, which harvested its first success stories this year. The chapter on Fundación Posadas in this Annual Report describes in detail the scope of this harvest.

> The Investment in Grupo Mexicana de Aviación

The purchase of Grupo Mexicana de Aviación made by Grupo Posadas and a team of investors is starting to bear fruit in terms of synergies for both companies. It is important to point out, however, that we perceive this decision as a long-term investment and that both of these companies are managed absolutely on an independent basis. For the time being, we are focusing on specific short-term situations that need to be solved, but particularly on the evolution of the restructuring process that the airline is already undergoing.

The Posadas Team: Creating a Virtuous Circle

At Grupo Posadas, it is of paramount interest to us to reward the people who are doing a good job and working in strict alignment with the company's values. This is how we achieve a virtuous circle, an equation in which each employee expertly performs his or her responsibilities while building a winning team.

Within this framework, the first challenge is to preserve this winning concept to strengthen the solid bond of trust that exists between the company and its employees, and which leads them to work in sync. After all, we are convinced that when people realize that they are working in a winning, clean, and transparent company, they are willing to go the extra mile, to create and close ranks in tune with goals and objectives.

Our Goals

In 2007—a year we believe will be essential to our company—the goals are clear: To be more efficient, boost results, open more hotels and continue generating competitive advantages that preserve the difference that currently places Grupo Posadas in the forefront within the Latin American hotel industry.

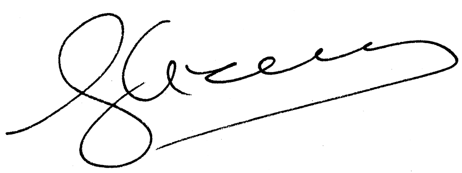
This year we also prepared ourselves to make inroads into new businesses. Such is the case of AltiusPAR, a company focused on developing and marketing cutting edge hotel technology, which aims to not only maintain and multiply the competitive advantages of Grupo Posadas, but also to approach European and North American hotel chains interested in connecting to this platform.

Additionally, after having prepared the re-engineering process platform for Fiesta Rewards, our Loyalty Program area is focused on converting the company into a Latin American leader, with world-class abilities in providing consulting services for, developing, implementing and managing loyalty solutions.

In the technological arena, our strategy is to keep abreast, innovate, create and implement systems to maintain our competitive advantage in distribution and marketing, as well as to aim to be a customer-centric company, capitalizing on knowledge through executive information systems.

Our major goal in each task that is undertaken and in each area: To reinforce leadership, foster growth and fully use our technological capacities to create products and generate projects that capitalize on Grupo Posadas' competitive advantages. With this we aim to play an important role in designing a country with more opportunities and trust in its future, where talent is the resource and condition sine qua non of progress.

And so, the company aligns itself with Mexico's vision: *To be a modern, winning and lead role nation… A country is built this way and produces growing companies that give added value to their employees, investors and clients.*



Gastón Azcárraga

Chairman & CEO

Caesar Park São Paulo Faria Lima



Finances

Trustworthy, Sound and Correct Capital Management

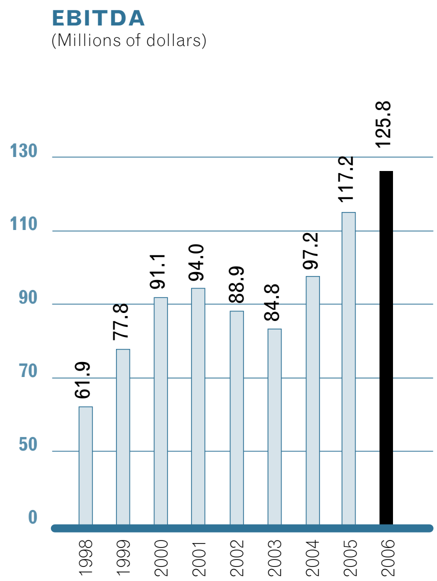
2006 was a complicated year, marked by external events that impacted the performance of our hotels. The recovery of our Caribbean resorts after the passing of Hurricane Wilma, the protest camps that blocked Reforma Avenue in Mexico City (which particularly affected Fiesta Americana Reforma and Fiesta Inn Centro Histórico), and the conversion of Fiesta Americana Condesa Acapulco to the vacation club concept (causing us to shut down the hotel for four months) influenced our results. Financially speaking, however, the competitive advantages and strengths of Grupo Posadas harvested a good year for the company.

Total revenue amounted to 5,229.6 million pesos and accumulated EBITDA grew 4% in dollar terms, totaling US$125.8 million. Operating income was 941.9 million pesos, accounting for an 8.9% increase compared to 2005. At the same time, the operating margin rose 1.9 percentage points.

It is important to mention that in November of 2006 we obtained a US$30-million extension on the US$50-million syndicated loan that had been structured a year earlier, thus a total loan of US$80 million. These resources were used to pay off short-term credit lines. The company also restructured a subsidiary loan of about US$30 million, with very favorable maturity and interest conditions.

As a result, as of December 31 the net debt of Grupo Posadas was US$314 million. The Net Debt/ EBITDA ratio dropped to 2.7 times and interest coverage stood at 3.5 times.

As of December 2006, the average life of this debt is 4.1 years, and only 13% is guaranteed with hotel assets. Additionally, 64% is denominated at a fixed rate and only 3% is short term.



The interest of our investors, the strength of the company's brands, and the interest spurred by the new hotel concepts ensure years of growth and profitability for the business.

Within this framework, the company's financial strength allowed us to punctually pay the peso notes that matured in February and July 2006. Capital expenses, in turn, amounted to US$26.5 million, and were mostly allocated to hotel maintenance and to the conversion of Fiesta Americana Condesa Acapulco into a vacation club, as well as to the construction startup of the second property of the One Hotels, on Patriotismo Avenue in Mexico City.

After the Annual Stockholders' Meeting in April, Grupo Posadas once again rewarded the trust of its investors, by paying a dividend of approximately 113 million pesos, an amount that was higher than the dividend of 2005.

In the new year—within a favorable environment and a macroeconomic scenario that favors the hotel industry—the perspectives that are opening up for the company's product and project portfolio ensure sustained growth on a solid financial platform.

Fiesta Americana Santa Fe Mexico City

Hotel Operation

Service, Management and the Human Factor: Valuable Key Ingredients

In 2006, the company was able to prove that it has the ability to react positively and quickly to incidents. The commitment of its human team, supported by proper systems and tools, not only made it possible to offset the effects of such events, but also to achieve higher efficiency levels.

First Hurricane Wilma, and then the blockage of Reforma Avenue in Mexico City and the conflicts in Oaxaca undoubtedly affected tourism in general and the results of some hotels in particular.

In spite of all this, however, Grupo Posadas had a good year. The GOP (Gross Operating Profit) was 1.6 points higher than last year's in real terms, and operating margins closed at 35.2%.

On a brand-by-brand basis, results were the following:

• Fiesta Americana recorded an average occupancy rate of 61.1%, and its average rate went up 1%.

• Fiesta Inn reported an occupancy rate of 64.8%. This chain's business strategy resulted in a 0.9% increase in the average rate.

• Lastly, Caesar Park and Caesar Business had an occupancy rate of 52% (four percentage points higher than in 2005), and their average rate increased 12.4%. In South America, income grew 31.8% and profits 49.6%. It is important to mention that the figures were benefited by the special reserve that had been set up by the company two years ago for a possible tax payment. Since the ruling was in our favor, this reserve was applied to the results of 2006.

Operation in Mexico: Fiesta Americana Grand, Fiesta Americana and Fiesta Inn

Both for Fiesta Americana as well as for Fiesta Inn, 2006 was a year in which assets, properties and service standards were updated. Within this context, special attention was given to the Food & Beverage area, where activities were focused on two actions:

• Create a strong business orientation for Café la Fiesta, the restaurant of the Fiesta Inn hotels. This process included training and changes in employee compensation. At year-end, the increase in consumption and invoicing proved the effectiveness of the strategy.

• The reengineering of the catering business in all the hotels, in addition to its price structure.

In the case of Fiesta Inn, the campaign "Where working people rest" introduced a new message that was needed to keep the chain on the cutting edge. This effort renewed the operating teams' commitment to service and helped guarantee guest satisfaction levels.

South American Operation: Caesar Park and Caesar Business

Although the year's results have been benefited by the reserve mentioned earlier, it is also true that the structural changes carried out in the South American headquarters are bearing fruit in terms of administrative effectiveness and efficiency.

Additionally, several of the South American hotels grew substantially. Such is the case of Caesar Park Ipanema in Rio de Janeiro, Brazil, whose profits climbed significantly. On the other hand, increased demand favored our hotels in Sao Paulo, where hotel oversupply is slowly being absorbed.

New Brands, New Demands

The opening of the first One Hotels in Monterrey, Nuevo León, Mexico and the horizons that are opening up for this new chain are already placing demands on the operation, now in the three-star hotel service segment.

One Hotels is also becoming a new breeding ground for talent for the company, while demanding the ability to detect and hire human resources trained to nourish a brand that will grow at a very fast pace in the years to come.

Conectum, a Competition Argument

Conectum—Accounting and Administrative Transactions Processing Center—consolidated our trust in the efficiency of centralized communication. In fact, at present Grupo Posadas' management stands proudly as one of its best competition arguments.

Thanks to this tool, we are the only company in the sector whose management is fully centralized, and thus the only one too with the highest levels of efficiency and productivity. Conectum's platform provides information and details that have expedited audits, while creating opportunities, which—when used—boost profitability levels.

The Human Factor

Grupo Posadas firmly believes that its greatest competitive advantage is the quality of its hotel staff. Accordingly, the company has placed special emphasis on investing in training and strengthening operation standards.

Backed by technology, in 2006 not only did the company focus more on training and development, but also on employees learning faster and better through a certifications system.

Intensified endeavors in the area of human development raise the satisfaction levels of our people, resulting in the lowest turnover levels in the sector.

Backed by tools and systems, the hotel operation capitalized on the performance of a human team whose abilities grew thanks to a more effective investment in training and development.

Tasks for 2007

In this new year, the greatest challenge will be to achieve our aggressive budget levels, which aim at ambitious goals on all fronts.

More than one opening a month throughout the year already places higher demands on the Grupo Posadas operation, which will have to have the proper amount and quality of employees needed to start up operations at each new property.

The reopening of Aqua Cancún will also have operating demands of its own, especially now that we are preparing for the growth of this brand. For the time being, another three hotels will be added.

Lastly, it is important to point out that the efforts in the Food & Beverage area will be permanent. In fact, in 2007 attention is being given to the Fiesta Americana Grand and Fiesta Americana restaurants and bars to redimension them, in search of higher levels of service and profitability.

Prometeo and X-Vox

Fully Committed to Our Guests

This year we created X-Vox, a tool that reinforces our customer orientation. X-Vox allows us to analyze information globally, regionally and by hotel, by area and by type of comment.

The analysis of thousands of guest opinions supports our operations and makes commercial, development, franchise and brand tasks easier. For example, this tool enables us to ensure what guests think about the physical conditions of a hotel, before deciding what to invest in and how we want to invest in a specific property. This also applies to the training plan: when we already know what areas of opportunity guests perceive, we can more precisely capitalize on the benefits of training. It is important to point out that during the year, 75% of our customers congratulated us on the good service provided by our hotels.

X-Vox adds benefits to the ones we are already obtaining with Prometeo, with which we can study in depth the quality of an operation through the eyes of an expert. Today, both systems are essential to the hotel operations strategy of Grupo Posadas.

One Monterrey Aeropuerto


Franchise

Innovation and Technological Support that Create Value

The strength of its brands and assets, the transformation of information into innovating products, as well as the permanent injection of competitive and technological strengths into the company's structure are the three key mottos on Grupo Posadas' Franchise agenda.

This agenda lists the tasks of the Franchise areas, which in 2006 closed ranks in alignment with the strategic objectives for the business: launching specialized brands; innovating and fine tuning products; exposing the inventory in the most productive possible way and with the largest amount of points, thanks to the connectivity of the systems; developing and enhancing the company's own distribution channels; and implementing the technological systems and platforms that allow us to create new competitive advantages.

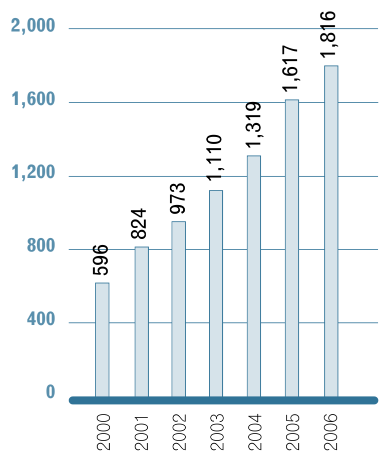
Loyalty Programs

In 2006—a year in which the number of members of the Fiesta Rewards (FR) Program was more than 1.8 million—the platform was prepared to commence a reengineering process aimed at fine tuning this valuable asset. This project adheres to the vision of the Loyalty Programs area, whose goal is to become a Latin American leader, with world-class abilities in providing consulting for, developing, carrying out and managing loyalty programs.

In 2007, and in order to boost competitiveness, Fiesta Rewards will have a new technological platform—also including Caesar Rewards, the Loyalty Program in South America—that will enable it to achieve greater efficiency levels and better capitalize on the knowledge it has of its members. Additionally, after conducting a survey among the most frequent travelers to analyze their levels of satisfaction, the benefits offered by the hotels and the reward portfolio increased, making FR a more attractive product for business members.

FR is the city hotels' most important asset. The value of its currency (points) is a very powerful argument leading its members to always choose the Grupo Posadas brands. This year, its contribution toFiesta Inn's occupancy was 32%, and to Fiesta Americana's 16%.

Total Membership Base of the Fiesta Rewards Program
(Thousands)



In a market with a larger offer in the business traveler segment, Fiesta Rewards' priority is to offer its frequent and loyal guests greater added value.

During the business year, the Loyalty Program for executive assistants—now under the name of Apreciare Club—was also polished. This asset represents for us a competitive difference in competed locations and now has more than 5,300 female members to whom new advantages are offered today. Its strategic objective focuses on converting this Loyalty Program into a sales generator that capitalizes on synergies with Fiesta Rewards.

The presence and relevance of Fiesta Rewards is strengthened year after year with a great complimentary product: the Scotiabank-Fiesta Rewards card, which offers multiple benefits for both members and hotels. This plastic, whose accounts grew 44.6% in 2006, reinforces our brand and opens up a communication channel through the cards' statements of account, increases the number of FR members, accelerates the accumulation of points and encourages joint promotions.


Lat 19°

Brand Architecture

POSADAS®

	Traditional					Lifestyle	
Special Concepts	EXPLOREAN						
Brands Luxury		FIESTAMERICANA® HOTELS & RESORTS Grand			CÆSAR PARK® HOTELS & RESORTS	AQUA	
Brands Upper		FIESTAMERICANA® HOTELS & RESORTS					Lat:-)19° Hoteles
Brands Middle			FIESTA INN® BUSINESS CLASS HOTELS		CÆSAR BUSINESS HOTELS		
Brands Economy				one hotels®			
Brands Villas		FIESTAMERICANA® VACATION CLUB					

Brands, Advertising and Marketing

Since the hotel industry is growing further and further away from generic and traditional concepts, the innovation in Grupo Posadas' hotel brands focused on specialization to meet the needs of specific segments in the tourist and business market.

Brand conception is aimed accordingly:

• **Aqua,** as a sensorial, harmonious and sophisticated concept that revolutionizes the hotel industry in the deluxe Lifestyle segment. This year, with the re-opening of its first hotel in Cancún, Aqua comes back to life as a different brand with growth possibilities in other markets.

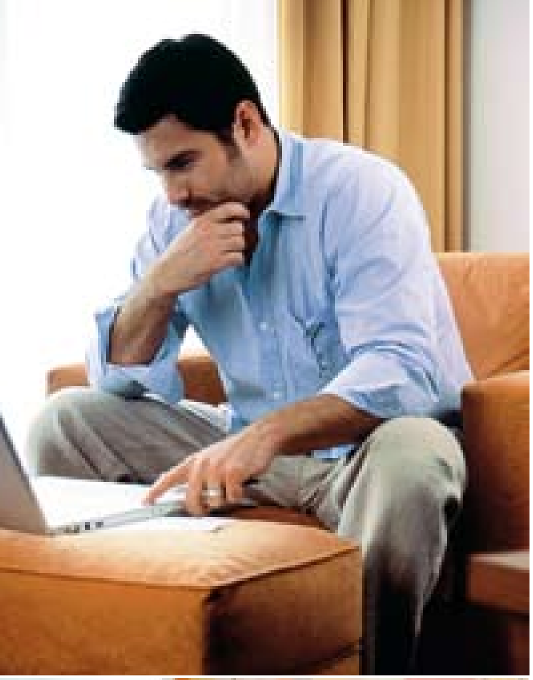
• **One Hotels,** in the Economy Class segment, as a concept that responds to the needs of guests who do not have a chain hotel offer with standardized and consistent services; administrative, operating and reservations technological support; as well as the benefits of business programs.

• **Lat 19º,** in the five-star category within the Business Style segment, as the product that responds to the evolution of the most demanding, savvy and sophisticated travelers. This new generation of hotels, designed for top executives, places the company at the forefront in Mexico in redefining lodging at a business traveler-oriented hotel.

Also with an eye to specialization, Caesar Park Silver in South America was designed in 2006. This concept will have the attributes that distinguish the deluxe brand we operate in South America, although with reduced spaces and services.

In regard to our advertising efforts, in 2006 we maintained the promotion strategy "Free Ticket" for Fiesta Americana and Fiesta Inn. This campaign, which has been run successfully for the third year in a row, allowed us to reach record highs in advertising attribution and maintain the highest levels of recall for Fiesta Americana.

In the case of Fiesta Inn, the image campaign "Where working people rest" increased the level of recall and reinforced one of its essential attributes as the hotel brand that best acknowledges the needs of business travelers. This year, support was also given to the launching of the first One Hotels in Monterrey.



The company's distribution channels already account for 83% of Grupo Posadas' reservations. They recorded five percentage points above 2005.

Distribution

The leadership assumed by the company, thanks to its increasingly evident technological strengths, does not free it from challenges. Quite the contrary: it forces the company to face even more important ones.

In this regard, the strategy focused on having information in real time in our distribution channels, as well as on developing company electronic channels, which not only result in lower costs per transaction, but also allow us to recognize customers and cultivate their loyalty. The objective continues to be the same: to sell the last available room at a rate that maximizes income in all the distribution channels.

For the last five years Grupo Posadas has managed its inventory in real time in its voice channels, websites, Group sales, wholesale reservations, and in channels such as Expedia and Mexicana. For 2007, our target is to manage the inventory in the Global Distribution Systems (GDS) in real time, with which the company reaffirms its position as the most sophisticated hotel chain in inventory management.

Within this framework, of special importance was the relaunching of the new Grupo Posadas website in 2006, which contributed to a growth of 44% in the number of reservations made through this channel. As planned since 2005, the redesign of this site now includes the guarantee concept of the best rate on Internet, as a result of which clients trust this channel better.

Lat:-)19°
Hotels

Thanks to these efforts, reservation costs dropped 15% particularly as a result of sales having been migrated towards electronic channels, new levels of operating efficiency and increased productivity among our agents.

Naturally, we did not forget the efficiency of the traditional channels where outstanding customer service levels are preserved. Specifically, the Reservations Center generated 2.7 million room nights, 10% more than in 2005. Its total conversion rate was 42.8%, as many as 97% of the calls are answered, and a reduced abandonment rate of 3% was recorded.

To achieve these figures and aspire for better results in the future, in 2006 agents and supervisors were certified; a new sales, quality systems and on-line training methodology was implemented; the reservations of negotiated rates were automated; and costs per reservation were also reduced. Additionally, GDS reservations grew 21%.

To strengthen the commercial alliances such as the ones we have with Mexicana de Aviación and Expedia, which can access the company's inventory in real time, a contract was signed whereby Grupo Posadas' Contact Center will provide services to Mexicana de Aviación starting in April of 2007. With Expedia, an interface was completed that will allow for the sale of rooms in real time, a technology aimed at boosting this channel's profitability levels.

Technology

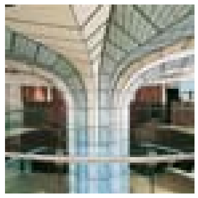
At Grupo Posadas, technology and the supervision of IT safety are key ingredients in order for the business to work.

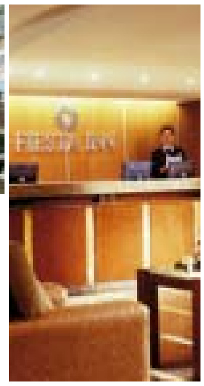
Thus the greatest challenge in this area will always be to guarantee the safety, integrity and operation of the technological structure, which is essential for the company's competitiveness and leadership.

To this end, actions focused on reinforcing safety measures and formalizing procedures, redesigning the Business Continuity Plan and the Disaster Recovery Plan, and tightening safety controls at the hotels. Today, the company's IT Protection Program is a core issue so that Grupo Posadas may continue to leverage its competitive advantages in its technological investment. In fact, technology triggers the distribution strategy and lavishes well-defined benefits on our clients and markets.

Another highlight of the year was the development of a new version of the Hotel Operating System (PMS or Property Management System). Innsist focuses on guest recognition, satisfying, controlling and following up on their requirements and preferences. Together with the Delphos® Project, which centralizes the guest database, both tools allow us to identify each guest from the time he or she makes her reservation, and thereby open the possibility of distinguishing valuable guests to satisfy their particular requirements and preferences.

Fiesta Inn Santa Fe Mexico City





Development

2007-2010: 44 Hotels and over 6,000 Rooms

As of December 2006, the Development Plan that was worked on during the fiscal year includes almost 50 hotels for the next three years. This expansion amounts to an investment of US$357 million, of which Grupo Posadas will contribute only 4%.

Most of these properties will be added to the hotel inventory under operating and lease agreements. The strength of the company's traditional brands, as well as the good judgment in defining the new concepts such as One Hotels and Lat 19°, not only attract new capitals, but also invite those who already form part of Grupo Posadas' investor portfolio to continue investing with us.

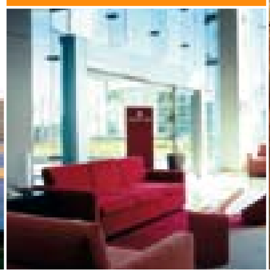
Out of the 44 hotels that make up the Development Plan so far, 18 properties will give specific weight to One Hotels in the Economy Class segment. We wish to point out that the growth program of this new brand includes the alliance we signed with GICSA and Grupo GDI, with which we have already developed successful hotels in the last ten years. The companies that are parties to this agreement chose Grupo Posadas as their best ally to address the increasing demand of business tourism in Mexico. And, in addition to being the leader in its sector, the company is also the first hotel group that differentiates the diverse types of business travelers, creating concepts that meet the needs of increasingly specific segments.

In the case of One Hotels, expansion kicked off in 2006 with the opening of One Monterrey Aeropuerto, which will be followed by others in Acapulco, Aguascalientes, Altamira, Cancún, Ciudad del Carmen, Celaya, Coatzacoalcos, Culiacán, Mexico City, Naucalpan, Pachuca, Playa del Carmen, Querétaro, Reynosa, San Luis Potosí, Tampico, Toluca and Veracruz. Many of these hotels have secured extraordinary locations in the cities where they will be operating, since they will be part of business complexes, and GICSA is broadly experienced in developing this type of real estate.

As regards the hotels opened during this business year, in addition to the first One Hotels we also inaugurated Fiesta Americana Santa Fe (Mexico City); Fiesta Inn Puebla Finsa (Puebla), Fiesta Inn Reynosa (Tamaulipas) and Fiesta Inn Santa Fe (Mexico City); Caesar Park Eco Resort do Cabo, in Santo Agostinho in the state of Pernambuco in northeastern Brazil; and the Caesar Business Santiago Centro (Santiago, Chile).

Among these brands, the most outstanding hotels are:

• In Mexico, Fiesta Americana and Fiesta Inn Santa Fe, marking the first occasion when "twin" hotels were opened (in the same location), a formula which has already proven to be successful in Brazil with Caesar Park and Caesar Business Sao Paulo International Airport.



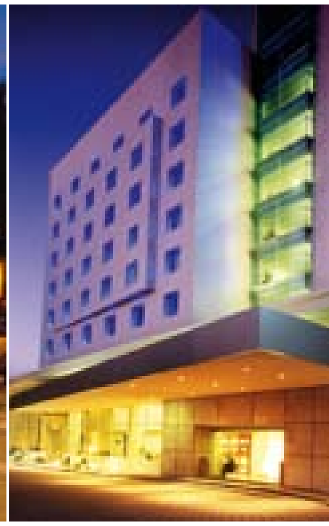
• In South America, Caesar Park in Cabo Santo Agostinho, being the brand's first resort in Brazil; and of course Caesar Business de Santiago, representing Grupo Posadas' entrance into Chile.

In 2007, and with the reopening of Aqua Cancún in the second half of the year, this Lifestyle category brand will begin to grow with the construction of new hotels in Mexico City; Acapulco, Guerrero; and Nuevo Vallarta, Jalisco. South America, in turn, will add another hotel concept to the company's portfolio: Caesar Park Silver, a deluxe service with CP's distinctive classical taste, although in a smaller hotel. The first CP Silver will be located quite close to the well-known Obelisk of Avenida 9 de Julio, in Buenos Aires, Argentina.

In regard to Fiesta Americana Vacation Club and its projects, we completed the conversion and remodeling work of Fiesta Americana Condesa Acapulco, which is now operating with great success as a vacation club. The last stage of Fiesta Americana Grand Los Cabos also began, as well as the forecast to start up the construction of Chemuyil, the new vacation club project on the Mayan Riviera.

This year, seven new hotels were added to the operation: four Fiesta Inn, two Caesar Business and the first One Hotels in Monterrey.



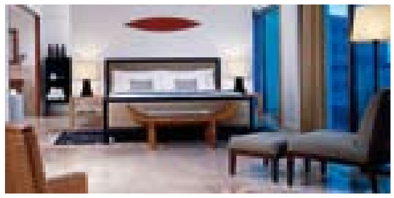
In Cancún and Cozumel
Reopenings in Record Time

After the passing of Hurricane Wilma, the efficiency and expertise of the hotel staffs and development teams of Grupo Posadas were put to the test—a trial that was passed successfully and in record time.

Fiesta Americana Villas Cancún (vacation club) reopened in December of 2005; by January of 2006 the reopening of Fiesta Americana Grand Coral Beach and Fiesta Americana Cozumel Dive Resort were announced. Only two weeks later, Fiesta Americana Condesa Cancún resumed operations.

Thus, with the exception of Aqua Cancún that will reopen in mid 2007, not only did these hotels operate under normal conditions throughout most of the year, but they also maintained their rate level and reinforced the service promise to their guests with new benefits, services and technological infrastructure.

Fiesta Inn Santa Fe Mexico City



Commercial Strategy

An Increasingly Efficient Business Model

Grupo Posadas' Business Model has been consolidated as a competitive advantage, which year after year allows it to achieve new levels of efficiency vis à-vis the competition. The use of cutting edge technologies, well-defined sales processes and a highly specialized human team has made it possible to optimize the income of our hotels.

Real-time inventory management and systems are two conditions that strengthen the Business Model on an ongoing basis. Particularly in regard to Revenue Management and inventory price optimization, it is a fact that the company now has more precise information and outstandingly valuable data to make better decisions that allow us to sell the last available room at the best price. Within this context, the Rev PAR grew 5% in 2006, and income by room increased 7% in hotels that were operating regularly, including openings and closings.

During the year, the commercial strategy recorded success stories that prove our ability to minimize and, in some cases, capitalize on the adverse effects that influence our industry. Reopened in early 2006, Fiesta Americana Grand Coral Beach Cancún, Fiesta Americana Condesa Cancún, Fiesta Americana Villas Cancún (vacation club) and Fiesta Americana Cozumel not only resumed operations, but also offered their guests a better product than the one they were accustomed to.

These hotels affected by Hurricane Wilma substantially recovered income, thanks to an effective management in the face of drastically changing supply and demand conditions. Strategic success was based on maintaining prices in tune with the available offer and focusing the efforts of the domestic and international sales teams on the segments with the largest demand.

The coverage of our hotels as well as an adequate commercial performance allowed us to build value even under adverse conditions. Fiesta Americana Reforma and Fiesta Inn Centro Histórico in Mexico City suffered the blockage of Reforma Avenue for several months. To address this situation, we decided to channel demand towards our other hotels in the city and its metropolitan area, including two new ones: Fiesta Americana Santa Fe and Fiesta Inn Santa Fe. As a result, many guests had the opportunity to get to know these new products, which accelerated their acceptance and positioning in Mexico City's hotel market.

In the Group segment, Time Zero® is the tool that allows us to minimize response times in rates, reservations, availability and prices, thereby contributing to Grupo Posadas' hotels and brands the value we have been pursuing.

Foreign groups, wholesale and the segment of individual travelers are one of Grupo Posadas' commercial priorities. Accordingly, the new sales team in the United States supported our results as expected, boosting both the number of rooms sold and the average rate. In regard to international groups, efforts were focused on the deluxe segment, the knowledge of which was incorporated into our processes as well as into the Revenue Management and Central Inventory systems. Thus the sales force has the necessary tools to make sure that each group booked is the most profitable one to maximize income.

To continue contributing to our success stories, we now have an eye on conquering the individuals segment abroad, where our brand knowledge is particularly important in the deluxe segment. The harvest of the specialized team that currently serves this market, through specific travel agencies and the electronic market (e-commerce), could already be appreciated in 2006.

The evolution of the business model and the maturing process of the systems and human team already allow us to analyze procedures in depth to fine tune functions, measure failures and repeat successes. Our task for 2007 is to improve the performance of the team even more, with educational and training programs tailored to the needs of each specialization and to the results and profitability expectations of Grupo Posadas.

Fiesta Americana Vacation Club

A Growing Business

As of December 2006, Fiesta Americana Vacation Club (FAVC) had 24,172 members, a figure that accounts for a new and important increase compared to the figure reported in 2005: 17,191. This growth naturally confirms the success of the concept and is reflected in the sales. At year-end, net sales were US$78 million, and the cost of sales and marketing were well below industry standards.

The vacation club's good results are backed by Grupo Posadas' capitalization of assets. This includes the recognition of its brands, the use of the different points of contact we have with our guests, access to Fiesta Rewards' databases and the information provided by Posadas' Guest History.

Equally important, of course, is the effort of the sales rooms of Mexico City, Guadalajara, Monterrey and, since 2006, Veracruz and Hermosillo, which accounted for 35% of the club's sales. Additionally, our referred guest program and additional member purchases represent 25%; these marketing sources have been built upon Fiesta Americana Vacation Club's high level of satisfaction.

FAVC had excellent results another year. Its sales and memberships grew, capitalizing on the achievements of almost a decade of success.

During this business year, plans were also made to launch in 2007 a sales and marketing office in Los Angeles to increase our share in the US market, so that more travelers can experience and get to know the Vacation Club developments.

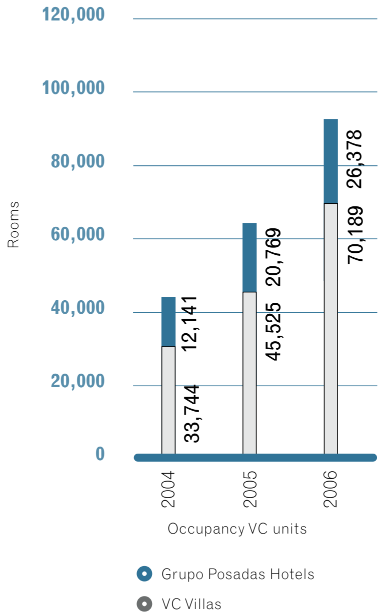
Firm in its position as one of the strongest distribution channels for the Grupo Posadas hotels, in 2006 the production of room nights of the vacation club was 100,000 rooms between hotels and villas. This is another factor that bolsters the growth of the Fiesta Americana Vacation Club business.

This year, Fiesta Americana Villas Cancún was completely sold and we concluded the conversion of Fiesta Americana Villas Acapulco (formerly Fiesta Americana Condesa Acapulco), which now operates under the vacation club concept and 60% of whose inventory has already been sold. We also entered the final stage of construction of the Fiesta Americana Grand Los Cabos villas.

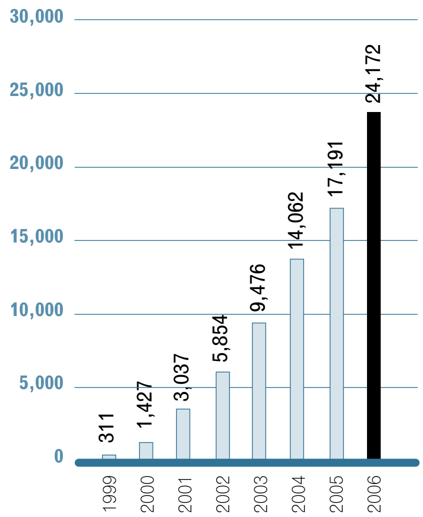
This expansion increases the inventory of FAVC and adds strength to the project started up on the Mayan Riviera: Fiesta Americana Villas Chemuyil (hotel and vacation club), a spectacular key development in the 2005-2015 Strategic Plan of FAVC.

This project will serve as a model for others and allow Grupo Posadas to expand upon its vacation property concept. As always, this new stage in the FAVC business has been planned by capitalizing on the competitive advantages and commercial strengths of the company.

Room Nights Sold throug FA Vacation Club



Membership Growth of FA Vacation Club



Fundación Posadas

Take-off and Institutionalization

teamwork
integrity
respect towards the individual
attitude of service

Children are the reason; our objective is to watch them grow.

FUNDACIÓN POSADAS

The institutionalization of Fundación Posadas A.C. fostered the consistency and effectiveness that were expected on the company's social agenda. Thus in 2006 we continued to make donations in kind to different social work associations and foundations. As had been planned since 2005, support was given to the "Early Stimulation Program" of APAC - Asociación Pro-Parálisis Cerebral (Association pro People with Cerebral Palsy), for children between the ages of 45 days and 6 years. This program is available to the children of Grupo Posadas' employees, and includes therapies, and pediatric and psychological consultations. Information was also provided to parents with children with different degrees of hyperactivity and ADD (Attention Deficit Disorder).

During the year, two guidelines were followed: to become partners with organisms that have proven to be effective in any of the Foundation's subjects of interest, such as APAC and AMANC - Asociación Mexicana de Ayuda a Niños con Cáncer (Mexican Association to Aid Children with Cancer); and to establish priorities that allow us to exert influence where it is most needed.

Precisely in order to organize and hierarchically arrange its work, the Foundation performed a diagnosis among its employees that identified and continues to look for children in need of substantial health support. Today, these cases have become our priority list.

In tune with this list, the Foundation took on the case of Mari Carmen García, a small six-year-old—the daughter of an employee of Fiesta Americana Reforma—who urgently needed an operation to have a leptomeningeal cyst removed from her head. In November, this child's surgery and recovery became a Success Story for Fundación Posadas.

Immediately after having attended this case, the Foundation focused its energy on two small girls with leukemia—who are already being treated—and on providing hearing aids to several children with auditory problems.

However, none of this would have been possible without the teamwork of the Grupo Posadas employees, an approach they are used to taking when addressing other objectives that are essential to the company. Hence the success of the "Anótate un 10" ("Score 10") Campaign, which not only triggered contributions from guests and employees who were enthusiastic about this cause, but also increased by 40% the number of donors who currently share each task taken on by Fundación Posadas. In late 2006, this effort accounted for 90% of the proposed collection goal.

To keep hope and collection levels up among employees and guests, both the campaign as well as the information on the Foundation's activities will become ongoing efforts. Only in this way will it be possible to continue creating new success stories in the near future.

The take-off of Fundación Posadas in 2006 materialized in success stories, producing the satisfaction of having helped the family of an employee to build hope.

Aqua Cancún

Executive Committee

Gastón Azcárraga
Chairman & CEO

Pablo Azcárraga
Chief Operating Officer

Javier Barrera
Chief Franchise Officer

Jorge Carvallo
Chief Development Officer

José Carlos Azcárraga
Chief Executive
Fiesta Americana Vacation Club

Michel Montant
Executive Vice President
Hotel Operations

Rafael de la Mora
Executive Vice President
Administration

Board of Directors

Board Members

Gastón Azcárraga Andrade
Chairman & CEO, Grupo Posadas

Enrique Azcárraga Andrade
CEO, EXIO, S.C.

Pablo Azcárraga Andrade
Chief Operating Officer, Grupo Posadas

Fernando Chico Pardo
President, Promecap, S.C.

Joaquín Vargas Guajardo
Chairman & CEO, MVS Comunicaciones

Carlos Llano Cifuentes
Upper Board Member, IPADE and
Pan American University

Antonio Madero Bracho
Chairman & CEO, SANLUIS CORPORACIÓN, S.A. de C.V.

Sergio Mariscal Lozano
Investment Banker, Lehman Brothers

Eloy Chouza Azcárraga
Private Investor

Jorge Mario Soto y Galvez
Independent Consultant

Alfredo Humberto Harp Calderoni
Private Investor

Carlos Levy Covarrubias
Private Investor

Emilio Carrillo Gamboa
Independent Consultant

Manuel Borja Chico
CFO, Compañía Mexicana de Aviación, S.A. de C.V.

Alternate Board Members

Jorge Carvallo Couttolenc
Javier Barrera Segura
José Carlos Azcárraga Andrade
Miguel Alejandro García Jaramillo
Silvia Sisset de Guadalupe Harp Calderoni
Charbel Christian Francisco Harp Calderoni

Secretary

Ricardo Maldonado Yañez

Alternate Secretary

Francisco Javier López Segura

2006

GRUPO POSADAS

Financial Statements

POSADAS®

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

We have audited the accompanying consolidated balance sheets of Grupo Posadas, S. A. B. de C. V. (a Mexican corporation) and Subsidiaries (collectively the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position, for the years then ended, all expressed in thousands of Mexican pesos of purchasing power of December 31, 2006. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, which statements reflect total assets constituting 14% and 15% of consolidated assets as of December 31, 2006 and 2005 , respectively, and total revenues constituting 8% of consolidated revenues for the years ended December 31, 2006 and 2005. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these subsidiaries is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with Mexican financial reporting standards. An audit also includes assessing the financial reporting standards used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors, provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of others auditors as mentioned above, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Posadas, S. A. B. de C. V. and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended in conformity with Mexican financial reporting standards.

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

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

C.P.C. Fernando Loera Aguilar

March 16, 2007
(March 29, 2007, with respect to Note 27)

GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES (FORMERLY GRUPO POSADAS, S. A. DE C. V. AND SUBSIDIARIES)

Consolidated Balance Sheets as of December 31, 2006 and 2005

(In thousands of Mexican pesos of purchasing power as of December 31, 2006)

Assets	2006	2005
Current assets:		
Cash and cash equivalents	$ 419,089	$ 339,089
Financial instruments	79,223	67,605
Total cash, cash equivalents and financial instruments	498,312	406,694
Accounts and notes receivable - net	970,782	1,285,348
Inventories	43,659	27,798
Prepaid expenses	34,495	66,067
Real estate held for sale	169,363	174,149
Total current assets	1,716,611	1,960,056
Long-term notes receivable	524,628	317,077
Vacation club units	135,471	124,018
Property and equipment - net	8,563,386	8,743,602
Investment in shares of associated companies	24,421	25,125
Intangible assets	566,139	589,708
Other assets – net	539,121	672,149
Total	$ 12,069,777	$ 12,431,735

See accompanying notes to consolidated financial statements.

Liabilities and stockholders' equity		2006		2005
Current liabilities:				
Bank loans and current portion of long-term debt	$	111,066	$	196,613
Suppliers		358,013		408,883
Other accounts payable and accrued liabilities		615,595		823,133
Total current liabilities		1,084,674		1,428,629
Long-term debt		4,014,718		3,947,890
Derivate financial instruments		37,919		19,048
Long-term accrued liabilities		50,127		85,238
Value-added tax payable		138,248		111,350
Deferred income tax		1,403,585		1,400,548
Total liabilities		6,729,271		6,992,703
Deferred credits - Net		305,173		141,538
Stockholders' equity:				
Capital stock:				
Historical		489,427		489,427
Contributions for future capital increases		135,863		304,400
Amount assigned for repurchase of shares		2,645		7,493
Shares in trust		(7,379)		(7,379)
Additional paid-in capital		129,422		139,808
Restatement for inflation		1,701,575		1,719,543
		2,451,553		2,653,292
Other capital:				
Reserve for repurchase of shares		544,933		156,045
Retained earnings		2,909,066		3,064,226
Cumulative effect of restatement		(877,683)		(867,800)
Cumulative effect of deferred income tax		(885,935)		(885,935)
		1,690,381		1,466,536
Minority interest		893,399		1,177,666
Total stockholders' equity		5,035,333		5,297,494
Total	$	12,069,777	$	12,431,735

GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES (FORMERLY GRUPO POSADAS, S. A. DE C. V. AND SUBSIDIARIES)

Consolidated Statements of Income for the years ended December 31, 2006 and 2005

(In thousands of Mexican pesos of purchasing power as of December 31, 2006, except majority income per share expressed in Mexican pesos)

	2006	2005
Hotel operation:		
Revenues	$ 3,388,841	$ 3,608,387
Departmental costs and expenses	1,190,739	1,259,129
Departmental profit	2,198,102	2,349,258
General expenses:		
Administrative	526,112	564,075
Sales, advertising and promotion	337,538	369,053
Maintenance and energy	341,104	369,952
	1,204,754	1,303,080
Income before other expenses	993,348	1,046,178
Other expenses:		
Property taxes and insurance	48,605	43,945
Other (income) expenses, net	(13,135)	33,667
	35,470	77,612
Operating earnings from hotel operation	957,878	968,566
Hotel management fees, brand and other:		
Revenues	984,267	1,010,014
Direct costs and corporate expenses	527,784	537,792
Operating earnings from hotel management, brand and other	456,483	472,222
Other related businesses:		
Revenues	856,502	752,548
Direct costs and expenses	624,641	574,709
Operating earnings from other related businesses	231,861	177,839
Corporate expenses	79,489	82,383
Depreciation, amortization and real estate leasing	624,852	671,247
Operating income	941,881	864,997
Other expenses, net	77,082	82,259
Comprehensive financing cost:		
Interest expense	392,753	391,389
Interest income	(34,036)	(26,731)
Currency exchange fluctuations, net	62,187	(78,161)
Monetary position gain	(128,410)	(155,625)
	292,494	130,782
Income from continuing operations before income tax	572,305	651,866

	2006	2005
Income tax expense	132,267	199,676
Income from continuing operations before equity in associated companies and discontinued operations	440,038	452,190
Equity in income of associated companies	(1,054)	(957)
Loss from discontinued operations	9,468	4,579
Consolidated net income for the year	431,624	448,568
Minority stockholders' net income	37,162	25,531
Majority stockholders' net income	$ 394,462	$ 423,037
Majority income per share (in pesos)	$ 0.7935	$ 0.8504
Majority diluted income per share (in pesos)	$ 0.7682	$ 0.8234
Weighted average number of shares outstanding	497,134,756	497,461,195

See accompanying notes to consolidated financial statements.

GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES (FORMERLY GRUPO POSADAS, S. A. DE C. V. AND SUBSIDIARIES)

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2006 and 2005

(In thousands of Mexican pesos of purchasing power as of December 31, 2006)

	Capital stock					
	Historical	Contributions for future capital increases	Amount assigned for repurchase of shares	Shares in trust	Additional paid-in capital	Restatement for inflation
Balances as of January 1, 2005	$ 489,427	$ 139,249	$ 8,485	$ (7,379)	$ 130,148	$ 1,715,688
Repurchase of shares, net	-	-	(992)	-	-	(3,225)
Convertible debt	-	183,899	-	-	(9,088)	7,080
Dividends paid	-	-	-	-	-	-
Restatement of convertible debt	-	(18,748)	-	-	18,748	-
Effect of valuation of derivative financial instruments	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Result from holding non monetary assets	-	-	-	-	-	-
Comprehensive income	-	-	-	-	-	-
Balances as of December 31, 2005	489,427	304,400	7,493	(7,379)	139,808	1,719,543
Repurchase of shares, net	-	-	(4,848)	-	-	(15,245)
Dividends paid	-	-	-	-	-	-
Reimbursement of convertible debt, net	-	(171,094)	-	-	(7,829)	(2,723)
Reduction of minority interest	-	-	-	-	-	-
Restatement of convertible debt	-	2,557	-	-	(2,557)	-
Effect of valuation of derivative financial instruments	-	-	-	-	-	-
Net income for the year	-	-	-	-	-	-
Result from holding non monetary assets	-	-	-	-	-	-
Comprehensive income	-	-	-	-	-	-
Balances as of December 31, 2006	$ 489,427	$ 135,863	$ 2,645	$ (7,379)	$ 129,422	$ 1,701,575

See accompanying notes to consolidated financial statements.

Other capital					
Reserve for repurchase of shares	Retained earnings	Cumulative effect of restatement	Cumulative effect of deferred income tax	Minority interest	Total stockholders' equity
$ 165,172	$ 2,702,701	$ (860,040)	$ (885,935)	$ 1,152,135	$ 4,749,651
(9,127)	-	-	-	-	(13,344)
-	-	-	-	-	181,891
-	(65,039)	-	-	-	(65,039)
-	-	-	-	-	-
-	3,527	-	-	-	3,527
-	423,037	-	-	25,531	448,568
-	-	(7,760)	-	-	(7,760)
-	426,564	(7,760)	-	25,531	444,335
156,045	3,064,226	(867,800)	(885,935)	1,177,666	5,297,494
388,888	(434,827)	-	-	-	(66,032)
-	(112,946)	-	-	-	(112,946)
-	-	-	-	-	(181,646)
-	-	-	-	(321,429)	(321,429)
-	-	-	-	-	-
-	(1,849)	-	-	-	(1,849)
-	394,462	-	-	37,162	431,624
-	-	(9,883)	-	-	(9,883)
-	392,613	(9,883)	-	37,162	419,892
$ 544,933	$ 2,909,066	$ (877,683)	$ (885,935)	$ 893,399	$ 5,035,333

GRUPO POSADAS, S. A. B. DE C. V. AND SUBSIDIARIES (FORMERLY GRUPO POSADAS, S. A. DE C. V. AND SUBSIDIARIES)

Consolidated Statements of Changes in Financial Position for the years ended December 31, 2006 and 2005

(In thousands of Mexican pesos of purchasing power as of December 31, 2006)

	2006	2005
Operating activities:		
Net consolidated income for the year	$ 431,624	$ 448,568
Add (less) items that did not require (generate) resources:		
Depreciation and amortization	418,186	441,926
Equity in income of associated companies	(1,054)	(957)
Deferred income tax	3,037	22,478
Long-term accrued liabilities	(35,111)	10,021
	816,682	922,036
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Financial instruments	(11,618)	(12,021)
Accounts and notes receivable, net	314,566	(214,269)
Inventories	(15,861)	(3,548)
Prepaid expenses	31,572	(14,739)
Real estate held for sale	4,786	2,350
Increase (decrease) in:		
Suppliers	(50,870)	(27,584)
Other accounts payable and accrued liabilities	(207,538)	185,870
Net resources generated by operating activities	881,719	838,095
Financing activities:		
Changes in financial debt at nominal value	174,499	57,470
Decrease in financial debt due to inflationary effects and currency exchange	(193,218)	(154,081)
Derivative financial instruments	18,871	(55,584)
Value-added tax payable	26,898	20,419
Repurchase of shares, net	(66,032)	(13,344)
Dividends paid	(112,946)	(65,039)
Reduction of minority interest	(321,429)	-
Convertible debt	(181,646)	181,891
Effect of valuation of derivate financial instruments	(1,849)	3,527
Net resources used in financing activities	(656,852)	(24,741)
Investing activities:		
Long-term notes receivable	(207,551)	(175,815)
Vacation club units	(11,453)	25,471
Additions to property and equipment	(286,832)	(256,798)
Withdraws and transfers of property and equipment	200,971	130,929
Investment in shares of associated companies	1,758	6,031
Intangible assets	23,569	(589,708)
Other assets	(28,964)	943
Deferred credits, net	163,635	91,823
Net resources used in investing activities	(144,867)	(767,124)
Cash and cash equivalents:		
Net increase	80,000	46,230
Balance at beginning of year	339,089	292,859
Balance at end of year	$ 419,089	$ 339,089

See accompanying notes to consolidated financial statements.

1. Nature of business and significant events

Nature of business - Grupo Posadas, S. A. B. de C. V. (formerly Grupo Posadas, S. A. de C. V.) and subsidiaries (collectively the "Company") are primarily engaged in the business of operating hotels. As of December 31, 2006 and 2005, the Company operated a total of 95 hotels with 17,922 rooms and 92 hotels with 17,268 rooms, respectively. The Company mainly operates hotels under its Fiesta Americana and Fiesta Inn brand names throughout Mexico, its Caesar Park and Caesar Business brand names in Brazil, Argentina and recently in Chile. In September 2005, the Company officially launched the One Hotels brand, which will mainly operate at business and industrial zones with economic rates.

The Company enters into management contracts with all the hotels that it operates. Of the total hotels the Company operated as of December 31, 2006 and 2005, it had an equity interest of 50% or greater in 32 and 36 hotels, respectively and it had a leasehold interest in 22 and 19 hotels, respectively. The remaining hotels are those that the Company operated for unrelated third parties, which as of December 31, 2006 and 2005 were 41 and 37 hotels, respectively. For purposes of these consolidated financial statements, these hotels are referred as the Company's "owned", "leased" and "managed" hotels, respectively.

The Company receives fees pursuant to the 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. The Company also receives an incentive fee according to the hotels' operating results.

Additionally the Company operates a vacation club business called Fiesta Americana Vacation Club (FAVC) 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 Company's three FAVC resorts in Los Cabos, Baja California Sur, Acapulco, Guerrero and Cancun, Quintana Roo, Mexico 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.

The Stockholders' Extraordinary Meeting of November 30, 2006, resolved to change the Company's corporate denomination from Grupo Posadas, S. A. de C. V. to Grupo Posadas, S. A. B. de C. V. to ensure compliance with the provisions of the new Securities' Exchange Law.

Significant events

a. On December 20, 2005 the Company executed a share purchase and sale agreement with Cintra, S.A. de C.V. (Cintra), now Consorcio Aeromexico, S. A. B. de C. V. (Consorcio) under which the Company purchased 8,977,171,179 shares of Grupo Mexicana de Aviación, S.A. de C.V. (Mexicana) representing 94.97% of its common stock, at a price of US165.5 million. Simultaneously, share purchase and sale agreements were executed with third parties, to whom part of the Mexicana stock purchased by the Company was sold, with the Company maintaining a 30.41% stake in Mexicana. According to the contract, the date of reference for the acquisition was December 31, 2005. Given that the Company has significant influence but not control over Mexicana, its financial statements are not consolidated with those of the Company.

Based on the share purchase and sale agreement, in December 2006, the Company received from Consorcio the adjustment to the purchase price payment for US11 million, which was distributed between the shareholders in proportion of their stake in Mexicana.

During 2006, the Company concluded with the identification and allocation of the purchase cost price, to the acquired assets and assumed liabilities stated at fair value of acquisition date. As a result of this process the value of the acquired assets was the same of the assumed liabilities, and intangible assets were identified which are shown in the consolidated balance sheet; these correspond to the Mexico City International Airport (M.C.I.A.) runway usage rights and the "Mexicana" and "Click" brands. Therefore, the investment in Mexicana that was presented as of December 31, 2005, in the consolidated balance sheets as investment in shares, is presented in 2006 as intangible assets.

During June and September, 2006, the Company sold 1,818,842,016 Mexicana shares, representative of 19% of the capital stock at a price of $379 million which generated a loss in sale of shares of $6 million, included in other expenses, net in the consolidated statement of income.

b. During 2006, the Company sold a hotel located in Baja California Sur and two hotels located in McAllen, Texas and its participation in the Fiesta Inn Oaxaca hotel. Income was $75,393 and is shown in the consolidated state of income in the other hotel operation income account for $72,254 and in other businesses income for $3,139.

c. In October 2004 and January 2005, the Company issued US225 million under a Senior Notes program due on October 4, 2011. The Notes bear interest at the rate of 8.75% per year, which is payable semiannually. The net proceeds for approximately US225.3 million from the sale of the Senior Notes were used to refinance and extend the maturity of the Company's outstanding indebtedness, as explained in Note 12.

d. Due to the hurricanes that hit the Yucatan Peninsula in July and October 2005, the Company's owned hotels located in Cancún and Cozumel, Quintana Roo, suffered significant damages, thereby causing their temporary closure. These hotels were reopened in December 2005 and January 2006. During 2006 and 2005, revenues of $40,074 and $40,708, respectively, related to business interruption insurance were recorded in results.

2. Basis of presentation

a. Explanation for translation into English - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of Mexican Financial Reporting Standards (MFRS). Certain accounting practices applied by the Company that conform with MFRS may not conform with accounting principles generally accepted in the country of use.

Consolidation of financial statements - The accompanying consolidated financial statements include the financial statements of Grupo Posadas, S. A. B. de C. V. and those of the subsidiaries that the Company controls.

Entities in which the Company's ownership interest is greater than 50% are consolidated in these financial statements because the Company exercises control over such companies. These are:

Company	Participation (%)
Posadas de México, S.A. de C.V. and Subsidiaries	100
Inmobiliaria Hotelera Posadas, S.A. de C.V. and Subsidiaries	100
Servicios Hoteleros Posadas, S.A. de C.V. and Subsidiaries	100
Posadas USA Inc, and Subsidiaries	100
Fondo Inmobiliario Posadas, S.A. de C.V. and Subsidiaries	52

Hotels owned and leased by the Company's subsidiaries pay to Grupo Posadas, S. A. B. de C. V. a management fee on a similar basis as hotels managed but not owned by the Company. For the purpose of showing the results of the hotel operation, hotel management fees, brand and other fees, Management decided not to eliminate these intercompany operations in the preparation of the consolidated statements of income, which does not affect operating income.

The intercompany transactions amounts that were not eliminated, as well as balances of the items which would be affected are presented below:

	2006		2005	
	Elimination	Balance after elimination	Elimination	Balance after elimination
Hotel operation:				
General expenses- Administrative	$ 302,477	$ 223,635	$ 319,647	$ 244,428
General expenses- Sales, advertising and promotion	$ 142,130	$ 195,408	$ 140,638	$ 228,415
Hotel management fees, brand and other:				
Revenues	$ 444,607	$ 539,660	$ 460,285	$ 549,729

Remaining significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

b . Translation of financial statements of foreign subsidiaries - To consolidate the financial statements of foreign subsidiaries that operate independently of the Company in terms of finances and operations, the same accounting policies of the Company are applied. The financial statements are restated for inflation of the country in which such foreign subsidiaries operate to express amounts in purchasing power of the foreign currency as of the most recent year-end. All assets, liabilities, costs and expenses are translated into Mexican pesos using the closing exchange rate in effect at the most recent balance sheet date presented. Paid-in capital is translated at the exchange rate in effect when contributions are made. Accordingly, the Company obtains comparable information based on the functional currencies of each country in which it operates. Consequently, the figures of prior year financial statements differ from those originally presented.

The financial statements of foreign subsidiaries included in the 2005 consolidated financial statements are restated using a common factor applicable to the consolidated amounts, which was 4.89%.

c. Comprehensive income - Represents changes in stockholders' equity during the year, for concepts others than distributions and activity in contributed common stock, and is comprised of the net consolidated income for the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income. In 2006 and 2005, other comprehensive income (loss) items are the result from holding nonmonetary assets and the effect of valuating derivate instruments.

d. Reclassifications - Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2005 have been reclassified in order to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2006; the most significant of which is the presentation of financial instruments and derivative financial instruments in the consolidated balance sheets.

3. Summary of significant accounting policies

New financial reporting standards - As of June 1, 2004, the function of establishing and issuing MFRS (which standards are called Normas de Información Financiera or "NIFs") became the responsibility of the Mexican Board for Research and Development of Financial Reporting Standards (CINIF). CINIF decided to rename the accounting principles generally accepted in Mexico (MEX GAAP), previously issued by the Mexican Institute of Public Accountants, as MFRS. As of December 31, 2005, eight Series A standards had been issued (NIF A-1 to NIF A-8), representing the Conceptual Framework, and NIF B-1, Accounting Changes and Correction of Errors. The Series A NIFs and NIF B-1 went into effect as of January 1, 2006. Application of the new MFRS did not have a material impact on the Company's consolidated financial position, results of operations or related disclosures.

The accompanying consolidated financial statements have been prepared in conformity with MFRS, which require that Management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Company's Management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances. The significant accounting policies of the Company are as follows:

a. Change in accounting policy-

Severance payments at the end of the work relationship - Effective January 1, 2005, the Company adopted the revised provisions to Bulletin D-3, "Labor Obligations" related to recognition of the liability for severance payments at the end of the work relationship for reasons other than restructuring, which is recorded using the projected unit credit method, based on calculations by independent actuaries. The accrued liability as of January 1, 2005 calculated by independent actuaries is $7,374. The Company chose to record such amount as a transition liability to be amortized using the straight-line method over 20 years, which represents the average labor life of employees expected to receive such benefits.

b. Recognition of the effects of inflation - The Company restates its consolidated financial information to Mexican peso purchasing power as of the most recent balance sheet date presented. Accordingly, the consolidated financial statements of the prior year, that are presented for comparative purposes, have also been restated to Mexican pesos of the same purchasing power and, therefore, differ from those originally reported in the prior year. Recognition of the effects of inflation results mainly in inflationary gains or losses on nonmonetary and monetary items that are presented in the financial statements under the following two line items.

Cumulative effect of restatement - Represents the accrued monetary position result through the initial restatement of the financial statements, the result from translating foreign subsidiaries and the gain (loss) from holding nonmonetary assets which resulted from restating certain nonmonetary assets (below) inflation, less the related deferred income tax effect.

Monetary position result - Monetary position result, which represents the erosion of purchasing power of monetary items caused by inflation, is calculated by applying National Consumer Price Index (NCPI) factors to monthly net monetary position. Gains (losses) result from maintaining a net monetary liability (asset) position, respectively.

For the years ended December 31, 2006 and 2005, the inflation rates were as follows:

	2006	2005
Mexico	4.05	3.33
United States of America	2.54	3.42
Brazil	2.81	5.05
Argentina	9.84	12.33

c. Cash and cash equivalents - Cash and cash equivalents consists mainly of bank deposits in checking accounts and readily available daily investments of cash surpluses. Cash and cash equivalents is stated at nominal value plus accrued yields, which are recognized in results as they accrue.

d. Notes receivable from Vacation Club operation - These represent collection rights derived from the sale of vacation club memberships, which are assigned to a trust to guarantee lines of credit contracted by the Company to finance this operation. The amounts received under these credit lines are shown net with notes receivable in the consolidated balance sheet.

e. Financial instruments - According to its intent, from the date of acquisition, the Company classifies investments in financial instruments in any of the following categories: (1) trading, when the Company intends to trade debt and equity instruments in the short-term, before their maturity, if any. These investments are stated at fair value; any fluctuations in the value of these investments is recognized within current earnings; (2) held-to-maturity, when the Company intends to and is financially capable of holding financial instruments until their maturity. These investments are recognized and maintained at amortized cost and are subject to impairment tests; and (3) available-for-sale, investments, which include those that are classified neither as trading nor held-to-maturity. Fair value is determined using prices quoted on recognized markets. If such instruments are not traded, fair value is determined by applying recognized technical valuation models.

At December 31, 2006 and 2005, trading deposit certificates with renewable maturities exceeding one month of $79,223 and $67,605, respectively, were executed.

Financial liabilities derived from the issuance of debt instruments are recorded at the value of the obligations they represent. Any expenses, premiums and discounts related to the issuance of debt financial instruments are amortized over the life of the instruments.

f. Inventories and cost of sales - Inventories are valued at average cost, which due to their high turnover is similar to replacement cost, without exceeding market value. Cost of sales is restated using factors derived from NCPI.

g. Vacation Club units and real estate held for sale - Vacation Club units are recorded at construction cost in US dollars and are restated to reflect the fluctuation of the Mexican peso against the US dollar, for purposes of recognizing values in accordance with current real estate market values. Cost of sales is recognized at the time sales are recorded.

Vacation Club units recorded as long-term as of December 31, 2006 and 2005, correspond to the costs of the construction of the Fiesta Americana Condesa Acapulco Hotel, which is being remodeled to provide Vacation Club services, as well as the construction of the third stage in the Los Cabos, Baja California Sur resort. As of December 31, 2006, the budget for concluding this construction stage is approximately $320,000.

Assets available for sale are primarily real property approved for sale by management that is expected to be realized within one year. However, according to Company policy, these assets are recorded as short- term even though their business cycle could be longer.

In prior years, Management decided to discontinue the sale of the real estate inventory, which is therefore shown at its estimated realizable value. Strategies have been established to achieve the short- term sale of this asset. The results of this business are shown under discontinued operations in the consolidated statements of income. As of December 31, 2006 and 2005, assets and liabilities that arise from discontinued operations are not considered significant.

h. Property and equipment - Property and equipment are initially recorded at acquisition cost and are restated using the NCPI. Depreciation is calculated using the straight-line method, based on the economic useful lives and residual values of 24% in the case of buildings determined by independent appraisers.

The Company follows the practice of capitalizing, in addition to the restated cost, comprehensive financing cost incurred in hotels' major remodeling and in the construction stage of new hotels in which it has a majority equity interest. The capitalized amounts are restated annually based on NPCI factors and the related amortization is recorded in the income statement based on the useful lives of the assets. At December 31, 2006 and 2005, no amounts were capitalized related to this concept.

Average annual depreciation percentages of property and equipment are as follows:

	(%)
Buildings	2
Furniture and fixtures	10
Transportation equipment	25
Computer equipment	30

The cost of major improvements, remodeling and replacements is capitalized as furniture and fixtures and is amortized over periods that range between three and five years. The cost of minor repairs and maintenance is charged to results when incurred.

Operating equipment is depreciated using the straight-line method over three years.

i. Investment in shares of associated companies - Investment in shares where the Company has significant influence, and value of tangible assets is greater than the assumed liabilities, are recorded under the equity method, recognizing the participation in the results and stockholders' equity of associated companies. Investments in shares where the Company does not have significant influence, are valued at cost of acquisition, and are restated based on the NCPI, but not to exceed realizable value.

j. Derivative financial instruments - The Company obtains financing under different conditions. Occasionally, interest rate and exchange swaps are contracted to manage its exposure to interest rate and foreign currency fluctuations. The Company formally documents all hedges, describing objectives and risk management strategies for derivative transactions and their recognition in accounting. The Company's policy is to avoid performing transactions with derivative financial instruments for speculative purposes.

The Company recognizes all assets or liabilities that arise from transactions with derivative financial instruments at their fair value in the consolidated balance sheet, regardless of its reason for holding them. Fair value is determined by using prices quoted on recognized markets. If these such instruments are not traded, their fair value is determined by applying recognized valuation techniques.

Changes in the value of derivative instruments designated as hedges are recognized as follows: (1) for fair value hedges, changes in both the derivative instrument and the hedged item are stated at fair value and recognized in current earnings; (2) for cash flow hedges, changes in the effective portion are temporarily recognized as a component of other comprehensive income in stockholders' equity and then reclassified to current earnings when affected by the hedged item. The ineffective portion of the change in fair value is immediately recognized in current earnings.

While certain derivative financial instruments are contracted for hedging from an economic point of view, they have not been designated as hedges for accounting purposes. Changes in fair value of such derivative instruments are recognized in current earnings as a component of comprehensive financing cost.

k. Compound financial instruments - Compound financial instruments are contracts that include both liability and equity elements; they are recognized by the Company based on the nature of such elements and the substance of the transaction, rather than their legal form. The elements that represent unavoidable payment obligations are recognized as liabilities, while other elements are included in equity, when the contractual provisions establish an ownership relationship with the holder of the instrument. Initial costs incurred on the issuance of a compound financial instrument are proportionately assigned to liabilities and equity. Costs assigned to equity are deducted from additional paid-in capital, if any, and costs assigned to liabilities are included in deferred assets, which are amortized over the related contractual term.

l. Other assets - Costs incurred in the development phase that meet certain requirements and that the Company has determined will have future economic benefits are capitalized and amortized based on the straight-line method. Disbursements that do not meet such requirements, such as research costs, are recorded in results of the period in which they are incurred. Preoperating expenses incurred and capitalized up to December 31, 2002 are amortized using the straight-line method over ten years. The concession right referred to in Note 11 is amortized based on the straight- line method during the life of the respective contract (25 years).

m. Intangible assets - Refer to the runway usage rights of M.C.I.A. and the “Mexicana” and “Click” brand names identified in the asset and liability allocation process resulting from the investment in the shares of Mexicana. These assets are restated by applying factors derived from the NCPI and are annually subject to impairment tests.

n. Impairment of long-lived assets in use - In presence of an impairment indicator (operating losses, negative cash flows, a history of projection of losses, etc.) which suggests that long-lived assets in use might not be recoverable, the Company reviews their carrying amounts, considering the greater of the present value of future net cash flows or the net sales price upon disposal. Impairment is recorded if book value exceeds the values mentioned above.

o. Employee retirement obligations - In Mexico liabilities from seniority premiums, pension plans and severance payments at the end of the work relationship are recognized as they accrue and are calculated by independent actuaries using the projected unit credit method at net discount rates. Accordingly, the liability is being accrued which, at present value, will cover the obligation from benefits projected to the estimated retirement date of the Company's employees.

Foreign subsidiaries do not have significant employee benefit obligations.

p. Provisions - Provisions are recognized for current obligations that result from a past event, are likely to result in the future use of economic resources, and can be reasonably estimated.

q. Income tax, tax on assets and statutory employee profit sharing - Income taxes (ISR) and statutory employee profit sharing (PTU) are recorded in results of the year in which they are incurred. Deferred income tax liabilities is recognized for temporary differences resulting from comparing the accounting and tax bases of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred ISR assets are recorded only when there is high probability of recovery. Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

Tax on assets (IMPAC) paid that is expected to be recoverable is recorded as an advance payment of ISR and is presented in the balance sheet decreasing the deferred ISR liability.

r. Foreign currency balances transactions - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into Mexican pesos at the applicable exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost in the consolidated statements of income, except those amounts capitalized as a component of construction cost.

s. Revenue recognition - The Company recognizes revenues derived from the following operations: i) hotel investments (which include the operation of leased hotels); (ii) management fees, brand use fees, the Fiesta Rewards loyalty program; and (iii) other related businesses, mainly Vacation Club units. Generally the Company recognizes its revenues as follows: (i) for operation of hotel investment, the Company recognizes revenues when rooms are occupied; (ii) revenues for management and brand use fees are recognized when they are accrued according to management contracts, and Fiesta Rewards program revenues are recognized when administration services are rendered and points to frequent customers are delivered; and (iii) revenues related to the Vacation Club operation are recognized when the contracts are formalized and the corresponding 10% down payment is collected. Long-term notes receivable from the Vacation Club units are net of the allowance for doubtful accounts in the balance sheet. This allowance is based mainly on collection experience and other assumptions with respect to the tendency of the collections.

t. Other related businesses - Operations from other related business include principally revenues, direct costs and operating expenses of certain subsidiaries engaged in the sale of Vacation Club memberships, real estate developments, distribution of operating equipment for hotels, coordination and hotel design and travel agency operations.

u. Majority income per share - Majority income per share is determined by dividing the majority net income by the weighted average number of common shares outstanding.

Diluted income per share is determined by adding 1) the interest and foreign exchange gains or losses recorded in income attributable to convertible loans to the above-mentioned majority net income per share, and 2) to the weighted average outstanding shares, the weighted average of obligations that may be converted into shares outstanding during the period, converted into shares based on the conversion coefficients established in the convertible loan agreements.

4. Cash and cash equivalents

		2006		2005
Cash	$	161,029	$	182,011
Cash equivalents		258,060		157,078
	$	419,089	$	339,089

5. Accounts and notes receivable

		2006		2005
Clients and agencies	$	194,325	$	225,116
Real estate companies		67,580		102,337
Value-added tax		189,000		111,353
Refundable income and other taxes		116,239		176,016
Notes receivable, net		243,877		294,007
Credit cards		37,219		17,147
Insurance company		-		234,740
Other		139,972		133,227
		988,212		1,293,943
Less - Allowance for doubtful accounts		(17,430)		(8,595)
	$	970,782	$	1,285,348

6. Real estate held for sale

		2006		2005
Vacation Club units	$	140,222	$	34,644
Villas and residential lots		29,141		31,528
Land and buildings for sale		-		107,977
	$	169,363	$	174,149

7. Long-term notes receivable

These assets correspond to the long-term amounts receivable from the sale of Vacation Club memberships. Their maturities as of December 31, 2006 are as follows:

	Year due		Thousands of US dollars
	2008		17,049
	2009		13,638
	2010 and thereafter		22,468
			53,155
Equivalent in thousands of Mexican pesos		$	574,686
Loss- Allowance for doubtful accounts			(50,058)
		$	524,628

8. Property and equipment

		2006		2005
Buildings	$	8,147,681	$	8,202,844
Furniture and fixtures		2,036,923		1,940,087
Transportation equipment		41,058		46,375
Computer equipment		127,254		127,145
		10,352,916		10,316,451
Less- Accumulated depreciation		(3,791,156)		(3,607,632)
		6,561,760		6,708,819
Land		1,906,962		1,905,166
Construction in-progress		94,664		129,617
	$	8,563,386	$	8,743,602

9. Investment in shares of associated companies

	Participation percentage at December 31, 2006		2006		2005
Associated -					
Inmobiliaria Las Animas, S. A. de C. V.	25	$	16,762	$	17,411
Other-					
Inmobiliaria Hotelera de Yucatán,S. A. de C. V.	9.2		5,098		5,139
RioTur Empresa de Turismo do Municipio do Rio de Janeiro S/A	1.91		101		96
TurisRio Companhia de Turismo do Estado do Rio de Janeiro S/A	0.49		10		10
Other			2,450		2,469
		$	24,421	$	25,125

10. Intangibles assets

		2006		2005
M.C.I.A. runway usage rights	$	550,434	$	573,349
"Mexicana" and "Click" brands		15,705		16,359
	$	566,139	$	589,708

11. Other assets

		2006		2005
Preoperating expenses, net	$	86,065	$	198,038
Lease right		9,671		20,363
Concession right		331,688		326,449
Prepaid interest and commissions		61,181		72,586
Vacation Club deferred charges		39,503		50,960
Other		11,013		3,753
	$	539,121	$	672,149

12. Long-term debt

As of December 31 long-term debt is comprised as follows (variable interest rates as of December 31, 2006):

		2006		2005
US dollar and Euro denominated:				
Senior Notes at fixed interest rate of 8.75%	$	2,432,610	$	2,509,745
Mortgage loans at rates that range from 5.76% to 12.68%		446,339		498,231
Syndicated loan at 7.20%		518,957		-
Other loans at rates from 6.36% to 8.35%		46,764		212,087
Mexican peso denominated:				
Debt certificates programs at 12.49%		250,000		839,120
Syndicated loan at 8.77%		345,600		-
Mortgage loans at rates that range from 8.86% to 9.31%		85,514		85,320
		4,125,784		4,144,503
Less- current portion		(111,066)		(196,613)
Long-term debt	$	4,014,718	$	3,947,890

Long-term debt maturities as of December 31, 2006 are as follows:

	Payable in pesos	Denominated in Mexican	US dollars (thousands)
2008	$	114,201	22,190
2009		360,540	23,009
2010		110,065	21,923
2011 and thereafter		61,860	244,400
	$	646,666	311,522
Equivalent in thousands of Mexican pesos			$ 3,368,052
Total in thousands of Mexican pesos			$ 4,014,718

As of December 31, 2006, the secured debt, amounts to $531,852. The principal collateral consists of real estate (hotels), of which the book value amounts to $1,335,941, as well as guarantees from certain subsidiaries.

On October 4 of, 2004, the Company issued US150 million under a Senior Notes program due on October 4, 2011. The Notes bear interest at the rate of 8.75% per year, which is payable semiannually. The net proceeds for approximately US144.4 million from the sale of the Senior Notes were used to repay a portion of the Company's outstanding indebtedness, of which US106 million was secured and US38.4 million was unsecured. On January 21, 2005 the Company issued an additional US75 million, under the same characteristics of the original program issued on October of 4, 2004.

The aforementioned Senior Notes are guaranteed by the Company's main subsidiaries and impose the obligations and restrictions that are generally applicable to this type of instrument. A breakdown of the main financial items of the guarantor and non-guarantor subsidiaries is detailed below:

	Grupo Posadas, S.A.B. de C.V. and guarantor subsidiaries		Non-guarantor subsidiaries		Total Consolidated	
	2006	2005	2006	2005	2006	2005
Total operating revenues	$ 3,917,325	$ 4,033,233	$ 1,312,285	$ 1,337,716	$ 5,229,610	$ 5,370,949
Depreciation amortization and real estate leasing	$ 425,735	$ 463,033	$ 199,117	$ 208,214	$ 624,852	$ 671,247
Operating income	$ 599,750	$ 643,304	$ 342,131	$ 221,693	$ 941,881	$ 864,997
Net consolidate income	$ 381,919	$ 385,526	$ 49,705	$ 63,042	$ 431,624	$ 448,568
Total assets	$ 7,479,675	$ 8,313,120	$ 4,590,102	$ 4,118,615	$ 12,069,777	$ 12,431,735
Total liabilities	$ 6,188,597	$ 6,018,703	$ 540,674	$ 974,000	$ 6,729,271	$ 6,992,703

The main restrictions on the financial ratios and obligations established in loan contracts are, as follows:

Financial ratios	Restrictions
Current	Greater than 0.60
Onerous debt-to-equity	Less than 1.22
Interest coverage	Greater than 2.75
Net debt to EBITDA	Less than 4.00

The most significant covenants are:

– The level of indebtedness, payment of dividends and the stockholders' distributions are subject to the compliance with certain financial ratios.

– The Company must insure and maintain insurance on all of its properties, assets and business against loss and damage.

As of December 31, 2006 these restrictions and covenants have been complied with.

a. The Company has loan agreements for a US10 million and EUR5 million financing with the International Finance Corporation and Deutsche Investitions–Und Entwicklungsgesellchaft mbh, maturing in December 2009, with an interest rate of Libor plus 1 percentage point and the 6 month Euro Libor plus 3 percentage points, respectively, convertible into Series "L" shares of the Company. Due to this convertibility feature, the portion identified as equity is presented as contributions for future capital increases in the consolidated statements of changes in stockholders' equity.

b. In 2001, the Company established an Unsecured Debt Certificate Program for an authorized amount of up to $1,000,000. The nominal value of the certificates was one hundred Mexican pesos and the maturity term of each issue was from one to ten years. Denominated in Mexican pesos or in Units of Investment (UDI's) with interest payable every 28 days at the rate established for each issue. On May 14, 2003, a securities issue took place for a value of $250,000 which covered the total authorized amount. Under the terms of this program, the first payment of $200,000 was fully settled on December 2, 2004.

Under this same program, certificate maturities of $300,000 and $250,000 were settled in February and July 2006, respectively; one issue of $250,000 matures on May 6, 2009.

During 2002, the Company established a Debt Certificate Program with a 50% guarantee from a financial institution, for a total authorized amount of up to $1,500,000. The par value of the securities was one hundred Mexican pesos. During 2003, certificates were issued for a value of $875,000, which amount matured on January 27, 2009. In February 2005, the Company prepaid these certificates.

c. During November 2005, the Company structured a syndicated loan for US50 million for a five-year term (with a two-year grace period). The lead bank is ING Bank (México), S.A., while the other participants include Bancomext, BBVA Bancomer, S.A., Bayerische HYPO-UND Vereinsbank AG, HVB Group, Banco de Crédito e Inversiones, Miami Branch and Banco Industrial, S.A. The terms of this loan stipulate that the loan may be withdrawn in two tranches; the first of up to US30 million and the second of up to US20 million, or its peso equivalent in both cases. This transaction assures funds under favorable conditions for the timely payment of unsecured debt certificates. During February 2006, US8 million and $216,000 were disposed of, and US22 million in July 2006. In addition, in November 2006, an add-on to the above syndicated loan of US30 million was executed, resulting in a total loan of US80 million. The terms of this add-on are similar to the original loan terms. Resources obtained from these transactions were used to settle short-term credit lines.

d. The Company executed three revolving credit lines on July 21, 2000, February 26, 2003, and April 6, 2006 with Bancomext and Banco Mercantil del Norte, S.A. (Banorte) for up to an authorized amount of US29.2 million, US46 million and US47 million, respectively, through several disposals maturing on or before November 25, 2011, April 28, 2010, and January 28, 2012, respectively. Disposals under these credit lines bear variable interest rates and are guaranteed by notes receivable related to financing granted on Vacation Club sales. The collection rights on the sale of Vacation Club intervals, which are formalized in notes receivable, have been assigned to a trust fund that is located outside Mexico. Pursuant to collateral assignment contracts, the Company has transferred the collection rights assigned to the trust fund to Bancomext and Banorte. These credit lines establish mortgage guarantees on Vacation Club real property.

As of December 31, 2006 and 2005, the outstanding balance of credit lines contracted with Bancomext is US15 million and US15.3 million; those contracted with Banorte are for the amounts of US37.2 million and US32.4 million, respectively. Notes receivable assigned to the trust are US155.6 million and US122.2 million as of December 31, 2006 and 2005, respectively.

e. During December 2005, the Company executed two loan agreements secured by a pledge with IXE Banco, S.A. and Inmobiliaria Rancho Santa Fé, S.A. for $261,600 and $118,008, respectively, of which $375,480 had been disposed of as of December 31, 2005, maturing in June 2006, at an interest rate three points above the Interbank Interest Rate (TIIE). The pledge consists of 1,897,858,343 shares representing 20.08% of the common stock of Mexicana, which, according to the stock brokerage services agreement signed with IXE Casa de Bolsa, S.A. de C.V., dated November 21, 2005, were taken on a firm basis by the aforementioned brokerage house, and the respective resources will be applied to settle such debt. Consequently, the latter is presented net with the investment in shares of Mexicana. These debts were settled in April and August 2006, respectively.

13. Derivative financial instruments

a. Exchange derivatives

In 2005, the Company contracted exchange rate swaps of US26 million on principal of the “Senior Notes” program, which mature in October 2011, with a fixed exchange rate at maturity. The swap was classified as a fair value hedge; accordingly, exchange gains or losses derived from the swap are recorded in comprehensive financing cost to offset exchange gains or losses resulting from the hedged liability. As of December 31, 2006 and 2005, the notional amount is $275,080, while the fair value is $30,208 and $19,048, respectively.

b. Interest rate derivatives

On May 22, 2003 and June 26, 2006, the Company contracted two interest rate swaps under which it pays fixed interest and receives variable interest. Both derivatives were designated as cash flow hedges.

At December 31, 2006 and 2005, interest rate swaps are as follows:

Year	Notional amount	Beginning date	Maturity date	Rate received	Rate paid	Fair value
2006	US8.3 million	May 2003	September 2007	8.87%	5.92%	$ 1,678
2005	US9.0 million	May 2003	September 2007	7.26%	5.92%	$ 3,556
2006	$216 million	June 2006	November 2010	8.79%	10.14%	$ 6,268

As of December 31, 2006 and 2005, the calculation of the fair value of these swaps, determined by using recognized valuation techniques that measure future cash flows at present value, led to the recording of $1,678 and $3,556, respectively, under comprehensive income, together with a liability of $6,268 which was charged to results at the 2006 close.

14. Long–term accrued liabilities

		2006		2005
Contingency reserve	$	18,871	$	55,262
Employee retirement obligations		22,240		16,525
Severance payments		9,016		7,374
Preferred stockholders		-		6,077
	$	50,127	$	85,238

15. Employee retirement obligations

The net cost of the period for obligations resulting from the pension plan, seniority premiums and severance payments at the end of the work relationship was $6,322 and $9,488 in 2006 and 2005, respectively. Other disclosures required under accounting provisions are not considered material.

16. Shares in trust

The Company holds in trust 6,278,362 and 965,000 Series "A" and "L" shares, respectively, of Grupo Posadas, S. A. B. de C. V., for assignment and sale to top executives.

A committee has been created to grant the right to purchase and allocate the number of shares to each qualifying executive, based on performance criteria, with the executive retaining the option to purchase at the end of the corresponding term in question. The selling price is fixed in US dollars based on the share market value and the exchange rate in effect when assigned to the executive. Given that the term to execute the share purchase term is three years, with two years' grace period, interest is charged for the financing period. As of December 31, 2006, the cost of the shares held in trust is $45,353 (par value).

17. Stockholders' equity

a. As of December 31, the capital stock of the Company consists of shares with no par value and is comprised as follows:

	Number of Shares					
	2006			2005		
	Series "A"	Series "L"	Total	Series "A"	Series "L"	Total
Authorized capital	603,394,827	128,985,074	732,379,901	603,394,827	128,985,074	732,379,901
Less-						
Unsubscribed capital	(135,453,063)	(20,038,219)	(155,491,282)	(135,453,063)	(20,038,219)	(155,491,282)
Subscribed capital	467,941,764	108,946,855	576,888,619	467,941,764	108,946,855	576,888,619
Less-						
Repurchase of shares	(5,162,942)	(2,198,043)	(7,360,985)	(2,144,942)	(368,543)	(2,513,485)
Shares in trust	(6,343,962)	(1,017,600)	(7,361,562)	(6,243,762)	(1,017,600)	(7,261,362)
Shares in guarantee trust	(76,680,546)	-	(76,680,546)	(76,680,546)	-	(76,680,546)
	(88,187,450)	(3,215,643)	(91,403,093)	(85,069,250)	(1,386,143)	(86,455,393)
	379,754,314	105,731,212	485,485,526	382,872,514	107,560,712	490,433,226

b. In accordance with the Company's bylaws, Series "A" shares may be subscribed by Mexican citizens or entities and may be purchased by non-residents through a neutral fund constituted in Nacional Financiera, S.N.C. Series "L" shares have limited voting rights and other limited corporate rights, are of free subscription and are limited to 25% of total stockholders' equity.

c. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a tax at the rate in effect when the dividend is distributed. Any tax paid on such distribution, may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

d. As of December 31, 2006, the legal reserve amounts to $97,886 (nominal value) and is equal to 20% of capital stock. This reserve may not be distributed to stockholders during the existence of the Company, except in the form of a stock dividend.

e. Shares held in escrow have been guaranteed through their subscription and payment by the fiduciary, by means of a guarantee trust contract executed with Bancomext and the guarantee granted by the latter for securities with a value of $875,000 issued by the Company in 2003 and prepaid in February 2005, as described in Note 12. The Company's Management will determine the treatment to be applied to these shares once such trust is canceled.

f. The Stockholders' Ordinary General Meeting of April 2006 resolved that, according to the provisions of the Securities' Exchange Law, the maximum amount of resources destined for the purchase of the Company's own shares would be equal to 30% of retained earnings. During 2006, the provision for the repurchase of shares was increased by $434,827 with charge to retained earnings.

g. The Stockholders' Extraordinary General Meeting of April 2006 resolved to declare dividends of $132,384 at face value, which were paid on June 1, 2006. In the consolidated statement of changes in stockholders' equity, these dividends are shown net of dividends of $19,607 (at nominal value) reimbursed from the release of shares held in escrow.

h. At a Stockholders' Extraordinary General Meeting held in April 2005, a dividend of $86,173 at nominal value, was declared, which was paid on June 1, 2005. This is presented in the consolidated statement of changes in stockholders' equity net of the dividends of $25,429 at nominal value, reimbursed for the release of the shares held in guarantee trust.

i. During December 2005, the Company received US16.5 million through a convertible financial instrument to be settled at the Company's discretion through a fixed number of its shares or those of any of its associated companies. Due to the nature of this instrument, it was classified in the consolidated statement of changes in stockholders' equity as contributions for future capital increases at that date. During 2006, due to unfavorable conversion conditions, this amount was refunded and shown as reimbursement of convertible debt.

j. Due to preferred stockholders of subsidiary - There are 23,413,903 preferred shares of Promotora del Caribe, S. A. with a par value of US1.00 each which represent the conversion of Mexican public debt invested by its stockholders in a hotel in Mexico. These shares will be redeemable at their US dollar subscription value through future dividends distributed by the subsidiary. The preferred shares have an interest rate equivalent to LIBOR with a limit of 8% annually, which is payable semi-annually. The redemption of these shares and their related interest, are subject to the generation of cash flows and earnings by the subsidiary, after repayment of financial indebtedness and the fulfillment of certain conditions.

During 2006, the Company acquired these shares through a subsidiary at a price of $280,646, which is included under the reduction of minority interest heading in the consolidated statements of changes in stockholders' equity.

18. Foreign currency position and transactions

As of December 31, the foreign currency position is:

	2006	2005
	Thousands of US Dollars	
Current-		
Assets	46,686	37,384
Liabilities	(85,914)	(87,627)
	(39,228)	(50,243)
Long-term-		
Assets	44,815	35,240
Liabilities	(253,939)	(272,506)
	(209,124)	(237,266)
Net foreign currency liability position	(248,352)	(287,509)
Equivalent in thousands of Mexican pesos	$ (2,685,082)	$ (3,108,432)

	2006	2005
	Thousands of Brazilian Reals	
Assets	29,980	26,265
Liabilities	(24,376)	(30,958)
Net foreign currency asset (liability) position	5,604	(4,693)
Equivalent in thousands of Mexican pesos	$ 28,339	$ (23,732)

	2006	2005
	Thousands of Argentinean Pesos	
Assets	18,224	21,951
Liabilities	(9,321)	(8,939)
Net foreign currency asset position	8,903	13,012
Equivalent in thousands of Mexican pesos	$ 31,425	$ 45,928

As of the date of the consolidated financial statements, the exchange rates were as follows:

	December 31,		March 16,
	2006	2005	2007
Pesos per US dollar	$ 10.8116	$ 10.6344	$ 11.1348
Pesos per Brazilian real	$ 5.0569	$ 4.5432	$ 5.3259
Pesos per Argentinean peso	$ 3.5297	$ 3.5027	$ 3.5919

Transactions denominated in foreign currencies that are carried out for the companies located in Mexico primarily consist of revenues from hotel operations, Vacation Club memberships and real estate development sales, and interest expense.

19. Transactions with related parties

On January 1, 2006, the Company executed a financial advisory services contract with Mexicana, for US2 million per year, which is presented in the consolidated statements of income under revenues from other businesses.

20. Income tax, assest tax an statutory employee profit sharing

In accordance with Mexican tax law, the Company is subject to ISR and IMPAC. ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component, which is similar to the gain or loss from monetary position. In 2005 and 2006, the tax rate was 30% and 29%, respectively, and as of 2007, the tax rate will be 28%. Due to changes in the tax legislation effective January 1, 2007, taxpayers who file tax reports and meet certain requirements may obtain a tax credit equivalent to 0.5% or 0.25% of taxable income. In addition, as a result of changes in the tax law effective in 2005, cost of sales is deducted instead of inventory purchases. Taxpayers had the option, in 2005, such inventory was decreased by the undeducted inventory balance according to Rule 106, tax loss carryforwards. As of 2006, PTU paid is fully deductible. PTU is 10%.

Through 2006, IMPAC was calculated by applying 1.8% on the net average of the majority of restated assets less certain liabilities, including liabilities payable to banks and foreign entities. IMPAC is payable only to the extent that it exceeds ISR payable for the same period; any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years. As of January 1, 2007, the IMPAC rate will be 1.25% on the value of assets for the year, without deducting any liabilities.

The Company files consolidated ISR and IMPAC with most of its Mexican subsidiaries based on the daily average of the subsidiaries' voting stock held by the Company.

The income for employee profit sharing purposes applicable to the Mexican companies does not consider inflation adjustments, nor unrealized currency exchange gain or loss, and is calculated based on the individual results of each of the operating companies.

Tax regulations in Brazil - According to current Brazilian Income Tax Law, the subsidiaries operating in that country are subject to federal income and social contribution taxes, which are computed at the respective rates of 25% and 8%. The federal income tax may be reduced by certain amounts, when applicable, if the companies invest an equivalent amount in government-approved projects and in other priority areas or industries in Brazil.

As of December 31, 2006, the subsidiaries that operate in Brazil had tax loss carry forwards for income tax purposes of $556,231. Likewise, these companies did not recognize deferred income tax effects due to the uncertainty of the recovery of the tax losses.

Tax regulations in Argentina - According to current Argentinean Income Tax Law, the subsidiary operating in that country is subject to both income and minimum presumptive income taxes. The income tax rate in force is 35% on the estimated taxable income of each fiscal year. The minimum presumptive income tax is computed at 1% on the potential income from certain performing assets; thus, the Company's tax obligation will coincide with the higher of the two taxes.

Tax regulations in the United States - According to current US Income Tax Law, the subsidiaries operating in that country are subject to income taxes at a rate of 34%.

Taxable income for Mexico - The principal differences between income for tax and accounting purposes were those related to inflation effects, participation in net earnings of associated companies, the difference between purchases and cost of operations, amortization of deferred credits and the utilization of tax loss carry forwards.

a. As of December 31, income tax expense is as follows (net of the effect of ISR tax rate reductions);

	2006	2005
Current ISR	$ 44,925	$ 77,524
Deferred income tax	3,037	22,478
Current IMPAC	84,305	99,674
	$ 132,267	$ 199,676

b. At December 31, the main items comprising the liability balance of deferred ISR are:

	2006	2005
Notes receivable	$ 299,749	$ 312,650
Allowance for doubtful accounts	(1,619)	(449)
Inventories	(37,951)	(21,381)
Property and equipment	1,472,003	1,512,494
Other assets	17,239	5,144
Reserves	(245,586)	(165,957)
Insurance claims	-	(30,050)
Tax loss carry forwards	(32,955)	(254,616)
Recoverable IMPAC	(84,305)	(169,526)
Allowance valuation for tax loss carry forwards and recoverable IMPAC	17,010	212,239
	$ 1,403,585	$ 1,400,548

c. To determine deferred ISR at December 31, 2006 and 2005, the Company applied the different tax rates, to temporary differences according to their estimated dates of reversal.

d. At a consolidated level, as of December 31, 2006, there are no consolidated tax loss carry forwards and the recoverable IMPAC is $84,305, for which a partial deferred ISR asset has been recognized, and can be recovered subject to certain conditions.

21. Earnings per share

The amounts used to determine diluted earnings per share were as follows:

	2006		
	Income	Number of shares	Mexican pesos per share
Net income attributable to common stock	$ 394,462	497,134,756	$ 0.7935
Convertible debt in common shares	-	16,329,114	
	$ 394,462	513,463,870	$ 0.7682

		2005	
	Income	Number of shares	Mexican pesos per share
Net income attributable to common stock	$ 423,037	497,461,195	$ 0.8504
Convertible debt in common shares	-	16,329,114	
	$ 423,037	513,790,309	$ 0.8234

22. Deferred credits

	2006	2005
Vacation Club deferred revenues, net of costs and expenses	$ 219,020	$ 126,407
Other deferred revenues	86,153	15,131
	$ 305,173	$ 141,538

Deferred revenues of the Vacation Club recorded at December 31, 2006 and 2005, refer to net revenues on the "pre-sale" of the third stage of the hotel construction in Los Cabos, Baja California Sur, the construction of which will begin in 2007.

23. Commitments

As of December 31, 2006 and 2005, the Company has operating leasing contracts for certain real estate it occupies, which typically have duration of 10 years. Rental payments were established at variable percentages between 12% and 25% of revenues from hotel operations generated by each property. For the years ended December 31, 2006 and 2005, lease expense was $206,666 and $229,321, respectively.

24. Contingencies

a. As of December 31, 2006, the Company is involved in certain fiscal proceedings either as petitioner or defendant, whose eventual outcomes cannot be anticipated. Company's management and its external advisors consider that the Company has sound legal arguments to prevent such legal proceedings from significantly affecting its financial position or results.

b. Certain subsidiaries are involved in litigation arising in the ordinary course of business. The principal claims have been covered by the contingency reserve shown in the balance sheet as long-term accrued liabilities. In the opinion of management and the Company's legal department, the outcome of the uncovered contingencies is not likely to have a material adverse effect on the Company's financial position and operating results.

25. Information by geographical areas and business segments

The Company operates in different geographical areas including Mexico, South America (Brazil, Argentina and Chile) and United States of America. The main financial captions by geographical area for 2006 are:

	Mexico	South America	United States of America	Consolidated
Total operating revenues	$ 4,564,915	$ 538,467	$ 126,228	$ 5,229,610
Depreciation, amortization and real estate leasing	$ 546,631	$ 72,211	$ 6,010	$ 624,852
Operating income	$ 839,974	$ 68,397	$ 33,510	$ 941,881
Net consolidated income	$ 324,534	$ 84,398	$ 22,692	$ 431,624
Total assets	$ 9,985,464	$ 1,939,953	$ 144,360	$ 12,069,777
Total liabilities and deferred credits	$ 6,735,360	$ 275,155	$ 23,929	$ 7,034,444

The total assets and depreciation, amortization and real estate leasing, for business segments for the year ended December 31, 2006 are as follows:

	Hotel operation and corporate	Hotel management and brand	Other related businesses	Consolidated
Total assets	$ 8,479,182	$ 604,242	$ 2,986,353	$ 12,069,777
Depreciation, amortization and real estate leasing	$ 591,379	$ 1,245	$ 32,228	$ 624,852

The main financial captions by geographical area for 2005 are:

	Mexico	South America	United States of America	Consolidated
Total operating revenues	$ 4,732,252	$ 465,849	$ 172,848	$ 5,370,949
Depreciation, amortization and real estate leasing	$ 589,983	$ 69,975	$ 11,289	$ 671,247
Operating income	$ 787,602	$ 64,238	$ 13,157	$ 864,997
Net consolidated income	$ 362,565	$ 77,473	$ 8,530	$ 448,568
Total assets	$ 10,489,435	$ 1,792,694	$ 149,606	$ 12,431,735
Total liabilities and deferred credits	$ 6,816,213	$ 272,253	$ 45,775	$ 7,134,241

The total assets and depreciation, amortization and real estate leasing, for business segments for the year ended December 31, 2005 are as follows:

	Hotel operation and corporate	Hotel management and brand	Other related businesses	Consolidated
Total assets	$ 10,105,543	$ 380,364	$ 1,945,828	$ 12,431,735
Depreciation, amortization and real estate leasing	$ 647,332	$ 1,023	$ 22,892	$ 671,247

26. New accounting principles

On December 22, 2006, CINIF issued the following MFRS, which will become effective beginning January 1, 2007:

NIF B-3, Statement of Income
NIF B-13, Events Occurring after the Date of the Financial Statements
NIF C-13, Related Parties
NIF D-6, Capitalization of Comprehensive Financing Result

Some of the significant changes established by these standards are as follows:

NIF B-3, Statement of Income, sets the general standards for presenting and structuring the statement of income, the minimum content requirements and general disclosure standards. Consistent with NIF A-5, basic elements of financial statements, now classifies revenues, costs and expenses, into ordinary and non-ordinary. Ordinary items even if not frequent are derived from the primary activities representing and entity's main source of revenues. Non-ordinary items are derived from activities other than those representing an entity's main source of revenues. Consequently, the classification of certain transactions as special or extraordinary, according to former Bulletin B-3, was eliminated.

NIF B-13, Events Occurring after the date of the financial statements, requires that for (i) asset and liability restructurings and (ii) creditor waivers to their right to demand payment in case the entity defaults on contractual obligations, occurring in the period between the date of the financial statements and the date of their issuance, only disclosure needs to be included in a note to the financial statements while recognition of these items should take place in the financial statements of the period in which such events take place.

NIF C-13, Related Parties, broadens the concept "related parties" to include a) the overall business in which the reporting entity participates; b) close family members of key or relevant officers; and c) any fund created in connection with a labor-related compensation plan. Notes to comparative financial statements of prior periods should disclose the new provisions of NIF C-13.

NIF D-6, Capitalization of comprehensive financing result, establishes general capitalization standards that include specific accounting for financing in domestic and foreign currencies or a combination of both. Including mandatory capitalization of comprehensive financing cost directly attributable to the acquisition of qualifying assets.

At the date of issuance of these financial statements, the Company is in the process of determining the effects of these new standards on its financial information.

27. Financial statements issuance authorization

These consolidated financial statements prepared by Management, were authorized by the Audit Committee on March 29, 2007, and are subject the approval at the Board of Directors and Stockholders' Ordinary General Meeting, where may modify the financial statements may be modified based on provisions of the Mexican General Corporate Law.

www.

liveaqua.com

fiestamericanagrand.com

fiestamericana.com

lat19hotels.com

fiestainn.com

onehotels.com

caesarpark.com

caesarbusiness.com

favclub.com

fiestarewards.com

posadas.com

POSADAS®