POSADAS®

NEW HORIZONS

ANNUAL REPORT 2016

Contents

NEW HORIZONS

ANNUAL REPORT 2016

DEAR BOARD MEMBERS AND INVESTORS,

It is my pleasure to share with you the 2016 report of activities and results for Grupo Posadas, and to offer an overview of our major achievements as we progress as a leading innovative and competitive company with strong growth in a sector that has enormous opportunities.

2016 marked yet another year of extraordinary results for Posadas, confirming that we're on the right path to reach our goals. Over the past two years, we have built solid foundations on which to accelerate our growth.

Grupo Posadas is today, without doubt, a very different company, a group that is growing. We closed 2016 with EBITDA of $1.650 billion pesos, a 21% increase with an improved margin over 2015, surpassing our forecast.

Sales in 2016 accelerated their organic growth rhythm significantly, experiencing a 16% increase to report $7.979 billion pesos.

Also, we opened 13 new hotels this year for a total Posadas portfolio of 152 hotels and 24,324 rooms.

WELL-POSITIONED BRANDS

Our brand portfolio is well positioned for profitable growth. In fact, this has been a good year for major hotels with the opening of Live Aqua Urban Resort in Monterrey; 2 Grand Fiesta Americana: Grand Fiesta Americana Puebla, Grand Fiesta Americana Monterrey Valle; 2 Fiesta Americana: Fiesta Americana

Mexico City Toreo, and Fiesta Americana Monterrey Pabellón M; 4 Fiesta Inn: Fiesta Inn Playa del Carmen, Fiesta Inn Los Mochis, Fiesta Inn Pachuca Gran Patio and Fiesta Inn Loft Monterrey La Fe; 3 One: One Salamanca, One Durango and One Cuautitlán, and lastly the Gamma Torreon.

Also, Live Aqua was rebranded as Live Aqua Urban Resort, Live Aqua Beach Resorts and Live Aqua Boutique Resorts. The Front Door was transformed into Live Aqua Residence Club, a private club with a mosaic of upscale residential and hotel properties.

We ran the Viaja campaign for the seventh consecutive year, giving away 900,000 gift certificates. We also relaunched the Fiesta Rewards program (with a new image and adding new benefits), which had 220,000 active members in 2016.

Our Vacation Properties division (Provac) continues to post impressive results for Posadas; the membership business reported net sales of over $2.539 billion pesos, representing a year-over-year increase of 21%.

We have over 32,000 Fiesta Americana Vacation Club members and more than 33,000 Kívac travelers, creating a new community that continues to grow at an exceptional rate.

FINANCIAL RESULTS

In terms of the financial aspect, we continue to strengthen our capital structure and to recover our financial flexibility, both being critically important for the future of the company.

Our EBITDA, being our primary source of cash, has allowed us to invest more than $700 million pesos in the maintenance and refurbishment of our hotels (principally Fiesta Americana Condesa Cancun and Fiesta Americana Guadalajara), and also to meet our financial and fiscal commitments and to generate unrestricted cash flow of over $550 million. Our cash balance totaled $1.770 billion pesos at 2016 close.

The company's improved operating performance compensated the impact of the depreciation of the peso in the net leverage ratio, which was 3.7 times for 2016, holding at the same level as 2015. The

net loss in 2016 was $706 million pesos, due mainly to the exchange rate loss as a result of the 20.1% depreciation of the peso against the US dollar.

In a little over two years, we've taken major steps to strengthen our balance sheet. Our total assets grew 9.4% to $15.070 billion.

Meanwhile, we extended the company's debt profile after another successful placement of an additional US$50 million on the 7.875% Senior Notes due 2022, and with these funds we were able to prepay the $38 million balance on our Senior Notes 7.875% due 2017.

Following up on the 2006 tax liability matter, reported in the 2015 consolidated financial statements and in compliance with the current stage in the proceeding, surety was posted in the amount of $846 million.

Our financial position at 2016 close is detailed in the financial statements appended to this report, fully explaining and classifying the company's results for the year. In addition, the financial statements show the changes in financial position and the changes in our equity in 2016. The notes that accompany and clarify the information contained in the financial statements are also detailed in the appendix, including the Independent Auditor's Report and the 2014, 2015 and 2016 consolidated financial statements for Grupo Posadas

LIVE AQUA URBAN RESORT MONTERREY

S.A.B. de C.V. and Subsidiaries audited by Galaz, Yamazaki, Ruiz Urquiza S.C. (Deloitte).

GROWTH AND DEVELOPMENT

In 2016, we signed agreements with 22 new hotels, representing 3,428 rooms, noting the growth seen in all categories and brands in our portfolio, to end the year with an overall development plan that includes 39 agreements (5,754 rooms) to open new hotels over the next 30 months (adding 24% more rooms to the current offering), which will help us to maintain our accelerated growth rhythm toward our goal of more than 250 properties in operation by 2020.

The elements that have been key to expanding our hotel development agreements with independent investors include our good performance and the conditions of the hospitality market, which have given us confidence to be more aggressive in the terms of our operating and licensing agreements.

OPERATING RESULTS

Hotel revenue increased 18.5% year-over-year. The urban hotels continue to report good performance with an increase in the RevPAR of 10.2%, including the opening of Fiesta Americana Monterrey Pabellón M, Grand Fiesta Americana Monterrey, Live Aqua Monterrey, Grand Fiesta Americana Puebla, and the recent opening of Fiesta Americana Mexico City Toreo. Similarly, the resort hotels reported outstanding performance with a 14.7% increase in the RevPAR.

The GOP in Mexico grew 20% in 2016 over the previous year, with improvements in the margins for all our brands.

AN OPPORTUNITY AHEAD

We are in a new era of innovation and change: this is the era of digital platforms and continuums, and this increase in connectivity is generating a great deal of information, therefore we've invested in tools to analyze the conver-

sations and interactions of digital natives (new segmentation of customers) who follow our brands on social media.

We're the first hotel operator to implement social media sales, response and crisis processes through our "Command Center", a tool that represents the joint efforts of different areas of Posadas. With this, we've improved our interactions on social media, increased our followers, taken advantage of sales opportunities, and responded efficiently to any crisis.

WHAT WE'VE ACHIEVED

Together, we made history on being ranked number 10 among the best companies to work for in Mexico with more than 5,000 employees, according to the Great Place to Work survey.

The ongoing training of our collaborators is a high priority for us, and this year we focused our efforts on three programs: Service School, Attitude, Magic & Action, and Sales School. Additionally, we implemented the Top Talent Transformation program, offered by Harvard Business Publishing, training 19,000 collaborators.

For Posadas, human capital management is one of our highest priorities. In 2016, we held more than 650 reviews to identify the talent with the greatest potential and we designed individual development plans for this group of collaborators.

COMMITTED TO THE COMMUNITY

To conclude this message, I would like to remind you that at Grupo Posadas, we've always demonstrated our strong commitment to the community.

In 2016, for the fourth year in a row, Posadas was recognized as a Socially Responsible Company thanks to our good practices in economic, social and environmental aspects, both in and outside the company.

We support the new generations of young people, and our commitment is reflected in the different programs and actions we're undertaking to inspire people in this age range to reach their professional goals and in their overall development, principally through academic and health programs.

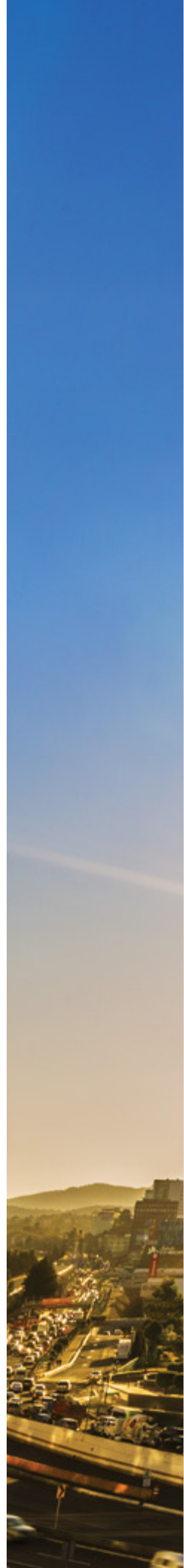
These achievements have only been possible through the excellent work of everyone at Grupo Posadas. I take this opportunity to thank all our collaborators for their dedication and commitment. I conclude by saying that, in keeping with the changes occurring all around us, we will continue to maintain the transforming momentum of our company. There is no doubt that this year, we will consolidate the acceleration of our growth.

On behalf of myself and everyone at Grupo Posadas, I thank you for another year of support and confidence. Without doubt, our results are the best motivation to continue to build the leading company in the hotel business.

JOSÉ CARLOS AZCÁRRAGA

CEO

February 2017



CORPORATE OFFICES GRUPO POSADAS

NEW SPACES NEW MARKETS

MILLENNIALS IN MEXICO

NEW HORIZONS

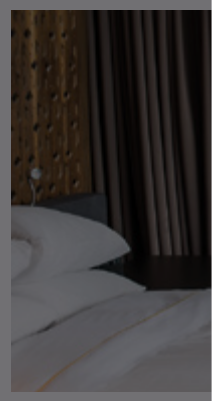
LIVE AQUA
GRAND FIESTA AMERICANA
FIESTA AMERICANA
ONE HOTELES
FIESTA INN
GAMMA HOTELES

NEW TECHNOLOGY

SOCIAL MEDIA
FAST SERVICE, CLOSE AT HAND

01 LIVE AQUA
02 GRAND FIESTA AMERICANA
02 FIESTA AMERICANA
03 ONE HOTELES
04 FIESTA INN
01 GAMMA HOTELES

13
OPENINGS
2016



40,025,997 MILLENNIALS IN MEXICO

33 % OF THE POPULATION

AGES 17 TO 37
BORN
1980 - 2000

Source: CONAPO

HOTEL OPERATORS

26%
POSADAS.

1. POSADAS
2. OTHER CHAINS

Posadas is No. 1 among the 10 largest hotel operators.

LUXURY

3% LIVE AQUA
12% Grand Fiesta Americana

1. AQUA
2. GRAND FIESTA AMERICANA
3. OTHER CHAINS

Grand Fiesta Americana is the No. 3 chain in Mexico.

UPSCALE

15%
Fiesta Americana

1. FIESTA AMERICANA
2. OTHER CHAINS

Fiesta Americana is the No. 2 chain in the category.

MIDSCALE

30%
FIESTA INN

1. FIESTA INN
2. OTHER CHAINS

Fiesta Inn is the No. 1 chain in the category.

ECONOMY

50%
one hoteles

1. ONE HOTELES
2. OTHER CHAINS

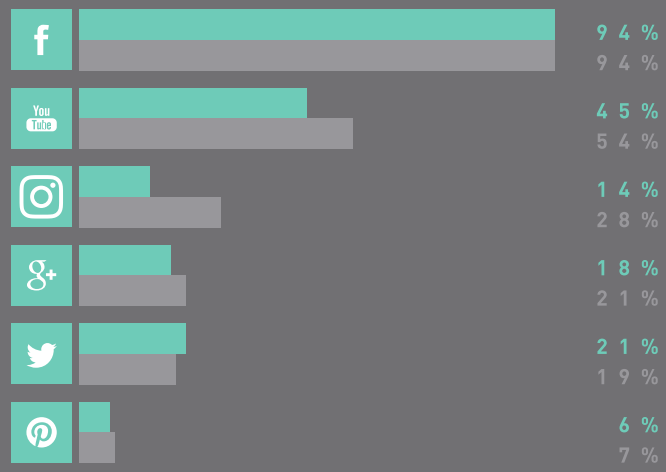
One Hoteles is the No. 1 chain in the category.

24,324
ROOMS
2016

60%
SHARE THEIR EXPERIENCES

SOCIAL MEDIA

SOCIAL MEDIA



AGES:
25-34
18-24

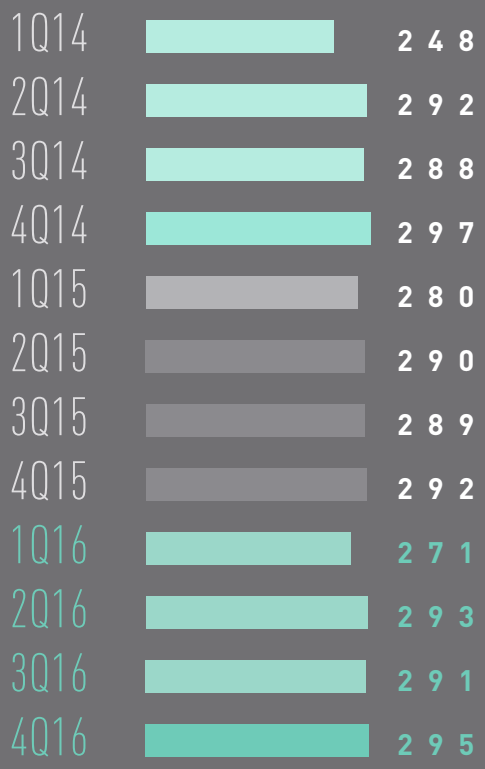
Source: IAB México

TOP 10 MARKET SHARE IN ALL CATEGORIES

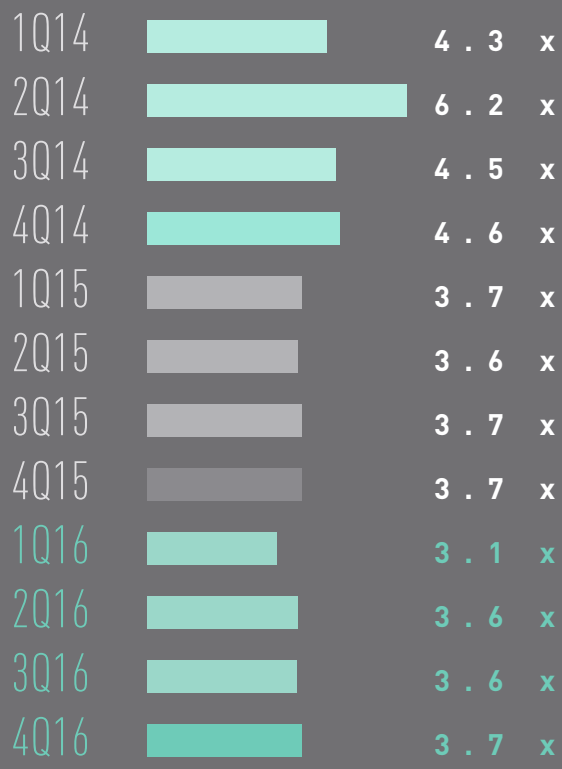
152 HOTELS 2016 → 184 HOTELS 2017

+250 HOTELS 2020

NET DEBT
(US$M)

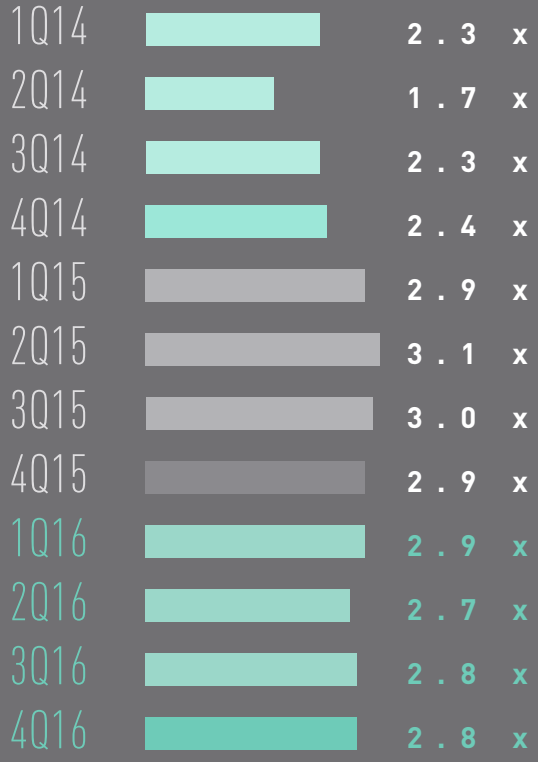


NET DEBT
EBITDA



	2016		2015	
(US$M)	$US	IFRS MXN	$US	IFRS MXN
FX eop:		20.664		17.215
EBITDA LTM		1,650		1,362
Cash		1,770		1,214
Debt:				
Senior Notes 2022	400	8,266	350	6,025
Senior Notes 2017			38	659
Issue expenses (IFRS)	(19)	(394)	(26)	(440)
TOTAL	381	7,872	363	6,244
Net Debt EBITDA		3.7		3.7

NET INTEREST
COVERAGE



DEBT MIX
2016

TENOR

LONG TERM - SHORT TERM

100%

CURRENCY
TOTAL DEBT

USD - MXN

100%

SURETY

UNSECURED - SECURED

100%

RATE

VARIABLE - **FIXED**

100%

FINANCIAL HIGHLIGHTS

GROSS DEBT:	US$400 M
CAPITALIZED EXPENSES:	(US$ 19 M)
TOTAL DEBT:	US$381 M
CASH:	US$ 86 M

FINANCES

AT THE SYSTEM LEVEL, MEASURED BY RATES AND OCCUPANCY, 2016 REPORTED CONTINUITY AND IMPROVED YEAR-OVER-YEAR OPERATING PERFORMANCE.

GRAND FIESTA AMERICANA MONTERREY VALLE

FINANCES 2016

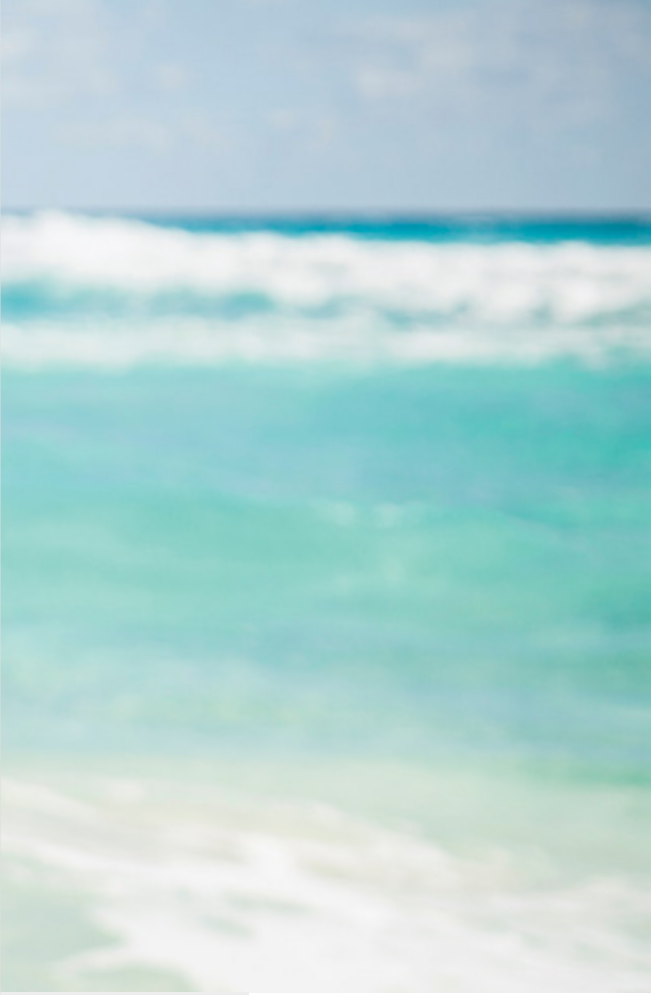
The results for 2016 report growth over last year. Total revenue was $7.979 billion pesos and EBITDA was $1.650 billion, representing year-over-year increases of 16% and 21%, respectively.

At the system level, measured by rates and occupancy, 2016 reported continuity and improved operating performance. The average rate increased 8.4% and occupancy rose 1.3 percentage points ("pp"), resulting in a growth in the revenue per available room (RevPAR) of 10.6%.

FIESTA AMERICANA
CONDESA CANCUN

The favorable trend was experienced in both the urban and resort hotel segments. In terms of the urban hotels, representing approximately 80% of the total rooms operated throughout the system, we report a 9.3% increase in the RevPAR. Regarding the resort hotels, it's important to note that these reported even better performance, with a RevPAR increase of 12.6%.

In May 2016, the company announced the leasing and subsequent 2020 sale of the Fiesta Americana Hermosillo hotel, with 220 rooms. This hotel will continue to be operated by Posadas. Its common areas and 123 rooms have been remodeled representing an investment of $86 million pesos.



THE RESORT HOTELS REPORTED SIGNIFICANT GROWTH IN PERFORMANCE, WITH A 12.6% INCREASE IN REVPAR.

In August 2016, the company announced the sale of Fiesta Inn Monterrey Valle with 176 rooms, which continues to be operated by Posadas on a 20-year agreement. EBITDA of $108 million pesos was reported from this sale.

Regarding the strength of our capital structure, the company continues to successfully implement its liability management program. On May 23, 2016, Posadas released an additional US$50 million under its 7-year (NC4) "7.875% Senior Notes Due 2022" program. With this additional issue, the offering currently totals US$400 million.

The funds were allocated to:

- US$38 million to prepay the balance on the Senior Notes Due 2017.
- US$12 million for corporate use and expenses associated with the issue of the additional notes.

As of December 31, 2016, the average life of the company's total debt was 5.5 years.

The net loss in 2016 was $705.8 million pesos, due primarily to exchange rate loss as a result of the 20.1% depreciation of the peso (MXN) against the US dollar (USD). However, the improvement in the company's operating performance has compensated the impact of the depreciation of the peso in the net leverage ratio, which was 3.7 times for 2016, remaining at the same level as 2015.

The cash balance at December 31, 2016 was $1.77 billion (US$86 million at the closing exchange rate of $20.6640/dollar) and the company's total assets were $15.07 billion (US$729 million).

STRENGTHENING THE CAPITAL STRUCTURE OF THE GROUP IS ONE OF OUR STRATEGIC GOALS.

The details of our 2016 financial position are in Appendix 1 of this report, which contains the Independent Auditor's Report and the 2014, 2015 and 2016 Consolidated Financial Statements for Grupo Posadas S.A.B. de C.V. and Subsidiaries, audited by Galaz, Yamazaki, Ruiz Urquiza S.C. (Deloitte). This report fully explains and classifies the company's results for the year and also presents the changes in financial position and variances in equity occurring in 2016, and also the notes that accompany and clarify the information contained in the financial statements.

There were two Grupo Posadas stockholders' meetings in 2016, held March 15 and October 31. Among other things, these meetings approved the 2016 results and named the members of the board of directors. At the extraordinary meeting, the stockholders agreed to (i) amend the bylaws in terms of the corporate purpose, adjustments to the reporting mechanism for certain corporate actions via the Ministry of the Economy's electronic system, and also the new name of the corporate residency, and (ii) the merger (in 2 stages) of 18 subsidiary companies of Posadas.

These mergers, and other similar corporate actions, are part of the internal restructuring project, which will substantially reduce the number of subsidiaries and improve the efficiency of our transactions, control and management of the group.

NEW SPACES

FIESTA AMERICANA TOREO MEXICO CITY

OPENINGS	**13**
ROOMS	**3,428**
BRANDS	**7**

PROPERTIES

OUR GOAL IS TO CONSOLIDATE THE LEADERSHIP OF GRUPO POSADAS IN ALL CATEGORIES.

We opened 13 hotels in 2016, highlighting the openings in our Lifestyle Deluxe, Luxury and Upscale segments, with the Live Aqua and Grand Fiesta Americana Monterrey Valle hotels with 74 and 180 rooms, respectively, Grand Fiesta Americana Puebla with 168 rooms, Fiesta Americana Monterrey Pabellón M with 178 rooms, and Fiesta Americana Mexico City Toreo with 252 rooms. To these we add the opening of hotels under other brands, such as 3 One, 4 Fiesta Inn —including one under the new concept of extended stays, Fiesta Inn Loft—, and 1 Gamma.

In 2016, we signed 22 new agreements for a total of 3,428 rooms, representing an increase of 10.26% in terms of the number of rooms signed the previous year.

We successfully renewed 15 strategic contracts, extending these for an average 16 years more.

GRAND FIESTA AMERICANA MONTERREY VALLE

At 2016 close, we hold 39 contracts (5,754 rooms) to develop new hotels with different capital and institutional investors. These include 2 Aqua Urban, 1 Grand Fiesta Americana, 8 Fiesta Americana Urban, 10 Fiesta Inn, 1 Fiesta Inn Express, 13 One, 2 Gamma, 1 The Explorean, and 1 Live Aqua Residence Club. These projects represent an estimated investment of approximately $8.6 billion pesos, noting the following hotels that will open their doors in 2017: Fiesta Inn Vallarta La Isla, Fiesta Inn Silao Aeropuerto, Fiesta Inn Salamanca, Fiesta Inn Chihuahua, Fiesta Inn Buenavista, One Guadalajara Expo, One Mexicali, One Leon Antares, One Puebla Serdán, One Chihuahua, One Puebla Periférico, One Mexico City La Raza, Live Aqua Residence Club Los Cabos, and 5 hotels under the Gamma brand.

LIVE AQUA BOUTIQUE RESORT PLAYA DEL CARMEN

NEW MARKETS

LIVE AQUA	**TRENDY**
GRAND FIESTA AMERICANA	**LUXURY**
FIESTA INN	**BUSINESS**

PORTFOLIO

LIVE AQUA RESORT MONTERREY VALLE

FRANCHISE

WE HAVE EXPANDED OUR BRAND PORTFOLIO, REACHING THE YOUNGER MARKETS.

LIVE AQUA

AN INSPIRING ENVIRONMENT TO DELIGHT THE SENSES

Live Aqua are sensorial lifestyle resorts, where every space has been perfectly designed to pamper every one of the senses, at every moment. Surprising details and an exceptional avant-garde design create the ideal space for unique experiences.

In 2016, we relaunched Live Aqua Boutique Resorts into the market at Playa del Carmen, as a luxury all-inclusive concept, aimed at guests looking for a travel experience with the sophistication and glamour of the Live Aqua brand, in one of the trendiest destinations in Mexico. With this new concept, Posadas expands its brand portfolio to gain ground among the younger markets.

LIVE AQUA® HOTELS & RESORTS

GRAND FIESTA AMERICANA PUEBLA

Grand Fiesta Americana is an exclusive hotel concept surrounded by grandeur; sophisticated and innovative spaces that bring together unparalleled Mexican hospitality with personal service. Ideal for successful travelers looking for an exclusive world-class travel experience. The perfect balance between what guests desire and what we offer, is here.

GRAND FIESTA AMERICANA,

A SUBLIME ENCOUNTER BETWEEN LUXURY AND HOSPITALITY

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

Grand Fiesta Americana continues to expand its presence with cutting-edge luxury hotels. During 2016, Grand Fiesta Americana has affirmed its leadership in the luxury segment with the opening of two totally new hotels in Puebla and Monterrey, and the conversion of the Grand Fiesta Americana in Queretaro, for a total of more than 2,200 rooms.

Grand Fiesta Americana, a sublime encounter with luxury, plus personal service and warm hospitality.

Fiesta Americana
HOTELS & RESORTS

AT FIESTA AMERICANA

SERVING OUR GUESTS IS A PLEASURE

Fiesta Americana is the leading hotel chain in Mexico, offering our guests unforgettable stays at the best destinations in the country.

Whether traveling for business or for pleasure, guests at Fiesta Americana hotels will always have a great story to tell. The hotels are known for their contemporary Mexican architectonic beauty and their ability to adapt to the lifestyles of each guest. These hotels offer spaces where freedom and openness are part of the experience, creating an environment that is casual and relaxed, yet inspiring. Fiesta Americana provides the services our guests are looking for at every moment of their stay. Here, guests will find the perfect backdrop for a memorable stay.

FIESTA AMERICANA MONTERREY PABELLÓN M

Our flagship brand continues its successful growth in Mexico. Over the next two years, Fiesta Americana will strengthen its position in major Mexican cities and will move into new urban centers, such as San Luis Potosi, Oaxaca, Tijuana and Leon, among others, generating more than 2,190 new rooms. This means more options for travelers.

The Fiesta Americana national *"Quédate"* (stay here) campaign focuses on conveying the power of this phrase and what it means to us: we want our guests to take away something that goes beyond a simple stay.

We want to create great memories, stories our guests will want to tell. We want our guests to stay with us and for us to stay with them.

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

FIESTA INN

ANOTHER YEAR OF STRENGTHENING IN THE BUSINESS CATEGORY

In the Business Class category, the leading chain continued its consolidation process in 2016. Proof of this is the opening of 3 new hotels in three geographically different points in Mexico, for a total of 63 Fiesta Inn hotels so far.

FIESTA INN LOS MOCHIS

FIESTA INN PLAYA DEL CARMEN

FIESTA INN PACHUCA GRAN PATIO

This growth has been coupled with the ongoing evolution of the brand. Of the 63 hotels, 34 have been remodeled to the new concept, 50% of the total.

FIESTA INN
PLAYA DEL CARMEN

Meanwhile, the Fiesta Inn Loft concept, launched in 2015, continues its consolidation of offerings for longer-stay business travelers. In total, we currently have 5 hotels in operation in northern, central and southeastern Mexico:

FIESTA INN LOFT IRAPUATO

FIESTA INN LOFT QUERÉTARO

FIESTA INN LOFT MONCLOVA

FIESTA INN LOFT CIUDAD DEL CARMEN

FIESTA INN LOFT MONTERREY LA FE

The expansion plans are part of the drive for our brands, as well as being a company goal. In keeping with this, 5 new Fiesta Inn hotels are scheduled for opening in 2017.

FIESTA INN VALLARTA LA ISLA

FIESTA INN SILAO AEROPUERTO

FIESTA INN SALAMANCA

FIESTA INN CHIHUAHUA

FIESTA INN BUENAVISTA

Additionally, this expansion is one of our goals for 2018, when even more properties are expected to open, including:

FIESTA INN AGUASCALIENTES SAN MARCOS

FIESTA INN GALERÍAS CELAYA

FIESTA INN QUERÉTARO JURIQUILLA

FIESTA INN TUXTLA

FIESTA INN SANTA FE

ONE MEXICO CITY
PERIFÉRICO SUR

ONE HOTELES

ACCELERATED DEVELOPMENT

One Hoteles opened three properties in 2016: One Salamanca, One Durango and One Cuautitlán, on the path to reaching the goal of 50 hotels in operation by early 2018 and consolidating the brand's presence in 40 major Mexican cities.

The concept of these hotels, affordable so guests can travel more, is that One Hoteles offers business or vacation travelers just what they need, at a variety of strategic destinations. One Hoteles offers guests reliability, comfort, cleanliness and practicality at a fair price. All backed by the leading hotel operator in Mexico.

If in 2016, this brand had 40 properties in 31 Mexican destinations, the goal for 2017 is to open 6 more hotels nationwide: One Mexicali, One Guadalajara Expo, One Leon Antares, One Puebla Serdán, One Chihuahua and One Mexico City La Raza.

GAMMA, THE ESSENCE OF MEXICO

FAST EXPANSION & GREATER PRESENCE

Gamma is our brand of hotels with unique personality, each one different and reflective of their location. These hotels delight guests with details that are distinctive to the essence of both the hotel and its setting.

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

There was one opening in 2016 in Torreon and one conversion in Pachuca. Also, two more franchises were signed to start operations in 2017:

TAMPICO

ORIZABA GRAN HOTEL DE FRANCE

Other openings scheduled for 2017 are in: Acapulco, Chihuahua, Los Cabos, Merida, Mexico City, Monterrey, Nuevo Laredo, Pachuca, Tepic, and Villahermosa.

GAMMA TIJUANA

There are currently 11 Gamma hotels in operation, representing more than 1,550 rooms. These are added to the more than 35 properties in the process of negotiating their conversion to our brand, all situated in strategic cities.

In 2016, the primary image of our promotion for Gamma was the #EstoEsAquí digital media campaign. The goal: to make Gamma a recognized brand among business and vacation travelers in Mexico, achieving growths of over 120% on our social media, reaching more than 2 million people.

We also changed our brand image to align it with a single corporate essence and to strengthen our positioning and recognition.

Added to this, we implemented the ODIN Standards Management System for our hotels, through which our franchisees access both the physical and service standards that make our brand a solid and unified experience for our guests.

THE EXPLOREAN

FASCINATING EXPERIENCES SURROUNDED BY NATURE

Free your imagination and awaken a desire for exciting experiences. The Explorean is an Experiential Resort, where you can escape from the everyday to contemplate natural beauty and delve into a journey of self-discovery, enjoying outdoor activities in spectacular natural settings, with all the safety and comfort of a world-class resort backed by Fiesta Americana.

The Explorean Cozumel is an All-Inclusive hotel that will charm you with its beauty, surrounded by a spectacular natural environment. This is the perfect place to find yourself and to discover new experiences in natural surroundings set against the breathtaking Caribbean Sea. The Mexican-style architecture uses colors, textures and details that inspire and relax; harmony is reflected in the open, environmentally friendly spaces. The 56 rooms were designed to offer guests total privacy and complete relaxation, where every instant transforms into a unique moment. Fascinating experiences await you in the Maya jungle and the Caribbean Sea. Be amazed by "El Cielo", admire the Dzul-Ha reef, fall in love again on an evening tour of Passion Island, or have fun paddle boarding and snorkeling, among other exciting activities.

THE EXPLOREAN COZUMEL

The Explorean Kohunlich, situated in the heart of the Maya jungle in Chetumal, Quintana Roo, offers unparalleled experiences to commune with nature, learn about the flora and fauna of the region, and to discover the Maya culture. There are 40 villas offering total privacy, to enjoy peace and tranquility, and absolute relaxation.

Visit the Maya ruins of Kohunlich, go kayaking or take a ride on a catamaran at Bacalar, bike through the jungle, and take an evening tour of the Chakanbakan lagoon. These are just some of the activities that await you at The Explorean Kohunlich.

THE EXPLOREAN BY FIESTA AMERICANA

VIAJA

MARKETING

"VIAJA por todo México con Fiesta Americana, Fiesta Inn, Gamma y One" continues to be the most important promotional campaign in the Mexican tourism sector, and was launched for the seventh consecutive year, giving away 900,000 gift certificates, more than 400,000 additional night vouchers, 466,000 food and beverage discount coupons, 5 million pesos in flight discount coupons, 45 international round-trip flight vouchers, more than 5 million Club Premier points, 6 million Fiesta Rewards program points, and a draw for 10 luxury cars, generating 18,402 room nights and $12.3 million pesos in revenue.

The *VIAJA* (travel) promotion, offering the best deals, held 13 special offers during the year, and thanks to constant communication of our *VIAJA* Business, *VIAJA* Weekend and *VIAJA* at the Beach corporate promotions in digital and print media, revenue increased 49% over 2015, exceeding $451 million pesos.

We've also been making special efforts in shared promotions with various commercial partners, including Santander, UBER and American Express, promoting our offerings and brands, and we created new offers, such as the Gamma Friday, Breakfast Included, *VIAJA* Day segmented promotions to fulfill the different needs of our guests.

LOYALTY PROGRAMS

Fiesta Rewards, the Posadas frequent traveler recognition program, was rebranded, adding new benefits and the distinguished Black level for our most loyal members. Fiesta Rewards returned to the media with a major advertising campaign, a new image, and with Mexican actor and singer Ari Borovoy as its spokesperson, to tell all our members: "I know you, I recognize you."

In 2016, 35% of our total hotel occupancy was represented by our Fiesta Rewards, Apreciare and Motiva members, generating 1,897,786 room nights. We signed up 40,000 new members, for a total of 218,300 active members during the year, redeeming 125,869 rewards, 64% of which were for hotel nights. Additionally, 11,400 new Santander Fiesta Rewards credit cards were placed, for a total of 122,200 cards in circulation.

DISTRIBUTION AND CRM

2016 WAS A RECORD YEAR IN THE NUMBER OF RESERVATIONS WE PROCESSED THROUGH OUR DISTRIBUTION SOLUTION, WITH MORE THAN 3 MILLION RESERVATIONS THIS YEAR (10% MORE THAN IN 2015), APPROXIMATELY 6 RESERVATIONS PER MINUTE.

FIESTA AMERICANA TOREO MEXICO CITY

DISTRIBUTION AND CRM

In addition to the volume of reservations, together with the revenue management team, the revenue from these reservations increased more than 25%. We maintained an adequate balance of reservations through our own vs. external channels (70% from our channels vs. 30% from external channels).

Despite making strong investments in improving our platforms and a significant increase in the exchange rate, we maintained a highly competitive cost per reservation (US$7.8/reservation, including commissions), mainly thanks to the optimization of processes and tools at our Call Center (Konexo).

Through operating efficiencies, we have reduced the average reservation cost with Konexo by nearly US$1/reservation, which represents important savings and generates a significant competitive advantage for Konexo. We also obtained PCI DSS bank level certification, which guarantees security in the handling of our customer data and opens many doors for us in the market. Additionally, we received GMD COPC certification (Kenwin); noting that only 5 companies in Mexico have this certification.

We continued the successful migration of Kívac Telemarketing to Morelia, started last year, closing 2016 with 107 positions and 214 agents. This project will be completed in 2017 with 133 positions and 266 agents. This has been possible thanks to following the Posadas 2020 strategy of scale economies, to concentrate all the Grupo Posadas operation in our Contact Center.

COMMAND CENTER

In 2016, we embarked on our path of digital transformation at Grupo Posadas lead by our CRM and Marketing departments. We implemented projects that helped us to create our ecosystem of customer experience (CX), with which we will be redefining, implementing, measuring, receiving feedback, and improving customer experiences or journeys in 2017. This new digital ecosystem will allow us to manage all the information we gather from customers, to incorporate information from their social media and interactions with our marketing campaigns, and to customize their experience from their pre-stay (web and voice channels), the stay itself (FR app, digital native experiences) and the post-stay (community building). Additionally, the tool will allow us to incorporate new service and sales channels into our offerings. One of these channels was integrated at the end of 2016: social media and WhatsApp.

We launched our Digital Command Center in August 2016, which concentrates all our digital interactions to a single platform and team, comprised of various areas and advertising agencies. By measuring digital interactions with users in real time, we're covering, in real time, four main areas:

ENGAGEMENT & PUBLICATION

(focused on each digital native and optimizing content in real time)

INFORMATION & SERVICE

(another way for our customers to interact with us and to fulfill their needs)

CRISIS

(through buzz monitoring, we can detect potential crises in real time, as well as market trends and competitor trends so that we can react quickly)

SALES

(we launched this channel as one more way to reserve vacations with us and the results from the first months of operation have been excellent)

The team has made important progress in the area of customer service.

Some of the highlights are:

- Resolving on average 100 customer service and complaint events per week.
- Responding to and channeling more than 45,000 comments on Facebook, more than 21,000 conversations on Twitter, and more than 1,100 conversations on Instagram.

WE INCREASED SALES THROUGH SOCIAL NETWORKS, PRIMARILY FACEBOOK.

Next year, we will be concentrating all these capabilities to relaunch and strengthen our web channel, seeking to modernize and customize the interactions to increase the sales volume from this channel and, as a result, improve our distribution costs even further.

CREATION OF THE POSADAS DIGITAL COMMAND CENTER

We've started our

DIGITAL TRANSFORMATION

TREND
ANALYSIS & MONITORING

CUSTOMER'S JOURNEY
- Redefined
- Implementation
- Measured
- Feedback
- Improved experience for our guests

PLANNING
Responding to guest needs in the moment and in the future.

CRISIS MANAGEMENT
With buzz monitoring, we detect potential crises, market and competitor trends to react quickly.

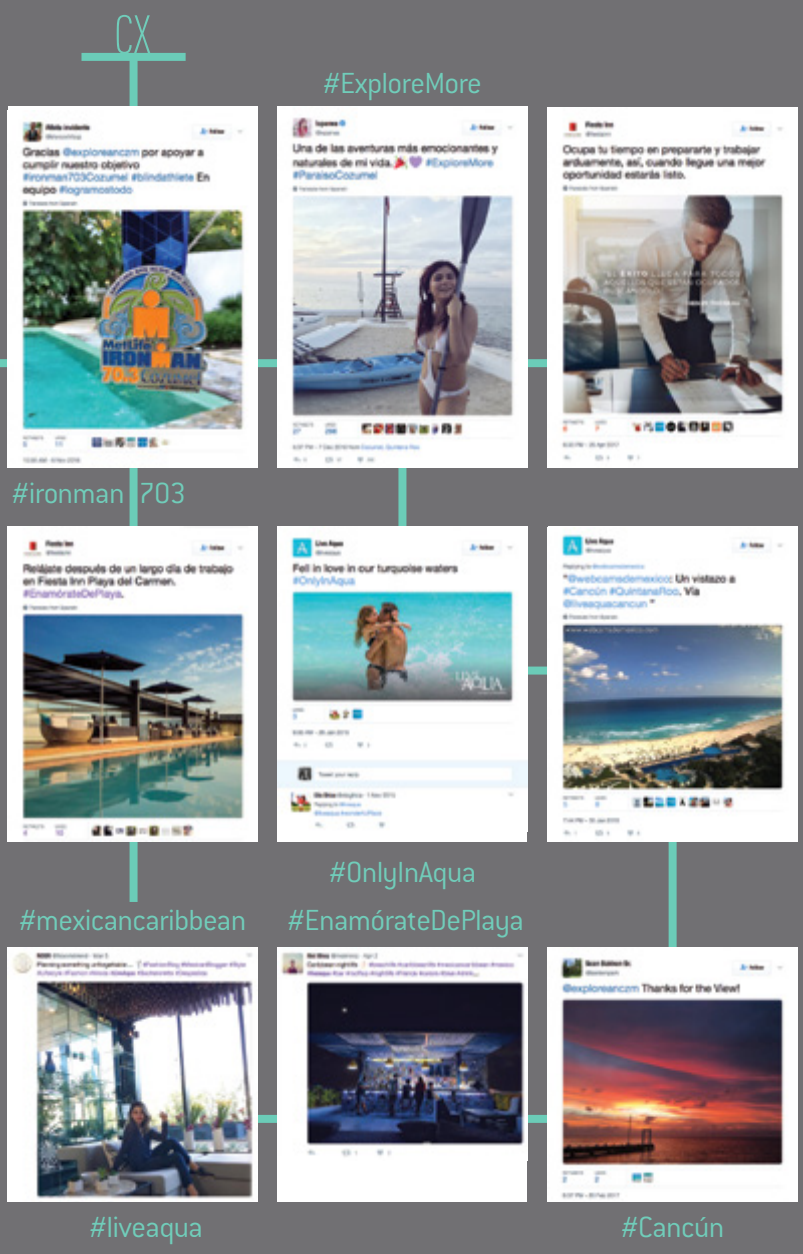
CUSTOMER SERVICE
This new digital ecosystem allows us to:
- leverage information
- incorporate information
- tailor the experience

#GPTW17

TRANSFORMATION

We have created our ecosystem of

CUSTOMER EXPERIENCE (CX)



WE HAVE IMPROVED OUR RELATIONSHIP WITH CUSTOMERS ON SOCIAL NETWORKS AND IN PERSON.

RESULTS

CASES PER WEEK	**100**
COMMENTS	**45,000**
CONVERSATIONS	**21,000**
LIKES	**1,100**
WHATSAPP	**NEW**

SALES

With the Command Center, we have incorporated our service and sales channels into our offerings.

COMMAND CENTER RESULTS 2016

INCREASE RESERVATIONS **25%**

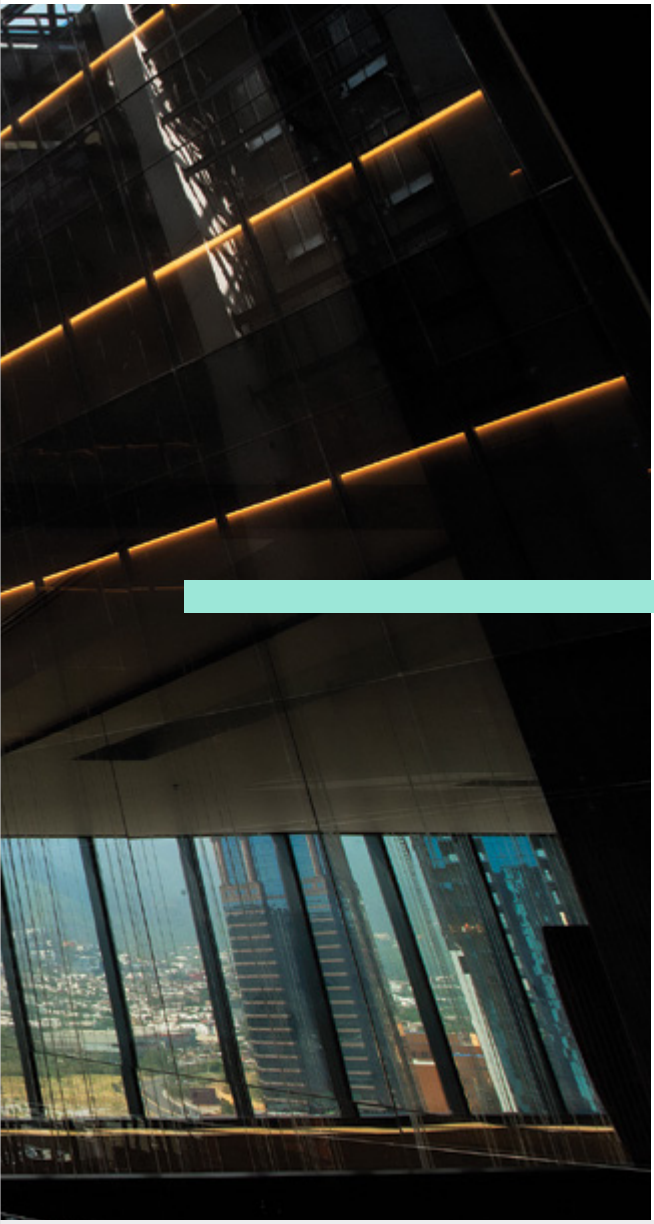
COMPETITIVE RESERVATION COST

US$7.8 / BOOKING

LIVE AQUA & GRAND FIESTA AMERICANA MONTERREY VALLE

NEW ENVIRONMENTS

LIVE AQUA URBAN RESORT MONTERREY



ACKNOWLEDGMENTS

TRIP ADVISOR ECO LEADERS AWARD
27 HOTELS

WATER SUSTAINABLE HOTEL AWARD
13 HOTELS

GREAT PLACE TO WORK
RANKED #10

FIESTA AMERICANA MONTERREY PABELLÓN M

HOTELERA POSADAS

DURING 2016, HOTEL REVENUE INCREASED 18.5% OVER 2015.

The urban hotels[1] continue to report good performance with a RevPAR increase of 10.2% and, similarly, the resort hotels[2] reported outstanding performance with a 14.7% increase in the RevPAR.

1 Stable hotels in nominal pesos in operation for more than 12 months.
2 The resort hotels are: Live Aqua Cancun, Live Aqua Boutique Resort Playa del Carmen, GFA All Inclusive Parks Vallarta, GFA Coral Beach Cancun Resort & Spa, GFA Los Cabos Golf & Spa Resort, FA Condesa Cancun, FA Puerto Vallarta.

The growth of the GOP in Mexico in 2016 was 20% year-over-year, added to improved margins for all our brands.

In 2016, Posadas received the following recognitions:

- 27 hotels "TripAdvisor Eco Leaders Award"
- 13 hotels "Water Sustainable Hotel Award"

TripAdvisor gave 78 of our hotels the Certificate of Excellence. This year, the Traveler's Choice 2016 list of the 25 best all-inclusive resorts in Mexico and around the world included Live Aqua Cancun All Inclusive. Also, the Traveler's Choice 2016 list of the best 25 hotels in Mexico included Live Aqua Urban Resort Mexico.

We reported good operating results for our hotels at the system level. The average rate increased 7.8% and occupancy rose 2.8 percentage points ("pp"), resulting in a growth of the revenue per available room (RevPAR) of 12.4%.

FIESTA AMERICANA
CONDESA CANCUN

Urban hotels, representing over 80% of the total rooms operated throughout the system, continue to report a solid performance with an 11.1% increase in the RevPAR. Meanwhile, resort hotels reported a RevPAR increase of 13.3%.

Regarding our commercial leadership, we have the strongest relationships in the corporate accounts segment in the market, generating over 372,000 room nights and in the wholesale segment, we grew an average 30% in revenue year-over-year from the major wholesalers.

POSADAS PEOPLE

TOGETHER WE MADE HISTORY BEING RANKED #10 AMONG THE BEST COMPANIES TO WORK FOR IN MEXICO WITH MORE THAN 5,000 EMPLOYEES, A GREAT PLACE TO WORK.

The ongoing training of our collaborators is a high priority and this year we focused our efforts on three programs:
Service School, the first module of which, covering personal skills, was offered to over 14,000 collaborators, and the second module, Attitude, Magic & Action, has been offered to 4,000; we will continue with the rest in 2017.

544 collaborators participated in the Harvard Business Publishing Top Talent Transformation program for Hotel Executive Boards.

As part of the evolution we're experiencing at Posadas, we've redefined and aligned our values with the 2020 vision.

Three of our values merge together and we've added one more.

RESPECT

INTEGRITY

PASSION

SIMPLICITY

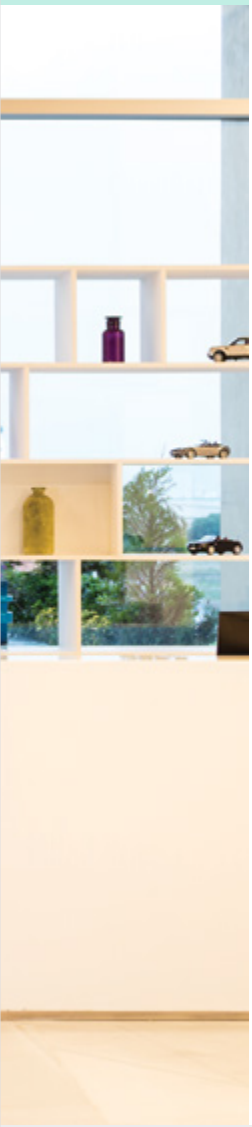
GOOD HUMOR

DEVELOPING TALENT,
THE DRIVER FOR OUR GROWTH

We are proud to report our achievements each year. 2016 was a very important year, starting on a new path towards 2020, with clear strategies and initiatives seeking to impact the experience of our customers, guests, members and, above all, our people.

Once again, we've closed a great year, maintaining positive results thanks to the talent, efforts, commitments, and the PASSION of our Posadas People.

FIESTA INN PACHUCA GRAN PATIO



What did we do in 2016 to attract, develop and retain the best talent?

1. Posadas, a great place to work

One of the principal cultural initiatives we have at Posadas to become the best company to work for is to emphasize the pride of belonging in our people. For the second year, we participated in Great Place To Work Institute® (GPTW) certification to measure the climate and culture in our company. The methodology uses two tools: Trust Index® (employee survey), which measures responses regarding camaraderie, credibility, pride, respect and impartiality; and the second tool is the Culture Audit®, which evaluates the human capital policies, processes and practices in the areas of culture and personnel management. These practices are analyzed and assessed according to the institute's methodologies.

We're the first company with over 5,000 collaborators listed in the GPTW ranking in its first year participating. In 2016, we ranked in the TOP TEN of the Best Companies to Work for in Mexico in this category of number of employees, which fills us with pride and affirms the feeling of belonging we have built among our people.

GREAT PLACE TO WORK® Las Mejores Empresas para Trabajar 2016 México

We're convinced that being the best place to work in Mexico will help us to attract outside talent who aspire to collaborate at our hotels, to consolidate and foster the talent we've identified internally, and to offer everyone the opportunity to go the extra

mile to offer memorable experiences to our guests and customers (internal and external), which fills us with satisfaction in every sense.

As a result of the workplace climate action plans, it's important to recognize the more than 829 cultural practices generated at our hotels that drive our values and programs focused on wellness, sharing and celebrating special moments or dates, offering different supports for our people and the community, and lastly, providing our people with different personal development tools. This is the basis for our institutional program *Vive Posadas* (Live Posadas), with its four pillars:

LIVE HEALTH

LIVE TOGETHER

LIVE SUPPORT

LIVE DEVELOPMENT

In 2016, we started a Human Capital Ambassadors project to align and communicate the 2020 strategy at our hotels, ensuring the dissemination of the Posadas culture. Ten Human Resources Managers were trained and participated in the redesign of the Human Capital Holding core processes.

2. Training: Attitude, Magic & Action (AMA)

Our culture of customer service is not only one of the strategic pillars for the growth of our business, it's also the platform that offers our collaborators the opportunity to build real emotional connections with guests, customers, vendors and coworkers.

An "AMA moment" goes beyond what's expected. It strives to surprise whoever receives it so that their experience at our hotels is unique and unforgettable, positively impacting both their satisfaction and their loyalty to our brands. This is how we ensure our future business.

During 2016, as part of our Service School, we offered a "Personal Skills Workshop" to develop in our collaborators skills for handling emotions, communication skills, and skills in customer service, with a focus on our culture.

We trained over 9,000 collaborators at our hotels and 2,700 participants in the AMA philosophy, offering this workshop for all new hotels.

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

GRAND FIESTA AMERICANA PUEBLA

This result is largely due to the following factors:

a. We've improved and expanded the OPERATIONAL TRAINING platforms available at our hotels, making it easier for new staff to effectively and efficiently join the operation of our properties.

b. We have a strong STANDARD ASSESSMENT program to identify and quickly correct faults.

c. Our OPERATING MANUALS are current and stored on platforms for quick and easy access by all our collaborators, providing a reliable training tool.

d. The LEADERS at each hotel understand that the success of their establishments depends on doing things right the first time, to high quality standards, focused on satisfying the needs of their guests. This helps to make the right decisions that will directly impact the experience of those who choose our brands for their business trips, vacations, etc.

FIESTA AMERICANA TOREO MEXICO CITY

3. Talent Management

As a result of the 2015 exercise to identify and develop in-house talent, we undertook the task of professionalizing various of the skills required and identified as opportunities for improvement from the review of more than 500 executives in managerial positions at our hotels. To achieve this, we developed the following programs and aspects:

A) TOP TALENT TRANSFORMATION program, designed in collaboration with Harvard Business Publishing to reinforce and develop our managers at the hotels, and also to build the competencies needed to achieve Posadas' 2020 strategy, focusing on developing business skills.

The methodology used was "Blended Learning", which combines different learning experiences, using globally recognized content, online courses, case studies, virtual sessions and workplace applications.

The results of this program have been satisfactory. Of the 545 collaborators who started

the program, 477 finished, with a pass rate of 84% and an average score of 80.4. It's important to note that each executive invested more than 80 hours in their personal development.

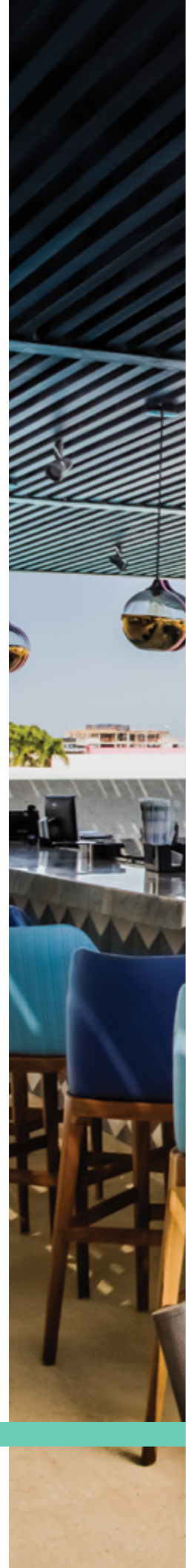
B) Entrenantes (Trainees) is a development program we operate to prepare and certify the future managers for our hotels. In 2016, we developed 28 executives who filled vacancies in the positions of general manager (4), sales manager (6), HR manager (2), maintenance manager (5) and comptrollers (11).

4. Talent

One of the main challenges we have in terms of human capital is ensuring we have the talent we need for our growth. Therefore, in 2016 we had the opportunity to promote more than 160 collaborators in key positions, who through our development platforms, took advantage of the opportunity for professional advancement offered to them this year, taking greater prosperity home to their families.

External talent bank: this project allowed us to work in parallel to track potential outside candidates interested in joining our company, promoting opportunities, and to cover internally, quickly and effectively various operational positions.

Being one of our Posadas People is synonymous with being passionate, motivated, satisfied and happy, achieving outstanding results. We're a great company, made up of great people.



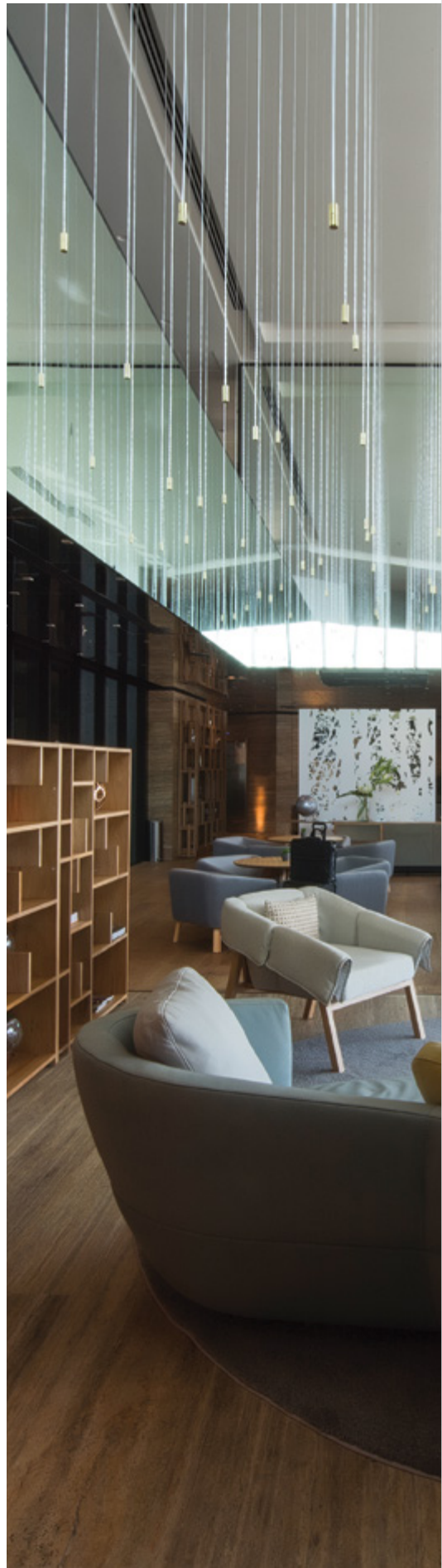
QUALITY

THE RESPONSES TO OUR SATISFACTION SURVEYS CONFIRM THAT WE'RE STILL ON THE RIGHT TRACK, RECEIVING BETTER AND BETTER RESULTS.

Our survey response remained at 18%, 13 points above the minimum desirable for satisfaction surveys. The proportion of surveys submitted (234,512) by our guests increased 76% over 2015. Eight out of 10 guests are satisfied with the service they received at our hotels. Additionally, 6 out of every 10 guests leave congratulatory comments, which is motivation to maintain their trust so they will continue to respond to surveys, helping us to easily identify the actions needed to improve our service, really listening to our guests. Through the sum of many efforts, the proportion of our promoters increased 3% compared with 2015.

Of our general managers, 87% follow up on guest comments.

In 2016, we received an NPS (Net Promoter Score, measuring customer loyalty) of 61%, 2 percentage points above 2015 and 13 points above the industry average of 48%.



LIVE AQUA URBAN RESORT MONTERREY

To improve the experience of our guests and to gain greater loyalty, we've precisely identified the moments that have the greatest impact during a stay in order to develop initiatives that will help us to maintain and improve our good results and to eliminate complaints. We note that three of the moments best evaluated are: "Friendliness at the reception desk", "Cleanliness of the room", and "Service in the common areas."

The results in terms of evaluating service show us that this was an exceptional year, with all brands reporting improvements and positive trends, in both the quality index and in the areas evaluated in our survey.

This year, we received the best rating (89.1) in the history of the Fiesta Inn brand, a 1 percentage point improvement over 2015. The One brand improved nearly one percentage point and the Fiesta Americana brand improved 2.3 percentage points over 2015.

LIVE AQUA URBAN RESORT MONTERREY

These results mean we are getting better at monitoring our standards and meeting the needs and preferences of our guests.

During the year, many studies and analyses were prepared, which helped to make changes to processes and standards, to improve our guest experience at all Posadas brands.

Through surveys, we were also able to identify and better understand the profile of our guests for each Posadas brand, to support the corporate areas and focus their goals and efforts.

SUPPORT AND MONITORING SYSTEMS

During 2016, we integrated the following hotels into the standard technological platforms of Grupo Posadas: 1 hotel GAMMA, 4 One, 3 Fiesta Inn, 2 Fiesta Americana, 2 Grand Fiesta Americana and 1 Live AQUA. Of these, the last 5 are examples of the strengthening of the Grupo Posadas technological infrastructure and sales channels to operate projects of this kind.

The first hotel pilot was launched, changing the traditional operating model to a seamless model, supported by PMS mobile functionality where the user has the mobility needed to complete this process effectively, avoiding the traditional processing at the hotel reception desk.

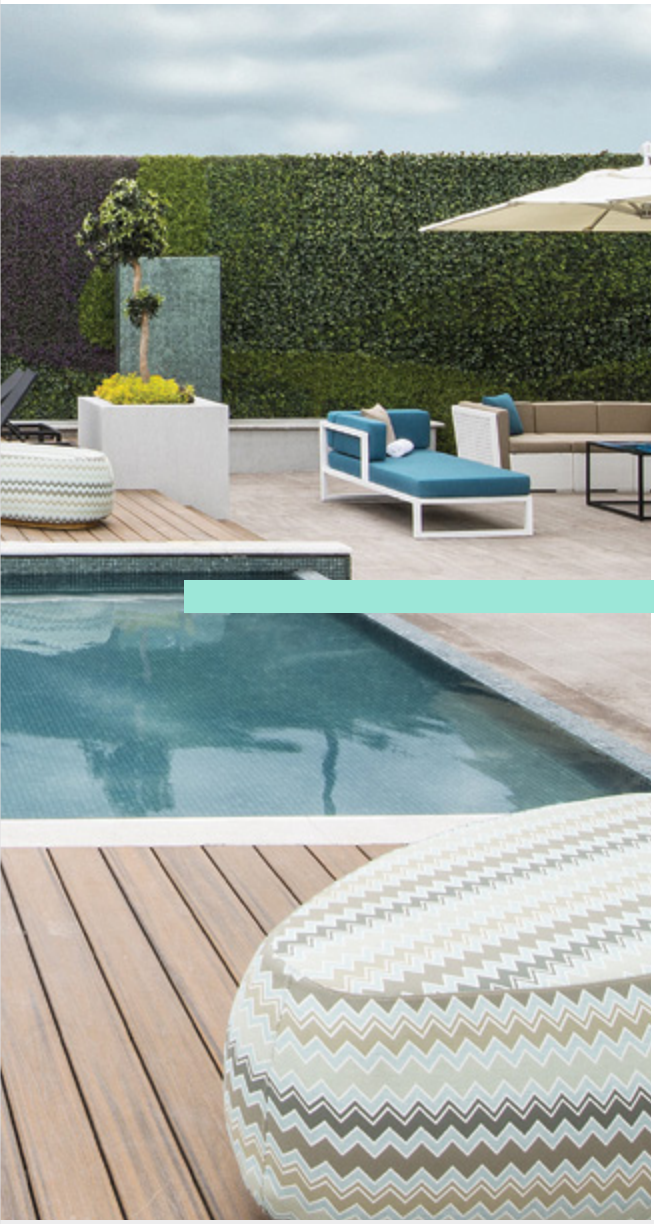
To consolidate the functionality of the ANA mobile app and streamline the flow of guest requests during their stay, we released the Room Service functionality for all brands, obtaining a 0.5 increase in favorable user comments regarding the virtual stores. At year close, we've received more than 1,500 Room Service requests through this app, 5 months after its launch.

We closed the year with the functionality release focused on strengthening and improving the affiliation process for Fiesta Rewards members during the check-in process, signing up 1,800 new members within two weeks after the release.

During 2016, the necessary actions were taken to meet the fiscal, operational, administrative, financial and statistical requirements of the different areas of Grupo Posadas, effectively supporting the stabilization of each. Additionally, security certification was obtained in technological infrastructure and data protection.

GRAND FIESTA AMERICANA PUEBLA

NEW CHALLENGES



FOR 2017, NEW HOTELS & RESIDENCES

FIESTA INN	05
ONE HOTELES	07
LIVE AQUA RESIDENCE CLUB	01
GAMMA HOTELES	05

FIESTA AMERICANA CONDESA CANCUN

POSADAS VACATION PROPERTIES,
THE GRUPO POSADAS DIVISION THAT:

- Originates and builds loyalty with customers in the long term (from 5 to 40 years).
- Pre-sells room nights.
- Guarantees and channels occupancy to the hotels in the group during low seasons.
- Is a very important vehicle to make handling rates and inventory more efficient through anticipated reservations in the Posadas system.

OUR BUSINESSES:

We offer two products in vacation membership programs:

FAVC:

The Club currently has 32,364 members, of whom 22,493 are Mexican, 9,378 are from the USA, and 493 are from other countries.

Results:

- We generated 161,202 room nights for the Posadas system.
- We increased membership sales 7.5% over 2015.
- The overall satisfaction of our members increased 25 points over last year.

LIVE AQUA RESIDENCE CLUB:

Results:

- In 2016, we relaunched Live Aqua Residence Club, linking the name to the Live Aqua brand, which is well-positioned in the lifestyle segment.
- We closed the year with a growth of 30% over 2015. Our members are 80% Mexican and 20% from the USA. Our partners generated more than 12,000 room nights for Posadas.

- Cancun and Los Cabos are the preferred destinations of our members. 45% of trips were made abroad, through "The World by Live Aqua."
- We're planning to open our newest development, Live Aqua Private Residences Los Cabos in 2017, with 35 private residences and a clubhouse on more than 20,000 square meters (5 acres) of land.

Resorts

- In 2016, food and beverage revenue increased 27% and room revenue increased 16% year-over-year.
- Our developments reported average occupancy of 73% in 2016.

Financing business: One of the most important tools to support membership sales is financing. We finance terms from 12 to 120 months at competitive interest rates. Also, we offer a spot exchange rate to mitigate fluctuations in the exchange rate for our Mexican customers.

- Results: at 2016 close, our loan portfolio for the 3 products (Fiesta Americana Vacation Club, Live Aqua Residence Club and KÍVAC) was worth $3.909 billion pesos, an 18.4% increase over 2015. The delinquency rate for 2016 decreased 3.7 pp year-over-year, representing 9.3% of the total portfolio. This is due to our collection efforts, increasing efficiency 1.9 pp over last year, reporting a record high of 72.63%.

We offer prepaid hotel nights

- Kívac: point system redeemable for room nights.
- The grand total of room nights is 2.5 million, which will be used over the next 5 years.
- Results: over 140,000 room nights were reserved with Kívac points (25% more than in 2015) at more than 190 hotels (52% urban and 48% resort).

- More than 13,000 new contracts were sold in 2016 and the rate of usage has accelerated, and less than a year since its launch, Kívac 360 travelers have redeemed more than 10 million points, representing +20% of the total points redeemed.
- Kívac continues to be at the digital forefront. The "app mobile" is expected to make reserving hotel nights easier and, as a result, the use of points is expected to continue to accelerate. Additionally, we've invested in improvements to the website.

  Online reservations closed 2016 representing 17% of the total reservations made (+4 pts over 2015).
- Meanwhile, our social media efforts continue to bring good results. KIVAC currently has 180,000 followers on Facebook, representing one of Posadas' largest accounts.

This information can be summarized as follows:

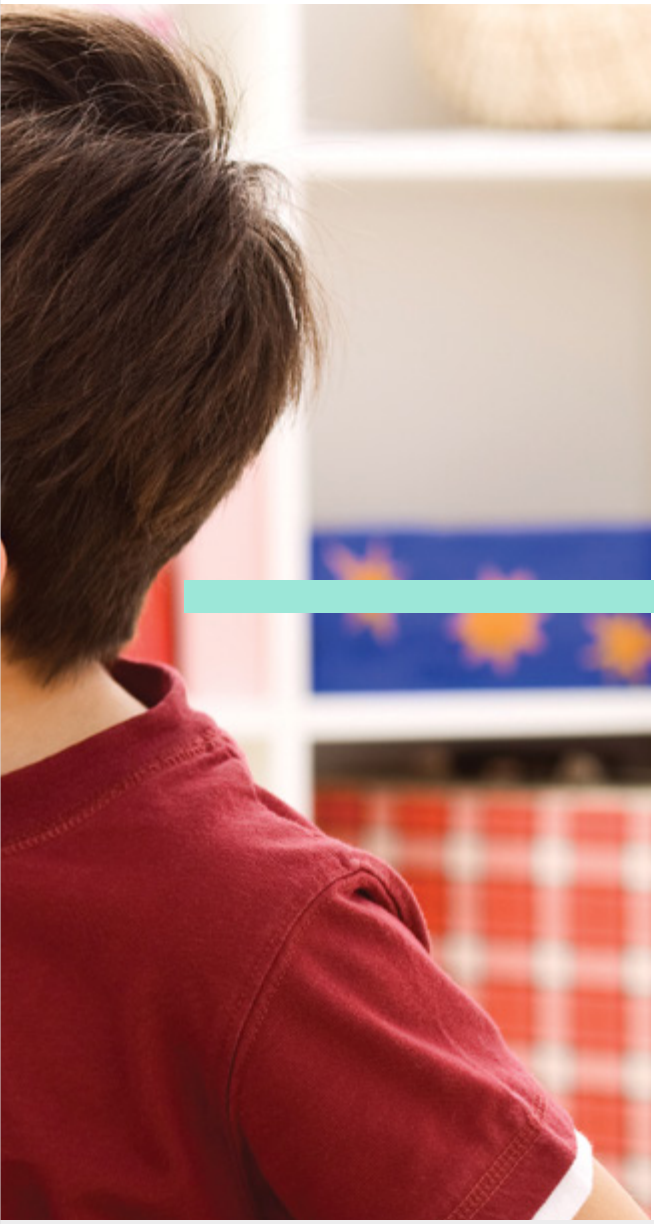
- As of December 31, we have 32,364 FAVC (Fiesta Americana Vacation Club) members, 540 LARC (Live Aqua Residence Club) members and 33,100 KÍVAC program members, the latter representing a 25% growth over 2015. Term membership sales increased 17% year-over-year and total revenue rose 15%.

- Division sales were $3.141 billion pesos, representing 34% of Posadas revenue. Also the contribution of the business was $855 million, representing 50% of the total for Grupo Posadas.

- We're the second largest generator of room nights for Posadas, after Expedia.

NEW COMMITMENTS

THE EXPLOREAN COZUMEL



- IMPROVE & INCREASE
  ATTENTION TO WEB CHANNELS: FACEBOOK, TWITTER, INSTAGRAM

- MORE TRAINING
  FOR COLLABORATORS

- GREATER COMMITMENT
  TO FUTURE GENERATIONS THROUGH SOCIAL RESPONSIBILITY INITIATIVES

SOCIAL RESPONSIBILITY

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

During 2016, Posadas was recognized as a Socially Responsible Company for the fourth consecutive year, thanks to our good practices in economic, social and environmental aspects, both in and outside the company.

WITH PRESENCE IN 29 MEXICAN STATES, THE WORK OF FUNDACIÓN POSADAS CONTRIBUTES TO NATIONAL DEVELOPMENT AND HELPS PEOPLE IN VULNERABLE SITUATIONS.

ONE DURANGO

Thanks to our Social Responsibility actions, Posadas was ranked 29th by *Expansión* magazine in its 2016 list of Responsible Companies, and 29th in the Forbes magazine ranking of Philanthropic Corporate Organizations.

QUALITY OF LIFE IN THE COMPANY

- We offer training and personal development programs focusing on sustainability and offering opportunities for professional advancement.
- We foster a sense of belonging and teamwork.
- We promote healthy work practices in a clean and safe workplace.
- We promote a culture of values and a positive work environment.
- We encourage our collaborators to balance family and work.
- Our collaborators include 35 differently abled persons employed at 18 of our hotels in an environment that does not discriminate.

- Our *Vive Salud* (Live Health) program fosters wellness among our collaborators, caring for their health and performance.
- We created the Escuela de *Servicio Posadas* (Posadas Service School) as a pillar for generating guest experiences and developing our collaborators.

CONNECTION WITH THE COMMUNITY

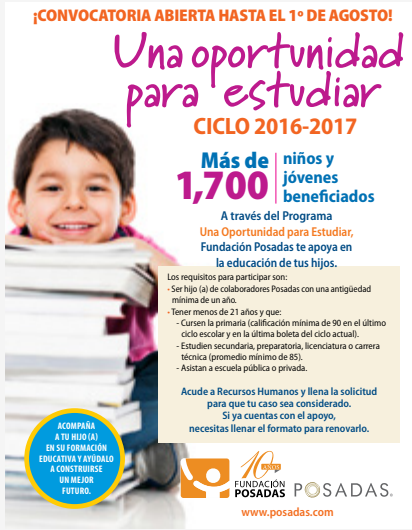
Through Fundación Posadas, which is present in 29 Mexican states, we operate programs that contribute to the development of Mexico and to improving the quality of life of people living in vulnerable situations, particularly addressing the areas of health, education, housing and support for victims of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

HEALTH

Thanks to the support of Fundación Posadas, more than 470 people received care in 2016 through the following actions:

- Financing for major or emergency surgeries and treatments for people who do not receive the medical care they need from the public health services.
- 1,500 hours of therapy each year for children suffering from an illness or disability.
- Eye exams and low-cost glasses under the program *"Para Verte Mejor"* (To See You Better).

- Detection of hearing difficulties and medical assistance, tests and hearing aids under the program *"Hoy Escucho Mejor"* (I Can Hear Better Now).
- Help for children with cancer through the Asociación Mexicana de Ayuda a Niños con Cáncer.



EDUCATION

Thanks to the program *"Una Oportunidad para Estudiar"* (An Opportunity to Study), in 2016, comprehensive educational support was given to 507 children and youth in low-income areas.

The program *"Otra Oportunidad para Estudiar"* (Another Opportunity to Study) helped 55 adults to complete their high school education.

SUPPORT FOR VICTIMS OF NATURAL DISASTERS

Fundación Posadas provided building materials to 76 victims of the flooding from Hurricane Newton in Los Cabos, Baja California.

VOLUNTEERING

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

- Visits were made to the Casa Hogar San José and to the Fundación Familiar Infantil, supporting more than 120 children.
- 6,000 trees were planted in La Boquera, Huixquilucan, State of Mexico, in partnership with Fundación Grupo México.
- We are supported by approximately 1,000 volunteers nationwide.
- Guests support Fundación Posadas through cash donations, to continue the work of building a brighter future for Mexican children and youth.

OTHER PROGRAMS

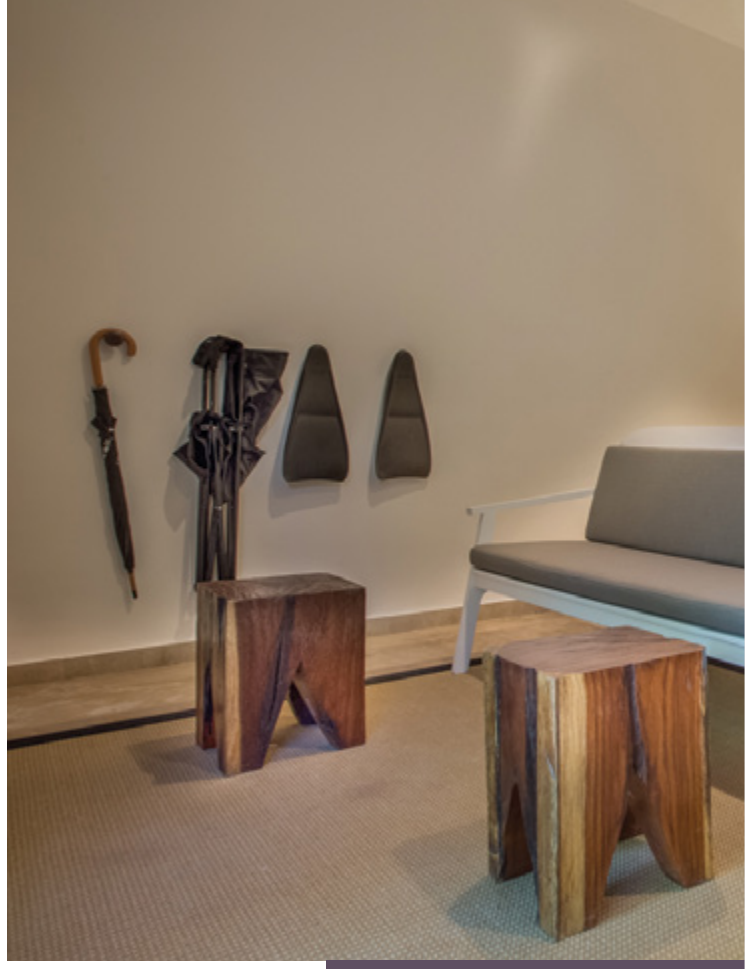
The program *"Comunidades Sustentables"* (Sustainable Communities) provided comprehensive support to 70 indigenous children.

Also, under the program "Cumpliendo Sueños" (Making Dreams Come True), we took 10 children with cancer to experience the ocean, and with the help of enthusiastic volunteers, we organized a birthday party for another child.

Fundación Posadas has also supported approximately 3,500,000 people through collaboration with 48 other foundations, donating more than 650 room nights and over 4,300 linens from our hotels.

ALLIANCES FOR MEXICO

Fundación Posadas is a member of the Red de Fundaciones Empresariales (Network of Corporate Foundations) and the AMEXCID Alianza por la Sostenibilidad (Alliance for Sustainability), working to have a greater impact on development in Mexico.



THE EXPLOREAN COZUMEL

ENVIRONMENTAL CARE AND CONSERVATION

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

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

Grupo Posadas and Profepa signed an agreement to work collaboratively to certify all Grupo Posadas hotels in "Environmental Quality in Tourism". The certification requires the implementation of various policies, standards, and federal, state and municipal laws, and also the implementation of various control measures and process evaluations, which include inventories of fossil fuel, power, gas and water consumption, and also the greenhouse gas inventory with the Mexican Emissions Registry.

GREEN HOTELS
+ GREEN ACTIONS AT HOTELS

Initiatives:

- Temporary storage of organic and inorganic waste, training, regulation signage, collection and final disposal certified by SEMARNAT.
- Temporary storage of hazardous waste, regulation signage, training, collection and final disposal certified by SEMARNAT.
- Temporary storage of chemical products and solvents, regulation signage, and training.
- Collection and final disposal of used vegetable oil to produce biofuel.
- Water saving showerheads and taps, and also low-flow toilets and waterless urinals.
- LED lighting in common and service areas.
- Air conditioners that use ecological coolants.
- High-efficiency water heaters with low NOX emissions.

Our green actions have earned Grupo Posadas the following recognitions:

ENVIRONMENTAL QUALITY IN TOURISM
(given by PROFEPA)

GREEN KEY ENVIRONMENTAL CERTIFICATE
(International Certification)

WATER SUSTAINABLE HOTEL
(award given by Fundación Helvex)

ENVIRONMENTAL LEADERSHIP FOR COMPETITIVENESS
(award given by SEMARNAT)

S AWARD
(given by PROFEPA and the Ministry of Tourism)

FIRE, ALARM AND DETECTION SYSTEMS
(certificate given by the company FTech)

COMPANY PUBLIC SAFETY PROGRAM
(certification given by Protección Civil)

EXECUTIVE BOARD

JOSÉ CARLOS AZCÁRRAGA ANDRADE
CHIEF EXECUTIVE OFFICER

FRANCISCO JAVIER BARRERA SEGURA
VICE-PRESIDENT, FRANCHISE

ENRIQUE CALDERÓN FERNÁNDEZ
VICE-PRESIDENT, HOTEL OPERATION

BOARD OF DIRECTORS

Sitting Members

Pablo Azcárraga Andrade
CHAIRMAN

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

Secretaries to the Board of Directors

Olga Patricia Gutiérrez Nevárez
SECRETARY

Víctor Ángel Bohon Devars
ALTERNATE SECRETARY

Alternate Board Members

Charbel Christian Francisco Harp Calderoni
Alfredo Loera Fernández

ARTURO
MARTÍNEZ DEL CAMPO SAUCEDO
VICE-PRESIDENT, FINANCES

JORGE
CARVALLO COUTTOLENC
VICE-PRESIDENT, DEVELOPMENT

GERARDO ALONSO
RIOSECO ORIHUELA
VICE-PRESIDENT, VACATION PROPERTIES

Audit Committee

Jorge Mario Soto y Gálvez
CHAIRMAN

Luis Alfonso Nicolau Gutiérrez
Benjamín Clariond Reyes Retana

Company Practices Committee

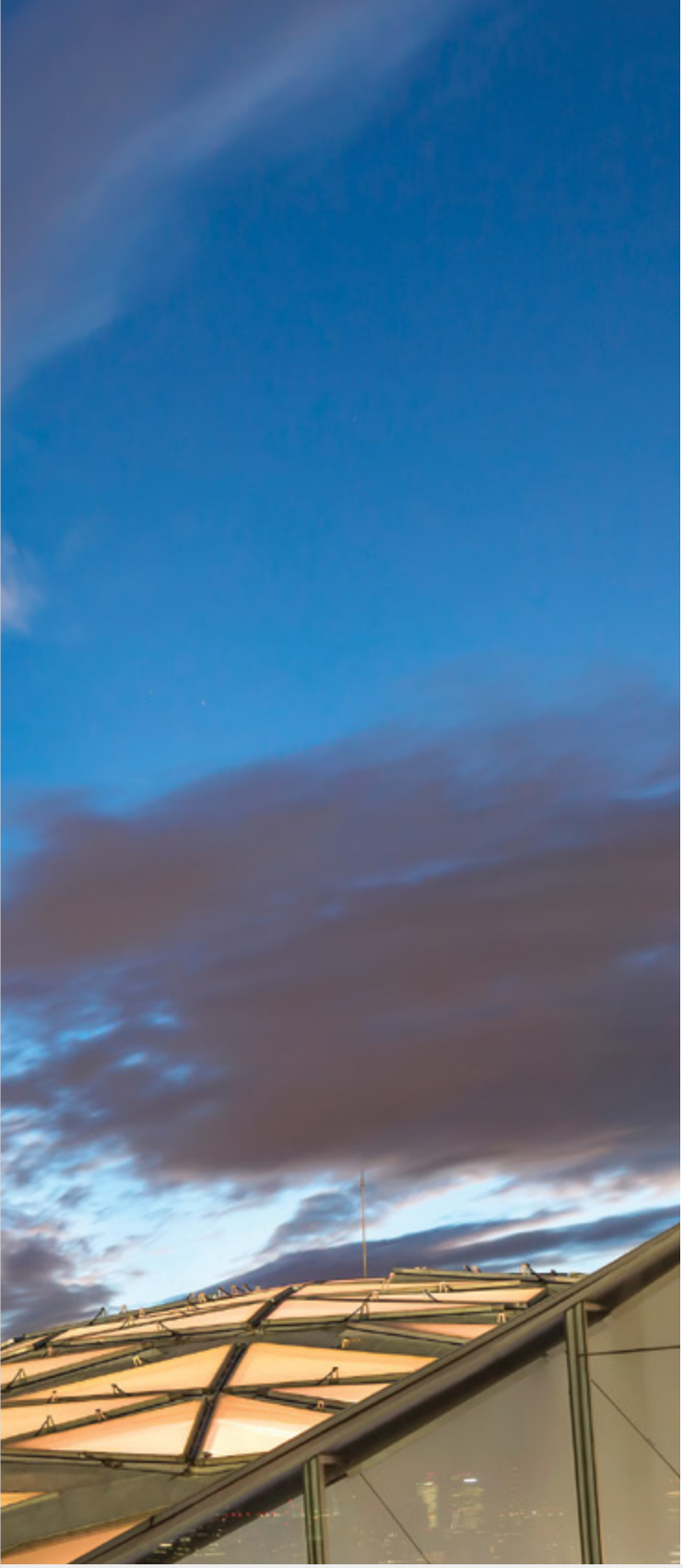
Luis Alfonso Nicolau Gutiérrez
CHAIRMAN

Benjamín Clariond Reyes Retana
Jorge Mario Soto y Gálvez

Executive Planning and Finance Committee

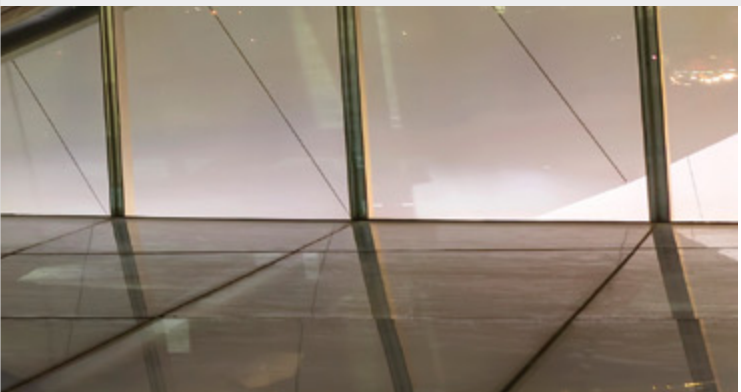
Pablo Azcárraga Andrade
Enrique Azcárraga Andrade
Fernando Chico Pardo
Carlos Levy Covarrubias


Fiesta
Americana

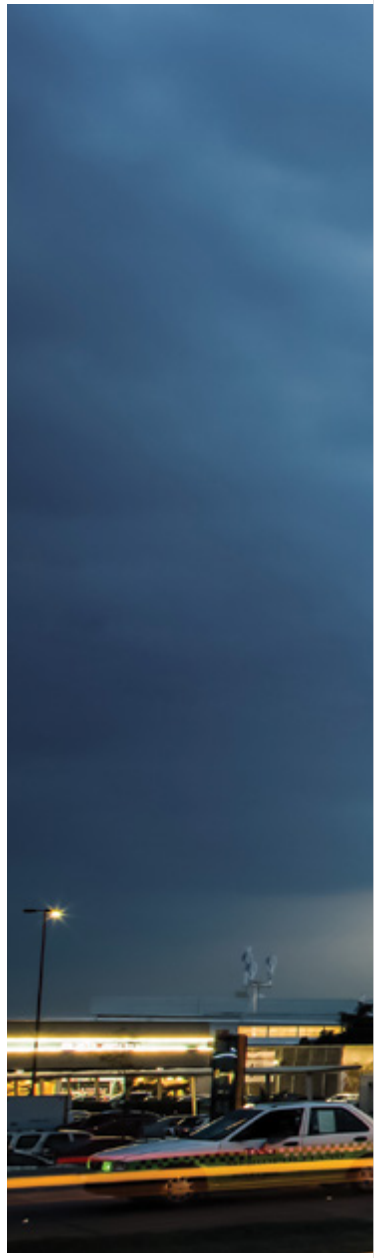


FIESTA AMERICANA
TOREO MEXICO CITY

NEW HOTELS



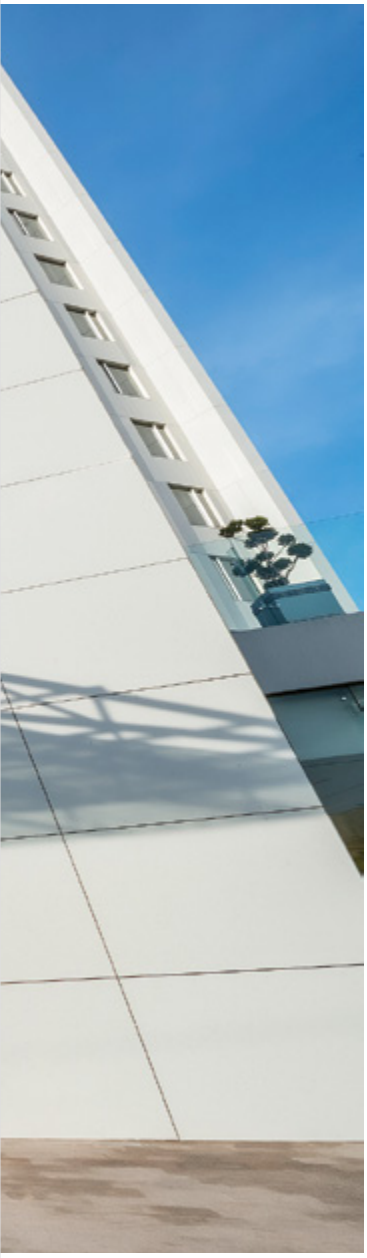
ONE SALAMANCA ORIENTE



FIESTA INN PACHUCA GRAN PATIO

GRAND FIESTA AMERICANA PUEBLA

ONE CUAUTITLÁN

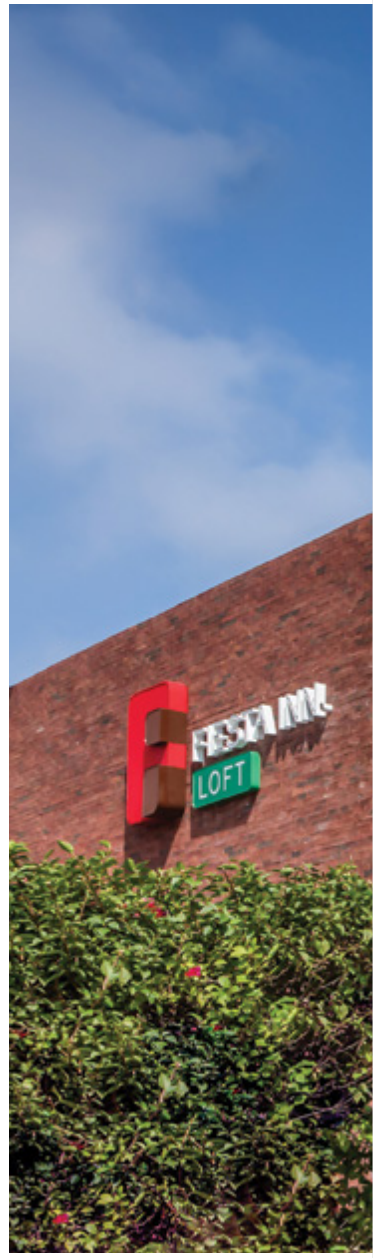


LIVE AQUA URBAN RESORT MONTERREY

GRAND FIESTA AMERICANA MONTERREY VALLE

ONE DURANGO

FIESTA INN PLAYA DEL CARMEN


FIESTA INN
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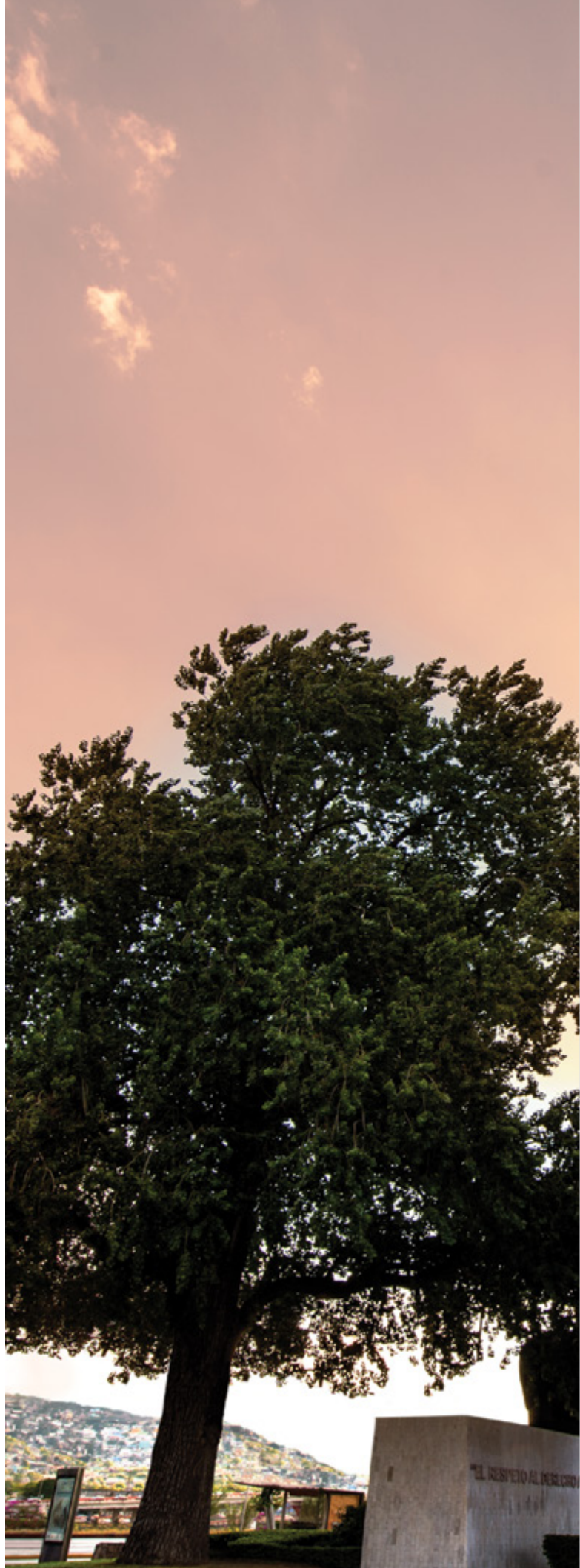
FIESTA INN LOFT MONTERREY LA FE

FIESTA INN LOS MOCHIS



FIESTA AMERICANA MONTERREY PABELLÓN M

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

INDEPENDENT AUDITORS' REPORT

AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2016, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF

GRUPO POSADAS, S. A. B. DE C. V.

Opinion

We have audited the accompanying consolidated financial statements of Grupo Posadas, S.A.B. de C.V. and Subsidiaries (the Entity), which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of comprehensive (loss) income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Grupo Posadas, S.A.B. de C.V and Subsidiaries as of December 31 2016, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows, for the years then ended in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Independent Auditors´ Responsibilities for the Audit of the Consolidated Financial State-

ments section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Ethics Code issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year 2016. These matters were selected from those communicated with the Entity's Management and the Audit Committee, but do not pretend to represent all the matters discussed with them. Our audit procedures related to these matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Our opinion on the consolidated financial statements is not modified with respect to any of the Key Audit Matters described below.

Key Audit Matter

REVENUES FROM VACATION CLUB

The Vacation Club operation generates revenues from the sale of Vacation Club memberships and of Kívac points, which represent 33% of the total Entity's revenues.

Under International Accounting Standard 18 Revenues, revenues must be recognized when all of the following conditions are fulfilled:

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

Note 4t to the accompanying consolidated financial statements includes the accounting policies for revenue recognition of the Vacation Club business.

Key Audit Matter

VACATION CLUB RESERVE FOR REFUNDS

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

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

The Entity analyzes the operations to identify those revenues whose recovery might be uncertain and, therefore, the related Notes receivable might not be recoverable.

Audit procedures performed

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

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

Our work also included reviewing the adequacy of the Entity's disclosures on the accounting assumptions and policies for revenue recognition of the Vacation Club business.

Audit procedures performed

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

Our audit procedures also included, among others:

i) tests of the Entity's controls related to the information utilized within the model, and used to determine the balance of the reserve;

Key Audit Matter

VACATION CLUB RESERVE FOR REFUNDS

The amount recognized as a reserve in the consolidated financial statements is the Entity's best estimate on the Vacation Club inventory returns, as a result of the members who would not meet their contractual payment obligations. All notes receivable are considered, more importantly those aged by more than 11 months, as these accounts are generally not recovered, as shown from past experience.

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

Note 4r to the accompanying consolidated financial statements describes the accounting policies for this reserve.

Audit procedures performed

ii) analysis of balances related to the sufficiency of the reserve in previous years;
iii) review of the classification of the portfolio aging based on payment defaults, and the recalculation of the amounts to be reserved based on the portfolio aging;
iv) evidence of new operating strategies and those communicated to members in order to support the restructuring and recovery of portfolio overdue or about to expire; and
v) confirmation that the assumptions used by Management in the calculation and determination of the reserve reflect the business strategies aimed to recover the Vacation Club inventory due to defaults which have occurred or are expected to occur by members to pay their debts.

Key Audit Matter

CONTINGENCIES

There is currently an official request for payment of income taxes from the year 2007 in the amount of $1,026,736,000 and a tax lawsuit from the year 2006, in the amount of $767,248,000, whose outcome cannot be determined at the date of the consolidated financial statements.

The accounting policy for the recognition of provisions, and the disclosure of contingencies, are included in Notes 4r, 26 and 27 to the accompanying consolidated financial statements.

In its regular course of operations, the Entity is engaged in different lawsuits, where mainly, given the early stage of the lawsuits or the impossibility to determine a provision, as established in International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets, no reserves have been established. The Entity also considers the fact that in Management's experience, in similar lawsuits the respective outcome has not significantly affected the Entity's financial position or result of its operations.

Audit procedures performed

Given the significance of the amounts claimed through the official request for payment and the related tax liability, as well as the uncertainty on the possible adverse ruling for the lawsuit, our audit procedures included the following:

i) involved our tax experts in the analysis of the legal arguments sustained by the Entity's Management to defend its position in the lawsuit, and in the analysis of the faults or omissions considered by the tax authorities;
ii) obtained written confirmations from the outside attorneys responsible for advising the Entity in its lawsuit against the official request for payment and the related tax liability assessed by the tax authorities, to ascertain their opinion on the current status of the proceeding;
iii) held meetings with the Entity's Tax Department in order to understand and confirm the status of the lawsuit, and;
iv) evaluated the reasonableness of the sufficiency of the reserve recorded in the Long-term accrued liabilities caption in the accompanying consolidated statement of financial position, to cover a possible adverse lawsuit outcome.

Key Audit Matter

LONG-TERM FINANCIAL DEBT

As of December 31, 2016 the Entity's level of indebtedness is $7,871,765,000, representing 65% of its total liabilities and 2.7 times its stockholders' equity.

This debt was contracted in US dollars and amounts to US400,000,000, and as a result of the Mexican peso devaluation in 2016, the Entity recognized, net exchange losses for $1,234,444,000 in its consolidated statement of comprehensive (loss) income. The debt is contracted at a 7.875% annual fixed interest rate, and generated interest expense of $643,592,000.

In order to reduce its liquidity risk, the Entity has focused on restructuring its debt maturities, and during May 2016 concluded the refinancing of its total debt denominated "Senior Notes 2022" for US400,000,000, maturing on June 30, 2022, including the prepayment in November 2016 of US38,332,000 debt with maturity in November 2017.

Notes 15 and 19 to the consolidated financial statements disclose the main characteristics of the long-term financial debt, as well as the Entity's policies to manage the risks derived from its financial instruments.

Audit procedures performed

Due to the importance of this caption and its impact on the consolidated financial statements, our audit tests consisted of:

i) ensuring the formal approval by the Entity's Board of Directors for contracting and restructuring the long-term financial debt;
ii) reviewing compliance with the restrictions and affirmative and negative covenants established in the debt contracts;
iii) reviewing the adequate disclosure of the main captions of the financial statements of the guarantor and non-guarantor entities;
iv) obtaining written confirmation from the creditor financial institution to corroborate the balances of the principal and of the interest accrued in the year;
v) corroborating the correct valuation of the debt in Mexican pesos, at the exchange rate in effect at year end, as well as the amount and valuation of the interest accrued and owed at year end;
vi) reviewing the correct presentation of the cash flows from operating and financing activities in the consolidated statement of cash flows, and
vii) reviewing the adequate disclosure of the financial risks in the consolidated financial statements.

Key Audit Matter

DEFERRED TAXES

As explained in Notes 4q and 16 to the consolidated financial statements, the Entity recognizes deferred income taxes for all the differences between the carrying values and the tax bases of its assets and liabilities, and the benefits of tax loss carryforwards are taken into account.

The amount of tax loss carryforwards is $8,705,291,000, which represents a deferred income tax benefit of $2,611,588,000, and may be applied as long as the individual entities which incurred them, generate sufficient future taxable income before the aforementioned tax losses expire.

International Accounting Standard 12 Taxes on Income, requires that the carrying value of a deferred tax asset be subjected to review and must be reduced when it is considered likely that there will not be sufficient taxable income to enable all or part of the asset to be recovered. Therefore, as of December 31, 2016, the Entity has estimated that a reserve of $1,101,718,000 is required due to the uncertainty related to the realization of this asset.

Audit procedures performed

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

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

i) evaluating and challenging the assumptions and methodologies used by the Entity;
ii) analyzing individual entities' trend of their tax results from previous years;
iii) reviewing the financial and tax projections to determine if the generation of taxable income in the future will enable the tax losses to be recovered before they expire, and
iv) reviewing the projected results of the corporate restructuring process.

We believe that the Entity's disclosures in relation to the main captions originating the deferred tax balances are appropriate.

Other information included in the document containing the consolidated financial statements

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material

if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

We also:

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

modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our

report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

March 2, 2017

Other Matter

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

GALAZ, YAMAZAKI, RUIZ URQUIZA, S.C.

Member of Deloitte Touche Tohmatsu Limited

C.P.C. FERNANDO LOERA AGUILAR

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016, 2015 AND 2014

(In thousands of Mexican pesos)

Assets	Notes	2016	2015	2014
Current assets:				
Cash and cash equivalents	6	$ 1,320,097	$ 763,810	$ 997,79
Investments in securities	7	450,000	450,000	519,073
Accounts and notes receivable - Net	8	2,735,222	2,496,491	2,627,080
Inventories		24,507	33,750	34,068
Prepaid expenses		92,329	158,797	133,311
Vacation Club inventory	9	153,277	198,485	286,968
Other current assets		63,692	62,085	27,733
Assets classified as held for sale	10	64,531	59,184	50,910
Total current assets		**4,903,655**	**4,222,602**	**4,676,935**
Non-current assets:				
Long-term notes receivable	11	2,231,275	2,285,534	1,726,722
Vacation Club inventory in construction		151,480	22,745	10,918
Property and equipment - Net	12	6,483,129	6,666,479	6,559,525
Investment in associates		1,129	1,129	1,879
Intangible assets and other assets	13	641,184	404,920	269,362
Deferred tax assets	16	658,518	173,554	72,610
Total non-current assets		**10,166,715**	**9,554,361**	**8,641,016**
Total assets		**$ 15,070,370**	**$ 13,776,963**	**$ 13,317,951**

See accompanying notes to consolidated financial statements.

Liabilities and stockholders' equity	Notes	2016	2015	2014
Current liabilities:				
Current portion of long-term debt	15	$ 472	$ 1,399	$ 1,449,957
Trade accounts payable	14	497,753	438,432	400,101
Other liabilities and accrued expenses		1,061,833	1,032,469	749,376
Income tax payable		362,454	240,885	280,272
Deferred income from Vacation Club		435,627	253,639	65,822
Current portion of long-term value-added tax		134,955	95,726	133,539
Liabilities directly associated with assets classified as held for sale	10	7,200	6,384	6,423
Total current liabilities		**2,500,294**	**2,068,934**	**3,085,490**
Long-term liabilities:				
Debt	15	7,871,765	6,242,282	4,432,316
Accrued liabilities	17	459,676	504,534	400,210
Value-added tax payable		318,954	319,932	248,719
Deferred income from Vacation Club		840,307	703,538	508,858
Income tax payable	16	151,097	310,240	533,148
Total long-term liabilities		**9,641,799**	**8,080,526**	**6,123,251**
Total liabilities		**12,142,093**	**10,149,460**	**9,208,741**
Stockholders' equity:				
Contributed capital:				
Capital stock	21	495,881	495,881	495,937
Contributions for future capital increases		704	4,828	12,516
Share repurchase reserve		16,856	16,856	16,800
Additional paid-in capital		157,429	157,429	157,429
		670,870	**674,994**	**682,682**
Earned capital:				
Share repurchase reserve		535,000	535,556	535,556
Retained earnings		1,467,516	2,172,779	2,645,031
Other items of comprehensive income		62,945	47,424	27,244
		2,065,461	**2,755,759**	**3,207,831**
Total controlling interest		2,736,331	3,430,753	3,890,513
Non-controlling interest		191,946	196,750	218,697
Total stockholders' equity		**2,928,277**	**3,627,503**	**4,109,210**
Total liabilities and stockholders' equity		$ 15,070,370	$ 13,776,963	$ 13,317,951

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

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

	Notes	2016	2015	2014
Continuing operations				
Revenue	22	$ 7,979,349	$ 6,901,221	$ 5,848,278
Cost of sales	22	4,538,947	4,101,783	3,579,145
Gross profit		3,440,402	2,799,438	2,269,133
Administration expenses	22	982,304	884,090	807,848
Sale and development expenses	22	252,243	166,250	131,871
Depreciation, amortization, real estate leasing, cost of disposal and impairment of assets		1,040,475	801,646	739,026
Other expenses, net		110,921	145	45,670
Interest expense		643,592	508,840	417,669
Interest income		(46,802)	(34,457)	(22,509)
Commissions and financial expenses		93,474	100,080	60,763
Exchange loss, net		1,234,444	708,553	427,934
Equity in losses of associates		-	750	12,595
		4,310,651	**3,135,897**	**2,620,867**
Loss before income tax		(870,249)	(336,459)	(351,734)
Income tax (benefit) expense	16	(174,349)	131,334	(1,061,257)
(Loss) profit from continuing operations		(695,900)	(467,793)	709,523
Discontinued operations				
(Loss) profit from discontinued operations		(1,279)	(2,612)	8,718
Consolidated (loss) income for the year		(697,179)	(470,405)	718,241
Other comprehensive income (loss)				
Exchange differences on translating foreign operations, which will be reclassified subsequently to profit or loss		32,195	7,516	10,844
Remeasurement of defined benefit obligation, which will not be reclassified subsequently to profit or loss		(23,820)	18,091	(13,689)
Income taxes		7,146	(5,127)	4,107
		15,521	**20,180**	**1,262**
Consolidated comprehensive (loss) income for the year		$ (681,658)	$ (450,225)	$ 719,503

See accompanying notes to consolidated financial statements.

	Notes	2016	2015	2014
Consolidated (loss) income for the year attributable to:				
Controlling interest		$ (705,819)	$ (470,208)	$ 716,817
Non-controlling interest		8,640	(197)	1,424
Consolidated (loss) income for the year		**$ (697,179)**	**$ (470,405)**	**$ 718,241**
Consolidated comprehensive (loss) income for the year attributable to:				
Controlling interest		$ (690,298)	$ (450,028)	$ 718,079
Non-controlling interest		8,640	(197)	1,424
Consolidated comprehensive (loss) income for the year		**$ (681,658)**	**$ (450,225)**	**$ 719,503**
(Loss) earnings per share:				
From continuing and discontinued operations -				
Basic and diluted (loss) earnings per common share (in pesos)		$ (1.42)	$ (0.95)	$ 1.45
From continuing operations -				
Basic and diluted (loss) earnings per common share (in pesos)		$ (1.42)	$ (0.94)	$ 1.43
Weighted average shares		495,929,856	495,929,856	495,937,601

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In thousands of Mexican pesos)

	Contributed capital			
	Capital stock	Contributions for future capital increases	Shares repurchase reserve	Shares held in trust
Beginning balance, 2014	$ 495,937	$ 12,516	$ 133,509	$ (3,322)
Capital increase by issuing shares in trust	-	-	-	3,322
Decrease shares repurchase reserve	-	-	(116,709)	-
Dividends paid to non-controlling interest	-	-	-	-
Acquisition of non-controlling interest and stock purchase surplus	-	-	-	-
Consolidated comprehensive income	-	-	-	-
Balance as of December 31, 2014	495,937	12,516	16,800	-
Repurchase of shares	(56)	-	56	-
Partial payment of convertible debt	-	(7,688)	-	-
Change in the value of non-controlling interest	-	-	-	-
Consolidated comprehensive loss	-	-	-	-
Balance as of December 31, 2015	495,881	4,828	16,856	-
Repurchase of shares	-	-	-	-
Partial payment of convertible debt	-	(4,124)	-	-
Change in the value of non-controlling interest	-	-	-	-
Consolidated comprehensive loss	-	-	-	-
Balance as of December 31, 2016	**$ 495,881**	**$ 704**	**$ 16,856**	**$ -**

See accompanying notes to consolidated financial statements.

	Earned capital				
Additional paid-in capital	Shares repurchase reserve	Retained earnings	Other items of comprehensive income	Non-controlling interest	Total stockholders' equity
$ 157,429	$ 559,371	$ 1,776,394	$ 25,982	$ 230,401	$ 3,388,217
-	7,669	-	-	-	10,991
-	(31,484)	148,193	-	-	-
-	-	-	-	(8,000)	(8,000)
-	-	3,627	-	(5,128)	(1,501)
-	**-**	**716,817**	**1,262**	**1,424**	**719,503**
157,429	535,556	2,645,031	27,244	218,697	4,109,210
-	-	(2,044)	-	-	(2,044)
-	-	-	-	-	(7,688)
-	-	-	-	(21,750)	(21,750)
-	**-**	**(470,208)**	**20,180**	**(197)**	**(450,225)**
157,429	535,556	2,172,779	47,424	196,750	3,627,503
-	(556)	556	-	-	-
-	-	-	-	-	(4,124)
-	-	-	-	(13,444)	(13,444)
-	**-**	**(705,819)**	**15,521**	**8,640**	**(681,658)**
$ 157,429	**$ 535,000**	**$ 1,467,516**	**$ 62,945**	**$ 191,946**	**$ 2,928,277**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(In thousands of Mexican pesos)

	2016	2015	2014
Cash flows from operating activities:			
Consolidated (loss) income for the year	$ (697,179)	$ (470,405)	$ 718,241
Adjustments for:			
Income tax (benefit) expense	(174,349)	131,334	(1,061,257)
Depreciation, amortization, cost of disposal and asset impairment	595,350	414,677	409,265
Amortization of debt issue expenses	72,642	49,985	46,401
Equity in losses of associates	-	750	12,595
Loss (income) on sale of fixed assets	(120,128)	88,134	-
Interest income	(46,802)	(34,457)	(22,509)
Unrealized foreign exchange loss	1,439,926	932,462	590,499
Interest expense	643,592	508,840	417,669
	1,713,052	**1,621,320**	**1,110,904**
Transactions in working capital:			
Accounts and notes receivable - Net	(189,819)	(442,161)	(192,610)
Inventories	9,243	318	1,735
Prepaid expenses	52,980	(25,486)	(11,445)
Vacation Club inventory	45,208	88,483	(180,972)
Trade accounts payable	59,321	38,331	51,774
Other liabilities and accrued expenses	(46,543)	484,463	176,246
Deferred income of Vacation Club	318,757	382,497	119,607
Income taxes paid	(218,829)	(466,581)	(595,188)
Net cash generated by operating activities	1,743,370	1,681,184	480,051
Cash flows from investing activities:			
Purchases of property and equipment	(573,995)	(600,573)	(426,454)
Vacation Club inventory in construction	(128,734)	(11,827)	(10,919)
Intangible assets and other assets	(202,893)	(184,766)	(81,940)
Investments in securities	-	69,073	6,278
Interest collected	46,802	33,066	22,509
Sale of property and equipment	15,632	5,664	-
Cash flows from sales of non-strategic properties	245,000	-	26,197
Net cash used in investing activities	(598,188)	(689,363)	(464,329)

See accompanying notes to consolidated financial statements.

	2016	2015	2014
Cash flows from financing activities:			
Cash received from debt issuance	922,635	1,219,441	740,159
Loan repayments	(793,667)	(1,542,844)	-
Interest paid	(687,315)	(573,282)	(427,114)
Debt issuance costs	(26,424)	(359,274)	(50,149)
Partial payment of convertible debt	(4,124)	(7,688)	-
Repurchase of shares	-	(2,044)	-
Capital increase by issuing shares in trust	-	-	10,991
Non-controlling interest dividends paid	-	-	(8,000)
Acquisition of non-controlling interest	-	-	(1,501)
Net cash (used in) generated by financing activities	(588,895)	(1,265,691)	264,386
Net increase (decrease) in cash and cash equivalents	556,287	(273,870)	280,108
Cash and cash equivalents at the beginning of the year	763,810	997,792	706,365
Effects of exchange rate changes on the balance of cash held in foreign currencies	-	39,888	11,319
Cash and cash equivalents at the end of the year	**$ 1,320,097**	**$ 763,810**	**$ 997,792**

1. Activities

Grupo Posadas, S. A. B. de C. V. (Posadas) and Subsidiaries (the Entity) are primarily engaged in the operation and management of hotels as well as to the purchase and sale of real estate within the tourism industry. The Entity mainly operates hotels under Live Aqua, LAT20, Grand Fiesta Americana, Fiesta Americana, The Explorean, Fiesta Inn, Fiesta Inn Loft, One Hotels and Gamma brands.

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

Hotels	2016	2015	2014
Owned	15	17	17
Leased	13	14	14
Managed	120	110	96
Total hotels operated	**148**	**141**	**127**
Total rooms operated	**24,324**	**23,259**	**21,094**

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

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

In 2012, the Entity began restructuring its business with a focus towards ownership of strategic assets and the growth of its hotel management business and FAVC. As part of this strategy, the Entity has sold several hotels and other non-strategic assets (see Note 2b). Through December 31, 2016, the Entity continues with the organizational restructuring to significantly reduce the number of legal entities of which it is composed.

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

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

2. Significant events

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

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

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

On June 30, 2015 the Entity completed a debt issuance for US$350 million in notes known as "Senior Notes 2022" through the Luxembourg Stock Exchange. The initial intention was to substitute the issuance of US$310 million known as "Senior Notes 2017" which the Entity held as of December 31, 2014 and for which US$1,060 was offered for each US$1,000 of the previous issue. As a result of the offering it was possible to tender US$271.7 million of "Senior Notes 2017", equivalent to 87.63% of principal, and the remaining balance of this program decreased to US$38.3 million, while the notes representing the remaining balance were held outstanding; also, the funds that were not used for such tender were applied by the Entity mainly for the payment of the commercial euro paper held by the Entity that matured on November 2015.

The "Senior Notes 2022" accrue interest of 7.875% a year with maturity of principal on June 30, 2022. The interest is payable semiannually in the months of June and December, beginning as of December 30, 2015.

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

b. Sale of Hotel Fiesta Inn Monterrey Valle and promise to sell Hotel Fiesta Americana Hermosillo

As part of the asset sales strategy, on August 1, 2016, the hotel building which operated under the commercial brand "Fiesta Inn Monterrey Valle" was sold to Fibra Hotel; the amount of the transaction was $245 million.

On April 29, 2016 a purchase and sale agreement was signed subject to term, conditions precedent and a purchase option with Deutsche Bank México, S.A. Institución de Banca Múltiple, fiduciary division, trustee of the Trust F/1596 (Fibra Hotel) for the sale of the hotel "Fiesta Americana Hermosillo" in accordance with the fol-

lowing clauses: i) the respective term will expire on January 31, 2020, ii) the consideration will be that resulting from multiplying 10.06 times the average EBITDA of the hotel for the last three years, less the investment made in leasehold improvements and disbursements, subject to a minimum of $80.5 million. At the same time as the signing of the sales contract, the Entity signed a lease with Fibra Hotel for a noncancelable term maturing in 2020 for $10 million, which the Entity undertakes to invest in property improvements; also, Fibra Hotel agrees under the same terms to invest $75 million in such property. The sale of the property will be recognized once the aforementioned clauses are duly fulfilled.

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

The Entity continues operating both hotels under the modality of "Managed Hotels".

c. *Hurricane Odile*

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

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

d. *Assets available for sale*

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

As all the accounting criteria required for assets available for sale have been fulfilled as of December 31, 2014, the real estate and equipment of the hotel subject to sale have been presented as "assets held for sale" in the consolidated statements of financial position.

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

e. *Tax effects of 2013*

i. Under the new Income Tax Law (LISR) in effect in 2014, the tax consolidation scheme was eliminated. Therefore, Posadas became obligated to pay the deferred tax up to December 31, 2013, during the following five years beginning in 2014. This tax on deconsolidation was determined by the Entity's management and recognized in the consolidated statement of comprehensive (loss) income as of December 31, 2013, under the heading of income tax expense, for the amount of $882,262; also, the short and long-term liability as of December 31, 2016 is $159,143 and $151,097, respectively. The determination of such tax is subject to review by the tax authorities.

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

considering the tax attributes of the Entity, during 2014 tax losses of $304,090 were carried forward. As of December 31, 2016, the liability derived from this gain is $389,281 (see Note 16c.)

3. Application of new and revised International Financial Reporting Standards

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

In 2016 the Entity applied the following amendments to IFRS issued by the International Accounting Standards Board (IASB), which did not have important effects on the Entity's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

Provide practical guidance on applying the concept of materiality for financial statement disclosures.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment.

The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue; or

b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Currently, the Entity's management uses the straight-line method for depreciation of its property and equipment, and amortization of intangible assets, since it believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets.

Amendments to IAS 19, Employee Benefits

Clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level as the benefits are to be paid. For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

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

At the date of the consolidated financial statements the following new and revised IFRS have been issued but are not yet effective. These IFRS allow earlier application, option that has not been elected by the Entity.

i) Effective for annual periods beginning on or after 1 January 2017, for which the Entity does not expect to have important effects on its consolidated financial information.

Amendments to IAS 12 Income Tax: Recognition of Deferred Tax Assets for Unrealized Losses

Provides requirements on the recognition and measurement of current or deferred tax liabilities or assets, and the amendments clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Amendments to IAS 7 Statements of Cash Flows: Provide disclosures.

With the purpose to provide disclosures that allow users of financial statements evaluate the changes in liabilities arising from financing activities, IASB requires that the changes in liabilities arising from financing activities are disclosed: (i) from financing cash flows; (ii) from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) in fair values; and (v) other changes.

ii) Effective for annual periods beginning on or after 1 January 2018, for which it is not practicable to provide a reasonably estimate of their effects on the consolidated financial statements until having performed a detailed analysis and review.

IFRS 9 *Financial Instruments*

- IFRS 9 requires that all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost (historical cost) at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at Fair Value Through Other Comprehensive Income (FVTOCI). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

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

IFRS 15 R*evenue from Contracts with Customers*

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

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

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

iii) Effective for annual periods beginning on or after 1 January 2019; during 2017 the Entity will begin the analysis and evaluation of the effects of this standard, although given the nature of its operations it would expect significant impacts.

IFRS 16, *Leases*

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. A lessee would recognize a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

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

4. Significant accounting policies

a. Statement of compliance

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

b. Basis of preparation

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

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

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

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

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

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

c. *Basis of consolidation*

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

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

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

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

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

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

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

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

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

Entity	Participation (%) 2016, 2015 and 2014
Promotora Inmobiliaria Hotelera, S. A. de C. V. and Subsidiaries	100
Controladora de Acciones Posadas, S. A. de C. V. and Subsidiaries	100
Administración Digital Conectum, S. A. de C. V. and Subsidiaries	100
Posadas USA, Inc. and Subsidiaries	100
Hoteles y Villas Posadas, S. A. de C. V.	100
Inversora Inmobiliaria Club, S. A. de C. V.	100
Gran Inmobiliaria Posadas, S. A. de C. V.	100
Soluciones de Lealtad, S. A. de C. V.	100
Konexo Centro de Soluciones, S. A. de C. V.	100
Inmobiliaria del Sudeste, S. A. de C. V.	51

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

Changes in the Entity's ownership interests in existing subsidiaries

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

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

d. Financial instruments

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

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

e. Financial assets

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

1. Effective interest method

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

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

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

   A financial asset is classified as held for trading if:

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

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

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

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

3. Held-to-maturity investments

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

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

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

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

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

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

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

5. Loans and receivables

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

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

6. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each

reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

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

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

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

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

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

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

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

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impair-

ment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7. Derecognition of financial assets

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

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

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

f. Cash, cash equivalents and investments in securities

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

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

g. Inventories

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

h. Vacation Club inventory

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

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

i. Property and equipment

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

Furniture and equipment are stated at cost less accumu-

lated depreciation and accumulated impairment losses. The cost of improvements, renovations and replacements to hotel rooms are capitalized within the property and equipment caption and are amortized over a period of 3 to 5 years. The costs of minor repairs and maintenance are expensed as they are incurred.
Properties in the course of construction for exploitation, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Entity's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Land is not depreciated.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land and properties under construction) less their residual values over their useful lives, which is 24% for buildings, as determined by the independent valuation agents, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.
The assets held under capital lease are depreciated based on their estimated useful life, in the same way as owned assets. However, when there is no reasonable certainty that ownership will be obtained at the end of the lease, the assets are amortized in the shorter of the effective lease term and their useful life.

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

j. Intangible assets and other assets

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

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

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

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

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

  The amount initially recognized for internally-generated intangible assets is

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

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

2. Derecognition of intangible assets

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

k. Impairment of tangible and intangible assets

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

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

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

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

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

l. Assets classified as held for sale

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

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

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

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

m. Investments in associates

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

n. Leasing

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

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

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

o. Foreign currencies transactions

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

monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.
Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.

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

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

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

p. Employee benefits

Retirement benefits costs from termination benefits

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

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

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

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

A liability for a termination benefit is recognized at the earlier of when the Entity can no

longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

Short-term and other long-term employee benefits

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

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

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

Statutory employee profit sharing (PTU)

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

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

q. Income taxes

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

1. Current tax

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

2. Deferred income tax

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

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

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

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

3. Current and deferred tax for the year

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

r. Provision

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

be made of the amount of the obligation.

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

1. Restructurings

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

2. Reserve for returns related to the Vacation Club

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

s. Financial liabilities and equity instruments

1. Classification as debt or equity

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

2. Equity instruments

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

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

3. Financial liabilities

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

4. Other financial liabilities

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

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

5. Derecognition of financial liabilities

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

t. Revenue recognition

The Entity recognizes its revenues as follows:

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

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

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

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

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

u. Classification of costs and expenses

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

v. Statements of cash flows

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

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

w. Loyalty programs

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

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

Basic (loss) earnings per share are calculated by dividing the net (loss) attributable to the controlling interest by the weighted average shares outstanding during the

period. The diluted (loss) earnings per share is determined by adding 1) to the net (loss) earnings utilized in the numerator of the basic earnings per common share computation, interest and exchange rate fluctuation recorded in earnings attributable to voluntarily convertible loans and 2) to the weighted average shares outstanding in the denominator of the computation, the weighted average of outstanding obligations converted to shares based on the conversion factor established in the convertible loan agreements. As of December 31, 2016, 2015 and 2014, the Entity does not have ordinary shares with potential dilution effects.

5. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

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

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

ii. Revenue recognition of Vacation Club

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

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

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

iv. Financial projections for asset impairment

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

v. The future benefit of tax losses

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

vi. The effects of the contingencies faced by the Entity

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

vii. The useful life and residual value of properties

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

viii. Classification criteria of the Entity's operating segments

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

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

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

6. Cash and cash equivalents

	2016	2015	2014
Cash	$ 65,171	$ 109,345	$ 85,792
Cash equivalents:			
Overnight investments	1,254,926	654,465	912,000
Total	$ 1,320,097	$ 763,810	$ 997,792

7. Investments in securities

	2016	2015	2014
Trading:			
Overnight investments	$ 450,000	$ 450,000	$ 487,294
Other	-	-	31,779
	$ 450,000	$ 450,000	$ 519,073

8. Accounts and notes receivable

	2016	2015	2014
Notes receivable from Vacation Club (a.)	$ 1,846,740	$ 1,218,342	$ 1,022,035
Other receivables from Vacation Club	170,462	279,720	250,742
Clients and agencies (b.)	732,451	624,403	531,821
Other taxes recoverable, net	-	401,983	805,284
Account receivable from sale of non- strategic assets	-	-	102,000
Officers and employees	60,485	37,647	33,160
Others	79,428	166,993	123,635
	2,889,566	2,729,088	2,868,677
Less - Allowance for doubtful accounts	(154,344)	(232,597)	(241,597)
	$ 2,735,222	$ 2,496,491	$ 2,627,080

a. Notes receivable from Vacation Club

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

Composition of the trading portfolio

	2016	2015	2014
Maturity of notes receivable from Vacation Club-			
Less than 90 days	$ 422,463	$ 100,703	$ 311,336
Between 91 and 330 days	657,243	597,692	334,537
Between 331 and 365 days	767,034	519,947	376,162
	$ 1,846,740	$ 1,218,342	$ 1,022,035

b. Accounts receivable from clients and agencies

The average credit term related to amounts owed for hotel services is 35 days. The Entity does not charge interest on outstanding amounts. Normally, amounts owed within this portfolio are not aged significantly. During 2016, 2015 and 2014 the Entity identified and wrote-off $88,719, $2,122 and $9,364, respectively, of the reserve for doubtful accounts, since it was determined that such amounts did not have possibility of being recovered.

	2016	2015	2014
Clients and agencies-			
Less than 90 days	$ 650,710	$ 552,853	$ 410,312
Over 90 days	81,741	71,550	121,509
	$ 732,451	$ 624,403	$ 531,821
Allowance for doubtful accounts-			
Clients and agencies	$ (34,183)	$ (122,902)	$ (120,340)
Notes receivable from Vacation Club	(120,161)	(109,695)	(43,123)
Other	-	-	(78,134)
	$ (154,344)	$ (232,597)	$ (241,597)

9. Vacation Club inventory

	2016	2015	2014
Vacation Club inventory	$ 128,477	$ 177,397	$ 268,552
Villas and residential lots	24,800	21,088	18,416
	$ 153,277	$ 198,485	$ 286,968

Vacation Club inventories recognized in cost of membership sales during the period in respect of continuing operations was $48,919, $87,923and $83,453 at December 31, 2016, 2015 and 2014, respectively.

10. Assets classified as held for sale

	2016	2015	2014
Assets classified as held for sale of the Ramada Plaza hotel:			
Cash and cash equivalents	$ 5,586	$ 2,642	$ 5,595
Accounts and notes receivable - Net	1,228	1,046	1,193
Inventories	312	259	154
Prepaid expenses	428	359	288
Property and equipment - Net	56,977	54,878	43,680
Total assets classified as held for sale	$ 64,531	$ 59,184	$ 50,910
Liabilities directly associated with assets classified as held for sale:			
Other liabilities and accrued expenses	**$ (7,200)**	**$ (6,384)**	**$ (6,423)**

11. Long-term notes receivable

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

	2016	2015	2014
Long-term notes receivable:			
Vacation Club memberships	$ 1,945,498	$ 2,211,196	$ 1,556,054
Kívac	366,920	108,309	247,156
	2,312,418	2,319,505	1,803,210
Less:			
Allowance for Kívac's doubtful accounts	(81,143)	(33,971)	(76,488)
Total	**$ 2,231,275**	**$ 2,285,534**	**$ 1,726,722**

The maturities of the long-term notes receivable at December 31, 2016 are as follows:

To collect during	Amount
2018	$ 993,046
2019	589,320
2020	309,524
2021 and thereafter	420,528
Total long-term notes receivable	**$ 2,312,418**

12. Property and equipment

	2016	2015	2014
Buildings	$ 6,431,458	$ 6,603,406	$ 6,563,629
Furniture and equipment	1,479,002	1,227,058	1,481,450
Computers	422,053	417,977	433,202
Vehicles	37,093	30,132	35,139
	8,369,606	8,278,573	8,513,420
Less - Accumulated depreciation	(4,469,963)	(4,375,084)	(4,511,623)
	3,899,643	3,903,489	4,001,797
Land	2,184,719	2,218,114	2,129,829
Construction in progress	398,767	544,876	427,899
	$ 6,483,129	$ 6,666,479	$ 6,559,525

	Land	Buildings	Furniture and equipment
Cost			
Beginning balance as of January, 2014	$ 2,093,737	$ 6,653,027	$ 1,422,265
Additions	53,536	18,156	136,457
Disposals	(11,228)	-	-
Reclassified as held for sale	(6,216)	(107,554)	(77,272)
Balance as of December 31, 2014	2,129,829	6,563,629	1,481,450
Additions	88,285	74,703	113,194
Transfers from construction in progress	-	109,943	78,546
Disposals	-	(144,869)	(74,613)
Derecognition of fully depreciated assets	-	-	(371,519)
Balance as of December 31, 2015	2,218,114	6,603,406	1,227,058
Additions	821	44,080	129,640
Transfers of prepayments and other assets	824	20,814	28,945
Transfers from construction in progress	-	289,854	144,864
Disposals	-	(376,607)	-
Derecognition of fully depreciated assets	(35,040)	(150,089)	(51,505)
Balance as of December 31, 2016	**$ 2,184,719**	**$ 6,431,458**	**$ 1,479,002**
Accumulated depreciation and impairment			
Beginning balance as of January, 2014	$ -	$ (2,972,043)	$ (916,451)
Depreciation expense	-	(208,270)	(134,751)
Reclassified as held for sale	-	106,793	41,648
Balance as of December 31, 2014	-	(3,073,520)	(1,009,554)
Depreciation expense	-	(178,648)	(189,558)
Disposals of assets	-	54,189	73,799
Derecognition of fully depreciated assets	-	-	371,519
Balance as of December 31, 2015	-	(3,197,979)	(753,794)
Depreciation expense	-	(216,631)	(158,143)
Disposals of assets	-	77,130	21,230
Derecognition of fully depreciated assets	-	249,019	-
Impairment of assets	-	(57,064)	-
Balance as of December 31, 2016	**$ -**	**$ (3,145,525)**	**$ (890,707)**
Total net investment at December 31, 2016	**$ 2,184,719**	**$ 3,285,933**	**$ 588,295**

Certain real estate property has been granted as guarantee of an undisposed line of credit as well as certain tax liabilities; the approximate amount of these assets is $614,665.

Computers	Vehicles	Construction in progress	Total
$ 435,244	$ 37,236	$ 221,690	$ 10,863,199
5,602	6,494	206,209	426,454
(7,644)	(7,325)	-	(26,197)
-	(1,266)	-	(192,308)
433,202	35,139	427,899	11,071,148
13,736	5,058	305,597	600,573
131	-	(188,620)	-
(7,913)	(4,677)	-	(232,072)
(21,179)	(5,388)	-	(398,086)
417,977	30,132	544,876	11,041,563
6,252	4,806	325,008	510,607
274	784	(32,749)	18,892
-	3,650	(438,368)	-
-	-	-	(376,607)
(2,450)	(2,279)	-	(241,363)
$ 422,053	**$ 37,093**	**$ 398,767**	**$ 10,953,092**
$ (374,821)	$ (22,314)	$ -	$ (4,285,629)
(27,163)	(4,438)	-	(374,622)
-	187	-	148,628
(401,984)	(26,565)	-	(4,511,623)
(26,659)	(4,956)	-	(399,821)
6,655	3,631	-	138,274
21,179	5,388	-	398,086
(400,809)	(22,502)	-	(4,375,084)
(9,268)	(3,649)	-	(387,691)
1,756	741	-	100,857
-	-	-	249,019
-	-	-	(57,064)
$ (408,321)	**$ (25,410)**	**$ -**	**$ (4,469,963)**
$ 13,732	**$ 11,683**	**$ 398,767**	**$ 6,483,129**

13. Intangible assets and other assets

	2016	2015	2014
Kívac´s sales commissions	$ 330,143	$ 317,852	$ 215,970
Guarantee deposits	42,995	44,537	39,719
Expenditures for technology projects	153,882	21,857	7,662
Development expenses and others	61,919	20,674	6,011
Other assets	52,245	-	-
	$ 641,184	$ 404,920	$ 269,362

14. Suppliers

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

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

	2016	2015	2014
Banco Santander (México), S.A.	$ 43,141	$ 65,249	$ 59,373
BBVA Bancomer, S.A.	72,173	57,578	33,386
Banco Monex, S.A.	17,490	36,297	25,923
Banco Actinver, S.A.	13,841	14,229	2,438
	$ 146,645	$ 173,353	$ 121,120

15. Long-term debt

a. Long-term debt is as follows:

	2016	2015	2014
U.S. dollar-denominated:			
"Senior Notes 2022", fixed rate of 7.875%	$ 7,871,765	$ 5,593,072	$ -
"Senior Notes 2017", fixed rate of 7.875%	-	649,210	4,432,316
"Senior Notes 2015", fixed rate of 9.25%	-	-	756,517
Euro-Commercial Paper, fixed rate of 6%	-	-	691,179
Other loans, at variable rates average of 3.32%	472	1,399	2,261
	7,872,237	6,243,681	5,882,273
Less - Current portion	(472)	(1,399)	(1,449,957)
Long-term debt	**$ 7,871,765**	**$ 6,242,282**	**$ 4,432,316**

The maturities of long-term debt at December 31, 2016, are as follows:

Payable during	Thousands of American dollars
2022	400,000
Equivalent in thousands of Mexican pesos	$ 8,265,600
Less - debt issuance costs	(393,835)
	$ 7,871,765

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

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

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

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

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

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

f. On January 15, 2010, the Entity issued debt securities for US$200 million under a Senior Notes program, due on January 15, 2015 ("2015 Senior Notes"). The securities accrued interest at an annual rate of 9.25%, with semiannual coupons. The remaining balance of the program was reduced by the additional issuance of "Senior Notes 2017", resulting in a total debt of US$51.7 million at December 31, 2014, which was paid at maturity.

g. The most significant restrictions and obligations contained in debt agreements at December 31, 2016, prohibit the Entity from:

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

At December 31, 2016, restrictions and covenants have been satisfied.

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

				2015		
	Guarantors	**Non-guarantors**	**Total consolidated**	Guarantors	Non-guarantors	Total consolidated
Total revenues	**$ 7,485,156**	**$ 494,193**	**$ 7,979,349**	$ 6,247,866	$ 653,355	$ 6,901,221
Depreciation, amortization and impairment	**536,923**	**58,427**	**595,350**	359,332	55,345	414,677
Lease expense	**445,125**	**-**	**445,125**	386,969	-	386,969
Consolidated (loss) income	**(749,612)**	**52,433**	**(697,179)**	(622,716)	152,311	(470,405)
Total assets	**13,631,904**	**1,438,466**	**15,070,370**	**12,257,339**	**1,519,624**	**13,776,963**
Total liabilities	**11,435,340**	**706,753**	**12,142,093**	**9,011,409**	**1,138,051**	**10,149,460**

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

	Guarantors		**Non-guarantors**		**Total consolidated**	
	2015	2014	2015	2014	2015	2014
Total revenues	$ 6,676,420	$ 5,553,097	$ 224,801	$ 295,181	$ 6,901,221	$ 5,848,278
Impairment, depreciation and amortization	365,943	370,047	48,734	39,218	414,677	409,265
Lease expense	386,969	329,761	-	-	386,969	329,761
Consolidated (loss) income	(442,520)	926,686	(27,885)	(208,445)	(470,405)	718,241
Total assets	**13,347,403**	**12,829,671**	**429,560**	**488,280**	**13,776,963**	**13,317,951**
Total liabilities	**9,438,168**	**8,409,564**	**711,292**	**799,177**	**10,149,460**	**9,208,741**

16. Income taxes

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

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

The Entity and its subsidiaries elected to join the new scheme, for which reason income taxes were calculated based on the aforementioned regime in 2014, 2015 and 2016.

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

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

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

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

	2016	2015	2014
Current tax -			
Current ISR	**$ 212,713**	$ 120,397	$ 169,835
ISR previous years	**97,902**	111,881	-
	310,615	232,278	169,835
Deferred ISR benefit	**(484,964)**	(100,944)	(1,231,092)
Total income tax (benefit)	**$ (174,349)**	**$ 131,334**	**$ (1,061,257)**

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

	2016	2015	2014
Statutory rate	**30%**	30%	30%
Less:	**1%**	53%	304%
Effect of activation of tax loss carryforwards	**(9)%**	(70)%	-
Reserve of individual tax loss carryforwards	**(2)%**	(52)%	(21)%
Effective rate	**20%**	(39)%	313%

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

	2016	2015	2014
Notes receivable	**$ (825,990)**	$ (732,510)	$ (266,234)
Allowance for doubtful accounts	**120,533**	88,811	95,425
Real estate inventory	**(45,735)**	(59,339)	(73,097)
Property and equipment	**(220,183)**	(156,132)	(230,681)
Intangible assets and other assets	**(19,346)**	(54,088)	(127,735)
Reserves and deferred income	**640,859**	651,687	341,961
Tax loss carryforwards	**2,611,588**	2,820,609	2,363,880
Reserve of tax loss carryforwards	**(1,101,718)**	(1,389,165)	(1,030,229)
Tax benefits (Conacyt)	**21,932**	10,077	(10,876)
Unrealized exchange rate fluctuation	**(134,141)**	-	-
SIBRAS tax effect	**(389,281)**	(1,006,396)	(993,332)
Recoverable IMPAC	**-**	-	3,528
	$ 658,518	$ 173,554	$ 72,610

d. The benefits of restated tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and tax credit, respectively, have been partially recognized, can be recovered subject to certain conditions. At December 31, 2016, 2015 and 2014, the tax loss carryforwards amounted to $8,705,291, $9,402,030 and $7,879,600, respectively.

e. Tax loss carryforwards

Expiration dates and restated amounts of tax loss carryforwards as of December 31, 2016, for which an asset for deferred tax has been partially recognized, are:

Year	Amount
2017	$ 13,733
2018	2,373,205
2019	478,536
2020	32,136
2021	1,823,392
2022	22,403
2023	620,695
2024	1,047,816
2025	1,800,262
2026	493,113
	$ 8,705,291

f. Tax consolidation

ISR liability as of December 31, 2016 related to the effects for benefits and tax deconsolidation is being paid as follows:

Year	Amount
2017	$ 159,143
2018	151,097
	310,240
Less - current portion	(159,143)
	$ 151,097

17. Long-term accrued liabilities

	2016	2015	2014
Return reserve for Vacation Club	$ 138,850	$ 157,394	$ 144,307
Employee benefits	137,453	134,691	115,152
Other accrued liabilities	183,373	212,449	140,751
	$ 459,676	$ 504,534	$ 400,210

A current portion of the return reserve for Vacation Club has been recorded within "Other liabilities and accrued expenses" in the consolidated statements of financial position, amounting as of December 31, 2016, 2015 and 2014, $73,595, $81,739 and $69,780, respectively.

18. Employee benefits

The net period cost for obligations under the pension plan and related seniority premiums amounted to $6,802, $22,357 and $17,131 as of December 31, 2016, 2015 and 2014, respectively. Other disclosures required by accounting rules are not considered material.

19. Financial instruments

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

a. Capital risk management

The Entity manages its capital to ensure that it will continue as a going concern, while maximizing the return to stockholders through the optimization of debt and equity structure. During 2016 overall strategy of the Entity has not been changed compared to 2015 and 2014.

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

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

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

Debt index

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

	2016	2015	2014
Debt [i]	$ 7,872,237	$ 6,243,681	$ 5,882,273
Cash, banks and investments in securities	1,770,097	1,213,810	1,516,865
Net debt	6,102,140	5,029,871	4,365,408
Stockholders' equity [ii]	**$ 2,928,277**	**$ 3,627,503**	**$ 4,109,210**
Index of net debt to equity	**2.08**	**1.39**	**1.06**

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

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

b. Categories of financial instruments

	2016	2015	2014
Financial assets			
Cash	$ 65,171	$ 109,345	$ 85,792
Held for trading	1,704,926	1,104,465	1,399,294
Investments held to maturity	-	-	31,779
Account and notes receivable	4,966,497	4,380,042	3,548,518
Financial assets held for sale	6,814	3,688	6,788
Financial liabilities			
Amortized cost	9,049,365	7,455,990	6,772,772

c. Market risk

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

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

d. Foreign currency risk management

The Entity believes that the risk is material because as of December 31, 2016, 100% of its debt is denominated in US dollars. Considering the net monetary position in US dollars as of December 31, 2016, a 10% appreciation (or appreciation) of the Mexican peso against the US dollar would cause an exchange loss or (gain) in results and in the stockholders' equity of the Entity of approximately $656,249.

As of December 31, 2016, a portion of the Entity's revenues, generally around 25%, has been directly or indirectly denominated in US dollars. This is because the prices of the guestrooms in the coastal resorts (mainly Cancun and Los Cabos) have rates in US dollars and also because, historically, a portion of the sales and financing of the Vacation Club memberships have been denominated in US dollars.

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

The current exchange rates in Mexican pesos are as follows:

	December 31,			March 2
	2016	2015	2014	2017
Pesos per U.S. dollar	**$ 20.6640**	**$ 17.2065**	**$ 14.7180**	**$ 19.9007**

e. Interest rate risk management

The Entity is exposed to low market risks related to fluctuations in interest rates, because their securities and bank loans at December 31, 2016 accrue interest at a fixed rates. Therefore, an increase in interest rates does not result in a significant risk to the Entity. As of December 31, 2016, the "Senior Notes 2022" issued in US dollars represent practically 100% of the debt of the Entity, and accrue interest at a fixed rate.

f. Credit risk management

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

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

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

g. Liquidity risk management

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

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

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

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

As of December 31, 2016	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	**7.875%**	**$ -**	**$ 325,458**	**$ 325,930**	**$ 1,301,832**	**$ 10,543,806**	**$ 12,497,026**
Suppliers		**497,753**	**-**	**-**	**-**	**-**	**497,753**
Other liabilities and accrued expenses		**674,897**	**-**	**-**	**-**	**-**	**674,897**
Total		**$ 1,172,650**	**$ 325,458**	**$ 325,930**	**$ 1,301,832**	**$ 10,543,806**	**$ 13,669,676**
Cash, cash equivalents and investments securities		**$ 1,770,097**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 1,770,097**
Accounts receivable and other receivables		**1,361,384**	**439,516**	**879,033**	**1,115,637**	**1,170,927**	**4,966,497**
Total		**$ 3,131,481**	**$ 439,516**	**$ 879,033**	**$ 1,115,637**	**$ 1,170,927**	**$ 6,736,594**

As of December 31, 2015	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	7.875 %	$ -	$ 263,097	$ 264,496	$ 1,711,948	$ 8,156,419	$ 10,395,960
Suppliers	-	438,432	-	-	-	-	438,432
Other liabilities and accrued expenses	-	334,324	-	-	-	-	334,324
Total		**$ 772,756**	**$ 263,097**	**$ 264,496**	**$ 1,711,948**	**$ 8,156,419**	**$ 11,168,716**
Cash, cash equivalents and investments securities	-	$ 1,213,810	$ -	$ -	$ -	$ -	$ 1,213,810
Accounts receivable and other receivables	-	1,310,818	423,191	846,382	1,074,199	1,127,435	4,782,025
Total		**$ 2,524,628**	**$ 423,191**	**$ 846,382**	**$ 1,074,199**	**$ 1,127,435**	**$ 5,995,835**

As of December 31, 2014	Weighted average effective interest rate	3 months	6 months	1 year	1 and 3 years	3 + years	Total
Debt	7.875% y 6%	$ -	$ 179,652	$ 916,023	$ 5,281,186	$ -	$ 6,376,861
Suppliers	-	400,101	-	-	-	-	400,101
Other liabilities and accrued expenses	-	352,151	-	-	-	-	352,151
Total		**$ 752,252**	**$ 179,652**	**$ 916,023**	**$ 5,281,186**	**$ -**	**$ 7,129,113**
Cash, cash equivalents and investments securities	-	$ 1,516,865	$ -	$ -	$ -	$ -	$ 1,516,865
Accounts receivable and other receivables	-	1,193,436	385,295	770,590	978,006	1,026,475	4,353,802
Total		**$ 2,710,301**	**$ 385,295**	**$ 770,590**	**$ 978,006**	**$ 1,026,475**	**$ 5,870,667**

The amounts included as Debt are fixed interest rate debt financial instruments.

The Entity expects to fulfill its obligations with the cash flows from operations and any resources received from the maturity of financial assets. Additionally, as of December 31, 2016 the Entity has access to a committed line of credit with an undisposed balance of $200,000.

h. *Fair value of financial instruments:*

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

- The fair value of the financial assets and liabilities with standard terms and conditions, and negotiated in active liquid markets, are determined based on the prices quoted in the market.

- The fair value of the other assets and liabilities is determined in accordance with generally accepted price determination models, which are based on the analysis of discounted cash flows.

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

The fair value of the long-term receivables is greater than their carrying amount, since they generate interest at higher than market rates.

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

	2016	2015	2014
Thousands of US dollars:			
2022 Senior Notes	US$ 354,581	US$ 320,655	US$ -
2017 Senior Notes	-	33,627	272,164
2015 Senior Notes	-	-	51,668
Euro-Commercial Paper	-	-	42,335
	US$ 354,581	**US$ 354,282**	**US$ 366,167**

20. Stockholders' equity

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

	Number of shares	
	2016 and 2015	2015
Authorized capital	512,737,588	512,737,588
Less -		
Repurchase of shares	(16,855,600)	(16,799,600)
	495,881,988	**495,937,988**

b. At December 31, 2016, the share capital is composed solely of Series "A" free subscription.

c. At the Extraordinary General Stockholders' Meeting held on March 15, 2016, the stockholders approved the maximum amount of resources that may be allocated to the purchase of own shares, with the limitations established by the Securities Market Law, of $535,000.

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

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

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

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

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

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

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

Year	Amount that could be subject to withholding	Amount not subject to withholding
Retained earnings through December 31, 2013	$ -	$ 2,072,364
Profit for the year 2016	$ 30,774	$ -

21. Balances and transactions in foreign currency

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

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

	2016	2015	2014
Thousands of US dollars:			
Current:			
Monetary assets	46,071	62,918	80,238
Monetary liabilities	(6,051)	(11,078)	(107,107)
	40,020	51,840	(26,869)
Long-term:			
Monetary assets	42,422	62,859	87,762
Monetary liabilities	(400,023)	(388,413)	(310,000)
	(357,601)	(325,554)	(222,238)
Net liability position	(317,581)	(273,714)	(249,107)
Equivalent in thousands of Mexican pesos	**$ (6,562,494)**	**$ (4,709,660)**	**$ (3,666,357)**

22. Revenue, cost of sales and operating expenses

a. Revenue:

	2016	2015	2014
Hotel operation	$ 4,063,087	$ 3,546,116	$ 2,997,630
Vacation Club	2,605,078	2,177,475	1,793,450
Administration fee, brand and other expenses	1,066,184	1,123,243	1,005,173
Sales of non-strategic properties	245,000	-	26,197
Other income	-	54,387	25,828
	$ 7,979,349	**$ 6,901,221**	**$ 5,848,278**

b. Cost of sales:

	2016	2015	2014
Hotel operation	$ 1,807,241	$ 1,607,559	$ 1,544,233
Vacation Club	1,748,656	1,593,635	1,201,483
Administration fee, brand and other expenses	846,424	900,589	807,232
Sales of non-strategic properties	136,62	-	26,197
	$ 4,538,947	**$ 4,101,783**	**$ 3,579,145**

c. Administration expenses:

	2016	2015	2014
Salaries, employee benefits and other	$ 441,519	$ 425,802	$ 377,622
Electricity	180,259	169,992	179,520
Maintenance	110,375	98,574	80,943
Professional fees	73,478	44,049	40,552
Credit card commissions	48,336	40,588	36,905
Property taxes and duties	38,396	34,367	29,887
Office rentals	26,570	22,273	9,572
Services and supplies	16,438	15,722	16,759
Insurance and bonds	15,787	11,912	13,645
Equipment leasing	9,483	6,175	5,346
Doubtful accounts	6,800	3,759	-
Others	14,863	10,877	17,097
	$ 982,304	**$ 884,090**	**$ 807,848**

d. Sale and development expenses:

	2016	2015	2014
Salaries, employee benefits and other	$ 75,363	$ 69,902	$ 59,724
Marketing and publicity	162,862	75,291	56,290
Travel expenses	7,157	10,747	10,590
Subscriptions fees	2,234	2,651	60
Others	4,627	7,659	5,207
	$ 252,243	**$ 166,250**	**$ 131,871**

23. Related party transactions

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

	2016	2015	2014
Short and long-term benefits	$ 132,759	$ 101,543	$ 91,643
Termination benefits	**$ 40,002**	**$ 2,092**	**$ 5,574**

24. Information by business segments

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

Information by reportable segment for the year ended December 31, 2016 is as follows:

	Hotel operation	Vacation Club	Hotel management, brand and other	Corporate	Sale of non-strategic properties	Total	Eliminations	Total consolidated
Statement of comprehensive (loss) income:								
Total revenues	$ 4,092,983	$ 2,605,078	$ 1,616,772	$	$ 245,000	$ 8,559,833	$ (580,484)	$ 7,979,349
Cost and general expenses	3,169,313	1,841,633	1,306,787		136,627	6,454,360	(561,611)	5,892,749
Corporate expenses	-	-	-	338,166	-	338,166	(18,744)	319,422
Other expenses, net	-	-	-	528,196	-	528,196	-	528,196
Depreciation, and amortization	-	-	-	57,064	-	57,064	-	57,064
Impairment of assets	-	-	-	127,588	-	127,588	(129)	127,459
Operating income (loss)	$ 923,670	$ 763,445	$ 309,985	$ (1,051,014)	$ 108,373	$ 1,054,459	$ -	1,054,459
							Financial expenses and other expenses net	1,924,708
							Loss before income taxes	$ (870,249)

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

	Hotel operation	Vacation Club	Hotel management, brand and other	Corporate	Sale of non-strategic properties	Total	Eliminations	Total consolidated
Statement of comprehensive (loss) income:								
Total revenues	$ 3,574,647	$ 2,200,492	$ 1,926,738	$ 54,054	$ -	$ 7,755,931	$ (854,710)	$ 6,901,221
Cost and general expenses	2,988,503	1,658,923	1,424,898	-	-	6,072,324	(836,337)	5,235,987
Corporate expenses	-	-	-	321,144	-	321,144	(18,040)	303,104
Depreciation, and amortization	-	-	-	414,677	-	414,677	-	414,677
Other expenses, net	-	-	-	479	-	479	(333)	146
Operating income (loss)	$ 586,144	$ 541,569	$ 501,840	$ (682,246)	$ -	$ 947,307	$ -	947,307
							Financial expenses and other expenses net	(1,283,766)
							Loss before income taxes	$ (336,459)

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

	Hotel operation	Vacation Club	Hotel management, brand and other	Corporate	Sale of non-strategic properties	Total	Eliminations	Total consolidated
Statement of comprehensive (loss) income								
Total revenues	$ 3,026,606	$ 1,767,255	$ 1,746,246	$ 25,827	$ 26,197	$ 6,592,131	$ (743,853)	$ 5,848,278
Cost and general expenses	2,643,028	1,271,992	1,395,060	-	26,197	5,336,277	(743,853)	4,592,424
Corporate expenses	-	-	-	256,202	-	256,202	-	256,202
Depreciation, and amortization	-	-	-	409,265	-	409,265	-	409,265
Other expenses, net	-	-	-	45,669	-	45,669	-	45,669
Operating income (loss)	$ 383,578	$ 495,263	$ 351,186	$ (685,309)	$ -	$ 544,718	$ -	544,718
							Financial expenses and other expenses net	(896,452)
							Loss before income taxes	$ (351,734)

25. Commitments

a. At December 31, 2016, 2015 and 2014, the Entity has entered into long-term contracts to lease hotel and corporate properties, which generally have terms of 10 years. Lease payments are calculated based on percentages applied to income generated from hotel operations, varying between 12% and 25%. During the years ended December 31, 2016, 2015 and 2014, lease expense was $445,125, $386,969 and $329,761, respectively. The minimum rent estimated for the following years is shown below:

Years	Amount
2017	$ 394,102
2018	432,237
2019	442,996
2020	452,337

b. At December 31, 2016, 2015 and 2014, the Entity has entered into rental contracts for computer equipment and other, which usually have a term of three years. Rental payments are based on the value of the rented equipment and vary in function with the requirements of the operational departments of the Entity. For the years ended December 31, 2016, 2015 and 2014, rental expense amounted to $80,594, $60,128 and $54,767, respectively. The estimated rental payments for the following years is shown below:

Years	Amount
2017	$ 60,504
2018	36,629
2019	13,379
2020	126

26. Contingencies

a. There is a tax lawsuit for the year 2006, for an unpaid liability assessed by the International Tax Inspection Office of the Tax Administration Service (SAT) in the amount of $767,248, for which at the date of issuance of the consolidated financial statements, it is not possible to determine a result for the Entity. The tax authorities have alleged nonpayment of ISR, for which reason the Entity filed a motion for reconsideration with the SAT, which has yet to be resolved. The Entity has provided a guarantee in order to guarantee the tax liability in the amount of $846,000. According to the Entity's management and its external advisors in this matter, there are sufficient legal arguments to obtain a favorable result from such lawsuit.

As of December 31, 2016, 2015 and 2014, the Entity has established a reserve to cover contingencies, which is recorded under the long-term liability heading "Accrued liabilities" in the consolidated statement of financial position.

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

27. Subsequent event

In February 2017, the Entity was notified by the tax authorities, through an administrative resolution, of a tax credit for the year 2007 for ISR, surcharges and fines, in the amount of $1,026,736, consisting of $355,358 of ISR (mainly SIBRAS tax effect) and $671,378 of accessories. The Entity considers that it has sufficient elements to accredit the proper compliance with the applicable tax regulations, and therefore, will interpose the pertinent legal means of defense.

The total deferred income tax arising from SIBRAS tax effect amounted to $1,042,439, of which $653,158 corresponds to nine of eleven properties that will be reported as taxable in the annual income tax return that will be filed in March 2017. The difference for an amount of $389,281 corresponds to the two properties object of the tax credit referred to in this note and is part of the deferred tax balance as of December 31, 2016, which is disclosed in Note 16 c.

28. Authorization to issue the financial statements

The accompanying consolidated financial statements were authorized to be issued on March 2, 2017, by Ing. Arturo Martínez del Campo Saucedo, Corporate Chief Financial Officer and the Audit Committee; consequently they do not reflect events after this date, and are subject to the approval of the Ordinary Stockholders Meeting of the Entity, who may modify them in accordance with the provisions of the General Corporate Law.

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