



estimados
accionistas dear shareholders



En el año 2003, como estaba previsto, Grupo Posadas se concentró en el desarrollo de proyectos estratégicos para asegurar su futuro como Líder Hotelero en Latinoamérica. Los más cruciales: Renew y Conectum, dos fórmulas que maximizan la rentabilidad de nuestros hoteles y aseguran su competitividad en el futuro.

Así pues, la tarea fundamental fue concentrarse en la construcción de ventajas competitivas que hoy definen un nuevo perfil para la compañía. Ese Nuevo Posadas consolida su estrategia, fortaleciendo sus papeles como:

- Propietario, desempeñando un rol más activo como dueño de hoteles.
- Franquiciador, fortaleciendo las marcas de Posadas y la red de distribución.
- Operador, creando una ventaja competitiva a través de una administración centralizada, una agresiva comercialización y asegurando la entrega de la promesa de marca al huésped.

Edificamos pues un sólido edificio que sustenta el desempeño de cada uno de los hoteles operados por Grupo Posadas. Sus columnas de apoyo son hoy más fuertes que nunca y tienen que ver con el Servicio, la Comercialización, la Administración, el Recurso Humano y la Tecnología. Sobre ellas, la compañía se redefine y enfoca sus baterías hacia su tarea esencial: El Servicio.

Crecimiento del Inventario de Hoteles

Cada paso dado en estos últimos años apoya el crecimiento de nuestro inventario. El año pasado, y en los primeros días del 2004, abrieron sus puertas diez hoteles: un Fiesta Americana, seis Fiesta Inn y tres Caesar Business.

En México, la solidez e imagen de marca y la cobertura de Fiesta Americana Grand, Fiesta Americana y Fiesta Inn otorgan a la compañía una indudable posición de liderazgo.

In keeping with our plan for 2003, Grupo Posadas concentrated on developing strategic projects that would secure our future as a Hotel Leader in Latin America. Essential to this were Renew and Conectum, two formulas that maximize the profitability of our hotels and ensure their competitiveness.

The fundamental task in all of this was to build the competitive advantages that today define the company's new character. This "New Posadas" is consolidating its strategy by strengthening its role as:

- Owner – taking a more active role than ever as an owner of hotels that show continuous improvement in their results.
- Franchiser – by strengthening the company's brands and distribution channels and integrating them into the Central Inventory network.
- Operator – creating a competitive advantage with a centralized management system, specializing sales and assuring the delivery of our brand promise to our guests.

We have created a solid platform that helps drive and sustain the performance of each hotel operated by Grupo Posadas. The structural support columns underpinning it all are stronger than ever thanks to our commitment to Service, Marketing, Management, Human Resources, and Technology. The company is using these pillars to redefine and focus its heavy guns on its primary mission: Service.

Inventory Growth

Every step we have taken over these last few years has supported the ongoing growth of our inventory. Throughout 2003 and into the first days of 2004, we opened ten new hotels: one Fiesta Americana, six Fiesta Inn and three Caesar Business hotels.

In Mexico, the combined strength of our brand preference and inventory with Fiesta Americana Grand, Fiesta Americana and Fiesta Inn gave the company a clear leadership position.

En Sudamérica, en cambio, todavía es necesario alcanzar una masa crítica para que las marcas Caesar Park y Caesar Business tengan el peso específico que buscamos. Para lograr esta meta, las aperturas programadas para 2004-2005, principalmente en Brasil, serán decisivas.

Por ello, también, en el 2003 se llevó a cabo una muy importante reingeniería del inventario sudamericano, destacando las negociaciones que convirtieron a Grupo Posadas en propietario al 100% de la propiedad de Guarulhos: Caesar Park y Caesar Business International Airport, en São Paulo. También se adquirió el 25% de la que promete ser una de las propiedades más espléndidas de la compañía: Caesar Park São Paulo Faria Lima. Este hotel y su gemelo -Caesar Business São Paulo Faria Lima- constituyen, junto con Caesar Business São Paulo Paulista, proyectos determinantes para dar mayor presencia a nuestro inventario en el Cono Sur.

Las Cifras del 2003

En el aspecto financiero, y con el nivel más alto en cobertura de intereses en los últimos diez años, la compañía llega a un nivel de maduración financiera que permite generar un mayor flujo y aprovechar las circunstancias para fortalecer el negocio. Dicha fortaleza tuvo consecuencias favorables directas: Por primera vez Grupo Posadas pagó un dividendo de alrededor de 5 millones de dólares. Si anteriormente se había decidido reinvertir las utilidades para crecer y lograr los objetivos estratégicos propuestos, ahora tenemos el lugar que queríamos. Gracias a ello pudimos premiar la inversión y la confianza de los accionistas.

Todas estas tareas permiten reportar un buen año para Grupo Posadas. Si bien la operación -tanto en playa como en ciudad- enfrentó una economía doméstica e internacional con crecimientos pequeños y, por añadidura, el sector turístico nacional sufrió la sobreinversión en cuartos, la posición de las marcas, la inversión en tecnología y el desarrollo de sistemas

In South America we are diligently working to give the Caesar Park and Caesar Business flags the specific critical mass we are after. In this respect, our scheduled openings for 2004 – 2005, especially in Brazil, will be decisive.

To that same end, in 2003 our inventory in South America went through a significant reengineering process that, among other benefits, resulted in Grupo Posadas becoming the full owner of the Guarulhos properties in São Paulo: Caesar Park and Caesar Business International Airport. We also acquired 25% of what promises to be one of the company's best assets: Caesar Park São Paulo Faria Lima with its twin, Caesar Business São Paulo Faria Lima. This twin building hotel and the Caesar Business São Paulo Paulista are vital for giving greater weight to our Mercosur inventory.

Results for 2003

Registering the highest level of interest coverage over the last ten years, the company has reached a level of financial maturity that allows it to successfully generate greater revenue and capitalize on circumstances that can strengthen the business. This ability had a positive direct impact. For the first time in its history, Grupo Posadas paid nearly five million dollars in dividends. The company's previous strategy had always been to reinvest profits into new assets and other business objectives. Thanks to being where we wanted to be, we could finally reward our stockholders' investments and trust.

All of these actions enable us to report a year that, in terms of achievements, was good for Grupo Posadas. Even though resort and city operations showed limited growth in Mexico and abroad, and there was an over-investment in rooms in the domestic tourist sector, our brand positioning, investment in technology and development of the Conectum and Renew platforms (systems that maximize the profitability of our hotels and assure their competitiveness),



como Conectum y Renew (fórmulas que maximizan la rentabilidad de nuestros hoteles y aseguran su competitividad), permitieron sembrar un terreno propicio para impulsar los niveles de rentabilidad.

Además, Grupo Posadas encontró otras maneras de crecer, muy especialmente a través de Fiesta Americana Vacation Club que alcanzó un nivel impresionante de ventas este año (56 millones de dólares), lo que tuvo un impacto importante en el EBITDA de la compañía.

En el 2003 el EBITDA de Grupo Posadas alcanzó los 85.9 millones de dólares. Los ingresos totales, por su parte, alcanzaron los 3,889 millones de pesos, y el margen de operación fue de 13.9%.

2004, Compromiso con los Resultados

El año que empieza -que anticipamos será también complicado y con apenas mejoría en el entorno hotelero- es decisivo porque impone un fuerte compromiso:

Poner en pleno funcionamiento los procesos, sistemas y herramientas para impulsar la rentabilidad de cada hotel operado por Grupo Posadas y lograr los márgenes planeados. Para ello:

- El Inventario Central, que funciona ya en tiempo real, será capitalizado al máximo otorgando a Posadas un valor muy importante frente a todos sus canales de distribución: La exposición del inventario en toda la red de distribución y la integridad de tarifas.
- La nueva fórmula comercial operará -como ya comenzó a hacerlo en el 2003- bajo un modelo de especialización que permite el desarrollo de estrategias para maximizar la venta del último cuarto disponible.

allowed us to prepare the ground for greater yields.

Grupo Posadas found other ways to grow as well, especially through the Fiesta Americana Vacation Club; reaching an impressive 56 million dollars in sales this year, which clearly had a positive impact on our EBITDA.

Grupo Posadas' EBITDA for 2003 was 85.9 million dollars. Total sales reached 3,889 million pesos, and operating margin was 13.9 percent.

2004 – Commitment to Results

While in many aspects indicators point to the current year also being a challenging one, we do anticipate at least some growth for the hotel business. The underlying message in all of this is commitment. Commitment to obtaining the full functioning of the processes, systems and tools that drive the profitability of each hotel operated by Grupo Posadas. To that end:

- The Central Inventory platform, which is working in real time, will be fully capitalized upon to give significant value to Posadas in all of its distribution channels in addition to providing price integrity.
- The new business model will continue to operate under the specialization guidelines implemented in 2003 that optimize results by developing price strategies that lead to the sale of the last room available.
- Likewise, the intelligent business management tool, Conectum -a priority project in terms of human and financial resources during 2003- should begin to bear its first significant fruits thanks to the integration and automation of all of Grupo Posadas' business processes.



- Finalmente, la nueva fórmula de administración [Conectum] -un proyecto prioritario en inversión y en trabajo a lo largo del 2003- habrá de rendir sus primeros grandes frutos, gracias a la integración y automatización de los procesos de negocios en una plataforma tecnológica de vanguardia.

Para que todo esto suceda habrá, entre otras acciones urgentes, que apoyarse más que nunca en el talento y compromiso de nuestros colaboradores; así como reimpulsar el trabajo en equipo, valorando y fortaleciendo el conocimiento especializado en cada área clave para los resultados y los niveles de rentabilidad del negocio.

Estamos pues muy orgullosos de los logros alcanzados, así como del enorme esfuerzo realizado por los equipos en todas las áreas. Su compromiso y trabajo creó lo que hoy podemos llamar una nueva compañía, dotada de las fortalezas que le permiten enfrentar el futuro dentro de las actuales condiciones de competencia. También agradecemos profundamente la confianza mostrada por propietarios y accionistas. Sin ella hubiera sido muy difícil colocar a Grupo Posadas en la posición de fortaleza en la que hoy se encuentra.

For all of this to happen and achieve the results and profit levels we seek, we need to truly rely on the talent and commitment of our people and give greater impulse to teamwork by valuing and strengthening the specialized knowledge in each key area.

Finally, we have reached the goal we set for ourselves some time ago: To focus the energies and talent of our people on what is most important: Generating value for the company.

We are very proud of the achievements and dedication of the teams in every area that make up the Group. Their steadfast commitment and devotion have created what today we can call a new company capable of generating value within the current business environment. We are also deeply grateful to our owners and shareholders for the trust they have placed in us. Without it it would have been nearly impossible to achieve the position of strength we now hold.

A handwritten signature in blue ink, appearing to read 'Gastón Azcárraga'.

Gastón Azcárraga
Presidente
Chairman & CEO

administrar

manage



CONECTUM

Para administrar el negocio con fórmulas que maximicen la rentabilidad y aseguren la competitividad en el futuro, Conectum se presentó como la plataforma idónea para migrar la administración de los hoteles hacia un modelo centralizado y de servicios compartidos.

Conectum es un centro de procesamiento de transacciones contables y administrativas que se apoya en una plataforma tecnológica especializada. Sus beneficios: Mejores niveles de productividad y la capitalización de economías de escala. Su objetivo: Incrementar los márgenes de rentabilidad de los hoteles operados por la compañía. Por eso, Conectum es ya el nuevo administrador de Grupo Posadas.

Luego de una etapa de evaluación y planeación -iniciada en el 2002-, y tras determinar que Morelia sería la ciudad ideal para instalar el centro de servicios compartidos donde hoy trabaja un equipo especializado de unas 120 personas, en marzo despegó un intenso trabajo de preparación, validación, simulación y entrenamiento en el que se cuidó especialmente la administración del cambio y la disciplina en la configuración del sistema.

En octubre, todo estuvo a tiempo para arrancar la implantación de Conectum. La prueba piloto seleccionó una muestra representativa de seis hoteles durante dos meses. Su éxito determinó la posibilidad de subir al sistema cinco hoteles más; todos en la Ciudad de México. Sobre esta plataforma -que resultó enormemente enriquecedora, ya que fue ocasión para revisar hasta el mínimo proceso de operación, lo mismo que contable y administrativo-, el 2003 terminó con 11 hoteles conectados al 100% a Conectum. El primero de enero pasado se sumaron a la lista 10 hoteles; en febrero, 14 y 15 más en marzo. El resto de los hoteles que se operan en México se integró a Conectum en abril del 2004.

CONECTUM

To administrate the business in a way that optimizes profitability and ensures future competitiveness, Conectum was introduced as the ideal software platform for migrating the hotel administration toward a centralized model with shared services.

Conectum is an intelligent accounting and administrative center supported by a specialized technological platform. While its main benefits are improved productivity levels and capitalizing on scale economies, its ultimate goal is to boost the profit margins of company-operated hotels. Consequently, Conectum is now the new administrative tool for Grupo Posadas.

Following an evaluation and planning phase that began in 2002, Morelia was selected as the ideal city in which to set up the shared service center. In March, an intense preparation, validation, simulation and training period was launched, with special emphasis placed on the administration of change and tight discipline in terms of system configuration. Currently, a specialized team of about 120 collaborators is working there.

In October, everything was ready to get Conectum off the ground on time. The two-month pilot test involving a representative sampling of six hotels was so successful that five more hotels, all in Mexico City, were incorporated into the system. The platform turned out to be extremely enriching, especially given the opportunity to take a careful look now at the even the smallest operational, accounting and administrative details. By the end of 2003, 11 hotels were fully functioning with Conectum. 10 additional hotels were added to the list this past January 1, 14 in February and 15 more in March. The remaining hotels operating in Mexico were integrated into the system in April, 2004.

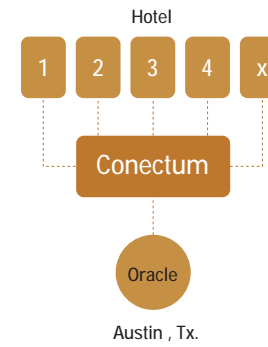


Conectum, el nuevo sistema administrador de Grupo Posadas, constituye hoy una de sus grandes ventajas competitivas en la operación, en la administración, en el control, en la inversión y, sobre todo, en la obtención de mayores niveles de rentabilidad.

Conectum, Posadas' new intelligent business system, gives the company an enormous competitive advantage in the way it handles operations, management, controls, investments, and above all, the achievement of superior levels of profitability.



Conectum Reside en Morelia y está conectado a una plataforma en Austin, Tx. *Conectum is linked to a platform in Austin, Texas.*



En el segundo semestre de 2004 la tarea es estabilizar el sistema y comenzar a cosechar sus ventajas. También inicia la etapa de implantación de Conectum en los hoteles de Sudamérica y Estados Unidos.

Hoy, el cambio en el modelo de administración de los hoteles Fiesta Americana y Fiesta Inn es una realidad, luego de exigir la adopción de una nueva mentalidad y un reacomodo de funciones. Con este esquema de administración, distribución y costos, el gran compromiso de Grupo Posadas es lograr un mejor desempeño, convirtiendo cada hotel operado por la compañía en una mejor inversión.

The task for the second half of 2004 is to stabilize the system and begin to reap its benefits. Implementation of Conectum in our hotels in South America and the United States will also soon begin.

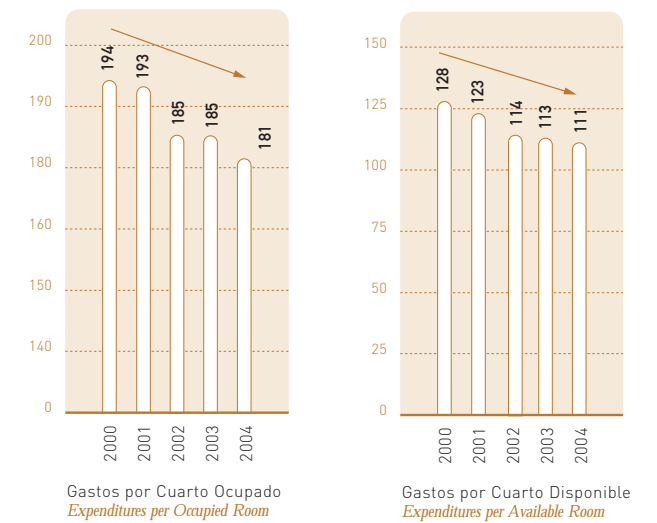
The change in the administration model for Fiesta Americana and Fiesta Inn Hotels has now become a reality, but only after adopting a new mindset and a re-shifting of responsibilities. Grupo Posadas' primary obligation with this administrative, distribution and cost tool is to attain a superior competitive position by turning each company-operated hotel into a more attractive investment.

Ahorro en Costos

Mayor disciplina y control, un escrupuloso apego a políticas y procedimientos, ahorros significativos en compras centralizadas y la posibilidad de realizar un *benchmarking* al día entre cada hotel y cada marca, constituyen algunas de las ventajas más evidentes que reportará en el corto plazo el pleno funcionamiento de Conectum.

El compromiso es convertir al nuevo administrador de la compañía en una verdadera ventaja competitiva para la operación de Grupo Posadas, una ventaja que hoy permite lograr ahorros significativos en los gastos de administración, recursos humanos, contraloría y compras.

Ahorros en Gastos de Administración y Recursos Humanos
Costs Savings in Administration and Human Resources

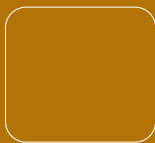
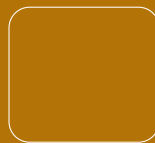
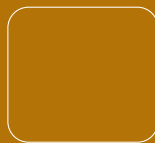
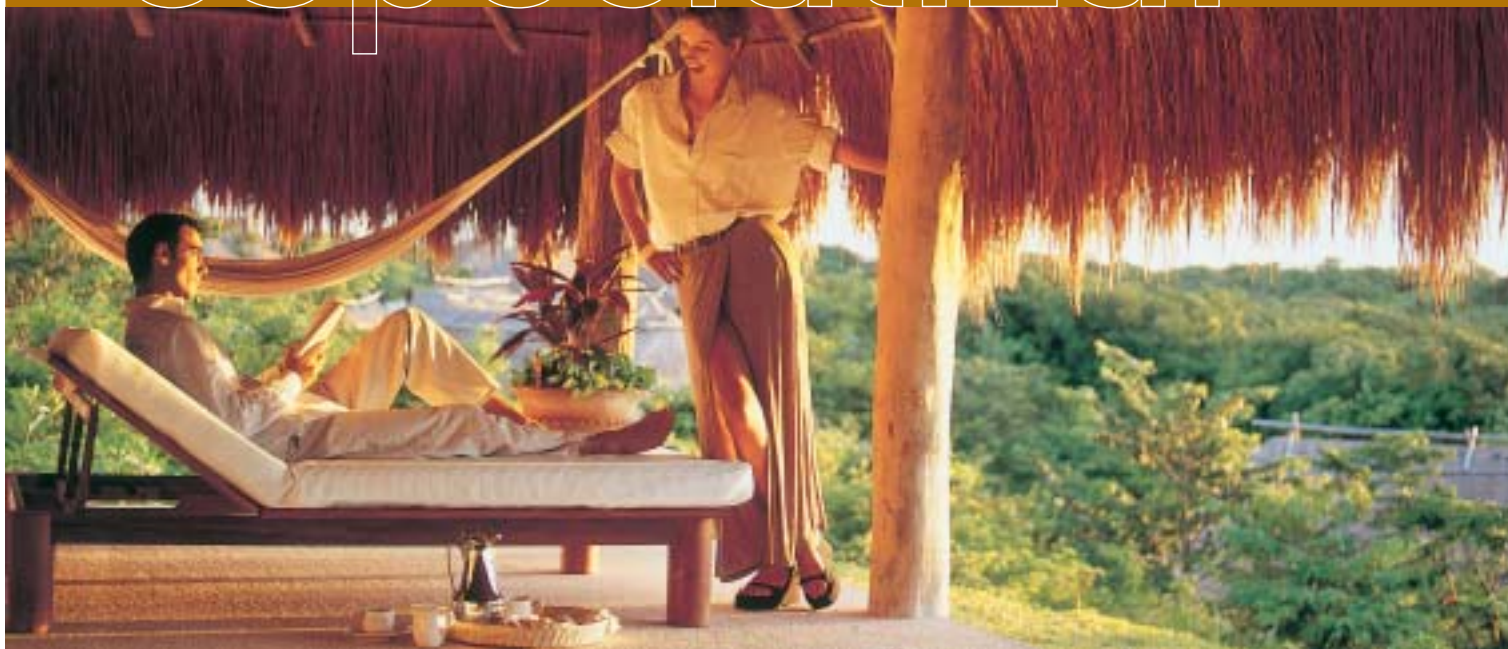


Cost Savings

Some of the clearest short-term benefits of Conectum once it is fully up and running, will be greater discipline and control, scrupulous adherence to policies and procedures, significant savings in centralized purchasing and the possibility of carrying out daily benchmarking between each hotel and brand.

The commitment is to make the company's new administrative center into a true competitive advantage for Grupo Posadas; an advantage that promises to achieve noteworthy savings in hotel administration, human resources, accounting and purchasing during its first year of constant operation.

specialize
especializar



MODELO COMERCIAL

En ventas, la estrategia global es la especialización y un entendimiento profundo de los segmentos y subsegmentos del mercado, que hoy responden a una estructura de precios que es consistente en todos los canales a través de los que Grupo Posadas comercializa sus productos.

Desde el 2002, el gran cambio en la fórmula comercial de Posadas apunta hacia la conformación de una organización más especializada que entiende las tendencias en los hábitos del consumidor; se concentra en sus necesidades; y pone al día al equipo de ventas con la transformación de los procesos comerciales, dándole la capacidad de responder de manera inmediata y aumentar sus porcentajes de cierre de ventas. De ahí la inversión y el desarrollo de procesos y herramientas tecnológicas orientados a impulsar la práctica de una inteligencia comercial. Entre dichas herramientas está la Optimización de Precio e Inventario (OPI), enfocada al desarrollo de estrategias de tarifas y controles de disponibilidad para maximizar resultados.

Los esfuerzos realizados en este frente harán que, a lo largo del 2004, la compañía cuente con un Inventario Central plenamente integrado y con reservaciones centralizadas, así como con procesos y técnicas de ventas sistematizadas para el segmento de Grupos e Incentivos. Sobre esta plataforma, la capacidad de respuesta de la fuerza de ventas de Grupo Posadas será inmediata en materia de disponibilidad y tarifas. Y, lo más importante, la compañía presentará al mercado una integridad de precios que implica contar con la "mejor tarifa disponible" en todos los canales.

En Ventas,
la fórmula comercial
se centra en la especialización
y en la optimización de tarifas
e inventario, enfocada hacia
estrategias de precios y
controles de disponibilidad
para maximizar resultados.

*Focused on specialization
and rate and inventory
optimization, the business
model for sales is oriented
toward price strategies and
controls on availability
that maximize results.*

COMMERCIAL MODEL

The core strategy for sales is specialization and a profound grasp of market segments and sub-segments – areas which now recognize consistent pricing in every channel Grupo Posadas uses to market its products.

The sweeping change in 2002 to Posadas' commercial model aimed at creating a more effective, specialized organization that understands trends in consumer habits and focuses on their needs. This has allowed the sales team to stay out front with the knowledge and support it needs for adapting to the market and increasing closing percentages.

The outcome has been the investing in and development of processes and technological tools geared toward an intelligent commercial model that drives profitability. One such tool, Price and Inventory Optimization, is used to develop pricing strategies and availability controls for maximizing results.

Efforts on this front will assure that the company's Central Inventory is fully integrated with its Reservations Central and its systematized sales processes and techniques for the Group and Incentive segment during 2004. Given this support platform, Posadas' sales force will be endowed with immediate response capability in terms of availability and rates. And, most importantly, the company will maintain its pricing integrity with the market, which means offering uniform rates through every distribution channel.



Entonces, si el 2003 fue un año de siembra donde comenzaron a calibrarse los alcances de esta nueva forma de vender, el 2004 será un periodo de cosecha con el único y esencial objetivo de mejorar los resultados.

En Sudamérica, si bien la nueva fórmula comercial ya funciona de una manera semiautomatizada, la estructura de ventas se apoyará cada vez más en la nueva plataforma tecnológica. Pero, más allá del control de los procesos y los procedimientos, en este año será esencial reforzar la calidez, el contacto y la personalidad de Posadas frente a sus mercados, así como dar el paso que sigue con la velocidad que demandan las circunstancias. Para lograrlo, el trabajo en equipo es una condición *sine qua non* para maximizar las capacidades de cada participante en el proceso y asegurar una mayor satisfacción del cliente.

Finalmente, se capitalizarán las alianzas comerciales fundamentales en la estrategia de Posadas. La suma de fuerzas con otros prestadores de servicios seguirá siendo importante para obtener sinergias y también para impulsar los resultados del negocio sin importar el punto de venta o el país donde se esté negociando.

While 2003 was a year of sowing seeds and starting to gauge the reach of this sales model, 2004 will be a time of harvesting, with the sole essential aim of improving results.

In South America, with the new commercial formula already working in a semi-automated fashion, the sales structure will rely increasingly on the new technological platform. Beyond process and procedural controls, it will be vital this year to reinforce Posadas' warmth, contact and personality in its dealing with markets, and to take the next step as quickly as circumstances dictate. To accomplish this, teamwork is a *sine qua non* condition to making the most of each participant's talents and ensuring greater guest satisfaction.

Finally, establishing new business alliances will be examined very closely. Joining forces with other service providers will be important to generate synergies and to drive revenue, no matter where the point of sale or country.

Fiesta Americana Vacation Club (FAVC) Desempeño Excepcional

Fiesta Americana Vacation Club volvió a reportar un año excepcional. Ventas brutas por 56 millones de dólares (que significan un aumento de 48% sobre el 2002) consolidan a Grupo Posadas como una de las compañías más grandes en este negocio en México. Por añadidura, la reducción en los costos de comercialización en más de dos puntos porcentuales colocan al Club Vacacional muy por encima de los estándares de la industria en temas de rentabilidad.

Al momento, con un desempeño notable de las salas regionales de ventas, se ha vendido el 88% del inventario del Club Vacacional en Fiesta Americana Grand Los Cabos y 73% en Fiesta Americana Cancún, cuyo éxito llevó a la decisión de convertir el 100% de este hotel a villas de propiedad vacacional a partir de enero de 2004.

Estos resultados -reforzados por un muy alto índice de satisfacción de los socios- derivan en la planeación de proyectos de expansión en otros destinos, así como en la posibilidad de capitalizar la base de socios satisfechos para impulsar aún más las ventas del que hoy es el segundo canal de distribución más importante para la compañía.

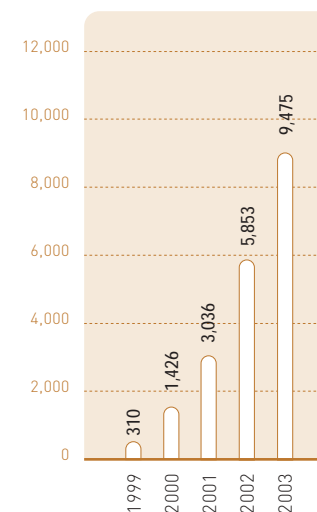
Fiesta Americana Vacation Club (FAVC) Outstanding Performance

Once again, Fiesta Americana Vacation Club reported an exceptional year, 56 million dollars in gross sales (a 48% increase over 2002) positions Grupo Posadas as one of the largest vacation ownership companies in Mexico. Furthermore, the reduction of more than two percentage points in sales and marketing costs places the Vacation Club far above industry standards.

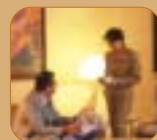
Supported by a solid performance in regional sales centers, 88% of the Vacation Club inventory in Fiesta Americana Grand Los Cabos has been sold, and 73% in Fiesta Americana Cancun. The success of the latter led to the decision to fully convert this hotel into vacation club units as of January 2004.

Underpinned by a very high guest satisfaction index, these numbers point to expansion projects at other destinations and the possibility of capitalizing on our satisfied member base to further boost sales in what is the company's second largest distribution channel today.

Crecimiento en número de Socios FA Vacation Club
Growth in number of FA Vacation Club Members



servir *serve*



OPERACIÓN

Cumplirle al huésped, en cada momento y en cada área, es la meta hacia la que apuntan inversiones y cambios de estructura en la operación hotelera de Posadas. El objetivo: Crear una ventaja competitiva a través del servicio.

En Grupo Posadas, el desarrollo de ventajas competitivas desemboca siempre en la búsqueda del perfeccionamiento de su función esencial: Una impecable operación hotelera. En el 2002 y 2003, esta pasión por el servicio motivó inversiones en tecnología y un cambio de estructura que permite al Gerente de Hotel concentrarse al 100% en una tarea: El Servicio.

Hoy, su misión es asegurar el cuidado de cada propiedad, el estricto cumplimiento de los estándares de servicio, el contacto con su equipo y con el cliente, y hacer todo para entregar al huésped la promesa de las marcas de Grupo Posadas en cada hotel operado por la compañía.

Se trata, en pocas palabras, de una vuelta a los principios básicos de la hotelería, de dar a la función del servicio la gran importancia que tiene en el negocio de Posadas, y de entender a detalle cada uno de sus procesos, abordándolos con una visión especializada.

Para lograrlo, en el 2003 la operación de Fiesta Americana Grand, Fiesta Americana and Fiesta Inn se concentró en la redefinición de lineamientos, políticas y procedimientos que levantaron una ola de cambio cultural. Ese cambio está propiciando un mayor involucramiento del Gerente de Hotel en la operación y el servicio, que ya se refleja en los resultados de las auditorías corporativas; la satisfacción de los propietarios; los índices del Sistema de Satisfacción de Huéspedes; y fundamentalmente en el sistema de aseguramiento de calidad de Posadas, llamado Prometeo.

OPERATION

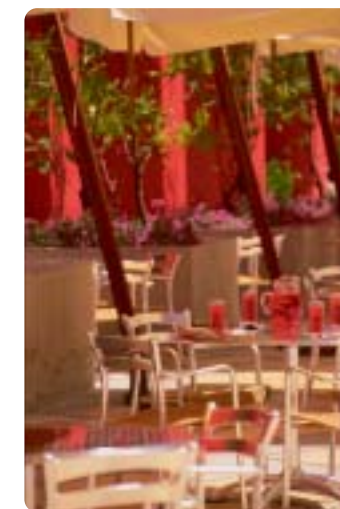
Meeting our guests' expectations, all the time and in every area, is the goal to which investments and changes in the Posadas hotel operation structure are aimed. The objective: To create a competitive advantage through service.

The pursuit of competitive advantages at Grupo Posadas inevitably leads to the organization's core function: Achieving an impeccable hotel operation. In both 2002 and 2003, this service passion was behind investments in technology and a structural change that enables the general manager to fully concentrate on a single task: Service.

Today's mission revolves around caring for each property, strict compliance with service standards, contact with team members and customers, and to do everything possible to assure our guests receive the benefits of our brand pledge.

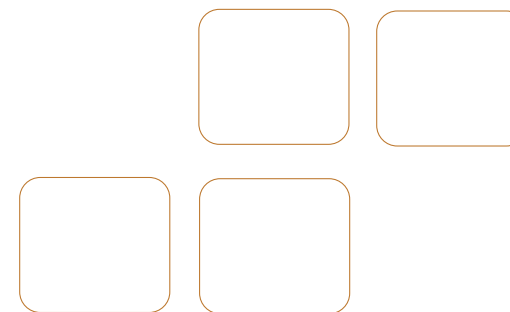
In short, what this means is to approach the basic tenets of the hotel industry from a different angle, to recognize the make or break importance service holds for Posadas, and to understand each one of its processes, through a specialized approach.

To accomplish this, in 2003, Fiesta Americana Grand, Fiesta Americana and Fiesta Inn operations concentrated on redefining guidelines, policies and procedures, which produced a wave of cultural change. This change is leading to the increased involvement of each hotel's general manager in operations and service. The results of this are already being reflected in corporate audits, owner satisfaction, guest satisfaction system indexes, and especially in Posadas' quality assurance system, Prometeo.



La pasión por el servicio motivó inversiones en tecnología y un cambio de estructura que permite al Gerente de Hotel concentrarse al 100% en una tarea: El Servicio.

Posadas' passion for customer satisfaction led to investments in technology and a restructuring that allows a hotel's general manager to concentrate fully on one task: Service.



En el 2004, más allá del dominio de las nuevas herramientas de trabajo, la tarea es utilizar al máximo los instrumentos de medición, traducir este mayor enfoque en resultados y no descuidar un valor fundamental de la compañía: El trabajo en equipo. Esto es, la confianza total en quien se concentra en la operación, en la administración, en las ventas y en el diseño y desarrollo de los productos de franquicia.

Para finales del presente ejercicio -en el que la fórmula también se aplicará en los hoteles de Estados Unidos, así como en Caesar Park y Caesar Business en Sudamérica-, la intención es continuar perfeccionando el servicio e instaurar un régimen de "cero tolerancia" que compromete a Grupo Posadas a lograr la consolidación de la nueva cultura de operación. Esto es, el camino hacia el liderazgo de cada gerente en su hotel y de la compañía en el mercado, frente a sus colaboradores, huéspedes, clientes, inversionistas y accionistas.

Beyond simply learning to use the new work tools, the job for 2004 is to get the most out of our measurement systems, translate this broader focus into results, and respect one of the companies most important values: Teamwork. In other words, there must be total trust in those dedicated to operations, administration, sales and development of franchise products.

By the end of this fiscal year -when the formula will also be applied to the hotels in the United States and Caesar Park and Caesar Business in South America- the intention is to continue perfecting service and to implant a "zero tolerance" program as part of Grupo Posadas' commitment to consolidate the new operational culture. This will give each manager leadership in their hotel and the company with its market, collaborators, guests, suppliers, investors and shareholders.

En 2003 abrieron sus puertas diez hoteles -un Fiesta Americana, seis Fiesta Inn y tres Caesar Business-, a los que se sumarán otros quince para el 2004.

Ten hotels opened their doors in 2003 - one Fiesta Americana, six Fiesta Inns, and three Caesar Businesses. Fifteen more openings are planned for 2004.



Evaluating the Guest Experience

A tool conceived in 2002 to ensure total fulfillment of our service pledge to hotel guests, Prometeo is meant to position every Posadas hotel above its competition by reducing as much as possible product and service differences among same-brand hotels.

After the implementation phase, in 2003 Prometeo began a continuous improvement process focused on brand identity, service and customer response, which are key to shaping the company's new hotel operational culture.

This system hosted by a third party, a global industry leader in quality assurance and evaluating guest satisfaction -in the industry- is now running in Fiesta Americana Grand, Fiesta Americana and Fiesta Inn. Implementation has also started in our us properties and will take place at Caesar Park and Caesar Business in South America during 2004.

The process is being carefully documented to assure results in our areas of opportunity, particularly the application of service standards and identifying needs for personal training and development in the various areas of the hotel operation.

Evaluar la Experiencia del Huésped

Herramienta concebida desde el 2002 para asegurar el total cumplimiento de la promesa hecha al huésped, Prometeo busca mantener a cada hotel operado por Grupo Posadas en un lugar superior con respecto a su competencia, reduciendo al máximo las diferencias en producto y servicio entre hoteles de una misma marca.

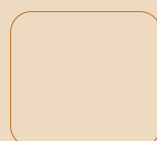
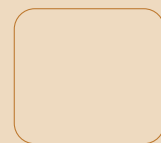
En el 2003, luego de su etapa de implantación, Prometeo inició un proceso de mejora -en identidad de marca, servicio y atención al cliente- que no se ha detenido y es clave en la construcción de la nueva cultura de operación hotelera.

Este sistema -para el que se cuenta con el apoyo de una compañía externa líder mundial en aseguramiento de calidad y medición del nivel de satisfacción del cliente en la industria- funciona ya en Fiesta Americana Grand, Fiesta Americana y Fiesta Inn, ha iniciado su implementación en los hoteles de Estados Unidos y será aplicado en Caesar Park y Caesar Business en el 2004.

El proceso está siendo documentado para asegurar resultados en las áreas de oportunidad detectadas -particularmente en la aplicación de estándares de servicio-, así como para la definición de necesidades de capacitación y desarrollo entre los colaboradores de las distintas áreas de la operación hotelera.



conocer *experience*



FRANQUICIA

Los temas fundamentales de la franquicia de Grupo Posadas son: Contar con la preferencia y lealtad de los consumidores a sus marcas; tener una red de distribución propia que permita exponer su producto en todos los canales en tiempo real; contar con programas y productos de franquicia (ver recuadro en pag. 25).

En estos tres capítulos esenciales, la estrategia apunta a mantenerse en una posición de vanguardia que coloque a la compañía un paso adelante de la competencia.

En el 2003, el trabajo llevado a cabo a lo largo de cinco años dio frutos en un aspecto vital para el cumplimiento de dicha estrategia: El funcionamiento de la plataforma tecnológica que soporta al Inventario Central.

En sociedad estratégica con Oracle, dicha plataforma que apoya este esfuerzo se lanzó simultáneamente a Conectum (el nuevo sistema administrador central), en octubre. En paralelo, también se centraliza la operación de la Central de Reservas, que hoy dirige a todos los compradores al *Contact Center* ubicado en Morelia. En diciembre del 2003, la central concentraba ya el 40% de las llamadas, alcanzando un porcentaje de conversión de 41%, superior en 11 puntos al que reportaba en 2002.

Además de poner en manos de la compañía el primer "momento de verdad" para comenzar a construir la experiencia del huésped (la reservación), las nuevas capacidades de Grupo Posadas le permiten tomar plenamente control de su destino, aprovechar economías de escala, reducir costos y definir con mucha mayor precisión las necesidades de capacitación de todos los agentes de reservas.

Es así como hoy resulta posible el cumplimiento de lo que en el pasado parecía sólo una idea, vender las habitaciones de sus hoteles al mejor precio, en el mejor momento y en todos los canales.

FRANCHISE SERVICES

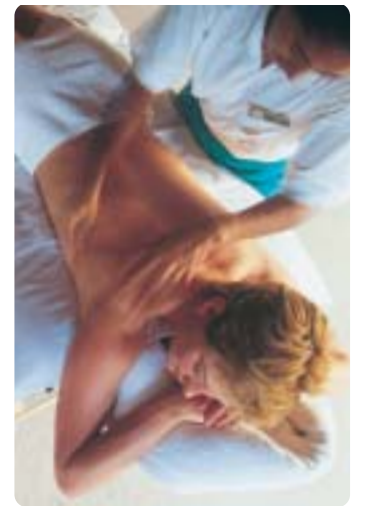
The central issues for this Grupo Posadas division are the value of its brands, to have its own distribution network that can maintain a real time presence in all channels, and its franchise programs and products (see article page 25). The strategic concept tying these three themes together has to do with positioning the company a step ahead of the competition.

2003 was when the work of the past five years began to yield results in two vital areas for this strategy: The seamless functioning of the Central Inventory platform and the permanent offer of Grupo Posadas at a competitive price in all distribution channels.

The technological platform that supports this effort was launched simultaneously with the implementation of Conectum (the new central intelligent business system) in October, through a strategic partnership with Oracle. In parallel, the operation of the Reservation Central was also centralized, with all calls from buyers being redirected to the Call Center located in Morelia, Mexico. As of December 2003, the Call Center handled 40% of all calls, reaching a conversion rate of 41%, which represents an 11% increase over the previous year.

In addition to giving the company the power to really begin to build the guest experience when they book their reservation, Posadas' new range of capabilities gives it full control over its destiny by taking advantage of scale economies, reducing costs and being much clearer on the training needs of the Contact Center agents.

What seemed no more than a pipedream is now a reality: selling rooms at the best price, at the best moment through all channels.



Gracias a la red de distribución de Posadas, la compañía enfrenta con una ventaja competitiva indiscutible dos grandes retos de la hotelería: La exposición de su inventario en todos los canales y la minimización de sus costos de distribución.

Thanks to Posadas distribution network, the company can now bring a solid competitive advantage into play for dealing with two sizeable challenges facing the hotel industry: Profitably moving inventory and minimizing distribution costs.



Con esto, la compañía enfrenta con una ventaja competitiva indiscutible dos grandes retos de la hotelería: La exposición más productiva de su inventario y la minimización de los costos de distribución.

En el terreno de las marcas, la decisión táctica del 2003 frente a la situación real del mercado fue aplicar una estrategia combinada de marca y promoción que resultó efectiva. Esta ruta capitaliza el sólido reconocimiento de los atributos y de la promesa de servicio de Fiesta Americana y Fiesta Inn por parte del consumidor.

En el caso de Caesar Park y Caesar Business, la reingeniería del inventario y el crecimiento en número de hoteles permite ya contar con una masa crítica que en el 2004 respaldará la estrategia combinada que también está dando resultados para las marcas que operan en México. Asimismo, introduciremos dos nuevos programas en Sudamérica: El programa de lealtad para asistentes ejecutivas y el programa de lealtad para agentes de viajes.

Para el 2004, el compromiso de la Franquicia es, entre otros, continuar generando valor para sus marcas, asegurar que la red de distribución funcione al 100%, incrementar los porcentajes de conversión en la Central de Reservaciones, y asegurar el funcionamiento de un sistema inteligente de información que alimente al área comercial con el conocimiento que la conduzca a la toma de las mejores decisiones en la operación del día a día.

Thanks to this competitive advantage, the company is now able to successfully deal with two enormous challenges facing the hotel industry: Profitably moving inventory and minimizing distribution costs.

Faced with the real market situation, the tactical decision for brands in 2003 was to use an effective brand / promotion strategy. This approach capitalized on the consumer's solid recognition of the attributes and service promise of Fiesta Americana and Fiesta Inn.

In the case of Caesar Park and Caesar Business, the reengineering of inventory and the growth in number of hotels now gives the brand the critical mass necessary to support the combined strategy that is also generating positive results for the company's brands in Mexico.

We will additionally roll-out two new loyalty programs in South America, one for executive assistants and the other for travel agents.

At the core of Franchise's commitment for 2004 is continually generating value for its brands, assuring that the distribution network is fully operational, increase conversion percentages at the Contact Center, and assure that the IT system constantly feeds the business area with the knowledge needed to make the best decisions on a day to day basis.

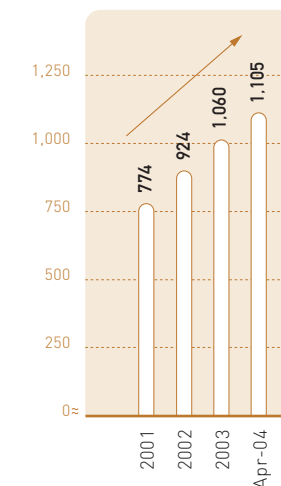
Fiesta Rewards y Caesar Rewards Dos valiosos activos

Desde hace 15 años, Fiesta Rewards es el programa de lealtad que ofrece los mejores beneficios al huésped durante su estancia y las mejores recompensas cuando ésta termina. Por eso, el activo más valioso de los hoteles de ciudad en México se llama Fiesta Rewards, y constituye una de las razones que fortalecen los vínculos y confirman la lealtad del consumidor hacia las marcas de Grupo Posadas. Hoy, Fiesta Rewards contribuye con el 24% de la ocupación en los Fiesta Americana de ciudad y con el 39% en Fiesta Inn.

Su base de socios -como sucede también en el caso de Caesar Rewards en el mercado sudamericano desde hace tres años- brinda a la compañía el gran conocimiento del viajero de negocios, su perfil, sus motivaciones, su forma de comprar, sus hábitos y sus preferencias.

Por eso, la tarea es siempre reforzar su posicionamiento, así como fortalecer las relaciones con los socios comerciales que enriquecen su paquete de recompensas. De hecho, esa es la misión de la campaña publicitaria que hoy se encuentra al aire y que se resume así: *Fiesta Rewards recompensa tu esfuerzo.*

Programa de lealtad de Hoteles Socios Fiesta Rewards y Club Premier 2003 (miles)
Hotel Loyalty Programs Fiesta Rewards and Club Premier Members 2003 (thds)



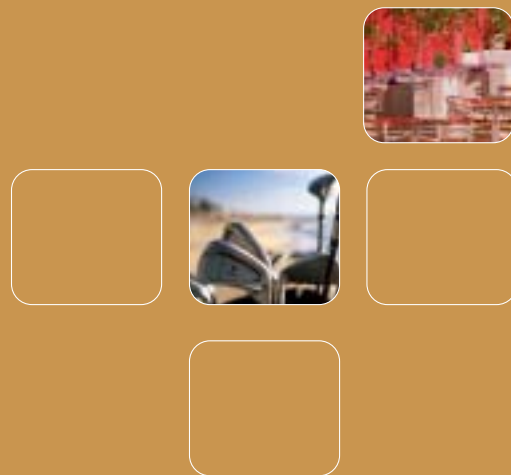
Fiesta Rewards and Caesar Rewards Two valuable assets

For 15 years, Fiesta Rewards has been the customer loyalty program that offers our guests the best benefits and rewards both during and after their stay. Representing the most valuable asset for city hotels in Mexico, Fiesta Rewards is critical for strengthening bonds with our customers and their loyalty with our brands. Today, Fiesta Rewards is responsible for 24% of the occupancy for Fiesta Americana city hotels, and 39% of Fiesta Inn.

As with Caesar Rewards in South America over these last three years, Fiesta Reward's customer base provides the company valuable information about business travelers, their profiles, motivations, buying habits and preferences. The primary task continues to be to fortify the market's positive perception of the product as well as to strengthen relations with travel partners that can enhance the reward package. In fact, that is precisely the objective of the company's ad campaign, which is currently running with the selling-line: *Fiesta Rewards, rewards your effort.*

liderar

lead



CRECIMIENTO

Sobre una plataforma más firme que nunca para soportar el crecimiento, la expansión de Grupo Posadas volvió a acelerarse. En el 2003 y principios del 2004 abrieron sus puertas diez hoteles más.

Durante el ejercicio que se reporta, la compañía sumó a su inventario siete hoteles en México y tres en Brasil. En México abrieron: Fiesta Americana Querétaro (Querétaro), Fiesta Inn Centro Histórico y Fiesta Inn Insurgentes Viaducto (Distrito Federal), Fiesta Inn Orizaba (Veracruz), Fiesta Inn Ciudad del Carmen (Campeche), Fiesta Inn Celaya (Guanajuato) y Fiesta Inn Culiacán (Sinaloa).

En Brasil: Caesar Business São José dos Campos (São Paulo), Caesar Business Botafogo (Rio de Janeiro) y Caesar Business Belo Horizonte (Minas Gerais).

La lista de los hoteles programados para el 2004 y el 2005 es igualmente importante -tanto en México como en Sudamérica-, hasta sumar poco más de un centenar de hoteles en operación y por abrir, cifra que seguirá creciendo.

Esta expansión -que hoy comprende un inventario de más de 12,000 habitaciones en México y unas 1,500 en Sudamérica (principalmente Brasil)- convierte a Grupo Posadas en el Líder Hotelero Latinoamericano.

En el Cono Sur, de acuerdo con la visión estratégica de la compañía, este inventario ha crecido ininterrumpidamente a partir de 1998. En el 2003, para acelerar el ritmo, se tomaron decisiones en materia de estructura y de inversión.

En lo que hace a la estructura, y en vista del crecimiento proyectado, se suministraron mayores fuerzas al equipo asignado a Sudamérica. Entre otras cosas, asignando directamente a la Vicepresidencia de Desarrollo tareas claves para el cumplimiento de las metas en esa región.

GROWTH

With a more solid growth-supporting platform than ever before, Grupo Posadas stepped up its pace of expansion once again. Ten more hotels opened their doors in 2003 and early 2004.

During the fiscal year being reported, the company added seven hotels to its inventory in Mexico and three in Brazil. Those opened in Mexico were: Fiesta Americana Queretaro (Queretaro), Fiesta Inn Centro Historico and Fiesta Inn Insurgentes Viaducto (Mexico City), Fiesta Inn Orizaba (Veracruz), Fiesta Inn Ciudad del Carmen (Campeche), Fiesta Inn Celaya (Guanajuato) and Fiesta Inn Culiacan (Sinaloa).

In Brazil the openings were: Caesar Business São Jose dos Campos (São Paulo), Caesar Business Botafogo (Rio de Janeiro) and Caesar Business Belo Horizonte (Minas Gerais).

The list of new hotels slated for 2004 - 2005 is equally impressive both in Mexico and South America. With these properties the Group's portfolio will be made up of over 100 hotels, and continue to grow.

This expansion -which presently reflects an inventory of over 12,000 rooms in Mexico and approximately 1,500 in South America (mainly Brazil)- makes Grupo Posadas the leading Latin America hotel management company.

In line with the company's strategic vision, inventory in the Mercosur region has grown nonstop since 1998. To step up the pace in 2003, important structural and investment decisions were made.

Guided by projected growth forecasts, additional structural support was provided to the South American team. Among other things, the Chief Development Officer was made responsible for projects that are key to our regional goals.



En Sudamérica se proyecta una de las propiedades más espléndidas de la compañía: Caesar Park São Paulo, Faria Lima, Brasil.

We have acquired a significant position in what promises to be one of the company's best properties in South America: Caesar Park São Paulo, Faria Lima, Brazil.



En el terreno de las inversiones, Caesar Park Río de Janeiro Ipanema recibió una inyección de capital para remodelar e impulsar sus altos estándares de calidad y cumplir con la promesa de servicio al huésped, asegurando su liderazgo en la plaza. En el 2004 será el turno del Caesar Park Buenos Aires.

Sin duda, la negociación más significativa en la división sudamericana fue la adquisición del 100% de la operación de los hoteles Caesar Park y Caesar Business en Guarulhos, que convirtió a Grupo Posadas en el propietario único de estos hoteles en el Aeropuerto Internacional de São Paulo.

Igualmente, se adquirió el 25% de la que promete ser una de las propiedades más espléndidas de la compañía: Caesar Park São Paulo Faria Lima, en São Paulo. Este hotel y su gemelo -Caesar Business São Paulo Faria Lima- constituyen un proyecto determinante para enriquecer el inventario en el Cono Sur y reproducen la exitosa fórmula que funciona ya en Guarulhos, São Paulo. Su excelente ubicación los coloca en el corazón de una zona nueva, rodeada de importantes generadores de demanda. Y lo mismo sucederá con otra propiedad: Caesar Business São Paulo Paulista, apertura programada para marzo del 2004 en la avenida principal de São Paulo.

Estas decisiones de inversión y la apertura de estos nuevos hoteles refuerzan la posición de Grupo Posadas en Brasil.

In terms of investments, Caesar Park Rio de Janeiro Ipanema received an infusion of fresh capital to remodel and drive its high quality standards and guest service pledge, thereby assuring its market leadership. In 2004, the same will be done for Caesar Park Buenos Aires.

Undoubtedly, the most significant negotiation for the South American division was the full acquisition of the Guarulhos operation, making Grupo Posadas the sole owner of Caesar Park and Caesar Business International Airport, in São Paulo.

Similarly, 25% of Caesar Park São Paulo Faria Lima, in São Paulo, was purchased. This hotel promises to be one of the company's most impressive properties. Together with its twin, Caesar Business São Paulo Faria Lima, it is key to bolstering our South American inventory and reproducing the successful formula now operating in Guarulhos, São Paulo. These properties enjoy an excellent location in a new area of growth surrounded by major sources of demand. The same is expected of another property: Caesar Business São Paulo Paulista, scheduled to open in March 2004 on São Paulo's main boulevard.

Good decisions and additional properties give us highly competitive products and inventory. The result for Grupo Posadas is ongoing progress toward consolidating its operations in Brazil.

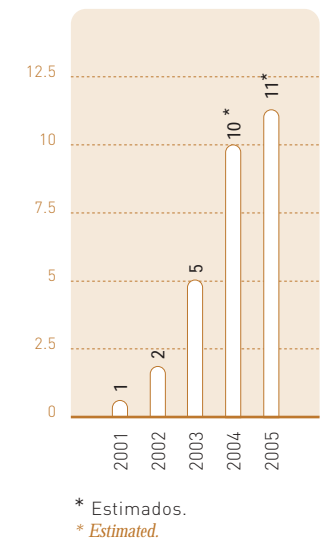
Fiesta Inn y Caesar Business, Marcas de Mayor Crecimiento

Fiesta Inn continúa su ruta de crecimiento. Cerró el 2003 con 40 eslabones, a los que se sumarán ocho hoteles más en el 2004. En el 2005 se alcanzará la cifra de 60 hoteles de esta marca, líder indiscutible en la categoría *Business Class* en México.

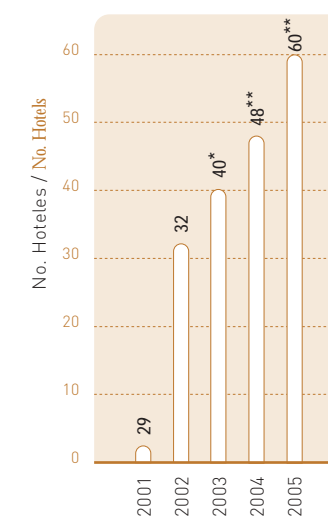
En Sudamérica, la meta es que Caesar Business alcance la escala y el tamaño necesarios para reproducir el fenómeno Fiesta Inn en México, consolidando la posición de Grupo Posadas en el Cono Sur. Si bien Caesar Park también cuenta con planes de crecimiento, el abanderado del desarrollo en esa región es Caesar Business. Hoy, la marca Caesar Business de Posadas opera cinco propiedades en ese mercado.

En el 2004 se programan las aperturas de otros cuatro hoteles, y para el 2005 la marca hará su primera apertura en la capital de Chile, Santiago.

Crecimiento Caesar Business
Growth: Caesar Business



Crecimiento Fiesta Inn
Growth: Fiesta Inn



* Incluye Fiesta Inn Celaya y Fiesta Inn Culiacán, abiertos en enero de 2004.
** Estimados.

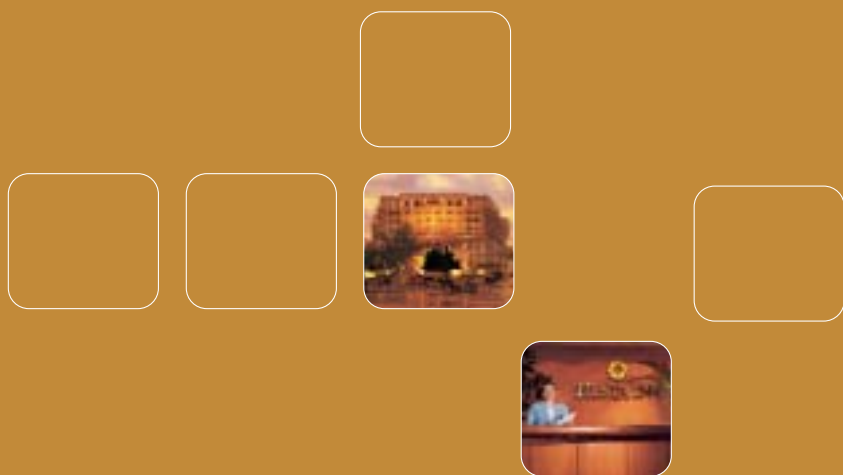
* Includes Fiesta Inn Celaya and Fiesta Inn Culiacán, opened January 2004.
** Estimated.

Fiesta Inn and Caesar Business Top Growth Brands

With 40 properties at the end of 2003, and eight more slated for 2004, Fiesta Inn continues on a clear growth path. In 2005, the figure will be 60 hotels for this brand, the undisputed leader in Mexico's Business Class category.

To consolidate Grupo Posadas' position in South America, the goal is for Caesar Business to reach the size and scale needed to repeat the Fiesta Inn success story in Mexico. While there are also growth plans for Caesar Park, the standard-bearer for development in the region is Caesar Business. Posadas' Business Class brand currently operates five properties in that market. In 2004, four more hotels are scheduled to be opened, and by 2005, the brand will have its first property in Santiago, the capital of Chile.

desarrollar *develop*



CAPITAL HUMANO

Cumplir con la promesa de las marcas hoteleras de Grupo Posadas a sus mercados no depende únicamente de la impecable operación de la infraestructura y la plataforma tecnológica con la que hoy cuenta la compañía; tiene que ver fundamentalmente con el compromiso, la destreza, los valores y el talento de su equipo humano.

Esta es una ventaja con la que Grupo Posadas cuenta desde hace tiempo. Para mantenerla, se ha llevado a cabo una reingeniería en materia de desarrollo y capacitación. Entre otros objetivos estratégicos para lograr que las nuevas herramientas tecnológicas se capitalicen al 100% en beneficio de un objetivo clave: El Servicio.

Para lograrlo, se ha trabajado intensamente para que cada colaborador entienda y asuma plenamente su responsabilidad. En esta tarea es apoyado por la compañía que, gracias a su enfoque hacia la especialización, hoy puede:

- Definir con mayor precisión las necesidades y la dirección del desarrollo de sus colaboradores.
- Profundizar el conocimiento de cada colaborador en su especialidad.
- Dirigir con mayor precisión programas y paquetes de compensación.

Así pues, también en materia de recursos humanos, el 2003 fue un año de cambio cultural que logra enfocar las energías, habilidades y el conocimiento de los miembros del equipo hacia su área de especialidad y, dentro de ella, hacia aquello que genera valor a la compañía.

HUMAN CAPITAL

For Grupo Posadas' hotel brands to fulfill their pledge with their markets requires more than an impeccably managed operational infrastructure or technological platform of the type the company enjoys today. It demands the commitment, skill, values and talent of its team.

While Posadas has had this competitive advantage for some time, it was necessary to reengineer training and personal development opportunities within the company to maintain this edge and, in line with other strategic goals, to totally capitalize on our new technological tools in the pursuit of a key objective: Service.

To accomplish this, intense work is done with each collaborator to ensure that they understand and assume full accountability. Thanks to the organization's support in this effort and its focus on specialization, Grupo Posadas is now in a position to:

- More precisely define the career path and training needs of its executives.
- Deepen each collaborator's knowledge of their specialty.
- Better manage employee compensation packages and programs.

In terms of human capital, 2003 was also a year of cultural change aimed at concentrating team members' energy, skills and know-how in their areas of specialty and on what specifically what produces value for the company.



En materia de Recursos Humanos, el 2003 fue un año de cambio cultural para enfocar al equipo de Posadas hacia un nuevo modelo de Operación.

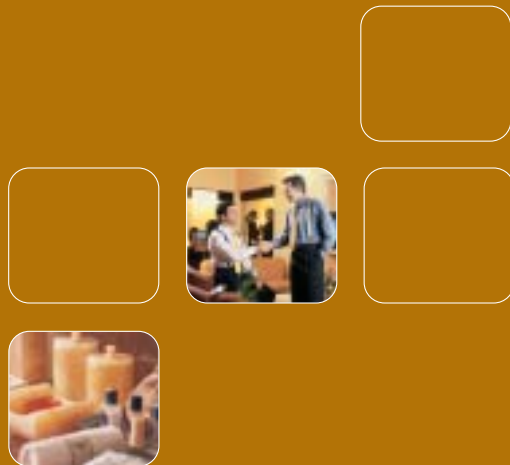
In the area of Human Resources, 2003 was a time of cultural change in orienting the Posadas team toward this new operation's approach.

Este punto reviste una importancia particular. Grupo Posadas no desea ser sólo reconocida como la empresa más grande y con la mejor infraestructura tecnológica, su objetivo es ser la compañía hotelera con el mejor servicio en cada categoría. Para ello, lo esencial es contar con un equipo de colaboradores que practican sus valores y cuyo talento continúa otorgándole su más importante ventaja competitiva.

This point is particularly important. Grupo Posadas does not just want to be known as the biggest company with the best technological infrastructure. Our goal is to be the hotel operator with the best service in each category. To achieve that, the main thing is and has always been to have a team of collaborators who live by their values and whose talent continues to be the company's most important competitive advantage.



consolidar *consolidate*



FINANZAS

En un entorno económico difícil, caracterizado por el bajo crecimiento, la racionalización y el control del gasto tuvieron un papel preponderante en las decisiones tomadas durante el ejercicio. Esto, aunado a la fortaleza financiera de Grupo Posadas, permite dar buenas noticias.

En 2003 -año en el que se reportan ingresos netos por 3,889 millones de pesos y un EBITDA de 953 millones de pesos-, por primera vez en la historia de la compañía, Grupo Posadas pagó un dividendo de alrededor de 5 millones de dólares a sus accionistas. Si hasta el 2002 la acelerada tasa de crecimiento de la empresa había absorbido los recursos, ahora -fortalecida y con flujos disponibles- Posadas busca mantener su plan de pago de dividendos para sus inversionistas.

En el periodo, y precisamente para asegurar la rentabilidad del negocio en el futuro:

- Continuaron las inversiones en el desarrollo e implantación de las herramientas que hoy ponen en manos de la compañía ventajas competitivas difíciles de imitar. En este rubro se encuentran: Renew, destinado a la mejora de los ingresos; y Conectum, en el control de costos, donde se invirtió un total de 8 millones de dólares.

- Se realizaron inversiones para mantener algunos hoteles en condiciones de competencia y dentro de los estándares de calidad de las marcas de Posadas. En esta línea, hay que destacar: La remodelación de Fiesta Americana Condesa Cancún, Fiesta Inn Monterrey Valle, Fiesta Inn Guadalajara y Caesar Park Río de Janeiro Ipanema. También se realizó la conversión del hotel Aeropuerto Plaza en la ciudad de México a Fiesta Inn para dotarlo de los estándares de servicio de la marca *Business Class* de Grupo Posadas; así como la conversión del Fiesta Americana Cancún al concepto de Fiesta Americana Vacation Club.

FINANCES

Given the low growth business environment we faced during 2003, a careful rationalization and control of expenses played a key role in our decision making process throughout the year. Combined with Grupo Posadas' strong financial position, this led to good results for the period.

The Group's net income for 2003 reached 3,889 million pesos, and an EBITDA of 953 million pesos. This was the first year in Posadas' history that it paid out dividends to its shareholders; nearly 5 million dollars.

While the company's accelerated growth had absorbed resources until 2002, today a stronger Posadas with a cash flow seeks to maintain its dividend payment plan for its investors.

To assure the profitability of our business into the future, some of our actions for 2003 included:

- Continuing to devote time and resources to the development and implementation of tools that give the company the type of competitive advantages that are difficult to imitate. Examples of this strategy are Renew, destined to improve revenues, and Conectum, designed to reduce costs, in which we invested a total of 8 million dollars.

- Making investments for keeping certain hotels competitive and in line with Posadas' brand quality standards. Efforts in this area included remodeling of the Fiesta Americana Condesa Cancun, Fiesta Inn Monterrey Valle, Fiesta Inn Guadalajara and Caesar Park Río de Janeiro Ipanema; converting our Aeropuerto Plaza property in Mexico City to a Fiesta Inn flag to give it the service standards of Group's successful Business Class chain; and transforming the Fiesta Americana Cancun into the Fiesta Americana Vacation Club concept.



En 2003, Grupo Posadas pagó un dividendo de 5 millones de dólares a sus accionistas.

In 2003, Grupo Posadas paid out nearly 5 million dollars in dividends to its investors.



- Se llevó a cabo una negociación global que permitió que Grupo Posadas adquiriera el contrato de arrendamiento de Caesar Park y Caesar Business International Airport en São Paulo, a un precio que mejora sustancialmente la tasa de retorno de este proyecto. Acciones como ésta y las aperturas programadas para el 2004 dotan a la compañía de un inventario más completo y muy competitivo en Brasil.

Durante el año también se tomó la decisión de desinvertir en activos poco productivos. Fue el caso de Holiday Inn McAllen Civic Center, así como del cierre e intercambio del inmueble que ocupaba Caesar Park São Paulo, en Rua Augusta, por un porcentaje de Caesar Park São Paulo Faria Lima, en la misma ciudad. Con ello, se eliminó del inventario un hotel con más de 25 años de antigüedad en una zona de la ciudad que ha quedado fuera de los circuitos de actividad comercial, para sumar una propiedad en la mejor zona de São Paulo.

Para el 2004, las tareas y los esfuerzos en materia de finanzas continúan apuntando en la misma dirección: Asegurar la estabilidad financiera de la compañía, seguir mejorando el perfil de su deuda y consolidar su balance.

Ahora también, y a la luz de la definición de un nuevo Posadas, el área de Finanzas se propone generar nuevas ideas y desempeñar un papel cada vez más importante para coadyuvar a que la compañía logre el gran objetivo propuesto: Alcanzar mayores índices de rentabilidad de sus activos.

- *Carrying out comprehensive negotiations to allow Grupo Posadas to acquire the lease for Caesar Park and Caesar Business International Airport in São Paulo at a price that substantially improves our ROIC for this project. Actions like this, together with the openings programmed for 2004, will endow the company with a more complete and competitive inventory in Brazil.*

The company also decided in 2003 to divest itself of low yielding assets. Such was the case with Holiday Inn McAllen Civic Center, as well as closing the building occupied by Caesar Park São Paulo in Rua Augusta, and doing an equity swap for a percentage in the Caesar Park São Paulo Faria Lima in the same city. With this we eliminated a hotel from our inventory that had been operating for over 25 years in an area of town that was outside the mainstream of business activity, for a property in the best part of São Paulo.

Finances course for 2004 remains the same: Assure the company's financial stability, continue improving our debt profile, and consolidate our balance sheets.

In light of a new Posadas, Finances is generating new ideas performing a more proactive role in assuring the company achieves its overriding objective: To increase the profitability.

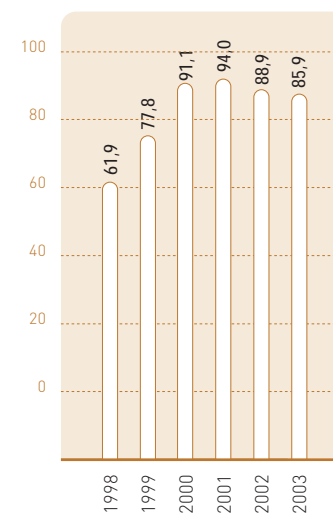
El Perfil de la Deuda

Durante 2003, Grupo Posadas continuó consolidando su balance y fortaleciendo su situación financiera. Entre otras acciones, mejorando el perfil de la deuda gracias a dos importantes emisiones de certificados bursátiles en el mes de mayo. Una por 250 millones de pesos y otra por 875 millones de pesos.

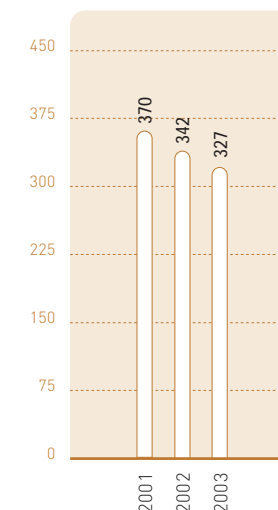
Entre mayo y junio, se aprovecharon las tasas de interés más bajas de la historia reciente para fijarlas en el 54% de los créditos, asegurando así un costo razonable de la deuda para los próximos años.

Con una deuda neta de 327 millones de dólares -15 millones menor a la registrada en el 2002-, el índice de deuda neta a EBITDA pasó de 4.1 veces al cierre del año anterior, a 3.9 veces en diciembre de 2003. Esto, aunado a una reducción de 1.3 puntos porcentuales en el costo ponderado de la deuda, resulta en una mejora en la cobertura de intereses de 2.6 a 3.2 veces en el mismo periodo, el nivel más alto de los últimos diez años.

EBITDA
(millones de dólares)
(millions of dollars)



Evolución de la Deuda Neta
(millones de dólares)
*Evolution of Net Debt
(millions of dollars)*



Debt Profile

Grupo Posadas continued consolidating its balance sheets and strengthening its financial position throughout 2003. To achieve that, it significantly improved its debt profile with two major stock issues in May; one for 250 million pesos and the other for \$875 million.

Between May and June, the company took advantage of the lowest interest levels in recent history to tie-in 54% of its credits at that rate, thereby assuring a reasonable cost of debt for a number of years to come.

With a net debt of 327 million dollars -15 million less than 2002- the ratio of net debt to EBITDA went from 4.1 at the close of the previous year, to 3.9 at the close of December 2003. This, added to a 1.3 percent reduction in the calculated cost of debt, resulted in an improvement in interest coverage from 2.6 to 3.2 for the same period; the highest in the last ten years.

consejo de administración *board of directors*

Consejeros

GASTÓN AZCÁRRAGA ANDRADE
Presidente de Grupo Posadas

ENRIQUE AZCÁRRAGA ANDRADE
Director General de EXIO, S.C.

PABLO AZCÁRRAGA ANDRADE
Vicepresidente de Operación Hotelera, Grupo Posadas

CARLOS BUSTAMANTE ANCHONDO
Inversionista Privado

FERNANDO CHICO PARDO
Presidente de Promecap, S.C.

CARLOS LLANO CIFUENTES
Miembro del Consejo Superior del IPADE y de la
Universidad Panamericana

ANTONIO MADERO BRACHO
Presidente del Consejo de Corporación Industrial
SANLUIS, S.A. de C.V.

SALVADOR OÑATE ASCENCIO
Presidente de Grupo Soni

JOAQUÍN VARGAS GUAJARDO
Presidente del Consejo de MVS Comunicaciones

Consejeros Suplentes

JOSÉ CARLOS AZCÁRRAGA ANDRADE
JAVIER BARRERA SEGURA
MANUEL BORJA CHICO
JORGE CARVALLO COUTTOLENC
MARK LANGDALE
MICHEL MONTANT CARÓN

Comisario

FERNANDO LOERA AGUILAR

Secretario

FRANCISCO JAVIER LÓPEZ SEGURA

Board Members

GASTÓN AZCÁRRAGA ANDRADE
Chairman & CEO, Grupo Posadas

ENRIQUE AZCÁRRAGA ANDRADE
CEO, EXIO, S.C.

PABLO AZCÁRRAGA ANDRADE
Chief Operating Officer, Grupo Posadas

CARLOS BUSTAMANTE ANCHONDO
Private Investor

FERNANDO CHICO PARDO
President, Promecap, S.C.

CARLOS LLANO CIFUENTES
Upper Boards Member, IPADE and
Universidad Panamericana

ANTONIO MADERO BRACHO
Chairman & CEO, Corporación Industrial
SANLUIS, S.A. de C.V.

SALVADOR OÑATE ASCENCIO
Chairman & CEO, Grupo Soni

JOAQUÍN VARGAS GUAJARDO
Chairman & CEO, MVS Comunicaciones

Alternate Board Members

JOSÉ CARLOS AZCÁRRAGA ANDRADE
JAVIER BARRERA SEGURA
MANUEL BORJA CHICO
JORGE CARVALLO COUTTOLENC
MARK LANGDALE
MICHEL MONTANT CARÓN

Commissioner

FERNANDO LOERA AGUILAR

Secretary

FRANCISCO JAVIER LÓPEZ SEGURA

comité ejecutivo *executive committee*



GASTÓN AZCÁRRAGA
Presidente
Chairman & CEO



PABLO AZCÁRRAGA
Vicepresidencia Operación Hotelera
Chief Operating Officer



JAVIER BARRERA
Vicepresidencia Franquicia
Chief Marketing & Technology Officer



MANUEL BORJA
Vicepresidencia Finanzas
Chief Financial Officer



JORGE CARVALLO
Vicepresidencia Desarrollo
Chief Development Officer



RAFAEL DE LA MORA
Director General de Administración
Executive Vice President
Corporate Administration



MARK LANGDALE
Director General Posadas USA
President Posadas USA



MICHAEL MONTANT
Vicepresidencia y Dirección General de Operación
Executive Vice President Hotel Operations



Grupo Posadas

Financial Statements 2003

Grupo Posadas, S.A. de C.V. and Subsidiaries
Consolidated Financial Statements
for the years ended December 31, 2003 and 2002,
and independent auditors' report dated March, 19, 2004

Stockholder examiner's report

Fernando Loera Aguilar
Certified Public Accountant

March 19, 2004
Mexico, City

To the Stockholders Meeting of
Grupo Posadas, S. A. de C.V.:

As stockholder examiner, and in compliance with Article 166 of the Mexican Corporate Law and the bylaws of Grupo Posadas, S.A. de C.V., I submit my opinion regarding the accuracy, sufficiency and fairness of the individual and consolidated financial information presented to you by the Board of Directors concerning the Company's operations for the year ended December 31, 2003.

I have attended the meetings of the Stockholders and Board of Directors to which I have been invited, and I have obtained from the Directors and Management all of the information relative to the operations, documents and records that I deemed necessary. My review was performed in accordance with the auditing standards generally accepted in Mexico.

In my opinion, the accounting and reporting policies and criteria followed by the Company and considered by management to prepare and present the individual and consolidated financial information are appropriate and sufficient and were applied on a basis consistent with that of the preceding year; therefore, the individual and consolidated financial information presented by management accurately, sufficiently and fairly presents the financial position of Grupo Posadas, S.A. de C.V. as of December 31, 2003, and the results of its operations, changes in its stockholders' equity and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in Mexico.

C.P.C. Fernando Loera Aguilar
Stockholder Examiner

Independent auditors' report
to the Board of Directors and Stockholders of
Grupo Posadas, S.A. de C.V.

March 19, 2004
Mexico, City

We have audited the accompanying consolidated balance sheets of Grupo Posadas, S.A. de C.V. (a Mexican corporation) and Subsidiaries ("the Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position, for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries, which statements reflect total assets constituting 3% and 5%, respectively, of consolidated assets as of December 31, 2003 and 2002 and total revenues constituting 7% of consolidated revenues for both of the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these subsidiaries is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in conformity with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, such consolidated financial statements, present fairly, in all material respects, the financial position of Grupo Posadas, S.A. de C.V. and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

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

Galaz, Yamazaki, Ruiz Urquiza, S.C.
A member firm of Deloitte Touche Tohmatsu

C.P.C. Carlos M. Pantoja Flores

Consolidated balance sheets

As of December 31, 2003 and 2002

(In thousands of Mexican pesos of purchasing power as of December 31, 2003)

Assets	2003	2002
CURRENT ASSETS:		
Cash and marketable securities	\$ 228,413	\$ 264,831
Notes and accounts receivable, net	684,996	489,391
Inventories	15,165	30,383
Prepaid expenses	42,652	94,821
Real estate held for sale	362,480	383,156
Total current assets	1,333,706	1,262,582
LONG-TERM NOTES RECEIVABLE	145,793	107,826
VACATION CLUB INTERVALS	-	99,742
PROPERTY AND EQUIPMENT, NET	7,883,059	8,016,052
INVESTMENT IN SHARES	27,793	43,206
OTHER ASSETS, NET	788,759	642,104
Total	\$ 10,179,110	\$ 10,171,512

See accompanying notes to consolidated financial statements.

Liabilities and stockholders' equity	2003	2002
CURRENT LIABILITIES:		
Bank loans and current portion of long-term debt	\$ 552,608	\$ 753,230
Suppliers	461,243	381,055
Other accounts payable and accrued liabilities	386,953	446,733
Total current liabilities	1,400,804	1,581,018
 LONG-TERM DEBT	 3,354,863	 3,215,352
 LONG-TERM ACCRUED LIABILITIES	 87,919	 72,911
VALUE ADDED TAX	54,890	18,607
DEFERRED INCOME TAX	1,162,319	1,181,297
Total liabilities	6,060,795	6,069,185
 DEFERRED CREDITS	 38,468	 26,906
STOCKHOLDERS' EQUITY:		
CAPITAL STOCK-		
Historical	489,427	490,208
Contributions for future capital increases	141,001	141,001
Reserve for repurchase of shares	8,743	8,632
Shares in trust	(7,379)	(71)
Additional paid-in capital	156,693	202,143
Restatement	1,436,505	1,436,888
	2,224,990	2,278,801
OTHER CAPITAL-		
Reserve for repurchase of shares	146,695	146,231
Retained earnings	2,176,736	2,097,337
Cumulative effect of restatement	(795,883)	(801,405)
Cumulative effect of deferred income tax	(783,349)	(783,349)
	744,199	658,814
 Minority interest	 1,110,658	 1,137,806
Total stockholders' equity	4,079,847	4,075,421
 Total	\$ 10,179,110	\$ 10,171,512

Consolidated statements of income

For the years ended December 31, 2003 and 2002

(In thousands of Mexican pesos of purchasing power as of December 31, 2003)

	2003	2002
HOTEL OPERATION:		
Revenues	\$ 2,721,708	\$ 2,857,825
Departmental costs and expenses	<u>923,259</u>	<u>921,447</u>
Departmental profit	1,798,449	1,936,378
General expenses:		
Administrative	440,783	478,798
Sales, advertising and promotion	257,320	274,080
Maintenance and energy	<u>286,022</u>	<u>305,472</u>
	984,125	1,058,350
Income before other expenses	<u>814,324</u>	<u>878,028</u>
Other expenses:		
Property taxes and insurance	52,960	18,955
Other (income) expenses, net	<u>(1,683)</u>	<u>52,727</u>
	51,277	71,682
Operating earnings from hotel operation	<u>763,047</u>	<u>806,346</u>
HOTEL MANAGEMENT FEES, BRAND AND OTHER:		
Revenues	477,975	453,320
Direct costs and corporate expenses	282,247	306,763
Other revenues, net	<u>(24,755)</u>	<u>(4,632)</u>
Operating earnings from hotel management, brand and other	220,483	151,189
OTHER RELATED BUSINESSES:		
Revenues	664,102	583,359
Direct costs and expenses	<u>528,167</u>	<u>397,129</u>
Income from other related business	<u>135,935</u>	<u>186,230</u>
CORPORATE EXPENSES	65,179	100,894
DEPRECIATION, AMORTIZATION AND REAL ESTATE LEASING	516,143	469,828
AMORTIZATION OF GOODWILL FROM ACQUISITION OF BUSINESSES, NET	<u>(2,983)</u>	<u>(14,083)</u>
Operating income	<u>541,126</u>	<u>587,126</u>

See accompanying notes to consolidated financial statements.

	2003	2002
OTHER EXPENSES, NET	68,071	32,658
COMPREHENSIVE FINANCING COST:		
Interest expense	297,504	366,687
Interest income	(7,265)	(10,767)
Currency exchange fluctuations, net	136,606	285,629
Restatement of investment units (udis)	2,427	10,743
Monetary position gain	<u>(133,656)</u>	<u>(205,325)</u>
	<u>295,616</u>	<u>446,967</u>
Income from continuing operations before taxes and participation in the results of associated companies	177,439	107,501
TAXES	<u>72,141</u>	<u>35,550</u>
Income from continuing operations before participation in the results of associated companies	105,298	71,951
PARTICIPATION IN THE RESULTS OF ASSOCIATED COMPANIES	1,731	1,758
DISCONTINUED OPERATIONS	<u>3,383</u>	<u>-</u>
NET CONSOLIDATED INCOME FOR THE YEAR	103,646	73,709
MINORITY STOCKHOLDERS' NET (LOSS) INCOME	<u>(32,792)</u>	<u>16,987</u>
MAJORITY STOCKHOLDERS' NET INCOME	<u>\$ 136,438</u>	<u>\$ 56,722</u>
MAJORITY INCOME PER SHARE (IN PESOS)	<u>\$ 0.2737</u>	<u>\$ 0.1134</u>
MAJORITY DILUTED INCOME PER SHARE (IN PESOS)	<u>\$ 0.2527</u>	<u>\$ 0.0975</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	<u>498,322,495</u>	<u>500,223,447</u>

See accompanying notes to consolidated financial statements.

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2003 and 2002

(In thousands of Mexican pesos of purchasing power as of December 31, 2003)

	Historical	Contributions for future capital increases	Reserve for repurchase of shares	Shares in trust	Additional paid-in capital
BALANCES AS OF DECEMBER 31, 2001	\$ 490,208	\$ 141,001	\$ 8,379	\$ (4,015)	\$ 206,320
Repurchase of shares, net	-	-	253	-	67
Shares in trust for stock option plan	-	-	-	3,944	(4,244)
Purchase of minority interest	-	-	-	-	-
Net income for the year	-	-	-	-	-
Result from holding non monetary assets	-	-	-	-	-
Comprehensive income	-	-	-	-	-
BALANCES AS OF DECEMBER 31, 2002	490,208	141,001	8,632	(71)	202,143
Shares in guarantee trust	(781)	-	-	-	(2,581)
Repurchase of shares, net	-	-	111	-	(246)
Shares in trust for stock option plan	-	-	-	(7,308)	(36,500)
Dividends paid	-	-	-	-	-
Contributions of minority stockholders, net of purchases	-	-	-	-	-
Reimbursement of contributions for future capital increases	-	-	-	-	(6,123)
Net income (loss) for the year	-	-	-	-	-
Result from holding non monetary assets	-	-	-	-	-
Comprehensive income	-	-	-	-	-
BALANCES AS OF DECEMBER 31, 2003	\$ 489,427	\$ 141,001	\$ 8,743	\$ (7,379)	\$ 156,693

See accompanying notes to consolidated financial statements.

Restatement	Reserve for repurchase of shares	Retained earnings	Cumulative effect of restatement	Cumulative effect of deferred income tax	Minority interest	Total stockholders' equity
\$ 1,436,348	\$ 145,766	\$ 2,040,615	\$ (818,688)	\$ (783,349)	\$ 1,174,147	\$ 4,036,732
552	465	-	-	-	-	1,337
(12)	-	-	-	-	-	(312)
-	-	-	-	-	(53,328)	(53,328)
-	-	56,722	-	-	16,987	73,709
-	-	-	17,283	-	-	17,283
-	-	56,722	17,283	-	-	90,992
1,436,888	146,231	2,097,337	(801,405)	(783,349)	1,137,806	4,075,421
(134)	-	-	-	-	-	(3,496)
(5)	464	-	-	-	-	324
-	-	-	-	-	-	(43,808)
-	-	(57,039)	-	-	-	(57,039)
-	-	-	-	-	5,644	5,644
(244)	-	-	-	-	-	(6,367)
-	-	136,438	-	-	(32,792)	103,646
-	-	-	5,522	-	-	5,522
-	-	136,438	5,522	-	(32,792)	109,168
<u>\$ 1,436,505</u>	<u>\$ 146,695</u>	<u>\$ 2,176,736</u>	<u>\$ (795,883)</u>	<u>\$ (783,349)</u>	<u>\$ 1,110,658</u>	<u>\$ 4,079,847</u>

Consolidated statements of changes in financial position

For the years ended December 31, 2003 and 2002

(In thousands of Mexican pesos of purchasing power as of December 31, 2003)

	2003	2002
OPERATING ACTIVITIES:		
Net consolidated income for the year	\$ 103,646	\$ 73,709
Items in results that do not require (generate) resources-		
Depreciation and amortization	415,109	348,890
Participation in the results of associated companies	(1,731)	(1,758)
Deferred income taxes	(18,978)	(33,448)
Amortization of goodwill from acquisition of businesses, net	(2,983)	(14,083)
Long-term accrued liabilities	15,008	9,162
	<u>510,071</u>	<u>382,472</u>
CHANGES IN OPERATION ASSETS AND LIABILITIES		
(Increase) decrease in:		
Notes and accounts receivable	(195,605)	(68,772)
Inventories	15,218	(2,919)
Prepaid expenses	52,169	(57,584)
Real estate held for sale	20,676	3,984
Increase (decrease) in:		
Suppliers	80,188	110,492
Other accounts payable and accrued liabilities	(59,780)	143,116
Net resources generated by operating activities	<u>422,937</u>	<u>510,789</u>
FINANCING ACTIVITIES:		
Changes in financial debt at nominal value	90,794	252,156
Decrease in financial debt due to inflationary effects and currency exchange	(151,904)	(211,837)
Value added tax	36,283	8,734
Shares in guarantee trust	(3,496)	-
Repurchase of shares, net	324	1,337
Shares in trust for stock option plan	(43,808)	(312)
Contributions (purchase) of minority interest	5,644	(53,328)
Reimbursement of contributions for future capital increases	(6,367)	-
Dividends paid	(57,039)	-
Net resources used in financing activities	<u>(129,569)</u>	<u>(3,250)</u>
INVESTING ACTIVITIES:		
Long-term notes receivable	(37,967)	(35,098)
Vacation club intervals	105,264	66,849
Property and equipment, net	(150,380)	(366,592)
Investment in shares	17,144	8,178
Other assets	(278,392)	(46,715)
Deferred credits	14,545	(58,600)
Net resources used in investing activities	<u>(329,786)</u>	<u>(431,978)</u>
Cash and marketable securities:		
(Decrease) increase	(36,418)	75,561
BALANCE AT BEGINNING OF YEAR	<u>264,831</u>	<u>189,270</u>
BALANCE AT END OF YEAR	<u>\$ 228,413</u>	<u>\$ 264,831</u>

See accompanying notes to consolidated financial statements.

1. Nature of business and significant event

Nature of business - Grupo Posadas, S.A de C.V. and Subsidiaries ("the Company") is primarily engaged in the operation and management of owned and third party hotels operating mainly under the business names, Fiesta Americana and Fiesta Inn in Mexico and Caesar Park in South America, of which at December 31, 2003 and 2002, fifteen and eleven hotels, respectively, are leased and thirty-three and thirty-five hotels, respectively, are majority-owned.

The management contracts under which the Company operates the Fiesta Americana, Fiesta Inn, Holiday Inn, and Caesar Park hotels, establish a fee based on the revenues of the hotels and an incentive fee based on operating income.

As of December 31, 2003 and 2002, the Company operated a total of 14,605 and 13,837 rooms, respectively, including owned, leased and managed hotels.

Additionally the Company operates a business called "Vacation Club", which is similar to time-sharing. This concept is being developed in Los Cabos, Baja California Sur, and in Cancun, Quintana Roo, Mexico, with the support, as of 2002, of Hilton Grand Vacation Club and Resort Condominiums International (RCI), which permitted a higher level of penetration in the foreign and local markets.

Significant event - During 2003, the Company began the restructuring of various operations with the implementation of an operating and technological platform called "Conectum", the objective of which is to increase the efficiency and agility of operations, and reduce operating and administrative costs. The anticipated completion of this restructuring is expected to occur during 2004.

2. Basis of presentation

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

b. Consolidation of financial statements - The accompanying consolidated financial statements include the financial statements of Grupo Posadas, S.A. de C.V. and those of the subsidiaries that the Company controls. Entities in which the Company's ownership interest is greater than 50% are consolidated in these financial statements because the Company exercises control over such companies. These are:

<u>Company</u>	<u>Participation (%)</u>
Posadas de México, S.A. de C.V. and Subsidiaries	100
Inmobiliaria Hotelera Posadas, S.A. de C.V. and Subsidiaries	70
Servicios Hoteleros Posadas, S.A. de C.V. and Subsidiaries	100
Posadas USA Inc. and Subsidiaries	100
Fondo Inmobiliario Posadas, S.A. de C.V. and Subsidiaries	100

Hotels owned and leased by the Company pay to Grupo Posadas, S.A. de C.V. a management fee on a similar basis as hotels managed but not owned by the Company. With the purpose of showing the results of its hotel operation and hotel management fees, brand and other with the revenues and costs of these types of businesses, management decided not to eliminate these operations in the preparation of the consolidated statements of income, which does not affect operating income.

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

	2003		2002	
	Elimination	Balance after elimination	Elimination	Balance after elimination
Hotel operation:				
General expenses- administrative	\$ 246,624	\$ 194,159	\$ 245,347	\$ 233,451
General expenses- Sales, advertising and promotion	\$ 18,163	\$ 239,157	\$ 21,949	\$ 252,131
Hotel management fees, brand and other:				
Revenues	\$ 264,787	\$ 213,189	\$ 267,296	\$ 186,024

The remaining significant intercompany balances and transactions have been eliminated in consolidation.

- c. Translation of foreign subsidiaries-** To consolidate the financial statements of foreign subsidiaries that operate independently of the Company in terms of finances and operations, such foreign currency financial statements are prepared following the Company's accounting policies and have been restated using the corresponding countries' rates of inflation and are translated into Mexican pesos at the exchange rate effective as of the latest year end, with regard to the information of the current year as well as prior years. For translation purposes, amounts are translated into Mexican pesos using the following exchange rates: (i) the exchange rate in effect at the date the contributions were made for common stock (ii) the exchange rate in effect at the end of the year in which the retained earnings were generated and (iii) the exchange rate in effect at the end of the year for revenues and expenses. With this, comparable information is obtained considering the functional currencies of each of the countries in which the Company operates. Therefore, the amounts of the financial statements of the prior year, differ from those previously reported.
- d. Comprehensive income** – Comprehensive income presented in the accompanying consolidated statements of changes in stockholders' equity represents the Company's total activity during each year, and is comprised of the net consolidated income for the year, plus other comprehensive income (loss) items such as the result from holding non monetary assets for the same period which, in accordance with Mexican GAAP, is presented directly in stockholders' equity without affecting the consolidated statements of income.
- e. Reclassifications** - Certain amounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified in order to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2003.
- f. Acquisition of businesses-** Participation in the results and changes in net worth of those subsidiaries that are purchased or sold, are included in the financial statements from or through the date on which the transactions are carried out, and are restated in terms of purchasing power as of yearend. Differences between the book value over the cost of acquisition of subsidiaries, are amortized over a five-year end period, which net amortization is presented as "amortization of goodwill from acquisition of businesses" included in the determination of operating income in the consolidated statements of income.

3. Significant accounting policies

The accounting policies followed by the Company are in conformity with Mexican GAAP, which require that management make certain estimates and use certain assumptions to determine the valuation of some of the items included in the consolidated financial statements and make the required disclosures therein. While the estimates and assumptions used may differ from their final effect, management believes that they were adequate under the circumstances. The significant accounting policies of the Company are as follows:

a. New accounting policies – Beginning January 1, 2003, the Company adopted the provisions of the following accounting principles:

- Bulletin C-8, “Intangible Assets” (“C-8”), which establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets; preoperating costs that are not considered development costs should be recorded as a period expense; and intangible assets considered to have indefinite useful lives are not amortized, but instead are subject to impairment tests. The unamortized balance of capitalized preoperating costs up to December 31, 2002, under the former Bulletin C-8 will continue to be amortized according to the provisions of that Bulletin.

- Bulletin C-9, “Liabilities, Provisions, Contingent Assets and Liabilities and Commitments” which establishes additional guidelines clarifying the accounting for provisions, accruals and contingent liabilities, and establishes new standards for the use of present value techniques to measure liabilities and accounting for the early settlement or substitution of obligations.

The effects of adopting Bulletins C-8 and C-9 were not significant.

b. Recognition of the effects of inflation - The Company restates its consolidated financial information in terms of the purchasing power of the Mexican peso as of the most recent year end, in order to recognize the effects of inflation on financial information. Accordingly, the consolidated financial statements originally issued have been restated and the prior period amounts presented herein differ from those originally reported in terms of Mexican pesos of the corresponding year. Consequently, all consolidated financial statement amounts are comparable, since all are stated in terms of Mexican pesos of the same purchasing power.

For the years ended December 31, 2003 and 2002, the inflation rates were:

	<u>2003</u>	<u>2002</u>
Mexico	3.98	5.70
United States of America	1.02	2.38
Brazil	10.38	14.74
Argentina	3.64	117.49

c. Marketable securities- These are primarily money market accounts, at market value.

d. Inventories and cost of sales- Inventories are valued at the lower of average cost, which due to their high turnover is similar to replacement cost, or market value. Cost of sales is restated through the National Consumer Price Index (“NCPI”).

e. Real estate held for sale - Up to December 31, 2000, real estate development, which consisted of land, villas and residential lots for sale and docks located in Ixtapa, Guerrero, were valued at their historical cost, including taxes on properties and costs incurred during the development and construction period.

During 2001, management decided to discontinue this business and consequently recorded reserves amounting to \$126,639 in order to reflect this inventory at its estimated realizable value. The sale process of the assets of this business is estimated to conclude in the short term when the sale, divestiture or suspension of activities of the legal entities included in this segment will be evaluated, and whose results are presented as discontinued operations in the consolidated statements of income.

Vacation club intervals are recorded at acquisition, development and construction cost, in US dollars and restated to reflect the devaluation of the Mexican peso against the US dollar, with the purpose of showing values in accordance with the current situation of the real estate market. Cost of sales is recognized at the time sales are recorded.

Vacation club intervals recorded as long-term as of December 31, 2002 correspond to the cost of the building of the Fiesta Americana Cancún Hotel, which was remodeled to provide Vacation Club services. Such remodeling was concluded during 2003, and since such asset is now available for sale, it has been classified as real estate held for sale.

f. Investment in shares- Investment in shares where the Company has significant influence are recorded under the equity method, recognizing the participation in the results and stockholders' equity of associated companies.

Investments in shares where the Company does not have significant influence, are valued at cost of acquisition, and are restated based on the NCPI, but not in excess of realizable value.

g. Property and equipment- Property and equipment in Mexico have been restated using factors derived from the NCPI. Depreciation is calculated using the straight-line method, based on the economic useful lives and residual values determined by independent appraisers.

Property and equipment of foreign subsidiaries are recorded at historical cost, restated based on the respective inflation index of the country where the subsidiary operates, and translated into Mexican pesos at the year end exchange rate.

The cost of improvements, remodeling and replacements is capitalized as furniture and fixtures and amortized over periods that range between 3 and 5 years. The cost of minor repairs and maintenance is charged to results when incurred.

The Company follows the practice of capitalizing, in addition to the restated cost, comprehensive financing cost incurred in hotels' major remodeling and construction stage of new hotels in which it has a majority participation. The capitalized amounts are restated annually based on NPCI factors and the related amortization is recorded in the income statement based on the useful lives of the assets. At December 31, 2003 and 2002, no amounts were capitalized under this concept.

Residual values and average annual depreciation percentages of property and equipment are as follows:

	Residual values (%)	Average annual depreciation
Buildings	24	2
Furniture and fixtures	10	8
Transportation equipment	10	28
Computer equipment	8	32

h. Other assets – Costs incurred in the development phase that meet certain requirements and that the Company has determined will have future economic benefits are capitalized and amortized based on the straight-line method over ten years. Those disbursements that do not meet such requirements are recorded in results of the period in which they are incurred. Preoperating costs incurred after January 1, 2003, are recorded directly in results of the period in which they are incurred. Preoperating expenses incurred and capitalized up to December 31, 2002 are amortized using the straight-line method over ten years.

i. Financial instruments – Financial assets and liabilities resulting from any type of financial instrument, except for investments in financial instruments held to maturity, are presented in the balance sheet at fair value. The effects of the valuation of a financial asset or liability are recognized in results of operations of the respective period. Investments in financial instruments held to maturity are valued at acquisition cost. The costs and yields of financial instruments are recognized in results of the period in which they occur. Dividends from equity financial instruments are recognized in results of operations of the same period in which the fair value of the financial instrument is adjusted by such dividends.

- j. Derivative financial instruments** - The internal control system established by the Company includes policies and procedures to manage its exposure to fluctuations in foreign currency exchange rates using derivative financial instruments, and these instruments are traded only with authorized institutions. The Company does not carry out transactions with derivative financial instruments for the purpose of speculation.

The derivative financial instruments that are currently used by the Company are primarily hedge contracts to reduce its exposure to exchange and interest rate fluctuations. Premiums paid are amortized over the term of the derivative financial instrument using the effective interest method.

Derivative financial instruments identified as hedges are valued using the same valuation criteria used for the assets or liabilities hedged, and the effects of their valuation are recognized in results of operations, net of costs, expenses, or revenue from the assets or liabilities whose risks are being hedged. The financial assets or liabilities generated by these instruments are presented in the balance sheet as a reduction of the liabilities or assets whose risks are being hedged.

- k. Employee retirement obligations** – Seniority premiums are recognized as costs over employee years of service and are calculated by independent actuaries using the projected unit credit method at net discount rates, therefore, the net liability is being accrued and at present value will cover the projected benefit obligations to the estimated retirement date of the Company's employees. Severance is charged to results when the liability is determined to be payable.

The foreign subsidiaries do not have significant employee benefit commitments.

- l. Provisions** – Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.

- m. Income tax, tax on assets and employee profit sharing-** Provisions for income tax and employee profit sharing are recorded in results of the year in which incurred, and the deferred income tax from temporary differences resulting from a comparison of the book and tax values of assets and liabilities is recognized, and if applicable, the benefit from tax loss carryforwards is included. Deferred income tax assets are recorded only when it is highly probable that they can be recovered. Deferred employee profit sharing on temporary differences resulting from the comparison of book and tax values of assets and liabilities is recognized when it can be reasonably presumed that they will generate a liability or a benefit, and there is no indication that this situation will change in such a way that the liabilities or benefits will not be realized.

The tax on assets paid that is expected to be recoverable is recorded as an advance payment of income tax and is reflected in the balance sheet as a reduction to net deferred income tax liability.

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

- o. Cumulative effect of restatement-** Is mainly comprised by the translation effect of foreign subsidiaries, and from the result from holding nonmonetary assets and their corresponding restatement.

- p. Revenue recognition-** Revenues from the hotel operations and management services are recognized when services are rendered. The revenues from the Vacation Club operation are recognized when the contracts are formalized and the corresponding 10% down payment is collected.

- q. Monetary position gain-** The monetary position gain, which represents the effect on purchasing power of monetary items due to inflation, is calculated by applying NCPI factors to net monthly monetary liability position, and restated at year end with the corresponding factor.

- r. Other related businesses-** Include principally revenues, direct costs and operating expenses of certain subsidiaries engaged in the sale of Vacation club intervals, real estate developments, distribution of operating equipment for hotels, coordination and hotel design and travel agency operations.

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

Diluted income per share is determined by adding 1) the yield attributable to convertible bonds and obligations to the above-mentioned income, and 2) to the weighted average outstanding shares, the weighted average of obligations outstanding during the period, converted into shares based on the conversion coefficient established in the convertible obligations and bond issuance contracts.

t. Consolidated statements of changes in financial position- Present changes in constant Mexican pesos, according to the financial position at prior year-end, restated to Mexican pesos of the most recent yearend.

4. Cash and marketable securities

	<u>2003</u>	<u>2002</u>
Cash	\$ 130,575	\$ 44,982
Marketable securities	97,838	219,849
	<u>\$ 228,413</u>	<u>\$ 264,831</u>

5. Notes and accounts receivable

	<u>2003</u>	<u>2002</u>
Clients and agencies	\$ 223,607	\$ 142,920
Real estate companies	35,740	37,902
Value added tax	73,749	42,547
Refundable income and other taxes	118,990	114,096
Notes receivable, net	113,184	74,771
Credit cards	16,380	3,930
Other	106,883	77,854
	<u>688,533</u>	<u>494,020</u>
Allowance for doubtful accounts	<u>(3,537)</u>	<u>(4,629)</u>
	<u>\$ 684,996</u>	<u>\$ 489,391</u>

6. Real estate held for sale

	<u>2003</u>	<u>2002</u>
Land for sale	\$ 218,244	\$ 228,362
Completed units	12,642	16,010
Residential land	17,065	15,712
Vacation club intervals	114,529	123,072
	<u>\$ 362,480</u>	<u>\$ 383,156</u>

7. Long-term notes receivable

Correspond to the accounts receivable from the sale of Vacation Club memberships and real estate inventory, and their maturities as of December 31, 2003 are as follows:

<u>Year Due</u>	<u>Thousands of US dollars</u>
2005	5,815
2006	3,708
2007	2,921
2008	1,403
2009 and thereafter	466
	<u>14,313</u>
Equivalent in thousands of Mexican pesos	\$ 160,838
Less- Allowance for doubtful accounts	<u>(15,045)</u>
	<u>\$ 145,793</u>

8. Property and equipment

	<u>2003</u>	<u>2002</u>
Buildings	\$ 7,544,235	\$ 7,356,623
Furniture and fixtures	1,763,521	1,786,824
Transportation equipment	44,027	41,133
Computer equipment	91,400	123,121
	<u>9,443,183</u>	<u>9,307,701</u>
Less- Accumulated depreciation	<u>(3,199,486)</u>	<u>(3,070,485)</u>
	6,243,697	6,237,216
Land	1,519,845	1,698,022
Construction-in-progress	119,517	80,814
	<u>\$ 7,883,059</u>	<u>\$ 8,016,052</u>

9. Investment in shares

	Participation percentage at December 31, 2003	2003	2002
Investments in associated companies-			
Inmobiliaria Las Animas, S.A. de C.V.	25	\$ 17,190	\$ 19,304
Inmobiliaria Fiesta La Noria, S.A. de C.V.	-	-	12,653
		<u>17,190</u>	<u>31,957</u>
Inmobiliaria Hotelera de Yucatán, S.A. de C.V.	9.2	4,741	4,930
RioTur Empresa de Turismo do Município do Rio de Janeiro S/A	1.9	3,412	3,766
TurisRio Companhia de Turismo do Estado do Rio de Janeiro S/A	0.5	92	102
Other		<u>2,358</u>	<u>2,451</u>
		<u>10,603</u>	<u>11,249</u>
		<u>\$ 27,793</u>	<u>\$ 43,206</u>

10. Other assets

	2003	2002
Preoperating expenses, net	\$ 292,472	\$ 340,781
Goodwill, net	2,095	12,015
Rental rights	33,294	-
Prepaid rent	288,807	158,605
Prepaid interest and commissions	81,072	88,765
Vacation club deferred charges	60,096	41,938
Other	<u>30,923</u>	<u>-</u>
	<u>\$ 788,759</u>	<u>\$ 642,104</u>

During October 2003, through its subsidiary, Posadas do Brasil, Ltd., the Company acquired the transfer of rights for the use of hotel Caesar Park CPIA. The total cost of such rights was \$288,807 (74.255 million Brazilian reals) which includes \$158,605 (36.944 million Brazilian reals) which was paid in 2002 and is presented as prepaid rent.

11. Long-term debt

As of December 31 is comprised as follows (interest rates as of December 31, 2003):

	<u>2003</u>	<u>2002</u>
US dollars and Euro denominated-		
Mortgage loans collateralized by certain subsidiaries, from International Finance Corporation (IFC) and DEG-DEUTSCHE INVESTITIONS- UNDENT-WICKLUNG- SGESELLCHAFT MBH (DEG), at a weighted interest rate of 7.98%	\$ 400,532	\$ 469,044
Mortgage loans from Bancomext collateralized by certain subsidiaries at variable interest rates that range from 3.45% to 8.50%	464,855	924,961
Mortgage loans at variable interest rates that range from 4.25% to 7.67%	935,412	937,905
Other loans at variable interest rates of 4.69%	44,876	248,205
Mexican pesos-		
Debt certificate programs at interest rates of 5.15% and variable rates of 9.59% and 10.48%	1,929,296	752,327
Mortgage loans at variable interest rates of 8.77%	48,000	109,858
Other loans at variable interest rates	84,500	347,000
Investment Units (UDIs)-		
Mortgage loans	-	179,282
	<u>3,907,471</u>	<u>3,968,582</u>
Less- Current portion	<u>(552,608)</u>	<u>(753,230)</u>
Long-term debt	<u>\$ 3,354,863</u>	<u>\$ 3,215,352</u>

Long-term debt maturities as of December 31, 2003 are as follows:

<u>Payable in</u>	<u>Denominated in</u>	
	<u>Mexican pesos</u>	<u>US dollars (thousands)</u>
2005	\$ 320,956	36,898
2006	188,456	25,767
2007	188,456	22,660
2008 and thereafter	<u>1,263,657</u>	<u>38,668</u>
	<u>\$ 1,961,525</u>	<u>123,993</u>
Equivalent in thousands of Mexican pesos		<u>\$ 1,393,338</u>
Total in thousands of Mexican pesos		<u>\$ 3,354,863</u>

As of December 31, 2003 the secured debt, which includes mortgages and guaranteed loans, amounts to \$2,340,595. The principal collateral consists of real estate (hotels), of which the book value amounts to \$4,818,216, as well as guarantees from certain subsidiaries.

During 2001, Grupo Posadas, S.A de C.V. established an Unsecured Debt Certificate Program for an authorized amount of up to \$1,000,000. The nominal value of the certificates is one hundred Mexican pesos and the maturity term of each issue is from one to ten years. They are denominated in Mexican pesos or in Units of Investment (UDI's) with interest payable every 28 days at the rate established for each issue. On May 14, 2003, a securities issue took place for a value of \$250,000 which covered the total authorized amount.

In 2002, Grupo Posadas, S.A. de C.V. established a Debt Certificate Program with a 50% enhancement from a financial institution, for a total authorized amount of up to \$1,500,000. The par value of the securities is one hundred Mexican pesos. During 2003 certificates were issued for a value of \$875,000, which amount matures on January 27, 2009. The principal amount will be paid in 56 consecutive installments every 28-day period beginning November 2004. The program will be effective for two years and six months, and as of December 31, 2003 securities for a value of \$625,000 are available for issue.

The main characteristics of the loans with IFC and DEG are summarized as follows:

- US 90 million and 8 million Euros (EUR) financing, maturing in the year 2012 and payable semiannually beginning in July 1998. As of December 31, 2003 these loans amount to US 34 million and EUR 1.5 million.
- US 10 million and EUR 5 million financing, maturing in December 2009, with an interest rate of Libor plus 1 percentage point and the 6 month Euro Libor plus 3 percentage points, respectively, convertible into Series "L" shares of the Company.
- Interest is paid semiannually.

The most significant covenants are:

- The payment of dividends and the stockholders' distributions are subject to the compliance with certain financial ratios.
- The Company may not invest, or permit any subsidiary to invest, in the aggregate, more than ten percent of the consolidated assets (net of depreciation) in undeveloped land and/or land development and/or condominium development projects.
- The Company must insure and maintain insured all its properties, assets and businesses against loss and damage.
- Certain restrictions on the financial ratios, include:

<u>Financial Ratios:</u>	<u>Restrictions</u>
Current	Not less than 0.80
Debt-to-equity	Not greater than 1.22
Interest coverage	Not less than 2.20
Indebtedness level	Not greater than 52%

Annualized earnings before interest, taxes, depreciation and amortization to financing expenses plus longterm debt Not less than 1.00

At December 31, 2003 these restrictions have been complied with, and a waiver was obtained for the payment of dividends declared in 2003.

12. Long-term accrued liabilities

	<u>2003</u>	<u>2002</u>
Contingency reserve	\$ 46,167	\$ 31,062
Employee retirement obligations	11,830	8,705
Preferred stockholders	6,126	3,929
Other	23,796	29,215
	<u>\$ 87,919</u>	<u>\$ 72,911</u>

13. Employee retirement obligations

Net period cost for employee benefits was \$6,502 and \$8,866 in 2003 and 2002, respectively. Other disclosures required under Mexican GAAP are not considered significant.

14. Shares in trust

The Company established two trusts that hold shares of Grupo Posadas, S.A. de C.V. to be assigned to certain executives.

A committee is in charge of granting the rights to acquire the shares, or assign the number of shares, as well as the term and price of the shares to be assigned to each eligible executive, based on performance criteria. The options are exercisable during the established term. Since the executives have not paid the shares, these shares are presented as a reduction of stockholders' equity. As of December 31, 2003, the trusts held 6,413,162 Series "A" shares valued at acquisition cost, which amounted to \$7,379.

15. Stockholders' equity

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

	Number of Shares					
	<u>2 0 0 3</u>			<u>2 0 0 2</u>		
	Series "A"	Series "L"	Total	Series "A"	Series "L"	Total
Authorized capital	603,394,827	128,985,074	732,379,901	603,394,827	128,985,074	732,379,901
Less-						
Unsubscribed capital	(153,722,841)	(20,038,219)	(173,761,060)	(161,333,609)	(20,038,219)	(181,371,828)
Subscribed capital	449,671,986	108,946,855	558,618,841	442,061,218	108,946,855	551,008,073
Less-						
Repurchase of shares	(1,027,042)	(230,643)	(1,257,685)	(1,163,542)	(205,643)	(1,369,185)
Shares in trust	(6,413,162)	(1,746,250)	(8,159,412)	(80,162)	-	(80,162)
Shares in guarantee trust	(58,410,768)	-	(58,410,768)	(50,800,000)	-	(50,800,000)
	<u>(65,850,972)</u>	<u>(1,976,893)</u>	<u>(67,827,865)</u>	<u>(52,043,704)</u>	<u>(205,643)</u>	<u>(52,249,347)</u>
	<u>383,821,014</u>	<u>106,969,962</u>	<u>490,790,976</u>	<u>390,017,514</u>	<u>108,741,212</u>	<u>498,758,726</u>

- b.** The shares in guarantee trust have been deposited in an irrevocable management and guarantee trust signed with financial institutions and correspond to shares subscribed and paid by the trustee offered as collateral of a simple loan contract with a line of credit for up to US 43.9 million, which as of December 31, 2003, has been fully used.
- c.** In accordance with the Company's bylaws, Series "A" shares may be subscribed by Mexican citizens or entities and may be purchased by non-residents through a neutral fund constituted in Nacional Financiera, S.N.C. Series "L" shares have limited voting rights and other limited corporate rights, are of free subscription and are limited to 25% of total stockholders' equity.
- d.** Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to a tax at the rate in effect when the dividend is distributed. In 2003, the rate was 34% and will be reduced by one percentage point each year until reaching 32% in 2005. Any tax paid on such distribution, may be credited against the income tax payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.

The annual net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve each year until the reserve equals 20% of capital stock. As of December 31, 2003, the reserve amounts to \$67,123 (nominal value). This reserve may not be distributed to stockholders during the existence of the Company, except in the form of a stock dividend.

- e.** Due to preferred stockholders of subsidiary- There are 23,413,903 preferred shares of Promotora del Caribe, S. A. with a par value of US 1.00 each, held by third parties, which represent the conversion of Mexican public debt invested by its stockholders in a hotel in Mexico. These shares will be redeemable at their US dollar subscription value through future dividends distributed by the subsidiary. The preferred shares have an interest rate equivalent to LIBOR with a limit of 8% annually, which is payable semi-annually. The redemption of these shares and their related interest, are subject to the generation of cash flows and earnings by the subsidiary, after repayment of financial indebtedness and the fulfillment of certain conditions. As of December 31, 2003 and 2002, the related liability has been recorded for \$6,126 and \$3,929, respectively.

The amount of the investment of preferred stockholders is presented as minority interest in the accompanying balance sheets, which at December 31, 2003 amounted to \$263,106.

16. Foreign currency position and operations

	Thousands of US Dollars	
	2003	2002
Current-		
Assets	42,771	34,963
Liabilities	(44,315)	(66,101)
	<u>(1,544)</u>	<u>(31,138)</u>
Long-term-		
Assets	14,312	14,767
Liabilities	(123,993)	(191,721)
	<u>(109,681)</u>	<u>(176,954)</u>
Net foreign currency liability position	<u>(112,225)</u>	<u>(208,092)</u>
Equivalent in thousands of Mexican pesos	<u>\$ (1,249,858)</u>	<u>\$ (2,338,371)</u>

	Thousands of Brazilian Dollars	
	2003	2002
Assets	12,786	12,030
Liabilities	<u>(39,508)</u>	<u>(42,265)</u>
Net foreign currency liability position	<u>(26,722)</u>	<u>(30,235)</u>
Equivalent in thousands of Mexican pesos	\$ <u>(101,795)</u>	\$ <u>(115,177)</u>
	Thousands of Argentinean Dollars	
	2003	2002
Assets	21,323	17,985
Liabilities	<u>(11,425)</u>	<u>(6,711)</u>
Net foreign currency asset position	<u>9,898</u>	<u>11,274</u>
Equivalent in thousands of Mexican pesos	\$ <u>37,693</u>	\$ <u>42,933</u>

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

	December 31		March 19
	2003	2002	2004
Pesos per US dollar	\$ 11.2372	\$ 10.4393	\$ 11.0128
Pesos per Brazilian real	<u>\$ 3.8894</u>	<u>\$ 2.9545</u>	<u>\$ 3.8440</u>
Pesos per Argentinean peso	<u>\$ 3.8081</u>	<u>\$ 3.0915</u>	<u>\$ 3.9015</u>

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

17. Tax environment

Income taxes and asset taxes in Mexico- The companies in Mexico are subject to income taxes (ISR) and asset taxes (IMPAC). ISR is computed taking into consideration the taxable and deductible effects of inflation, such as the depreciation calculated on values at constant prices and the deduction of purchases instead of costs of sales, which allows for the deduction of current costs, and the effect of inflation on certain monetary liabilities and assets is accrued or deducted through the annual adjustment for inflation, which is similar to the monetary position gain.

The income tax rate was 35% in 2002 and 34% in 2003, and will be reduced by one percentage point each year until reaching 32% in 2005. As of 2002 the deductibility of employee statutory profit sharing and the obligation to withhold income tax on dividends paid to individuals or nonresidents were eliminated.

IMPAC is calculated by applying 1.8% to the Company's net asset position, as defined in the law, and is payable only to the extent that it exceeds ISR payable for the same period. If in any year IMPAC exceeds the ISR payable, the IMPAC payment for such excess may be reduced by the amount by which ISR exceeded IMPAC in the three preceding years and any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years.

The Company incurs consolidated ISR and IMPAC with its subsidiaries in the proportion that the Company owns the voting stock of its subsidiaries at the balance sheet date. As of January 1, 2002, the proportion is

calculated based on the average daily equity percentage which the Company owns of its subsidiaries during the year. The tax results of the subsidiaries are consolidated at 60% of such proportion and the tax results of the holding company are also consolidated at 60%. Estimated payments of ISR and IMPAC of both Grupo Posadas, S.A. de C.V. and its subsidiaries are made as if the Company did not file a consolidated tax return.

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

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

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

As of December 31, 2003, the subsidiaries that operate in Brazil had tax loss carryforwards for income tax purposes of \$43,935. Likewise, these companies did not recognize deferred income tax effects due to the uncertainty of the recovery of the tax losses.

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

As of December 31, 2003, the subsidiary that operates in Argentina had tax loss carryforwards for income tax purposes of \$8,907, which will expire between 2005 and 2006.

Taxable income for Mexico- The principal differences between income for tax and book purposes were those related to inflation effects, for which the treatment is different for book and tax purposes, participation in net earnings of associated companies, the difference between purchases and cost of operations, immediate deduction of investments for tax purposes, amortization of deferred credits and the utilization of tax loss carryforwards.

a. As of December 31, taxes are as follows:

	<u>2003</u>	<u>2002</u>
Current ISR	\$ 53,288	\$ 43,060
Deferred income taxes	(18,978)	(33,448)
Current IMPAC	<u>43,578</u>	<u>60,340</u>
	77,888	69,952
Less-		
Benefit from tax consolidation	<u>(5,747)</u>	<u>(34,402)</u>
	<u>\$ 72,141</u>	<u>\$ 35,550</u>

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

	<u>2003</u>	<u>2002</u>
Notes receivable	\$ (208,128)	\$ (121,619)
Allowance for doubtful accounts	779	1,140
Inventories	67,290	62,096
Advanced payments	(2)	(7,810)
Property and equipment	(1,436,600)	(1,471,983)
Other assets	(122,794)	(84,526)
Reserves	70,794	67,456
Tax loss carryforwards	294,321	218,071
Recoverable asset taxes	172,021	155,878
	<u>\$ (1,162,319)</u>	<u>\$ (1,181,297)</u>

c. Tax loss carryforwards and recoverable IMPAC, on a consolidated basis, for which the deferred ISR asset and prepaid ISR, respectively, have been recognized can be recovered subject to certain conditions. Restated amounts as of December 31, 2003 and expiration dates are:

<u>Expiration</u>	<u>Tax loss carry forwards</u>	<u>Recoverable asset tax</u>
2007	\$ 319,248	\$ -
2008 and thereafter	-	112,603
	<u>\$ 319,248</u>	<u>\$ 112,603</u>

18. Deferred credits

	<u>2003</u>	<u>2002</u>
Net excess of book value over the cost of acquisition of the subsidiaries	\$ 8,143	\$ 6,896
Vacation club deferred revenues, net	4,810	-
Other deferred revenues	25,515	20,010
	<u>\$ 38,468</u>	<u>\$ 26,906</u>

19. Commitments

As of December 2003 and 2002, the Company has real estate leasing contracts with a maximum maturity date as of 2012. Rental payments were established at variable percentages between 12% and 21% of revenues from hotel operations generated by each property. As of December 31, 2003 and 2002 lease payments were made for \$101,034 and \$120,938, respectively.

20. Contingencies

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

21. Information by geographical areas and business segments

The Company operates in different geographical areas. These are: Mexico, South America (Brazil and Argentina) and United States of America. The main financial captions by geographical area for 2003 are:

	<u>México</u>	<u>South America</u>	<u>United States of America</u>	<u>Consolidated</u>
Total operating revenues	\$ 3,342,001	\$ 282,016	\$ 239,768	\$ 3,863,785
Depreciation, amortization and real estate leasing	\$ 467,809	\$ 26,792	\$ 21,542	\$ 516,143
Operating income	\$ 483,284	\$ 26,233	\$ 31,609	\$ 541,126
Net consolidated income	\$ 64,214	\$ 24,556	\$ 14,876	\$ 103,646
Total assets	\$ 8,427,382	\$ 1,416,404	\$ 335,324	\$ 10,179,110
Total liabilities	\$ 5,633,361	\$ 190,888	\$ 236,546	\$ 6,060,795

The total assets and depreciation, amortization and real estate leasing, for business segments are as follows:

	<u>Hotel operation and corporate</u>	<u>Hotel management and brand</u>	<u>Other related businesses</u>	<u>Consolidated</u>
Total assets	\$ 9,108,961	\$ 94,913	\$ 975,236	\$ 10,179,110
Depreciation, amortization and real estate leasing	\$ 502,940	\$ 12,632	\$ 571	\$ 516,143

The main financial captions by geographical area for 2002 are:

	<u>México</u>	<u>South America</u>	<u>United States of America</u>	<u>Consolidated</u>
Total operating revenues	\$ 3,456,283	\$ 173,232	\$ 264,989	\$ 3,894,504
Depreciation, amortization and real estate leasing	\$ 420,407	\$ 28,356	\$ 21,065	\$ 469,828
Operating income	\$ 563,972	\$ 10,627	\$ 12,527	\$ 587,126
Net consolidated income	\$ 25,649	\$ 44,224	\$ 3,836	\$ 73,709
Total assets	\$ 9,246,282	\$ 541,194	\$ 384,036	\$ 10,171,512
Total liabilities	\$ 5,670,985	\$ 103,908	\$ 294,292	\$ 6,069,185

The total assets and depreciation, amortization and real estate leasing, for business segments are as follows:

	Hotel operation and corporate	Hotel management and brand	Other related businesses	Consolidated
Total assets	\$ 8,937,008	\$ 216,466	\$ 1,018,038	\$ 10,171,512
Depreciation, amortization and real estate leasing	\$ 458,730	\$ 10,618	\$ 480	\$ 469,828

22. New accounting principles

In March 2003, the Mexican Institute of Public Accountants (“IMCP”) issued Bulletin C-15, “Impairment in the Value of Long-Lived Assets and Their Disposal” (“C-15”), whose adoption is mandatory for fiscal years beginning on or after January 1, 2004, although early adoption is encouraged. C-15 establishes, among other things, new rules for the calculation and recognition of impairment losses for long-lived assets and their reversal. It also provides guidance as to indicators of impairment in the carrying amount of tangible and intangible long-lived assets in use, including goodwill. If such indicators of impairment exist, companies must test for impairment unless there is conclusive evidence that the indicators of impairment are temporary. The calculation of such loss requires the determination of the recoverable value, which is now defined as the greater of the net selling price of a cash-generating unit and its value in use, which is the net present value of discounted future net cash flows. The accounting principles issued prior to this new Bulletin used future net cash flows, without requiring the discounting of such cash flows. Management believes that the adoption of this new Bulletin as of January 1, 2004, will not have significant effects on the Company’s consolidated financial position or results of operations.

In May 2003, the IMCP issued Bulletin C-12, “Financial Instruments of a Debt or Equity Nature or a Combination of Both” (“C-12”), whose application is mandatory for financial statements of periods beginning on or after January 1, 2004, although early adoption is encouraged. C-12 is the compilation of the standards issued by the IMCP with respect to the issue of debt or equity financial instruments, or a combination of both, and includes additional standards on the accounting recognition for these instruments. Consequently, C-12 indicates the basic differences between liabilities and stockholders’ equity and establishes the rules for classifying and valuing the components of debt and equity of combined financial instruments in the initial recognition. Subsequent recognition and valuation of liabilities and stockholders’ equity of the financial instruments is subject to the standards issued previously in the applicable bulletins. Management believes that the adoption of this new Bulletin, will not have significant effects on the Company’s consolidated financial position.

