

GRUPO POSADAS
2009

Consolidated Financial Statements

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

We have audited the accompanying consolidated balance sheets of Grupo Posadas, S. A. B. de C. V. (a Mexican corporation) and Subsidiaries (collectively the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity and cash flows 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 14% and 13% of the consolidated assets as of December 31, 2009 and 2008, respectively, and 5% of the consolidated revenues for both years. 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 unqualified reports of such other auditors.

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

As mentioned in Note 3, beginning January 1, 2009, the Company adopted the following new financial reporting standards: C-8, Intangible Assets; INIF 18, Recognition of the effects of 2010 tax reform to the income taxes and IFRIC 13, Customer Loyalty Programmes.

In our opinion, based on our audits and on the unqualified reports of the other auditors mentioned above, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Posadas, S. A. B. de C. V. and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations, changes in their stockholders' equity, and their cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards.

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

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March 10, 2010

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

Consolidated Balance Sheets as of December 31, 2009 and 2008

(In thousands of Mexican pesos)

| Assets | 2009 | 2008 |
|--|----------------------|----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 623,430 | \$ 803,936 |
| Investments in securities | 34,346 | 26,986 |
| Total cash, cash equivalents and investments in securities | 657,776 | 830,922 |
| Accounts and notes receivable - Net | 1,591,381 | 1,540,540 |
| Inventories | 36,012 | 50,926 |
| Prepaid expenses | 70,354 | 73,292 |
| Real estate held for sale | 108,270 | 171,310 |
| Total current assets | 2,463,793 | 2,666,990 |
| Long-term notes receivable | 665,549 | 764,943 |
| Vacation Club units | 385,719 | 250,308 |
| Property and equipment - Net | 9,083,654 | 9,227,696 |
| Investment in shares of associated companies | 28,032 | 27,094 |
| Other assets | 586,145 | 607,743 |
| Total | \$ 13,212,892 | \$ 13,544,774 |

See accompanying notes to consolidated financial statements.

| Liabilities and stockholders' equity | 2009 | 2008 |
|--|----------------------|----------------------|
| Current liabilities: | | |
| Bank loans and current portion of long-term debt | \$ 942,757 | \$ 1,157,747 |
| Suppliers | 541,672 | 482,050 |
| Other accounts payable and accrued liabilities | 489,273 | 603,488 |
| Value-added tax and other tax payables | 442,201 | 415,726 |
| Total current liabilities | 2,415,903 | 2,659,011 |
| Long-term debt | 4,031,212 | 4,193,673 |
| Derivative financial instruments | 270,413 | 404,345 |
| Long-term accrued liabilities | 65,486 | 56,171 |
| Value-added tax payable | 265,402 | 263,268 |
| Long-term income taxes payable | 373,817 | - |
| Deferred income tax | 1,331,571 | 1,216,745 |
| Total liabilities | 8,753,804 | 8,793,213 |
| Deferred credits - Net | 26,071 | 292,718 |
| Stockholders' equity: | | |
| Capital stock: | | |
| Historical | 489,427 | 489,427 |
| Contributions for future capital increases | 169,334 | 197,257 |
| Amount assigned for repurchase of shares | 139,089 | 139,133 |
| Shares in trust | (3,322) | (3,322) |
| Additional paid-in capital | 72,664 | 76,399 |
| Restatement for inflation | - | 1,774,015 |
| Total capital stock | 867,192 | 2,672,909 |
| Other capital: | | |
| Reserve for repurchase of shares | 651,772 | 1,922,254 |
| Retained earnings (deficit) | 1,814,554 | (1,069,805) |
| Cumulative translation effect | 193,924 | 33,243 |
| Total other capital | 2,660,250 | 885,692 |
| Noncontrolling interest | 905,575 | 900,242 |
| Total stockholders' equity | 4,433,017 | 4,458,843 |
| Total | \$ 13,212,892 | \$ 13,544,774 |

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

Consolidated Statements of Operations for the years ended December 31, 2009 and 2008

(In thousands of Mexican pesos, except income per share which is expressed in Mexican pesos)

| | 2009 | 2008 |
|---|--------------|--------------|
| Hotel operation: | | |
| Revenues | \$ 3,213,621 | \$ 3,645,253 |
| Departmental costs and expenses | 1,290,575 | 1,330,756 |
| Departmental profit | 1,923,046 | 2,314,497 |
| General expenses: | | |
| Administrative | 551,567 | 565,599 |
| Sales, advertising and promotion | 349,632 | 349,341 |
| Maintenance and energy | 360,448 | 405,098 |
| | 1,261,647 | 1,320,038 |
| Income before other expenses | 661,399 | 994,459 |
| Other expenses: | | |
| Property taxes and insurance | 50,888 | 57,925 |
| Other expenses, net | 25,710 | 50,725 |
| | 76,598 | 108,650 |
| Operating earnings from hotel operation | 584,801 | 885,809 |
| Hotel management, brand and other: | | |
| Revenues | 1,695,576 | 1,655,402 |
| Direct costs and corporate expenses | 1,103,465 | 1,105,498 |
| Operating earnings from hotel management, brand and other | 592,111 | 549,904 |
| Other businesses: | | |
| Revenues | 2,322,162 | 1,571,535 |
| Direct cost and expenses | 1,789,107 | 1,046,496 |
| Operating earnings from other businesses | 533,055 | 525,039 |
| Corporate expenses | 89,113 | 97,642 |
| Depreciation and amortization | 437,046 | 389,180 |
| Real estate leasing | 377,819 | 333,161 |
| | 814,865 | 722,341 |
| Operating income | 805,989 | 1,140,769 |
| Other expenses, net | 144,544 | 234,728 |
| Comprehensive financing result: | | |
| Interest expense | 375,331 | 420,311 |
| Interest income | (33,109) | (6,989) |
| Exchange loss, net | 16,028 | 160,354 |
| Exchange and conversion effects related to foreign operations | 111,092 | (272,272) |
| Valuation of financial instruments | (200,084) | 1,208,196 |
| | 269,258 | 1,509,600 |
| Equity in results of associated companies | 2,413 | (209,513) |

| | 2009 | 2008 |
|--|-------------|--------------|
| Income (loss) income before income taxes | 394,600 | (813,072) |
| Income taxes | 132,248 | (111,226) |
| Consolidated net income (loss) for the year | 262,352 | (701,846) |
| Noncontrolling interest's net loss | (4,070) | (86,425) |
| Controlling interests' net income (loss) | \$ 266,422 | \$ (615,421) |
| Controlling income (loss) per share (in pesos) | \$ 0.5479 | \$ (1.2433) |
| Controlling diluted income (loss) per share (in pesos) | \$ 0.5323 | \$ (1.2036) |
| Weighted average number of shares outstanding | 486,222,309 | 494,976,251 |

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2009 and 2008

(In thousands of Mexican pesos)

| | Capital stock | | | | | |
|--|---------------|--|--|-----------------|----------------------------|---------------------------|
| | Historical | Contributions for future capital increases | Amount assigned for repurchase of shares | Shares in trust | Additional paid-in Capital | Restatement for inflation |
| Balances as of January 1, 2008 | \$ 489,427 | \$ 149,031 | \$ 140,627 | \$ (3,322) | \$ 107,881 | \$ 1,774,015 |
| Reclassification of cumulative effects at January 1, 2008: | | | | | | |
| Restatement | - | - | - | - | - | - |
| Deferred income tax | - | - | - | - | - | - |
| Repurchase of shares, net and increase to the reserve for repurchase of shares | - | - | (1,494) | - | - | - |
| Dividends paid | - | - | - | - | - | - |
| Reimbursement of convertible debt, net | - | 5,484 | - | - | (12,657) | - |
| Reduction of noncontrolling interest | - | - | - | - | - | - |
| Restatement of convertible debt | - | 42,742 | - | - | (42,742) | - |
| Shares in trust | - | - | - | - | 23,917 | - |
| Balance before comprehensive loss | 489,427 | 197,257 | 139,133 | (3,322) | 76,399 | 1,774,015 |
| Net loss for the year | - | - | - | - | - | - |
| Translation effects of functional currency and foreign operations | - | - | - | - | - | - |
| Comprehensive loss | - | - | - | - | - | - |
| Balances as of December 31, 2008 | 489,427 | 197,257 | 139,133 | (3,322) | 76,399 | 1,774,015 |
| Cancellation of cumulative restatement of equity to partially offset the adoption effects of Mexican Financial Reporting Standards | - | - | - | - | - | (1,774,015) |
| Repurchase of shares, net | - | - | (44) | - | - | - |
| Noncontrolling dividends paid | - | - | - | - | - | - |
| Effect of consolidation income tax due to tax reform | - | - | - | - | - | - |
| Reduction of reserve for repurchase of shares | - | - | - | - | - | - |
| Reimbursement of convertible debt, net | - | 4,602 | - | - | (10,085) | - |
| Partial payment of convertible debt | - | (26,175) | - | - | - | - |
| Restatement of convertible debt | - | (6,350) | - | - | 6,350 | - |
| Balance before comprehensive income | 489,427 | 169,334 | 139,089 | (3,322) | 72,664 | - |
| Net income (loss) for the year | - | - | - | - | - | - |
| Reclassification of cumulative effect of preoperating costs as of January 1, 2009 | - | - | - | - | - | - |
| Translation effects of functional currency and foreign operations | - | - | - | - | - | - |
| Comprehensive income | - | - | - | - | - | - |
| Balances as of December 31, 2009 | \$ 489,427 | \$ 169,334 | \$ 139,089 | \$ (3,322) | \$ 72,664 | \$ - |

See accompanying notes to consolidated financial statements.

| Other capital | | | | | | |
|----------------------------------|-------------------|----------------------------------|--|-------------------------------|--------------------------|----------------------------|
| Reserve for repurchase of shares | Retained earnings | Cumulative effect of restatement | Cumulative effect of deferred income tax | Cumulative translation effect | Non-controlling interest | Total stockholders' equity |
| \$ 1,751,700 | \$ 1,624,379 | \$ (828,768) | \$ (919,158) | \$ - | \$ 1,006,603 | \$ 5,292,415 |
| - | (828,768) | 828,768 | - | - | - | - |
| - | (919,158) | - | 919,158 | - | - | - |
| 170,554 | (176,511) | - | - | - | - | (7,451) |
| - | (154,326) | - | - | - | - | (154,326) |
| - | - | - | - | - | - | (7,173) |
| - | - | - | - | (27,222) | (19,936) | (47,158) |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 23,917 |
| 1,922,254 | (454,384) | - | - | (27,222) | 986,667 | 5,100,224 |
| - | (615,421) | - | - | - | (86,425) | (701,846) |
| - | - | - | - | 60,465 | - | 60,465 |
| - | (615,421) | - | - | 60,465 | (86,425) | (641,381) |
| 1,922,254 | (1,069,805) | - | - | 33,243 | 900,242 | 4,458,843 |
| - | 1,774,015 | - | - | - | - | - |
| (482) | - | - | - | - | - | (526) |
| - | - | - | - | - | (23,122) | (23,122) |
| - | (396,618) | - | - | - | - | (396,618) |
| (1,270,000) | 1,270,000 | - | - | - | - | - |
| - | - | - | - | - | - | (5,483) |
| - | - | - | - | - | (679) | (26,854) |
| - | - | - | - | - | - | - |
| 651,772 | 1,577,592 | - | - | 33,243 | 876,441 | 4,006,240 |
| - | 266,422 | - | - | - | (4,070) | 262,352 |
| - | (29,460) | - | - | - | (4,248) | (33,708) |
| - | - | - | - | 160,681 | 37,452 | 198,133 |
| - | 236,962 | - | - | 160,681 | 29,134 | 426,777 |
| \$ 651,772 | \$ 1,814,554 | \$ - | \$ - | \$ 193,924 | \$ 905,575 | \$ 4,433,017 |

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

Consolidated Statements of Cash Flows for the years ended December 31, 2009 and 2008

(In thousands of Mexican pesos)

| | 2009 | 2008 |
|---|-------------|--------------|
| Operating activities: | | |
| Income (loss) before income taxes | \$ 394,600 | \$ (813,072) |
| Items related to investing activities: | | |
| Depreciation and amortization | 437,046 | 389,180 |
| Loss on sale of fixed assets | 13,932 | 15,285 |
| Equity in results of associated companies | (2,413) | 209,513 |
| Other unrealized items | 297,634 | 199,419 |
| Items related to financing activities: | | |
| Valuation of financial instruments | (579,263) | 1,221,897 |
| Interest expense | 375,331 | 420,311 |
| | 936,867 | 1,642,533 |
| (Increase) decrease in: | | |
| Accounts receivable | (174,435) | 259,002 |
| Inventories | 14,915 | (11,888) |
| Prepaid expenses | 2,938 | (34,788) |
| Increase (decrease) in: | | |
| Suppliers | 59,621 | 53,277 |
| Other accounts payable | (91,234) | 162,256 |
| Income taxes paid | 74,464 | (174,549) |
| Net cash provided by operating activities | 823,136 | 1,895,843 |
| Investing activities: | | |
| Purchases of machinery and equipment | (139,127) | (409,997) |
| Vacations club units | (289,811) | (182,091) |
| Long-term notes receivable | 82,074 | (54,425) |
| Interest income | 24,657 | 29,660 |
| Other assets | (262,570) | (137,432) |
| Net cash used investing activities | (584,777) | (754,285) |
| Excess cash to apply to financing activities | 238,359 | 1,141,558 |
| Financing activities: | | |
| Borrowings | 786,672 | 4,071,697 |
| Repayment of loans | (1,117,798) | (3,141,947) |
| Margin calls | 321,394 | (816,806) |
| Interest paid | (378,561) | (445,177) |
| Dividends paid | - | (154,326) |
| Reduction of noncontrolling interest | (23,122) | (19,936) |
| Repurchase of shares | (526) | 18,562 |
| Convertible debt | (36,260) | (17,369) |
| Net cash used in financing activities | (448,201) | (505,302) |
| Net (decrease) increase in cash and cash equivalents | (209,842) | 636,256 |
| Adjustment to cash flows due to exchange rate fluctuations | 36,696 | (187,024) |
| Cash and cash equivalents and investment in securities at beginning of year | 830,922 | 381,690 |
| Cash and cash equivalents and investment in securities at end of year | \$ 657,776 | \$ 830,922 |

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements for the years ended December 31, 2009 and 2008

(In thousands of Mexican pesos)

1. Nature of business and significant events

Nature of business - Grupo Posadas, S. A. B. de C. V. (Posadas) and subsidiaries (collectively, the Company) are primarily engaged in the business of operating hotels. As of December 31, 2009 and 2008, the Company operated a total of 110 hotels with 19,454 rooms and 109 hotels with 19,633 rooms, respectively. The Company mainly operates hotels under its Fiesta Americana, Fiesta Inn and One Hotels brand names throughout Mexico, and Caesar Park and Caesar Business brand names in Brazil, Argentina and Chile.

The Company enters into management contracts with all the hotels that it operates. Of the total hotels the Company operated as of December 31, 2009 and 2008, it had an equity interest of 50% or greater in 33 and 34 hotels, respectively and 19 and 21 under leasing contracts, respectively. The remaining hotels are those that the Company operated for unrelated third parties, which as of December 31, 2009 and 2008 were 58 and 54 hotels, respectively. For purposes of these consolidated financial statements, these hotels are referred to as the Company's "owned", "leased" and "managed" hotels, respectively.

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

Additionally, the Company operates a vacation club business called Fiesta Americana Vacation Club (FAVC) through

which members purchase a "40-year-right-to-use" evidenced by an annual allocation of FAVC points. FAVC points can be redeemed to stay at the Company's four FAVC resorts in Los Cabos, Baja California Sur, Acapulco, Guerrero, Cancun and Chetumal Quintana Roo, Mexico as well as any of the hotels in its portfolio. In addition, members of FAVC can also redeem their FAVC points to stay at any Resorts Condominium International (RCI)-affiliated resort or Hilton Grand Vacation Club resorts throughout the world.

Significant events -

a. Due to the hurricanes that hit the Yucatan Peninsula in July and October 2005, the hotels that the Company operates located in Cancun and Cozumel, Quintana Roo, suffered significant damages, thereby causing their temporary closure. These hotels were reopened in December 2005 and January 2006, except for the Grand Aqua Cancun Hotel, which reopened in January 2008. During 2009, the Company entered into an agreement with the owner of the building who agreed to pay US\$5.5 million related to the hurricane damages. This balance is being partially offset against the amount of real estate leasing expenses. The revenues originated are recorded within the hotel operation revenues line item.

b. During April and May of 2009, the Mexican government declared a sanitary emergency due to the outbreak of swine flu A(H1N1) in several cities of Mexico, which mandated the temporary closure of certain public places such as schools, museums and restaurants and which negatively affected the Mexican tourism industry and consequently the occupancy percentage and hotel revenues.

2. Basis of presentation

- a. Explanation for translation into English** - The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of Mexican Financial Reporting Standards (MFRS, individually referred to as Normas de Información Financiera or NIFs). Certain accounting practices applied by the Company that conform with MFRS may not conform with accounting principles generally accepted in the country of use.
- b. Monetary unit of the financial statements** - The consolidated financial statements and notes as of December 31, 2009 and 2008 and for the years then ended, include balances and transactions denominated in Mexican pesos of different purchasing power.
- c. Consolidation of financial statements** - The accompanying consolidated financial statements include the financial statements of Grupo Posadas, S. A. B. de C. V. and those of the subsidiaries where it holds control as follows:

| Company | Ownership percentage |
|--|----------------------|
| Posadas de México, S. A. de C. V. and Subsidiaries | 100 |
| Inmobiliaria Hotelera Posadas, S. A. de C. V. and Subsidiaries | 100 |
| Servicios Hoteleros Posadas, S. A. de C. V. and Subsidiaries | 100 |
| Posadas USA Inc, and Subsidiaries | 100 |
| Fondo Inmobiliario Posadas, S. A. de C. V. and Subsidiaries | 52 |

The Company's owned hotels and those leased by the Company's subsidiaries, pay to Posadas a management fee on a similar basis as hotels managed but not owned by the Company. For the purpose of showing the results of the hotel operation, hotel management brand and other and other businesses, the Company's management decided not to eliminate these intercompany operations in the preparation of the consolidated statements of operations, which does not affect operating income.

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

| | 2009 | | 2008 | |
|---|-----------------------|---------------------------|-----------------------|---------------------------|
| | Amount of elimination | Balance after elimination | Amount of elimination | Balance after elimination |
| Hotel operation: | | | | |
| General expenses- Administrative | \$ 290,688 | \$ 260,879 | \$ 326,734 | \$ 238,865 |
| General expenses- Sales, advertising and promotion | \$ 138,364 | \$ 211,268 | \$ 159,337 | \$ 190,004 |
| Other business | | | | |
| Direct costs and expenses | \$ 14,793 | \$ 1,774,314 | \$ 11,266 | \$ 1,035,230 |
| Hotel management brand and other: | | | | |
| Revenues | \$ 443,845 | \$ 1,251,731 | \$ 497,337 | \$ 1,158,065 |

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

Investments in associated companies are recorded through the equity method, since the Company holds a stake of less than 50% and therefore, does not exercise control over its management.

- d. Translation of financial statements of foreign subsidiaries** - To consolidate the financial statements of foreign subsidiaries that operate independently of the Company in terms of finances and operations, the same accounting policies of the Company are applied. Beginning January 2008, foreign operations with a functional currency different from the local currency and the reporting currency translate their financial statements from the currency in which transactions are recorded to the functional currency, using the following exchange rates: 1) the closing exchange rate in effect at the balance sheet date for monetary assets and liabilities; 2) historical exchange rates for

non-monetary assets and liabilities and stockholders' equity; and 3) the rate upon accrual in the statement of operations for revenues, costs and expenses, except those arising from non-monetary items are translated using the historical exchange rate for the related non-monetary item. Translation effects are recorded under Comprehensive Financing Result (CFR). Subsequently, to translate the financial statements from the functional currency for Mexican and foreign companies to Mexican pesos, the following exchange rates are used; 1) the closing exchange rate in effect at the balance sheet date for assets and liabilities and 2) historical exchange rates for stockholders' equity, revenues costs and expenses. Translation effects are recorded in stockholders' equity. Through 2007, the financial statements of foreign subsidiaries that operated independently of the Company in terms of finances and operations recognized the effects of inflation of the country in which they operate and were then translated using the closing exchange rate in effect at the balance sheet date, and the translation effects were recorded in stockholders' equity.

The currency in which transactions are recorded and the functional currency of foreign operations, are as follows:

| Country | Currency | | |
|--------------------------|------------------|------------------|--------------|
| | Recording | Functional | Reporting |
| Mexico (FAVC) | Mexican peso | US dollar | Mexican peso |
| United States of America | US dollar | US dollar | Mexican peso |
| Brazil | Brazilian real | Brazilian real | Mexican peso |
| Argentina | Argentinean peso | Argentinean peso | Mexican peso |
| Chile | Chilean peso | Chilean peso | Mexican peso |

- e. Comprehensive income (loss)** - Represents changes in stockholders' equity during the year, for concepts others than distributions and activity in contributed common stock, and is comprised of the net consolidated income (loss) for the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of operations.

Other comprehensive income (loss) items are related to the cumulative effect as of January 1, 2009 of pre-operating costs and the effects of translation of functional currency and foreign operations.

- f. Classification of costs and expenses** - Costs and expenses presented in the consolidated statements of operations were classified according to their function

and nature, since this makes possible the determination of operating results of hotel operations and management and other businesses, as well as the detail of their expenses.

- g. Operating income** - Is the result of subtracting costs and departmental expenses and general and other expenses from net revenues. While NIF B-3 does not require inclusion of this line item in the consolidated statements of operations, it has been included for a better understanding of the Company's economic and financial performance.

3. Summary of significant accounting policies

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

- a. Accounting changes** - Beginning January 1, 2009, the Company adopted the following new NIF:

i. Intangible assets - NIF C-8, requires that the unamortized balance of preoperating costs as of December 31, 2008 be cancelled against retained earnings. The reclassified balance of the controlling interest, as of January 1, 2009 was \$29,460 (net of deferred income tax of \$11,457).

ii. Effect of recording income tax as result of the tax reform - Recognition of the effects of 2010 tax reform to the income tax (ISR)- INIF 18, establishes the accounting treatment as consequence of the amendments to the ISR Law published. This amendment establishes that as of tax law publication date, the en-

tities must accrued the ISR payable related to the differences originated in the CUFIN as of December 31, 2009. This liability must affect retained earnings and will not require a financial statements restatement of prior periods. As of December 31, 2009, the above mentioned liability recorded was \$396,618 (\$22,801 as short-term and \$373,817 as long-term).

iii. Customer loyalty programmes - Effective on annual periods beginning on or after July 1, 2008 the International Financial Reporting Committee (IFRIC) issued IFRIC 13 to address the accounting by entities that provide their customers with incentives to buy goods or services by providing awards. According to IFRIC 13, the initial sale should be allocated to the award credits and recognized as deferred revenue until the entity fulfills its obligations to deliver awards to customers. The amount of deferred revenue would be measured by reference to the fair value of the award credits to the customer and recognized as an allocation of revenue. As of December 31, 2009 and 2008, the effect of adopting this IFRIC decreased the hotel operation revenues line item in the consolidated statements of operations for \$33,095 and \$32,330, respectively, formerly recognized as a sales, advertising and promotion expenses.

- b. Reclassifications** - Certain amounts in the financial statements as of and for the year ended December 31, 2008 have been reclassified to conform to the presentation of the 2009 financial statements, being the most important the presentation of other assets balance for \$159,024, related to development expenses, formerly presented as property and equipment line item, without affecting the amortization period, and the IFRIC 13 effect mentioned in note 3a.
- c. Recognition of the effects of inflation** - Since the cumulative inflation for the three fiscal years prior to those ended December 31, 2009 and 2008, was 15.01% and 11.56%, respectively, the economic environment may be considered non-inflationary in both years.

Beginning on January 1, 2008, the Company discontinued recognition of the effects of inflation in its financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through December 31, 2007.

For the years ended December 31, the inflation (deflation) rates were as follows:

| | 2009 | 2008 |
|--------------------------|--------|------|
| Mexico | 3.57 | 6.53 |
| United States of America | 2.72 | 0.09 |
| Brazil | 3.70 | 6.90 |
| Argentina | 7.89 | 7.72 |
| Chile | (0.87) | 8.61 |

On January 1, 2008, the Company reclassified the entire cumulative effect of restatement balance to retained earnings, since it was impractical to identify the gain (loss) from holding non-monetary assets related to assets not realized as of that date.

- d. Cash and cash equivalents** - Consist mainly of bank deposits in checking accounts and readily available daily investments of cash surpluses. Cash and cash equivalents are stated at nominal value plus accrued yields, which are recognized in results as they accrue. Any fluctuations in fair value are recognized in CFR of the period. Cash equivalents are represented mainly by investment funds.
- e. Investments in securities** - According to its intent, from the date of acquisition the Company classifies investments in debt and equity securities in one of the following categories: (1) trading, when the Company intends to trade debt and equity instruments in the short-term, prior to maturity, if any, and are stated at fair value. Any value fluctuations are recognized within current earnings; (2) held-to-maturity, when the Company intends to, and is financially capable of, holding such investments until maturity. These investments are recognized and maintained at amortized cost; and (3) available-for-sale. These investments include those that are classi-

fied neither as trading nor held-to-maturity. These investments are stated at fair value; any unrealized gains or losses, net of income taxes are recorded as a component of comprehensive income (loss) within stockholders' equity, and reclassified to current earnings upon their sale. Fair value is determined using prices quoted on recognized markets. If such securities are not traded, fair value is determined by applying technical valuation models recognized in the financial sector.

Investments in securities classified as held-to-maturity and available-for-sale are subject to impairment tests. If there is evidence that the reduction in fair value is other than temporary, the impairment is recognized in current earnings.

As of December 2009 and 2008, the balances of the investments in securities represent, trading deposit certificates as held-for-trading, with renewable maturities exceeding one month.

- f. Notes receivable from Vacation Club operation** - Notes receivable from Vacation Club operation represent collection rights derived from the sale of Vacation Club memberships, which are assigned to a trust to guarantee lines of credit contracted by the Company to finance this operation. The amounts received under these credit lines are shown net with notes receivable in the consolidated balance sheets. Notes receivable from the sales of Vacation Club units are shown in the consolidated balance sheets, net of the allowance for doubtful accounts. This allowance is determined based on business' experience and certain assumptions with respect to collection trends.
- g. Inventories and cost of sales** - Inventories are valued at average cost, which due to their high turnover is similar to replacement cost, without exceeding market value.
- h. Vacation Club units and real estate held for sale** - Vacation Club units are recorded at construction cost in US dollars. Cost of sales is recognized at the time sales are recorded.

Vacation Club units recorded as long-term correspond to the costs of reconstruction of hotel buildings, which are being remodeled to provide Vacation Club services, as well as the construction of the third stage in the Los Cabos, Baja California Sur resort. As of December 31, 2009, the budget for concluding this construction stage is approximately \$581 million pesos.

In prior years, the Company's management discontinued the sale of the real estate inventory, which is therefore shown at its estimated realizable value. Even though their realization could be in the long-term, strategies have been established to achieve the short-term sale of these assets. The results of this business are shown under other expenses in the consolidated statements of operations.

Assets available for sale are primarily real estate property approved for sale by management that is expected to be realized within one year, even though their business cycle could be longer.

- i. Property and equipment** - Property and equipment are initially recorded at acquisition cost. Balances arising from acquisitions made through December 31, 2007 were restated for the effects of inflation by applying factors derived from the NCPI through that date. Depreciation is calculated using the straight-line method, based on the economic useful lives and residual values of 24% in the case of buildings determined by independent appraisers.

The Company follows the practice of capitalizing, in addition to the restated cost, CFR incurred in hotels' major remodeling and in the construction stage of new hotels in which it has a majority equity interest. The capitalized amounts are restated annually based on NPCI factors and the related amortization is recorded in the statement of operations based on the useful lives of the assets. As of December 31, 2009 and 2008, no amounts were capitalized related to this concept.

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

| | [%] |
|--------------------------|-----|
| Buildings | 2 |
| Furniture and fixtures | 10 |
| Transportation equipment | 25 |
| Computer equipment | 30 |

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

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

- j. Impairment of long-lived assets in use** - In the presence of an impairment indicator (operating losses, negative cash flows, a history of projection of losses, etc.) which suggests that long-lived assets in use might not be recoverable, the Company reviews their carrying amounts, considering the greater of the present value of future net cash flows or the net sales price upon disposal. Impairment is recorded if book value exceeds the values mentioned above.
- k. Investment in shares of associated companies** - Beginning in 2009, permanent investments in entities where significant influence exists, are initially recognized based on the net fair value of the entities' identifiable assets and liabilities as of the date of acquisition. Such value is subsequently adjusted for the portion related both to comprehensive income (loss) of the associated company and the distribution of earnings or capital reimbursements thereof. When the fair value of the consideration paid is greater than the value of the investment in the associated company, the difference represents goodwill, which is presented as part of the same investment. Otherwise, the value of the investment, is adjusted to

the fair value of the consideration paid. Through December 31, 2008, investment in shares of associated companies is valued according to the equity method. If impairment indicators are present, investment in shares of associated companies is subject to impairment testing. Investments in shares where the Company does not have significant influence, are valued at cost of acquisition, and through December 31, 2007 were restated based on the NCPI, but not to exceed realizable value.

As a result of the purchase in December 2005 of 94.97% of the common stock of Grupo Mexicana de Aviación, S. A. de C. V. (Mexicana) from Cintra S. A. de C. V. now Consorcio Aeromexico, S. A. B. de C. V. (Consorcio), the Company executed purchase and sale agreements with third parties, to whom part of the Mexicana stock purchased by the Company was sold on the same date. Mexicana's financial statements are not consolidated in the accompanying financial statements, given that the Company has significant influence but not control of Mexicana. As of December 31, 2009 and 2008 the Company maintains a 30.41% stake in Mexicana.

- l. Financial risk management policy** - The activities carried out by the Company expose it to a number of financial risks, including market risk (which encompasses foreign exchange, interest rate and price risks - such as investment in share certificates and commodity prices futures), credit risk and liquidity risks. The Company seeks to minimize the potential negative effects of these risks on its financial performance through an overall risk management program. The Company uses derivative and non-derivative financial instruments to hedge against some exposures to financial risks embedded in the balance sheet (recognized assets and liabilities) and off-balance sheet risks (firm commitments and highly probable forecasted transactions). Financial risk management and the use of derivative and non-derivative financial instruments are ruled by Company's policies approved by the Board of Directors and are carried out by the Company's treasury department.

- m. Derivative financial instruments** - The Company obtains financing under different conditions. Occasionally, interest rate and exchange swaps are contracted to manage its exposure to interest rate and foreign currency fluctuations. The Company formally documents all hedges, describing objectives and risk management strategies for derivative transactions and their recognition in accounting. The Company's policy is to avoid performing transactions with derivative financial instruments for speculative purposes. However, sometimes speculative contracts are agreed, provided that the highest exposure meets with the immaterial limits established by management.

Most dates and amounts on derivative financial instruments contracted by the Company correspond to the asset acquisition dates or to the maturity of liabilities covered by them.

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

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

While certain derivative financial instruments are contracted for hedging from an economic point of view, they have not been designated as hedges for account-

ing purposes since they do not meet with all the criteria established by the accounting regulations. Changes in fair value of such derivative instruments are recognized in current earnings as a component of CFR.

- n. Compound financial instruments** - Compound financial instruments are contracts that include both liability and equity elements; they are recognized by the Company based on the nature of such elements and the substance of the transaction, rather than their legal form. The elements that represent unavoidable payment obligations are recognized as liabilities, while other elements are included in equity, when the contractual provisions establish an ownership relationship with the holder of the instrument. Initial costs incurred on the issuance of a compound financial instrument are proportionately assigned to liabilities and equity. Costs assigned to equity are deducted from additional paid-in capital, if any, and costs assigned to liabilities are included in deferred assets, which are amortized over the related contractual term.
- o. Direct employee benefits** - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly vacation and vacation premiums, and incentives.
- p. Employee benefits from termination, retirement and other** - Liabilities from seniority premiums and retirement payments, are recognized as they accrue and are calculated by independent actuaries based on the projected unit credit method using nominal interest rates.
- Foreign subsidiaries do not have significant employee benefit obligations.
- q. 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 through December 31, 2007, were restated for effects of inflation, and are amortized based

on the straight-line method. Disbursements that do not meet such requirements, such as research costs, are recorded in results of the period in which they are incurred. Preoperating expenses incurred and capitalized up to December 31, 2002 were amortized up to December 31, 2008 using the straight-line method over ten years, and the remaining balances as of that date was cancelled in 2009 and reclassified to retained earnings. The concession right referred to in Note 10 is amortized based on the straight-line method during the life of the respective contract (25 years).

- r. Provisions** - Provisions are recognized for current obligations that result from a past event, that are probable to result in the future use of economic resources, and can be reasonably estimated.
- s. Statutory employee profit sharing** - PTU is recorded in the results of the year in which it is incurred and presented under other income and expenses in the accompanying consolidated statements of income. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized. As of January 1, 2008, there was a deferred PTU effect due to the change in the recognition method, from comparing the accounting result with income for PTU purposes, to comparing the book and tax bases of assets and liabilities, was not relevant.

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

- t. Income taxes** - Income tax (ISR) and the Business Flat tax (IETU) are recorded in the results of the year they are incurred. To recognize deferred income taxes,

based on its financial projections, the Company determines whether it expects to incur ISR or IETU and, accordingly, recognizes deferred taxes based on the tax it expects to pay. Deferred taxes are calculated by applying the corresponding tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. Deferred tax assets are recorded only when there is a high probability of recovery.

Tax on assets (IMPAC) paid through December 31, 2007, that is expected to be recoverable, is recorded as an advance payment of ISR and is presented in the consolidated balance sheet decreasing the deferred ISR liability.

- u. Foreign currency balances and 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 CFR in the consolidated statements of operations, except those amounts capitalized as a component of construction cost.
- v. Revenue recognition** - The Company recognizes revenues derived from the following operations: (i) hotel investments (which include the operation of leased hotels); (ii) management and, brand use fees, and loyalty programs; and (iii) other related businesses, mainly Vacation Club units. Generally the Company recognizes its revenues as follows: (i) for operation of hotel investment, the Company recognizes revenues when

rooms are occupied; (ii) revenues for management and brand use fees are recognized when they are accrued according to management contracts, and Fiesta Rewards program revenues are recognized when administration services are rendered and points to frequent customers are delivered; and (iii) revenues related to the Vacation Club operation are recognized: (i) for real estate ready to be used when the contracts are formalized and the corresponding 10% down payment is collected and (ii) for real estate under construction by the percentage of completion method, through which revenues are identified based on the proportion to the costs incurred at certain date. When estimated actual costs exceed budgeted costs, the loss is recorded in that year.

- w. Other businesses** - Operations from other businesses include principally revenues, direct costs and operating expenses of certain subsidiaries engaged in the sale of Vacation Club memberships, distribution of operating equipment for hotels, coordination and hotel design and travel agency operations.
- x. Controlling interest (loss) per share** - Controlling interest (loss) per share is determined by dividing the controlling net income (loss) by the weighted average number of common shares outstanding. Diluted income (loss) per share is determined by adding 1) the interest and foreign exchange gains or losses recorded in income attributable to convertible loans to the above-mentioned controlling net income (loss) per share, and 2) to the weighted average outstanding shares, the weighted average of obligations that may be converted into shares outstanding during the period, converted into shares based on the conversion coefficients established in the convertible loan agreements.

4. Cash and cash equivalents

| | 2009 | 2008 |
|-------------------|------------|------------|
| Cash | \$ 190,300 | \$ 422,794 |
| Cash equivalents: | | |
| Investment funds | 433,130 | 381,142 |
| | \$ 623,430 | \$ 803,936 |

5. Accounts and notes receivable

| | 2009 | 2008 |
|--|--------------|--------------|
| Clients and agencies | \$ 304,532 | \$ 281,251 |
| Real estate companies | 98,246 | 95,857 |
| Value-added tax | 512,779 | 453,101 |
| Refundable income and other taxes | 173,497 | 295,744 |
| Notes receivable, net | 328,661 | 294,382 |
| Credit cards | 16,418 | 18,547 |
| Other | 265,576 | 187,352 |
| | 1,699,709 | 1,626,234 |
| Less - Allowance for doubtful accounts | (108,328) | (85,694) |
| | \$ 1,591,381 | \$ 1,540,540 |

6. Real estate held for sale

| | 2009 | 2008 |
|-----------------------------|------------|------------|
| Vacation Club units | \$ 87,167 | \$ 148,275 |
| Villas and residential lots | 18,715 | 19,394 |
| Land and buildings for sale | 2,388 | 3,641 |
| | \$ 108,270 | \$ 171,310 |

7. Long-term notes receivable

These assets correspond to the long-term amounts receivable from the sale of Vacation Club memberships. Their maturities as of December 31, 2009 are as follows:

| Year due | Thousands of US dollars |
|--|----------------------------|
| 2011 | 31,958 |
| 2012 | 18,589 |
| 2013 and thereafter | 7,720 |
| | 58,267 |
| Equivalent in thousands of Mexican pesos | \$ 760,017 |
| Less- Allowance for doubtful accounts | (94,468) |
| | \$ 665,549 |

8. Property and equipment

| | 2009 | 2008 |
|--------------------------------|--------------|--------------|
| Buildings | \$ 9,392,556 | \$ 9,295,245 |
| Furniture and fixtures | 2,584,312 | 2,478,820 |
| Transportation equipment | 49,621 | 71,571 |
| Computer equipment | 391,830 | 310,026 |
| | 12,418,319 | 12,155,662 |
| Less- Accumulated depreciation | (5,437,525) | (5,011,294) |
| | 6,980,794 | 7,144,368 |
| Land | 1,980,304 | 1,946,901 |
| Construction in-progress | 122,556 | 136,427 |
| | \$ 9,083,654 | \$ 9,227,696 |

Certain real estate (hotels) have been granted as guarantees of the mortgage loans mentioned in Note 11, and to certain fiscal proceedings as mentioned in Note 24a.

9. Investment in shares of associated companies

| | Participation percentage as of December 31, 2009 | | 2008 |
|--|--|-----------|-----------|
| | 2009 | | |
| Associated - | | | |
| Inmobiliaria Las Animas, S. A. de C. V. | 25.00 | \$ 20,83 | \$ 18,457 |
| Other- | | | |
| Inmobiliaria Hotelera de Yucatán, S. A. de C. V. | 9.2 | 3,126 | 5,354 |
| Other | Various | 4,070 | 3,283 |
| | | \$ 28,032 | \$ 27,094 |

10. Other assets

| | 2009 | 2008 |
|--------------------------------|------------|------------|
| Concession right | \$ 419,031 | \$ 341,245 |
| South America's brand expenses | 93,919 | 108,031 |
| Preoperating expenses | - | 40,917 |
| Development expenses | 34,428 | 76,938 |
| Bank loan commissions | 29,680 | 33,699 |
| Guarantee deposits | 9,087 | 6,913 |
| | \$ 586,145 | \$ 607,743 |

11. Long-term debt

As of December 31, long-term debt is comprised as follows (variable interest rates as of December 31, 2009):

| | 2009 | 2008 |
|---|--------------|--------------|
| Mexican peso denominated: | | |
| Debt certificates programs at 6.70% to 13.18% rates | \$ 2,250,000 | \$ 2,500,000 |
| Syndicated loan at 6.57% and 9.33% rates | 200,223 | 400,447 |
| Mortgage loans at rates that range from 9.79% to 10.84% | 962,703 | 102,407 |
| Other loans | - | 501,322 |
| US dollar denominated: | | |
| Senior Notes at fixed interest rate of 8.75% | 466,743 | 484,441 |
| Syndicated loan at 2.08% and 2.06% | 289,302 | 600,504 |
| Mortgage loans at rates that range from 5% to 8.78% | 788,635 | 736,737 |
| Other loans at rates from 4.93% to 6.96% | 16,363 | 25,562 |
| | 4,973,969 | 5,351,420 |
| Less- current portion | (942,757) | (1,157,747) |
| Long-term debt | \$ 4,031,212 | \$ 4,193,673 |

Long-term debt maturities as of December 31, 2009 are as follows:

| | Denominated in | |
|--|----------------|---------------------------|
| | Payable in | US dollars (thousands) |
| | | |
| 2011 | \$ 283,138 | 58,207 |
| 2012 | 285,738 | 1,000 |
| 2013 | 2,475,642 | 14,600 |
| 2014 and thereafter | 10,133 | 1,061 |
| | \$ 3,054,651 | 74,868 |
| Equivalent in thousands of Mexican pesos | | \$ 976,561 |
| Total in thousands of Mexican pesos | | \$ 4,031,212 |

a. During 2008, the Company established an Unsecured Debt Certificated Program; its authorized value is up to \$3,000,000. The par value of each certificate is one hundred Mexican pesos, and each issuance expires within five years, denominated in Mexican pesos and with interest payable every 28 days at a rate established for each issuance (both at TIIE rate plus 1.80 percentage points). In April 2008, a \$1,500,000 withdrawal was made, and in July 2008, a second withdrawal was made for \$750,000 under the same terms and conditions.

Resources obtained from this program were used to repurchase 84.1% or US189 million of the Senior Notes due on October 4, 2011, with previous consent from the holders of these notes. As of December 31, 2008, commissions from this operation were \$131,021, and are presented as other expenses, net in the accompanying consolidated statement of operations.

b. In 2001 the Company established an Unsecured Debt Certificate Program for an authorized amount of up to \$1,000,000. The nominal value of the certificates was one hundred Mexican pesos and the maturity term of each issue was from one to ten years denominated in Mexican pesos or in Units of Investment (UDI's) with interest payable every 28 days at the rate established for each issue. Under the terms of this program, the first payment of \$200,000 was fully settled on Decem-

ber 2, 2004. Under this same program, certificate maturities of \$300,000 and \$250,000 were settled in February and July 2006, respectively; one issue of \$250,000 with maturity on May 6, 2009 at a rate of CETES plus 3.5 percentage points, was timely paid.

c. During November 2005, the Company structured a syndicated loan for US50 million for a five-year term (with a two-year grace period). The lead bank is ING Bank (México), S. A., while the other participants include Banco Nacional de Comercio Exterior, S. N. C. (Bancomext), BBVA Bancomer, S. A., Bayerische HYPO-UND Vereinsbank AG, HVB Group, Banco de Crédito e Inversiones, Miami Branch and Banco Industrial, S. A. This transaction assures funds for the timely payment of unsecured debt certificates referred to in paragraph b above. In addition, in November 2006, an add-on to the above syndicated loan of US30 million was executed, resulting in a total loan of US80 million. The terms of this add-on are similar to the original loan terms. Resources obtained from these transactions were used to settle short-term credit lines. In April 2008, the Company requested an extension of the credit line for US21.5 million. During 2009, the Company amortized US37.5 million, as of December 31, 2009 the outstanding balance of the line credit is US37.5 million. Valid rate are LIBOR plus 1.75 percentage points for US dollar dispositions and TIIE plus 1.65 percentage points for Mexican peso dispositions.

On January 29, 2010, the Company fully settled this loan with the resources obtained from "Senior Notes" program due in 2015 ("Senior Notes 2015"), as mentioned in Note 28.

The Company had issued US225 million under a Senior Notes program due on October 4, 2011. The notes bear interest at the rate of 8.75% per year, which is payable semiannually. As mentioned in paragraph a,

84.1 % of the notes were repurchased during 2008. As of December 31, 2009 the Senior Notes under this program amount US37 million under the same maturity and with no financial covenants. On March 9, 2010, the notes were fully settled with the resources obtained from the program "Senior Notes 2015".

- d. A breakdown of the main financial items of the guarantor and non-guarantor subsidiaries is detailed below:

| | Grupo Posadas, S.A.B. de C.V. and guarantor subsidiaries | | Non-guarantor subsidiaries | | Total consolidated | |
|--------------------------------|---|--------------|-------------------------------|--------------|--------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Total operating revenues | \$ 6,150,749 | \$ 5,390,321 | \$ 1,080,610 | \$ 1,481,869 | \$ 7,231,359 | \$ 6,872,190 |
| Depreciation and amortization | \$ 267,860 | \$ 217,322 | \$ 169,186 | \$ 171,858 | \$ 437,046 | \$ 389,180 |
| Real estate leasing | \$ 321,671 | \$ 283,051 | \$ 56,148 | \$ 50,110 | \$ 377,819 | \$ 333,161 |
| Operating income | \$ 679,202 | \$ 801,747 | \$ 126,787 | \$ 339,022 | \$ 805,989 | \$ 1,140,769 |
| Net consolidated income (loss) | \$ 251,278 | \$ (915,078) | \$ 11,074 | \$ 213,232 | \$ 262,352 | \$ (701,846) |
| Total assets | \$ 9,275,416 | \$ 8,709,634 | \$ 3,937,476 | \$ 4,835,140 | \$ 13,212,892 | \$ 13,544,774 |
| Total liabilities | \$ 8,117,930 | \$ 7,775,196 | \$ 635,874 | \$ 1,018,017 | \$ 8,753,804 | \$ 8,793,213 |

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

| Financial ratios | Restrictions | |
|------------------------|--------------|------|
| Current | Greater than | 0.60 |
| Onerous debt-to-equity | Less than | 1.22 |
| Interest coverages | Greater than | 2.20 |
| Net debt to EBITDA | Less than | 3.75 |

The most significant covenants are:

- The level of indebtedness, payment of dividends and the stockholders' distributions are subject to the compliance with certain financial ratios.
- The Company must insure and maintain insurance on all of its properties, assets and business against loss and damage, in similar terms as those used by companies in the same line of business.

As of December 31, 2009 and 2008, these restrictions and covenants have been complied with.

- e. As of December 31, 2009 and 2008, mortgage loans amount to \$1,751,338 and \$839,144, respectively. The principal collateral consists of real estate (hotels), whose book value amounts to \$3,487,164 and \$2,172,996, respectively, as well as guarantees from certain subsidiaries. As of December 31, 2009 these loans carry interest at LIBOR rate plus the corresponding margin from 1 to 5 percentage points for US dollar withdrawals, and TIIE plus 1.5 to 5 percentage points for Mexican peso withdrawals.
- f. The Company has loan agreements for a US10 million and EUR5 million financing with the International Finance Corporation and Deutsche Investitions-Und Entwicklungsgesellschaft mbh, maturing in December 2009, with an interest rate of LIBOR plus 1 percentage point and the 6 month Euro LIBOR plus 3 percentage points, respectively, convertible into Series "L" shares of the Company. Due to this convertibility feature, the portion identified as equity is presented as contribu-

tions for future capital increases in the consolidated statements of changes in stockholders' equity.

During November and December, 2009 the maturities with the IFC and DEG debts, respectively, were renegotiated up to March 15, 2010, date in which, if the option of convertibility is not exercised, the obligations will be settled in cash. On November, 2009 a partial repayment of the debt with the IFC for US2 million was made and is presented in the consolidated statement of changes in stockholders' equity.

- g. The Company executed three revolving credit lines, two with Banco Mercantil del Norte, S. A. (Banorte) and one with Bancomext for an authorized amount up to US29.2 million and US91 million respectively, through several disposals maturing on or before April 28, 2014, June 28, 2013, and July 25, 2014, respectively. Disposals under these credit lines bear variable interest rates and are guaranteed by notes receivable related to financing granted on Vacation Club sales. The collection rights on the sale of Vacation Club intervals, which are formalized with notes receivable, have been assigned to a trust fund that is located outside Mexico. Pursuant to collateral assignment contracts, the Company has transferred the collection rights assigned to the trust fund to Bancomext and Banorte. These credit lines establish mortgage guarantees on Vacation Club real property.

During 2009 the Company disposed from one of its Bancomext lines of credit, an amount of US6.1 million.

During December, 2009 the Company executed a third credit line with Banorte for an authorized amount up to US91 million under the same terms and conditions, disposing \$915,118 and US9 million. The terms of this new credit line demanded that the Company made immediate repayments, as such \$19,306 and US438 million were paid. With the resources obtained from this new credit line the two previously mentioned credit lines in the above paragraph were settled. As of December 31, 2009 the Company has two credit lines,

one with Banorte and other one with Bancomext with maturities on or before November 28, 2014 and July 25, 2014, respectively.

As of December 31, 2009 and 2008, the outstanding balances of credit lines contracted with Bancomext are US25.5 million and US28.4 million; and those contracted with Banorte are US9 million, \$915,812 and \$143,000 Mexican pesos, respectively. The majority of the rights of the notes that have been assigned to a trust fund located outside Mexico were re-assigned to a new trust fund located in Mexico. As of December 31, 2009 and 2008, notes receivable assigned to the trust are US205.4 million and US217.5 million, respectively.

- h.** In April 2008, the Company entered into a five year bilateral mortgage loan with a two year grace period with Banco Nacional de México, S. A. part of Grupo Financiero Banamex, for \$312,000. As of December 31, 2009, the rate is TIIE plus 4 percentage points. On January 25, 2010, the loan was fully settled with the resources obtained from the "Senior Notes 2015" program.
- i.** In December 2005, the Company completed a five year bilateral secured loan with a two year grace period with California Commerce Bank (Banamex USA) for US20 million at a rate of LIBOR plus 4.50 percentage points. As of December 31, 2009 and 2008, the outstanding balances of the loan are US17 million and US12.3 million, respectively. On January 22, 2010, the loan was fully settled with the resources obtained from the "Senior Notes 2015" program.

- j.** In December 2008, the Company drew US23.4 million from a US27.3 million secured loan from Bancomext. The terms are three years with a two years and nine months grace period with a LIBOR rate plus 4.6 percentage points. On January 2009, the Company drew US2.7 million under the same terms and conditions. As of December 31, 2009 and 2008, the outstanding balances of the loan are US25.8 million and US23.4 million, respectively. On March 1, 2010, the loan was

fully settled with the resources obtained from the "Senior Notes 2015" program.

- k.** In July 2009, the Company drew \$392,000 from another secured loan from Bancomext. The terms are four years with a 12-month grace period with a rate of TIIE plus 3.75 percentage points. On January 22, 2010, the loan was fully settled with the resources obtained from the "Senior Notes 2015" program.
- l.** During the last quarter of 2008, the Company drew \$100,000 from a long-term credit line with Banco del Bajío at a rate of TIIE plus 2 percentage points. After payments of \$36,000 and disposals for \$12,000 in October 2009 this line was changed to a 4.5 year secured loan of \$76,000 with six months grace period with a rate of TIIE plus 3.75 percentage points and mortgage collateral.
- m.** During the last quarter of 2008, the Company drew \$89,800 from another short term line of credit with Banco Santander, S. A. at a rate of TIIE plus 4 percentage points. After payments of \$22,743 and disposals for \$17,500 in October 2009 this line was changed to a year secured loan of \$90,000 to a three-year secured loan with monthly amortizations with at a rate of TIIE plus 4.85 percentage points. As of December 31, 2009 and 2008, the outstanding balances of the loan are \$85,000 million and \$89,800 million, respectively. On February 2, 2010, this loan was fully settled with the resources obtained from the "Senior Notes 2015" program.

12. Derivative financial instruments

- a.** Derivative instruments of interest rate and exchange rate exchange derivatives

In order to maintain a debt mix mainly denominated in USD, the Company structured five Cross Currency Swap (CCS) contracts. With these, the Company exchanges a floating rate (TIIE 28) in Mexican pesos for a fix rate in US dollars. The characteristics of both sides of these agreements are detailed in the following table:

| | Notional amount | Beginning date | Maturity date as of December 31, 2009 |
|------------------------------------|------------------|----------------|---------------------------------------|
| Unsecured debt certificate program | \$ 834.7 million | April, 2008 | April, 2013 |
| Unsecured debt certificate program | \$ 677.8 million | July, 2008 | April, 2013 |
| Syndicated loan | \$ 54.8 million | June, 2008 | November, 2010 |
| Syndicated loan | \$ 54 million | April, 2008 | November, 2010 |
| Credit lines | \$ 312 million | April, 2008 | April, 2013 |

| | Notional amount | Beginning date | Maturity date | Fair Value as of December 31, 2009 |
|-----|-----------------|----------------|----------------|------------------------------------|
| CCS | US79.0 million | April, 2008 | April, 2013 | \$ (275,003) |
| CCS | US65.8 million | July, 2008 | April, 2013 | \$ (256,998) |
| CCS | US5.3 million | June, 2008 | November, 2010 | \$ (16,267) |
| CCS | US5.1 million | April, 2008 | November, 2010 | \$ (13,937) |
| CCS | US29.8 million | April, 2008 | April, 2013 | \$ (98,678) |

At the date of issuance of these consolidated financial statements, the fair value of the financial instruments has not had significant changes with respect to the closing of 2009.

| | Notional amount | Beginning date | Maturity date as of December 31, 2008 |
|------------------------------------|------------------|----------------|---------------------------------------|
| Unsecured debt certificate program | \$ 1,500 million | April, 2008 | April, 2013 |
| Unsecured debt certificate program | \$ 750 million | July, 2008 | April, 2013 |
| Syndicated loan | \$ 109.7 million | June, 2008 | November, 2010 |
| Syndicated loan | \$ 108 million | April, 2008 | November, 2010 |
| Credit lines | \$ 312 million | April, 2008 | April, 2013 |

| | Notional amount | Beginning date | Maturity date | Fair Value 2008 |
|-----|-----------------|----------------|----------------|-----------------|
| CCS | US142 million | April, 2008 | April, 2013 | \$ (647,618) |
| CCS | US72.8 million | July, 2008 | April, 2013 | \$ (375,343) |
| CCS | US10.7 million | June, 2008 | November, 2013 | \$ (43,279) |
| CCS | US10.3 million | April, 2008 | November, 2013 | \$ (37,244) |
| CCS | US29.8 million | April, 2008 | April, 2013 | \$ (129,556) |

During 2009, US80.6 million of the notional amounts was unwound from the contracts subjected to margin calls. As of December 31, 2009 and 2008, the Company has met all margin calls that have been required by its counterparties in an amount of \$391,692 and \$837,022, respectively, (\$321,394 and \$816,806 net of exchange rate fluctuations, respectively), and are presented net in the account of derivative financial instruments in the balance sheet.

The CCS were entered into as hedging instruments from an economic perspective, but since they do not comply with all conditions for hedge accounting required by the applicable standards, for accounting purposes, these have been recorded as trading derivatives. Fluctuations from these instruments are recorded in CFR.

The Company entered into an exchange rate Swap for US26 million linked to the Senior Notes maturing in October 2011, with a fixed exchange rate at maturity. This instrument was classified as a fair value

hedge and the exchange result was recorded in CFR, compensating the exchange rate result derived from the loan hedged. This swap was cancelled in October 2008.

b. Interest rate derivatives

With the intention of capping the interest rate of a portion of the Syndicated loan in pesos with a rate of TIIE 28, an Interest Rate Swap (IRS) contract was put in place so the Company pays a fix rate of 10.14% versus TIIE 28 plus the applicable margin. The characteristics are detailed in the table below:

| | Notional amount | Beginning date | Maturity date |
|-----------------|-----------------|----------------|----------------|
| Syndicated loan | \$ 66.5 million | November, 2005 | November, 2010 |

| | Notional amount | Beginning date | Maturity date | Fair Value 2009 | Fair Value 2008 |
|-----|-----------------|----------------|----------------|-----------------|-----------------|
| IRS | \$ 66.5 million | July, 2006 | November, 2010 | \$ (1,222) | \$ (1,049) |

This IRS has been contracted as a hedging instrument from an economic perspective but for accounting purposes it has been accounted for as a trading derivative.

c. Derivative instruments for Exchange Rate Hedging (FX Forwards)

In October 2008, the Company contracted three derivative instruments for exchange rate hedging (Fx Forwards) with a notional amount of US1 million each one, maturing on January 2009. As of December 31, 2008 the fair value was \$12,278. Exchange rate to US dollar, explains the changes in their fair value. The contracts were designated for negotiation purposes; therefore their fluctuation was recorded in the CFR.

As of December 31, 2009, the Company has not contracted these type of operation.

13. Long-term accrued liabilities

| | 2009 | 2008 |
|---------------------------------|-----------|-----------|
| Contingency reserve | \$ 31,638 | \$ 25,490 |
| Employee retirement obligations | 17,480 | 15,601 |
| Severance payments | 16,368 | 15,080 |
| | \$ 65,486 | \$ 56,171 |

14. Employee retirement obligations

The net cost for the period for obligations resulting from the pension plan, seniority premiums and severance payments was \$11,023 and \$10,194 in 2009 and 2008, respectively. Other disclosures required under accounting standards are not considered material.

15. Shares in trust

The Company holds in trust as of December 31, 2009 and 2008, 13,580,362 series "A" shares, and 965,000 series "L" shares, of Grupo Posadas, S. A. B. de C. V., for assignment and sale to top executives.

A committee has been created to grant the right to purchase and allocate the number of shares to each qualifying executive, based on performance criteria, with the executive retaining the option to purchase at the end of the corresponding term in question. The selling price is fixed in US dollars based on the share market value and the exchange rate in effect when assigned to the executive. Given that the term to execute the share purchase term is three years, with two years' grace period, interest is charged for the financing period. As of December 31, 2009 and 2008, the cost of the shares held in trust is \$17,916 (at nominal value).

16. Stockholders' equity

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

| | Number of Shares | | | 2008 | | |
|---|------------------|--------------|---------------|---------------|--------------|---------------|
| | Series "A" | Series "L" | Total | Series "A" | Series "L" | Total |
| Authorized capital | 603,394,827 | 128,985,074 | 732,379,901 | 603,394,827 | 128,985,074 | 732,379,901 |
| Less- Unsubscribed capital | (135,453,063) | (20,038,219) | (155,491,282) | (135,453,063) | (20,038,219) | (155,491,282) |
| Subscribed capital | 467,941,764 | 108,946,855 | 576,888,619 | 467,941,764 | 108,946,855 | 576,888,619 |
| Less- | | | | | | |
| Repurchase of shares | (6,845,466) | (6,474,433) | (13,319,899) | (6,801,966) | (6,474,433) | (13,276,399) |
| Shares in trust | (13,645,962) | (1,017,600) | (14,663,562) | (13,645,962) | (1,017,600) | (14,663,562) |
| Shares in guarantee trust | (49,886,206) | - | (49,886,206) | (64,980,546) | - | (64,980,546) |
| Collateral stock shares released on December 23, 2009 | (15,094,340) | - | (15,094,340) | - | - | - |
| | (85,471,974) | (7,492,033) | (92,964,007) | (85,428,474) | (7,492,033) | (92,920,507) |
| | 382,469,790 | 101,454,822 | 483,924,612 | 382,513,290 | 101,454,822 | 483,968,112 |

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

- c. Stockholders' equity, except restated paid-in capital and tax retained earnings, will be subject to ISR at the rate in effect when the dividend is distributed. Any tax paid on such distribution, may be credited against the ISR payable of the year in which the tax on the dividend is paid and the two fiscal years following such payment.
- d. As of December 31, 2009, the legal reserve amounts to \$97,886 (nominal value) and is equal to 20% of nominal capital stock. This reserve may not be distributed to stockholders during the existence of the Company, except in the form of a stock dividend.
- e. Shares in guarantee trust were guaranteed through their subscription and payment by the fiduciary, by means of a guarantee trust contract executed with Bancomext and the guarantee granted by the latter for securities with a value of \$875,000 issued by the Company in 2003 and prepaid in 2005. The Company's Management will determine the treatment to be applied to these shares once such trust is cancelled. During 2009 15,094,340 shares were transferred to a stockbrokerage contract as collateral, which were released on December 23, 2009. During 2008 11,700,000

shares were transferred from this trust to the trust for assignment and sale to top executives.

- f. The Stockholders' Ordinary General Meeting of April 29, 2009, approved to transfer \$1,270,000 from the reserve for repurchase of shares to retaining earnings, in addition it was authorized that the highest amount of resources to be assigned to the repurchase of shares was \$652,254, in accordance with the limits established by the Security's Exchange Law.
- g. During 2009, the Company's management decided to partially offset the effects that the adoption of new MFRS have had on the retained earnings balance by allocating the capital's stock restatement per from \$1,774,015, to retained earnings, without impacting its stockholders' equity.
- h. The Stockholders' Ordinary General Meeting of April 2008, resolved to declare dividends of \$174,802, which were paid on June 2, 2008. In the consolidated statement of changes in stockholders' equity, these dividends are shown net of dividends of \$20,476 reimbursed from the release of shares in guarantee trust.

17. Foreign currency position and transactions

As of December 31, the foreign currency position is:

| | 2009 | 2008 |
|--|--------------|-------------|
| Thousands of US dollars: | | |
| Current- | | |
| Monetary assets | 21,018 | 46,428 |
| Monetary liabilities | (33,665) | (38,722) |
| | (12,647) | 7,706 |
| Long-term- | | |
| Monetary assets | 80,079 | 90,044 |
| Monetary liabilities | (77,258) | (99,551) |
| | 2,821 | (9,507) |
| Net foreign currency liability position | (9,826) | (1,801) |
| Equivalent in thousands of Mexican pesos | \$ (128,170) | \$ (24,382) |

| | 2009 | 2008 |
|--|-----------|------------|
| Thousands of Brazilian reals: | | |
| Monetary assets | 75,222 | 46,560 |
| Monetary liabilities | (62,102) | (24,983) |
| Net foreign currency asset position | 13,120 | 21,577 |
| Equivalent in thousands of Mexican pesos | \$ 98,281 | \$ 124,996 |
| Thousands of Argentinean pesos: | | |
| Monetary assets | 29,238 | 24,838 |
| Monetary liabilities | (12,410) | (11,213) |
| Net foreign currency asset position | 16,828 | 13,625 |
| Equivalent in thousands of Mexican pesos | \$ 57,638 | \$ 53,391 |

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

| | December 31, | | March 10, |
|------------------------------------|--------------|------------|------------|
| | 2009 | 2008 | 2010 |
| Mexican pesos per US dollar | \$ 13.0437 | \$ 13.5383 | \$ 12.6028 |
| Mexican pesos per Brazilian real | \$ 7.4912 | \$ 5.7930 | \$ 7.1138 |
| Mexican pesos per Argentinean peso | \$ 3.4251 | \$ 3.9186 | \$ 3.2639 |
| Mexican pesos per Chilean peso | \$ 0.0257 | \$ 0.0211 | \$ 0.0243 |

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

18. Transactions with related parties

- a. During 2009 and 2008, the Company had the following transactions with the related parties, which are presented in the consolidated statement of operations as revenues in other businesses:

| | 2009 | 2008 |
|---------------------------|------------|------------|
| Reservation services | \$ 115,415 | \$ 102,115 |
| Maintenance fees services | \$ 13,373 | \$ 32,083 |
| Technical assistance | \$ 11,166 | \$ 6,493 |

- b. Employee benefits granted to Company's key management (and/or prominent executives) were as follows:

| | 2009 | 2008 |
|-------------------------------------|-----------|-----------|
| Short-and long-term direct benefits | \$ 54,134 | \$ 50,109 |
| Severance benefits | \$ 4,937 | \$ 4,887 |

19. Other expenses, net

| | 2009 | 2008 |
|-----------------------------------|------------|------------|
| Loan agreements' signing costs | \$ 62,811 | \$ 186,419 |
| Preoperating costs | 27,539 | 10,503 |
| PTU | 903 | 5,095 |
| Loss on sale of fixed assets, net | 12,679 | 10,076 |
| Discontinued operations result | 4,134 | (5,414) |
| Other | 36,478 | 28,049 |
| | \$ 144,544 | \$ 234,728 |

20. Income taxes

The Company is subject to ISR and IETU.

ISR- The rate for 2009 and 2008 was 28%, and will be 30% for 2010 to 2012, 29% for 2013, and 28% for 2014 and thereafter. The Company pays ISR, together with subsidiaries on a consolidated basis, since 1990.

On December 7, 2009 amendments to the ISR law were published, to become effective beginning in 2010. These amendments state that: a) ISR relating to tax consolidation benefits obtained from 1999 through 2004 should be paid in installments beginning in 2010 through 2015, and b) ISR relating to tax benefits obtained the 2005 tax consolidation and thereafter, should be paid during the sixth through the tenth year after that in which the benefits was obtained. Payment of ISR in connection with tax consolidation benefits obtained from 1982 (tax consolidation starting year) through 1998 may be required in those cases provided by law.

IETU - Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. The IETU rate is 17% and 16.5%, in 2009 and 2008, respectively; and 17.5% as of 2010. The Asset Tax Law was repealed upon enactment of the IETU Law; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid, may be recovered, according to the terms of the law. In addition, as opposed to ISR, the parent and its subsidiaries will incur IETU on an individual basis).

Income tax incurred will be the higher of ISR and IETU.

Based on its financial projections the Company determined that it will basically pay ISR only in Mexico, and some subsidiaries will pay IETU, consequently, the Company computed both deferred ISR and deferred IETU.

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 26% 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, 2009, the subsidiaries that operate in Brazil had tax loss carry forwards for income tax purposes of \$819,922. Likewise, these companies did not recognize deferred income tax effects due to the uncertainty of the recovery of the tax losses.

Tax regulations in Argentina - According to current Argentinean Income Tax Law, the subsidiary operating in that country is subject to both income and minimum presumptive income taxes. The income tax rate in force is

35% on the estimated taxable income of each fiscal year. The minimum presumptive income tax is computed at 1% on the potential income from certain performing assets; thus, the Company's tax obligation will coincide with the higher of the two taxes.

Tax regulations in the United States - According to current US Income Tax Law, the subsidiaries operating in that country are subject to income taxes at a rate of 35%.

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

- a. Income taxes are as follows:

| | 2009 | 2008 |
|---------------|------------|--------------|
| Current ISR | \$ 55,802 | \$ 23,337 |
| Deferred ISR | 80,047 | (226,899) |
| Current IETU | 18,383 | 11,729 |
| Deferred IETU | (21,984) | 80,607 |
| | \$ 132,248 | \$ (111,226) |

- b. The main items originating a deferred ISR liability are:

| | 2009 | 2008 |
|---|--------------|--------------|
| Notes receivable | \$ 173,174 | \$ 425,582 |
| Allowance for doubtful accounts | (28,145) | (3,535) |
| Inventories | 31,733 | (17,698) |
| Property and equipment | 1,321,160 | 1,462,783 |
| Other assets | 38,875 | 24,014 |
| Reserves | (182,097) | (357,289) |
| Tax loss carry forwards | (81,082) | (307,594) |
| Recoverable IMPAC | (38,048) | (72,380) |
| Tax benefits (Conacyt) | 4,580 | 6,219 |
| Deferred IETU liability | 30,521 | 52,505 |
| | 1,270,671 | 1,212,607 |
| Translation effects of functional currency and foreign operations | 60,900 | 4,138 |
| | \$ 1,331,571 | \$ 1,216,745 |

c. The benefits of restated tax loss carryforwards and recoverable IMPAC for which the deferred ISR asset and tax credit, respectively, have been partially recognized, can be recovered subject to certain conditions. As of December 31, 2009 the amount is \$289,579 and \$38,048, respectively.

d. As of December 31, the main items comprising the net liability (asset) balance of deferred IETU are:

| | 2009 | 2008 |
|--|------------------|------------------|
| Deferred revenues | \$ - | \$ (27,040) |
| Property and equipment | 36,220 | 37,481 |
| Real estate held for sale | 10,628 | 3,200 |
| Reserves | (13,262) | (4,532) |
| Severance payments | - | (5,374) |
| Valuation allowance for severance payments | - | 48,114 |
| Revenue-other | 463 | 1,247 |
| Credit | (3,497) | - |
| Recoverable IMPAC | (1,456) | (1,304) |
| Valuation allowance for recoverable IMPAC | 1,425 | 713 |
| Total liability | \$ 30,521 | \$ 52,505 |

21. Income (loss) earnings per share

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

| | 2009 | | |
|---|------------|------------------|-------------------------|
| | Income | Number of shares | Mexican pesos per share |
| Net income attributable to common stock | \$ 266,422 | 486,222,309 | \$ 0.5479 |
| Convertible debt in common shares | - | 14,329,114 | - |
| | \$ 266,422 | 500,551,423 | \$ 0.5323 |

| | 2008 | | |
|---------------------------------------|--------------|------------------|-------------------------|
| | Loss | Number of shares | Mexican pesos per share |
| Net loss attributable to common stock | \$ (615,421) | 494,976,251 | \$ (1.2433) |
| Convertible debt in common shares | - | 16,329,114 | - |
| | \$ (615,421) | 511,305,365 | \$ (1.2036) |

22. Deferred credits

| | 2009 | 2008 |
|--|-----------|------------|
| Vacation Club deferred revenues, net of costs and expenses | \$ - | \$ 269,349 |
| Loyalty programs | 18,012 | 19,027 |
| Maintenance fees | 6,191 | 512 |
| Other deferred revenues | 1,868 | 3,830 |
| | \$ 26,071 | \$ 292,718 |

Vacation Club deferred revenues recorded as of December 31, 2008 refer to net revenues on the "pre-sale" of the third stage of the hotel construction in Los Cabos, Baja California Sur, whose construction began in 2007. As of December 31, 2009 the construction continues in the third stage, however, during this year the Company concluded the construction to a new building to provide services to the owners of Vacation Club, which allowed the recognition of the revenues and deferred costs in the consolidated statements of operations.

23. Commitments

As of December 31, 2009 and 2008, the Company has operating leasing contracts for certain real estate it occupies, which typically have duration of 10 years. Rental payments were established at variable percentages between 18% and 12% of revenues from hotel operations generated by each property. For the years ended December 31, 2009 and 2008, lease expense was \$377,819 and \$333,161, respectively.

24. Contingencies

a. The Company is involved in certain fiscal proceedings from 2004 until 2008, either as petitioner or defendant, whose eventual outcomes cannot be anticipated. The fiscal authorities have invoked the omission in the payment of federal taxes, principally ISR, the added value and IMPAC. The historical amount claimed in these proceedings is \$1,121,000, including restatement,

finer and surcharges as of the date of determination of the tax credits and together with the filing of petition for annulment, guarantees of payment have been granted for the equivalent to the claimed amount plus surcharges and applicable restatement. As of December 31, 2009, the proceedings are in different procedural stages, The Company has filed some administrative and annulment proceedings as advocacy for the tax authorities claims. Company's management and its external advisors consider that the Company has legal arguments to prevent such legal proceedings from significantly affecting its consolidated financial position or results.

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

25. Information by geographical areas and business segments

The Company operates in different geographical areas including Mexico, South America (Brazil, Argentina and Chile) and United States of America. The main financial captions by geographical area for 2008 are:

| | Mexico | South America | United States of America | Consolidated |
|---|---------------|---------------|-----------------------------|---------------|
| Total operating revenues | \$ 6,435,401 | \$ 754,902 | \$ 41,056 | \$ 7,231,359 |
| Depreciation, amortization and real estate leasing | \$ 683,804 | \$ 121,560 | \$ 9,501 | \$ 814,865 |
| Operating income (loss) | \$ 788,021 | \$ 31,937 | \$ (13,969) | \$ 805,989 |
| Net consolidated income (loss) | \$ 260,609 | \$ 7,356 | \$ (5,613) | \$ 262,352 |
| Total assets | \$ 10,430,210 | \$ 2,683,245 | \$ 99,437 | \$ 13,212,892 |
| Total liabilities and deferred credits | \$ 8,359,445 | \$ 403,609 | \$ 16,821 | \$ 8,779,875 |

Total assets and depreciation, amortization and real estate leasing, for business segments for the year ended December 31, 2009 are as follows:

| | Hotel operation and corporate | Hotel management and brand | Other businesses | Consolidated |
|---|-------------------------------------|----------------------------------|---------------------|---------------|
| Total assets | \$ 5,101,236 | \$ 729,126 | \$ 7,382,530 | \$ 13,212,892 |
| Depreciation, amortization and real estate leasing | \$ 688,937 | \$ 1,067 | \$ 124,861 | \$ 814,865 |

The main financial captions by geographical area for 2008 are:

| | Mexico | South America | United States of America | Consolidated |
|---|---------------|---------------|-----------------------------|---------------|
| Total operating revenues | \$ 6,113,379 | \$ 710,435 | \$ 48,376 | \$ 6,872,190 |
| Depreciation, amortization and real estate leasing | \$ 588,597 | \$ 125,749 | \$ 7,995 | \$ 722,341 |
| Operating income (loss) | \$ 1,091,786 | \$ 88,270 | \$ (39,287) | \$ 1,140,769 |
| Net consolidated income (loss) | \$ (612,136) | \$ (59,941) | \$ (29,769) | \$ (701,846) |
| Total assets | \$ 11,234,958 | \$ 2,196,098 | \$ 113,718 | \$ 13,544,774 |
| Total liabilities and deferred credits | \$ 8,792,887 | \$ 270,693 | \$ 22,351 | \$ 9,085,931 |

Total assets and depreciation, amortization for business segments are as follows:

| | Hotel operation and corporate | Hotel management and brand | Other businesses | Consolidated |
|---|-------------------------------------|----------------------------------|---------------------|---------------|
| Total assets | \$ 6,514,153 | \$ 576,769 | \$ 6,453,852 | \$ 13,544,774 |
| Depreciation, amortization and real estate leasing | \$ 641,407 | \$ 1,144 | \$ 79,790 | \$ 722,341 |

26. New accounting principles

As part of its efforts to converge MFRS with international standards, in 2009, the Mexican Board for Research and Development of Financial Information Standards (CINIF) issued the following Mexican Financial Reporting Standards (NIFs), Interpretations to Financial Information Standards (INIFs) and improvements to NIFs applicable to profitable entities which become effective for fiscal years that begin on January 1, 2010, as follows:

C-1, Cash

Improvements to NIFs for 2010

INIF 14, Construction Contracts, Sale of Real Property and Rendering of Related Services

INIF 17, Service Concession Contracts

Some of the most important changes established by these standards are:

NIF C-1, Cash, changes the "cash" concept to be consistent with the definition in NIF B-2, Statement of Cash Flows", and introduces definitions for restricted cash, cash equivalents and readily available investments.

Improvements to NIFs for 2010, the main improvements generating accounting changes that must be recognized retroactively are:

NIF B-1, Accounting Changes and Correction of Errors - Requires further disclosures in case the Company applies a particular Standard for the first time.

NIF B-2, Statement of Cash Flows - Requires recognition of the effects of fluctuations in exchange rates used for translating cash in foreign currencies, and changes in fair value of cash in the form of precious metal coins, and other cash items, at fair value, in a specific line item.

NIF B-7, Business Acquisitions - Requires that, when intangible assets or provisions are recognized because the acquired business has a contract whose terms and

conditions are favorable or unfavorable with respect to market, it only applies when the acquired business is the lessee in an operating lease. This accounting change should be recognized retroactively and not go further than January 1, 2009.

NIF C-7, Investments in Associated Companies and Other Permanent Investments - Modifies how the effects derived from increases in equity percentages in an associated company are determined. It also establishes that the effects due to an increase or decrease in equity percentages in associated companies should be recognized under equity in income (loss) of associated companies, rather than in the non-ordinary line item within the statement of income.

NIF C-13, Related Parties - Requires that, if the direct or ultimate controlling entity of the reporting entity does not issue financial statements available for public use, the reporting entity should disclose the name of the closest, direct / indirect, controlling entity that issues financial statements available for public use.

INIF 14, Construction Contracts, Sale of Real Property and Rendering of Related Services - is a supplement to Bulletin D-7, Construction and Manufacturing Contracts for Certain Capital Assets, and requires segregation of the different components of the contracts in order to define whether the contract refers to construction of real property, sale of real property, or rendering related services, and establishes the rules for recognizing revenue and related costs and expenses, based on the different elements identified in the contract and provides guidance for the appropriate use of the percentage-of-completion method for revenue recognition.

At the date of issuance of these consolidated financial statements, the Company has not fully assessed the effects of adopting these new standards on its financial information.

27. International financial reporting standards

In January 2009, the National Banking and Securities Commission published the amendments to its Single Circular for Issuers which requires companies to file financial statements prepared according to the International Financial Reporting Standards beginning in 2012, and permits their early adoption.

28. Subsequent events

- a. On January 15, 2010, the Company issued US200 million under a "Senior Notes" program due on January

15, 2015. The notes bear interest at the rate of 9.25% per year, which is payable semiannually. The resources obtained of this Notes were used to repay a portion of the loans with short and medium term, maturity, as mentioned in Note 11. The effects of the operations previously mentioned on the short and long term maturities of the loans had they occurred as of December 31, 2009, are as follows:

| | December 31, 2009 | Issuance | Repayments | Proforma as of December 31, 2009 |
|------------|-------------------|--------------|--------------|-------------------------------------|
| Short-term | \$ 942,757 | \$ - | \$ 916,629 | \$ 26,128 |
| Long-term | 4,031,212 | 2,608,740 | 1,388,621 | 5,251,331 |
| | \$ 4,973,969 | \$ 2,608,740 | \$ 2,305,250 | \$ 5,277,459 |

- b. In 1999 the Company signed a call option with IFC in which the Company has the preferential right to acquire up to the whole of the shares that the IFC owns of Sudamerica en Fiesta, S. A. de C. V. (SFI) (subsidiary company), which on December 31, 2009 represent 12.07 % of SFI's stockholders' equity. In agreement with the terms of the call option, the run-time began on July 9, 2005 and until December 31, 2011.

As of December 31, 2009 the estimated price is US11, million. On January 14, 2010, IFC exercised the convertibility option for 5.2402% of SFI's stockholders' equity for US5 million.

- c. On January 8, 2010, the Company made a partial repayment for EUR1 million of the convertible debt with the DEG for EUR5 million that are mentioned in the Note 11 f.

29. Financial statements issuance authorization

The consolidated financial statements as of December 31, 2009 prepared by Management, were authorized by the Audit Committee on March 10, 2010, and are subject to the approval at the Board of Directors and Stockholders' Ordinary General Meeting, where the financial statements may be modified based on provisions of the Mexican General Corporate Law. The consolidated financial statements at December 31, 2008 were approved at the General Stockholders' Ordinary Meeting on April 29, 2009.