

GRUPO POSADAS ANNUAL REPORT 2007

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Letter to Shareholders

DEAR SHAREHOLDERS:

For many reasons 2007 was a special year for Grupo Posadas. During this period not only did the company accomplish excellent results, a healthy balance sheet and an historical EBITDA, but it also achieved a long cherished goal: the operation of over a hundred hotels, thereby positioning the company as the region's largest Latin American operator. We currently have hotels in five countries throughout the American continent and we are present in practically all of Mexico's major destinations.

Also, in 2007 we kicked off the operation of new businesses or planted the seed for the development of companies and projects that promise to build a new era of development for the company.

As a result, growth, commercial and operating progress, the startup of the One Hotels expansion, the implementation of new guest-satisfaction and service systems, as well as the development of new frontiers for the company are reflected in our results.

Sales this year totaled 5,974 million pesos and operating income amounted to 1,032 million pesos, 3.6% more than that of 2006. EBITDA, which reached an historical record, was 7% higher (in US dollars) year over year in real terms.

As regards the company's total debt, at year-end the mix was as follows: 9% short-term, 78% in US dollars and 63% in fixed income rates. The average life of this debt is 3.2 years and only 13% is backed by hotel assets.

These figures are attributable to the commitment and effort of a talented team, in which we have been able to bring together the experience and knowledge of the finest professionals within the industry. Their work and innovative vocation were the key drivers that made it possible in 2007 for us to commence a transformation stage that positions Grupo Posadas among the major hotel leagues worldwide.

HOTEL OPERATION

Favored by the economic cycle, the performance of our city hotels—particularly in Mexico (Fiesta Americana and Fiesta Inn) and Brazil (Caesar Park and Caesar Business)—surpassed expectations with occupancy rates and Rev PARS that benefited our good results.

At our beach destinations, in turn, figures were somewhat lower than expected owing to a diminished flow of tourists. Once again this proves that a mix of hotels is what best helps us to balance and enhance our results.

For quite some time Grupo Posadas has been working on building direct, more efficient and lower-cost distribution channels that allow it to manage its inventory in real time. To do so, investment in technology has been as constant as our acquiring in-depth knowledge of the tools that will enable us to sell the last available room at a rate that maximizes income.



GASTÓN AZCÁRRAGA

Chairman

Along these lines we have developed Konexo, our Contact Center in Morelia, Mexico, which is changing the way in which our customers make their hotel reservations. Its centralized operation allows for optimal price decision; it also offers the best customer service, continuously raising call conversion rates. It is in this way that Konexo makes Grupo Posadas one of the most sophisticated hotel chains in inventory management.

DELPHOS PROJECT

For years Grupo Posadas has been successfully working on the construction of systems and tools that enhance customer orientation and allow us to acquire each day a deeper understanding of their needs and expectations in terms of our products. Accordingly, we have added the Guest Satisfaction System, the Prometeo System and X-Vox, which have been designed to listen to our customers' voices.

In 2007, the Delphos Project became the definite tool to differentiate our services from those of our competition. Based on our technological capacities, this project determinedly reinforces our service culture, since one of its key objectives is to define more sophisticated guest-assistance processes. Not only does Delphos allow for guest identification and differentiation, but it also enables us to give greater recognition to our best clients, providing them with a personal experience every time they stay at our hotels.

HOTEL DEVELOPMENT

This year we surpassed the 100-hotel benchmark, and reached this figure when we opened ten new properties: Fiesta Americana Grand Guadalajara Country Club (Jalisco); Fiesta Inn Ciudad Obregón (Sonora), Fiesta Inn Monterrey Fundidora (Nuevo León), Fiesta Inn Tuxtla Gutiérrez (Chiapas), Fiesta Inn Puebla Finsa (Puebla), Fiesta Inn Uruapan (Michoacán); and four hotels of our new hotel brand One Hotels, in Acapulco (Guerrero), Coatzacoalcos (Veracruz), Patriotismo (Mexico City), and Toluca Aeropuerto (State of Mexico).

Thanks to this new hotel brand, we have been able to transform a concept into a reality. The openings scheduled for 2008 will position One Hotels as a leader in the Economy Class category.

With regard to our Aqua brand, this year it reopened Aqua Cancún, and the company signed contracts for two other hotels: one in the Bosques district, in Mexico City, and the other in Acapulco, Guerrero. And so Aqua comes back to life with all its possibilities, revolutionizing the hotel industry in the deluxe Lifestyle segment.

On the other hand, Fiesta Americana Vacation Club's growth was founded on the good results of this business. The conversion of The Explorean Kohunlich to the vacation club concept began in 2007, as the development of Chemuyil was starting to become a reality.

- **Conectum:** Digital Management

After having consolidated this tool that closes one of the company's comprehensive and operating circles, Conectum improves the control and operating margins of each hotel with the utmost administrative discipline. At present, it has become a freestanding company that offers digital management services.

Likewise, Conectum grows in value vis-à-vis the new trend in human resources. Administrative and commercial centralization and standards allow for a better understanding of the profiles that people need to cover in different job positions. The outcome: intelligently focused employee recruitment with effective effects.

- **Konexo:** Contact Center and Data Center

For quite some time Grupo Posadas has been working on building direct, more efficient and lower-cost distribution channels that allow it to manage its inventory in real time. To do so, investment in technology has been as constant as our acquiring in-depth knowledge of the tools that will enable us to sell the last available room at a rate that maximizes income.

With a US\$10-million investment, the mission of this contact center is to maximize the efficiency level and results of the tasks of the Reservations Center, as well as the management of the company's Central Inventory.

At the same time, its capacity and state-of-the-art technological equipment, in addition to the experience of its human team, make this center a natural business extension for clients who are interested in operating and providing greater efficiency to critical contact processes, such as call centers, telemarketing, and loyalty program group operation and management.

COMPAÑÍA MEXICANA DE AVIACIÓN


Compañía Mexicana de Aviación had a difficult year in 2007 in terms of results. The level of competition experienced by the industry forced the airline to cut rates, as the cost of fuel increased. However, thanks to savings efforts that had already been made by the company in several items, results were not seriously affected.

OUR FUTURE

In 2008, if we wish to maintain leadership in the markets in which we are interested, we will have to face challenges that will enable us, among other things, to have the specialized human talent to continue innovating in the creation of products and competitive advantages that clearly differentiate Grupo Posadas.

Vis-à-vis a tremendously competitive environment, in which swiftness of response is essential to success, once again we will have to reinvent the way we do things in order to maintain and conquer new positions.

Preparing for such an environment has required the development of a new mentality within our team, as we are aware that the company is making inroads into a new chapter in its history. Fortunately, Grupo Posadas has a talented and very committed team that is determined to restate the future and address the challenges that are already presenting themselves.



GASTÓN AZCÁRRAGA

Chairman of the Board of Directors



Hotel Operation

IN 2007, CITY HOTELS OPERATED UNDER THE GRUPO POSADAS BRANDS REPORTED GOOD RESULTS AND FAVORABLE OCCUPANCY INDEXES, WHICH IN MANY CASES SURPASSED EXPECTATIONS. THE PERFORMANCE OF BEACH HOTELS DID NOT RESPOND IN THE SAME WAY. IN FACT, THEIR NUMBERS WERE SLIGHTLY LOWER THAN WHAT WE HAD ESTIMATED, OWING TO A DIMINISHED FLOW OF TOURISTS.

THE AVERAGE ANNUAL OCCUPANCY RATE OF FIESTA AMERICANA AND FIESTA INN AT BEACH DESTINATIONS WAS 60% (2.8 POINTS LOWER THAN THAT OF 2006), AND 64.8% IN CITY HOTELS, ONE POINT HIGHER YEAR OVER YEAR.

IN CITY DESTINATIONS, FIESTA INN'S MARKET PENETRATION INDEX WAS 107, AND 123 AT BEACH DESTINATIONS. THE INDEXES OF FIESTA AMERICANA, IN TURN, WERE 103 AND 102, RESPECTIVELY. IN ALL THESE CASES, THESE FIGURES REFLECT BETTER OCCUPANCY RATES FOR THE GRUPO POSADAS BRANDS, COMPARED TO THE BRANDS OF ITS COMPETITORS.

AS A RESULT, THE STRENGTHS OF THE BRANDS THAT MAKE UP OUR PORTFOLIO, IN ALL THE MARKETS AND SEGMENTS WHERE THEY ARE LOCATED, MADE IT POSSIBLE FOR 2007 TO BE ONE OF THE BEST YEARS FOR THE COMPANY.



TRAINING AND HUMAN RESOURCES

2007 was particularly intense in terms of consolidating training activities in the Hotel Operation. Throughout the year, thousands of employees attended integration, certification, leadership, service and sales courses.

Certifying employees in their positions, through diagnosis, training, exams and performance evaluations, was essential so that we could make sure that they are all fully carrying out the functions that were assigned to them with the required quality and professionalism. In addition to this objective, service training was also given, with special emphasis on the goals pursued by the Delphos Program (see page 10). The purpose is to consolidate a culture of service-oriented operation to guarantee memorable stays. Lastly, the Commercial Department focused on sales techniques for our restaurants and bars, banquet & event sales, and on reinforcing Posadas' Sales Methodology.

As always, the goal of these efforts continues to be the same: To make sure that each hotel team has the best possible talent to deliver our customer-service promise. To do so, it is imperative that we have skilled, knowledgeable and enthusiastic employees who improve themselves year after year.

FOOD & BEVERAGE, UNDER REENGINEERING

As we had already anticipated last year, 2007 was going to be a period of intense work to improve our food & beverage business. Particularly in the case of Café La Fiesta—our Fiesta Inn restaurant—this implied making our waiters better salespeople, and creating training programs so that the employees that participate in the service aspect of the business can focus their energy on generating more income. In exchange, their efforts are rewarded with a compensation plan.

A better selection of dishes—based on their popularity and contribution to the business' profitability—in addition to a standardization process and our having improved the buffet areas, helped us clean up the menus and thus offer better results today in each of our restaurants.

Similar work is already being done in the Fiesta Americana Hotels, where we are looking for ways to boost the profitability of the food & beverage business. The results of these efforts will be harvested in 2008.

Both in Fiesta Americana as well as in Fiesta Inn, our Banquets Department has undertaken great reengineering efforts that will also mature in 2008. The purpose is to generate more income by better handling and managing spaces and services, and thinking about the banquet area from a different perspective in order to achieve better results.

The experience and knowledge gained from the brands that operate in Mexico will also be useful in our South American hotels, where they will be replicated. In fact, in locations such as Buenos Aires, Argentina, productivity strategies have already been implemented that are reflected today in the earnings of the restaurants and bars of Hotel Caesar Park Buenos Aires.





DELPHOS, AN ALLY TO PERSONALIZED SERVICE

For quite some time the company has made investments and works to have systems and tools that allow it to know more and more about its clients, as well as their needs and expectations in terms of our products.

The Guest Satisfaction System, Prometeo and X-Vox have been essential to confirm our customer orientation, based on facts. These systems have enabled us to thoroughly study the quality of our operation and better deliver each day the service promise we have made to our customers.

Within this context, Delphos is the jewel in the crown. This program decisively strengthens our service culture, in view of the fact that one of its key objectives is to define more sophisticated guest assistance processes. Not only does Delphos allow for guest identification and differentiation, but it also enables us to give greater recognition to our best clients, providing them with a more personalized experience every time they stay at our hotels.

Once we enter a series of key data on each guest, we will be able to fully deliver our sales promise and even define processes that create a clear value for each individual client.

And last but not least, the information collected by Delphos allows us to get to know the client's complete profile, have access to guest information at any point of contact, optimize the level of response to promotions that are better thought out and "more informed," and focus operating efforts on higher-value guests.





Brands

AQUA, A DISTINCT CONCEPT FOR A DIFFERENT MARKET

Backed by events in New York and Cancún, the reopening of Aqua Cancún is undoubtedly one of the highlights of the year. As a result, the brand boasts a different concept with growth possibilities in other markets.

In fact, and because of its innovative approach within the deluxe Lifestyle segment, this year agreements were signed to build another two Aqua hotels: in the Bosques de las Lomas district in Mexico City, which will open in 2008; and in Acapulco (in the so-called Diamond Zone), which is expected to start up operations towards the end of 2009.

Aqua is already an important brand in Grupo Posadas' inventory and responds to the demand of high-income, sophisticated and expert travelers. These guests are interested in experiencing different and more advanced concepts, such as gastronomy, which is becoming more relevant than ever in Aqua through a unique concept: its Celebrity Chefs.

Aqua's contribution to the brand architecture of Grupo Posadas allows the company to fine tune its commercial strategy even further, focusing on well-defined market segments, be it individuals, groups or high volume accounts, either national or international, in beach or city destinations.

NATURALLY, A CONCEPT LIKE AQUA WILL PLACE STRONG DEMANDS ON THE OPERATION, AS WELL AS ON THE FORMING AND DEVELOPMENT OF THE HUMAN TEAMS PREPARED TO DELIVER THE BRAND'S SERVICE PROMISE. IN FACT, THIS DEMAND WAS EVEN BROUGHT UP DURING AQUA'S ADVERTISING CAMPAIGN, WHICH FOCUSES ON THE CONCEPT OF "SUSPEND REALITY" AND ON THE SUBTLE SEDUCTION OF THE SENSES.

FIESTA AMERICANA, FIRST PLACE IN BRAND RECOGNITION

This year, promotion of the brand was backed by the "Náufrago" ("Shipwrecked") Campaign, which contributed to higher Fiesta Americana advertising recall levels. In the pleasure segment, this chain continued to hold the first place, as it has done for many years, with 22 points in 2007.

This was also the case with Spontaneous Total Recognition, in which Fiesta Americana surpassed Holiday Inn, Camino Real and Sheraton with an index of 50 points, higher than the 47 points obtained in 2006. The business segment was a similar case: the brand continued to top the list, with 21 points in recall levels and 52 points in brand recognition.

Also of particular note is the growth experienced by Fiesta Americana Grand with the opening of Fiesta Americana Grand Guadalajara Country Club and the inauguration of Somma Wine Spa at Fiesta Americana Grand Los Cabos, which offers the very latest spa treatments, including wine therapy—currently a popular concept among many sophisticated clients at the Baja California destinations.




FIESTA INN


FIESTA INN



Style and a deep connection that seduces the senses



Where satisfying pleasure is a ritual



Great days only, in a warm, casual and friendly atmosphere



The business traveler's ally



A functional and low-cost place to rest



Price and Inventory Optimization

PRICE AND INVENTORY OPTIMIZATION SELLING THE LAST AVAILABLE ROOM AT THE BEST PRICE IS ONE OF THE MOST VALUABLE COMPETITIVE ADVANTAGES CREATED BY THE COMPANY, THROUGH SYSTEMS SUCH AS REVENUE MANAGEMENT AND PRICE & INVENTORY OPTIMIZATION. THANKS TO THE OPERATION OF THESE SYSTEMS, INCOME PER ROOM GREW 8%. THESE FIGURES ARE PROOF OF THE CONSOLIDATION OF GRUPO POSADAS' COMMERCIAL MODEL, WHICH WILL ALLOW US TO REACH NEW EFFICIENCY LEVELS AND RESULTS. TO FURTHER PURSUE THIS LINE OF ONGOING IMPROVEMENT, THE PRICE & INVENTORY OPTIMIZATION SYSTEM DEVELOPED SIGNIFICANT INTERFACES WITH DISTRIBUTION CHANNELS. AS A RESULT, WE CAN CURRENTLY SELL ROOMS IN REAL TIME AT A DYNAMIC RATE. PROGRESS HAS ALSO BEEN MADE IN LAUNCHING ONLINE RESERVATION OPTIONS FOR CORPORATE CLIENTS, WITH WHICH WE HAVE MORE RAPIDLY MIGRATED AN IMPORTANT PERCENTAGE OF RESERVATIONS TO MORE PROFITABLE CHANNELS. IN THIS WAY, AND THROUGH AGREEMENTS MADE WITH THE SALES, DISTRIBUTION AND MARKETING DEPARTMENTS, INVENTORY SALES ARE PERMANENTLY REWARDED IN THE CHANNELS WITH LOWER DISTRIBUTION EXPENSES. SPECIFICALLY IN THE MARKETING DEPARTMENT, STUDIES ON THE BUYING PERFORMANCE IN EACH SEGMENT HAVE ENABLED US TO FINE TUNE THE PROPOSAL WE OFFER CONSUMERS WHEN SEARCHING FOR OPTIONS AND MAKING RESERVATIONS.

RESERVATIONS CENTER: 2.6 MILLION ROOMS

In 2007, our Reservations Center generated more than 2.5 million room nights, 7.3% more than in 2006. The total conversion index, in turn, was 48.4% (three points higher than last year).

These figures were possible thanks to our talented team of reservation reps, the new sales method we implemented in 2006, as well as our having automated the reservations of negotiated rates. With regard to the latter, 26.3% of our reservations migrated to this application. Likewise, GDS electronic reservations grew 9%.

GRUPO POSADAS WEBSITE, MORE USABILITY

In 2007, visits made to our webpage went up 42%, whereas the effectiveness of this means for generating reservations grew at a rate of 62%; conversion indexes and the contribution of this channel also rose.

The five-step reservation process was reduced to four, the rate display was enhanced and online payments were added in September.

Also, the users of our website can now check package deals and promotional rates, which has enabled us to successfully implement more promotions aimed at attracting more clients.

We also redesigned and improved the quality of the Restaurants & Bars section information of fiestamericana.com and launched One Hotels' webpage (onehotels.com), which now has a place of its own in Grupo Posadas' online portfolio.

An application was also constructed that allows us to create a complementary webpage (a personalized minisite) for groups or events. The purpose of this new online service is to make congress reservations easier, while providing a tool that supports group sales at our hotels.

2008 will be equally dynamic in terms of fine tuning our website, not only by continuously improving the functionality of our reservations engine but also by designing the approval flows of contents aimed at optimizing quality control and reducing registration time. Perhaps one of the most significant improvements planned for this year is for users to have the option to pay their reservations—interest free—with credit cards, an advantage that will most surely generate incremental income and allow us to generate attractive promotions for travelers.

Other added values of the website will be: the Posadas blog, the launching of the Aqua webpage, the new Fiesta Rewards webpage and the minisite for Fiesta Americana Cozumel Dive Resort.

The purpose of each of these new functionalities is to transform the company's and its brands' website into an increasingly powerful company distribution and sales tool that places us today in the forefront.



Development

THIS YEAR THE COMPANY ACHIEVED A GOAL IT HAD SET SOME TIME BACK, NAMELY TO REACH THE 100 HOTEL-BENCHMARK. AS OF DECEMBER 2007, GRUPO POSADAS HAD A TOTAL OF 104 HOTELS AMONG ITS DIFFERENT BRANDS—IN MEXICO, BRAZIL, ARGENTINA, CHILE AND THE SOUTHERN REGION OF THE UNITED STATES—AND THIS FIGURE WILL CONTINUE TO GROW.

AT YEAR-END 2007, THE DEVELOPMENT PLAN INCLUDED 59 HOTELS WITH ABOUT 7,600 ROOMS, EITHER UNDER CONSTRUCTION OR UNDER OPERATING CONTRACTS THAT HAVE ALREADY BEEN SIGNED. IN LINE WITH THE DEVELOPMENT STRATEGY FOLLOWED BY THE COMPANY, MOST OF THESE HOTELS, WHICH ARE SCHEDULED TO OPEN THROUGHOUT THE NEXT THREE YEARS, FALL UNDER THE OPERATING OR LEASE SCHEME.



With these new chain links, the company's inventory will grow 50%. In the case of One Hotels—the brand that will record the largest increase in the next few years—plans have been made to open seven units in 2008 and another 23 openings have been scheduled. We also plan to open, among others, the new Aqua hotels that are already being built in Acapulco (Diamond Zone) and the Bosques district (Mexico City); convert The Explorean Kohunlich to the Vacation Club concept; develop the Fiesta Americana Grand Chemuyil project; and open 19 new Fiesta Inn and 3 Fiesta Americana hotels.

This development plan will require a 435-million-dollar investment, 10% of which will be contributed by the company.

With respect to South America—where there will soon be two new Caesar Park and two Caesar Business hotels—in early 2008 the first Caesar Park Silver will be opened, on Avenue 9 de Julio in Buenos Aires. As we had already mentioned in our 2006 Annual Report, this category will offer deluxe services with the classical flavor that distinguishes Caesar Park, although in a smaller hotel.



Openings in 2007

- Fiesta Americana Grand Guadalajara Country, Jalisco
- Fiesta Inn Ciudad Obregón, Sonora
- Fiesta Inn Monterrey Fundidora, Nuevo León
- Fiesta Inn Puebla Finsa, Puebla
- Fiesta Inn Tuxtla Gutiérrez, Chiapas
- Fiesta Inn Uruapan, Michoacán
- One Acapulco, Guerrero
- One Coatzacoalcos, Veracruz
- One Patriotismo, Mexico City
- One Toluca, State of Mexico

Reopening:

Aqua Cancún, Quintana Roo

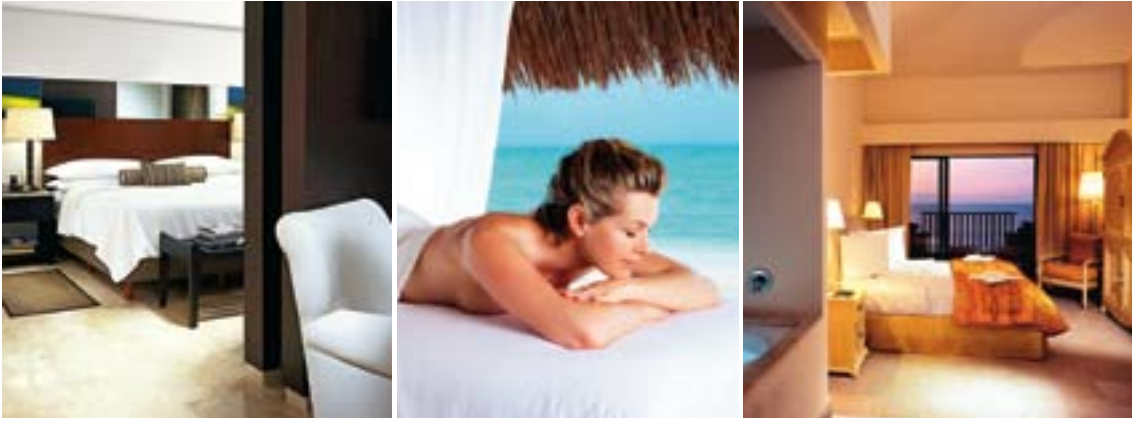
Fiesta Americana Vacation Club



As in previous years, the number of FAVC members grew spectacularly again, as a result of the company having capitalized on the competitive advantages of this product compared to those offered by the competition. This time the club reached a record 25,024 members, 23% more compared to 2006. Naturally, this growth is reflected once again in net sales, which in 2007 totaled 84.7 million dollars.

At present, 85.7% of the inventory has been sold. At year-end, 95.7% of the Fiesta Americana Villas Los Cabos (where construction of the last stage was completed), 95% of the Fiesta Americana Villas Cancún inventory, and 69% of Fiesta Americana Villas Acapulco had been sold.

Referral sales (i.e., generated by member recommendations), accounting for 7.5 million dollars of total sales, confirm the product's competitiveness and prove high satisfaction rates, which both in Acapulco as well as in Los Cabos and Cancún are more than 93%.

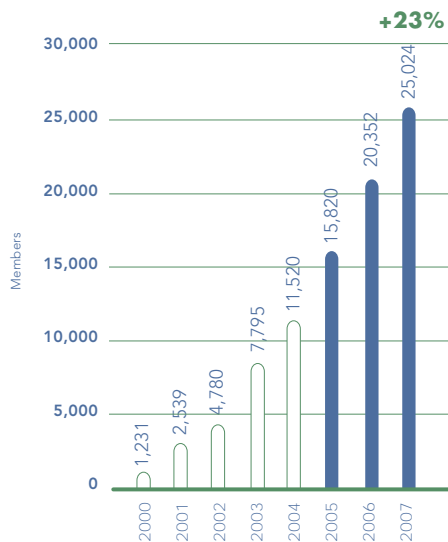


AFTER MORE THAN A DECADE OF SUCCESS, FA VACATION CLUB IS ONE OF THE STRONGEST DISTRIBUTION CHANNELS FOR GRUPO POSADAS' HOTELS. IN 2007, ITS CONTRIBUTION TO OCCUPANCY GREW 18%, THANKS TO ITS HAVING PRODUCED 114,278 ROOM NIGHTS, AMONG HOTELS AND VILLAS.

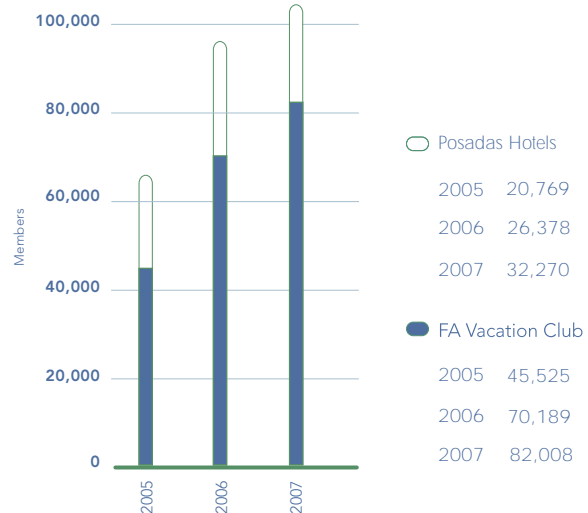
On the subject of expansion, in 2007 we began to convert The Exploreaan Kohunlich to the vacation club concept, and streamlined the last details to begin the construction of Fiesta Americana Grand Chemuyil* (hotel and vacation club) in 2008. As we announced last year, this spectacular development is a cornerstone in FA Vacation Club's 2005-2015 development plan, since it will allow us to boost the company's vacation property concept and will be essential for maintaining the leadership of an intensely successful product such as FA Vacation Club. In fact, the Chemuyil development will be the largest investment made by Grupo Posadas in its entire history.

* This development is located 12 miles north of Tulum, in the Municipality of Solidaridad, State of Quintana Roo, on the Mayan Riviera.

Number of FA Vacation Club Members



Room/Night Production



New Businesses



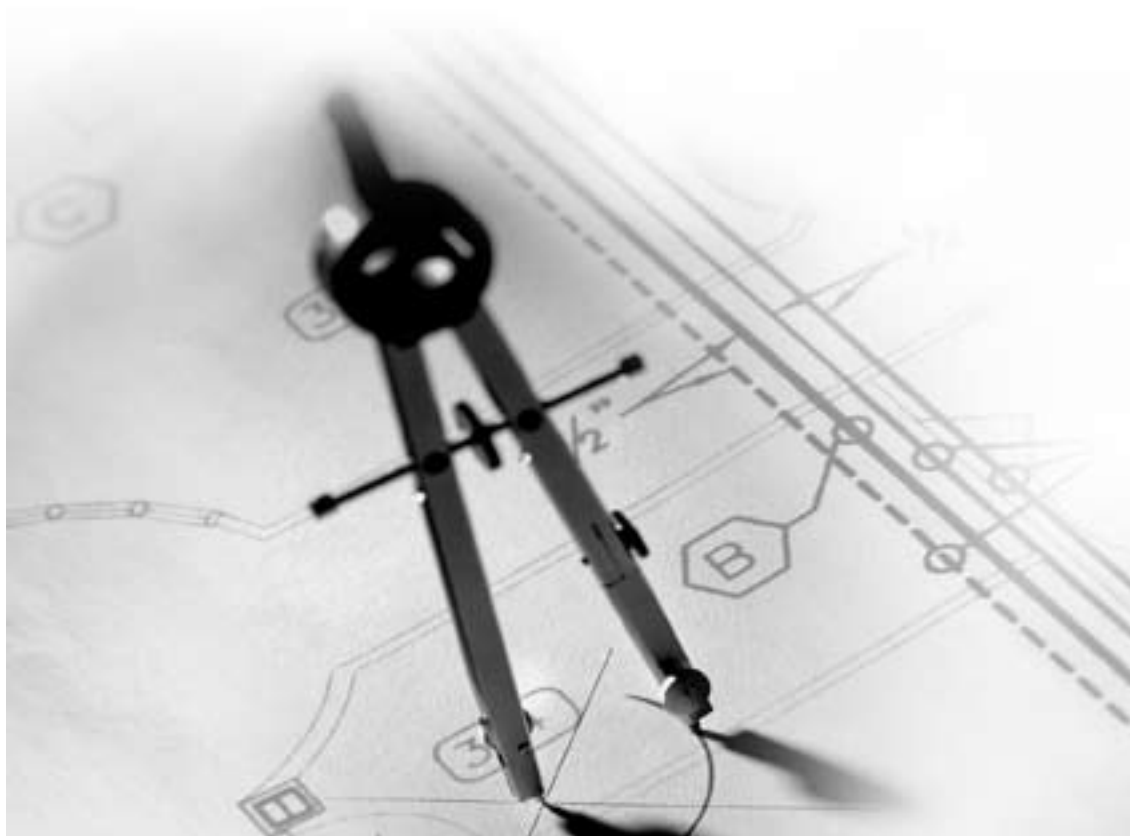
AMPERSAND – LOYALTY PROGRAM MANAGEMENT

After it detected a market of companies that are interested in investing in their most valuable clients and getting to know these clients better to build valuable relationships with them, Grupo Posadas decided to capitalize on its experience in managing successful loyalty programs, such as Fiesta Rewards.

It is on this knowledge platform that Grupo Posadas created Ampersand, whose services allow companies to differentiate themselves from their competition and boost their businesses by establishing long-lasting relationships with their consumers.

Its offer and experience are very attractive for companies who are interested in developing and managing loyalty programs: loyalty-oriented strategic solutions, experience in and management of these type of products, technological infrastructure, a contact center and customer service, as well as the know-how of a team specialized in different areas that are needed to ensure the success of a program of this nature.

As a result, Ampersand's services go beyond simply selling loyalty programs; they also embrace loyalty-oriented strategic solutions that are specialized in creating long-lasting relationships. In short, an ideal response for those who know that brand loyalty no longer exists nowadays and that clients are loyal instead to the benefits offered by brands.





KONEXO – CONTACT CENTER AND DATA CENTER

With a 10-million-dollar investment and more than 1,200 people, Konexo operates in Ciudad Tres Marías, in Morelia, Michoacán. Its mission is to become the business extension of our clients, while operating and making more efficient their critical third-party contact processes.

Its core services, in addition to being Grupo Posadas' contact center, are the operation of third-party call centers, as well as the operation and management of loyalty programs.

Konexo has the capacity to receive and wait on more than 500,000 calls a day, around the clock, 365 days a year. It also offers telemarketing services specialized in sales and post-sales, with voice and data Quality of Service (QoS).

The center, equipped with state-of-the-art technology to operate the companies' different contact processes, applies quality standards that include monitoring all transactions, as well as applying methodologies to ensure processes.

Konexo has also received 3 S-WCQA category certification (Safety World Class Quality Assurance), awarded by the International Computer Room Expert Association for its safety systems.

The same care that was given to the technological investment required to start up and operate this company was also given to the selection and training of its human resources, career plans, incentives, certifications, training and flexible work schedules. This ensures service excellence and positions Konexo as a great strategic partner for its clients.



CONECTUM, DIGITAL MANAGEMENT

Not only has Conectum become the tool needed by the company to improve control processes and operating margins in each hotel, thanks to increased administrative discipline, it has now become a separate company that will provide digital management services.

Both for Grupo Posadas as well as for other clients, the centralization of payroll and buying activities is a key ingredient for management, generating economies of scale and negotiating with suppliers, with whom longer-term contracts can be established at significant savings.

Conectum is also a valuable human resources tool. Standards, as well as administrative and commercial centralization help better understand different job profiles. This information allows for a more effective focus on selection and recruitment.

ALTIUSPAR

Built specifically in response to the needs of the hospitality industry, AltiusPAR combines last-generation technology with the best processes to provide clients with a broad scope of services that may be engaged under a modular system. Its solutions allow clients to take a large technological leap forward, making it possible for their products to be present in multiple channels, while maximizing income and deepening consumer knowledge.

From a central reservations system to guest satisfaction systems, guest history, payment of third-party commissions and Revenue Management control, AltiusPAR reduces everyday operating complexities related to inventory management and reservations, so as to increase sales force productivity levels and better focus on the aspects that generate value for the hotel business.

AltiusPAR offers its services based on an On Demand solutions platform to manage a central inventory that makes real time sales easier in all distribution and sales electronic channels, with the support of a highly reliable system.

This new company of Grupo Posadas is based in Dallas, Texas, and has a sales office in Spain and an Engineering Center in Mexico City.



Fundación Posadas



THIS YEAR, FUNDACIÓN POSADAS CONTINUED TO ORGANIZE ITS TASKS PREDOMINANTLY AROUND THE NEEDS THAT ARE DETECTED AMONG THE GROUP'S EMPLOYEES. IT CONTINUED TO SUPPORT THE "EARLY STIMULATION PROGRAM" OF APAC—ASOCIACIÓN PRO-PARÁLISIS CEREBRAL (ASSOCIATION PRO PEOPLE WITH CEREBRAL PALSY)—FOR CHILDREN BETWEEN THE AGES OF 45 DAYS AND 6 YEARS, AND MADE DONATIONS IN KIND TO FOUNDATIONS AND ASSOCIATIONS WITH SIMILAR ACTIVITIES.

CONTRIBUTIONS



Economic self-sufficiency, company support, the contributions of our guests, and the enthusiasm with which many of our employees continue to voluntarily donate through their salaries have made it possible to carry out tasks that today make us feel very proud.

The humanitarian highlights of the year were:

- Through the agreement we have with AMANC—Asociación Mexicana de Ayuda a Niños con Cáncer (Mexican Association to Aid Children with Cancer)—further treatment was given to three small girls with severe problems. They were also given transportation aid, temporary lodging at the association's shelter, as well as medical and psychological attention. The prognoses for these girls are promising.
- The "I Can Hear Better Today Program," which was kicked off in 2006, assisted six cases of children of our employees with auditory problems. As a result, these children are becoming more and more integrated into their environment and, in some cases, are recovering their level of academic performance.
- Through our "Different Capacities Program"—which assists disabled children through clinical and lab studies, neurological consultations and therapies, with the support of Fundación Mexicana de Aviación—the cases of several small children are already being addressed.
- The Foundation has built several surgery success stories, such as the case of six-year-old Mercedes Díaz who, after undergoing a cataract and strabismus operation at such a tender age, is now recognizing her environment and amazingly discovering her own world.
- Thanks to the efforts of the Foundation and with the support of medical consultations, other children with different illnesses have found answers to very serious problems, such as a kidney transplant or the possibility of having an arm prosthesis.

As always, in 2007 Fundación Posadas was present in each natural disaster that affected the company's employees. After the passing of Hurricane Dean, construction materials were donated to the coworkers of The Explorea Kohunlich (Quintana Roo) and Fiesta Inn Poza Rica (Veracruz). And in Villahermosa, Tabasco, it provided aid to 45 families that were victims of the floods.

It also kicked off an addiction-prevention program, which already covers 59% of our hotels in Mexico. Thanks to an alliance with Fundación Televisa, it took 205 children of the employees of our Mexico City hotels to visit the *Papalote* (Kite) Children's Museum, and gave institutional support (donations in kind and room nights) to other foundations. It also signed nine mutual collaboration agreements with institutions that share similar purposes.

This brief summary proves the extension to which the activities of Fundación Posadas have flourished. The objective for 2008 is to continue multiplying its success stories, a goal we feel sure will be reached thanks to the constant growth of employee and guest contributions, through campaigns such as the one we launched in 2006—"Today You Can Score 10!"—which invites our clients to donate ten pesos each time they stay at one of our hotels in Mexico.

MEDICAL ATTENTION, TRANSPORTATION



Caesar Business São Paulo Faria Lima >

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Executive Vice President
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Board of Directors

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Financial Statements 2007

GRUPO POSADAS

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

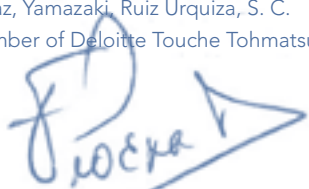
We have audited the accompanying consolidated balance sheets of Grupo Posadas, S. A. B. de C. V. (a Mexican corporation) and Subsidiaries (collectively the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position, for the years then ended, all expressed in thousands of Mexican pesos of purchasing power of December 31, 2007. 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 13% and 14% of the consolidated assets as of December 31, 2007 and 2006, respectively, and total revenues constituting 6% and 8% of the consolidated revenues for the years ended December 31, 2007 and 2006. 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.

In our opinion, based on our audits and on the unqualified reports of the other auditors as mentioned above, such consolidated financial statements present fairly, in all material respects, the financial position of Grupo Posadas, S. A. B. de C. V. and Subsidiaries as of December 31, 2007 and 2006, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended in conformity with Mexican Financial Reporting Standards.

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

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



C.P.C. Fernando Loera Aguilar

April 14, 2008

CONSOLIDATED BALANCE SHEETS

As of December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power of December 31, 2007)

Assets	2007	2006
Current assets:		
Cash and cash equivalents	\$ 339,948	\$ 443,019
Investments in securities	41,706	83,747
Total cash, cash equivalents and investments in securities	381,690	526,766
Accounts and notes receivable - net	1,777,451	1,026,214
Inventories	39,038	46,152
Prepaid expenses	38,504	36,465
Real estate held for sale	204,101	179,034
Total current assets	2,440,748	1,814,631
Long-term notes receivable	575,244	554,584
Vacation Club units	135,255	143,206
Property and equipment - Net	9,266,017	9,092,168
Investment in shares of associated companies	234,864	624,281
Other assets - Net	492,616	569,905
Total	\$ 13,144,780	\$ 12,798,775

See accompanying notes to consolidated financial statements.

Liabilities and stockholders' equity	2007	2006
Current liabilities:		
Bank loans and current portion of long-term debt	\$ 363,242	\$ 117,408
Suppliers	428,773	378,456
Other accounts payable and accrued liabilities	487,235	401,678
Value-added tax and other tax payables	655,543	251,021
Total current liabilities	<u>1,934,793</u>	<u>1,148,563</u>
Long-term debt	3,884,392	4,243,958
Derivate financial instruments	20,985	38,110
Long-term accrued liabilities	53,913	52,989
Value-added tax payable	175,734	146,142
Deferred income tax	1,358,899	1,456,360
Total liabilities	<u>7,428,716</u>	<u>7,086,122</u>
Deferred credits - Net	423,649	322,598
Stockholders' equity:		
Capital stock:		
Historical	489,427	489,427
Contributions for future capital increases	149,031	135,863
Amount assigned for repurchase of shares	140,627	2,645
Shares in trust	(3,322)	(7,379)
Additional paid-in capital	107,881	129,422
Restatement for inflation	1,774,015	1,793,508
	<u>2,657,659</u>	<u>2,543,486</u>
Other capital:		
Reserve for repurchase of shares	1,751,700	565,368
Retained earnings	1,624,379	3,025,888
Cumulative effect of restatement	(828,768)	(776,241)
Cumulative effect of deferred income tax	(919,158)	(919,158)
	<u>1,628,153</u>	<u>1,895,857</u>
Minority interest	1,006,603	950,712
Total stockholders' equity	<u>5,292,415</u>	<u>5,390,055</u>
Total	<u>\$ 13,144,780</u>	<u>\$ 12,798,775</u>

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power as of December 31, 2007, except income per share which is expressed in Mexican pesos)

	2007	2006
Hotel operation:		
Revenues	\$ 3,522,621	\$ 3,582,344
Departmental costs and expenses	1,284,822	1,258,730
Departmental profit	2,237,799	2,323,614
General expenses:		
Administrative	540,443	556,153
Sales, advertising and promotion	324,827	356,811
Maintenance and energy	362,431	360,581
	1,227,701	1,273,545
Income before other expenses	1,010,098	1,050,069
Other expenses:		
Property taxes and insurance	52,519	51,380
Other expenses (income), net	60,422	(13,885)
	112,941	37,495
Operating earnings from hotel operation	897,157	1,012,574
Hotel management, brand and other:		
Revenues	1,289,110	1,040,469
Direct costs and corporate expenses	717,116	557,920
Operating earnings from hotel management, brand and other	571,994	482,549
Other related businesses:		
Revenues	1,162,493	905,408
Direct costs and expenses	844,594	660,308
Operating earnings from other related businesses	317,899	245,100
Corporate expenses	90,345	84,028
Depreciation, amortization and real estate leasing	664,792	660,531
Operating income	1,031,913	995,664
Other expenses, Net	122,902	91,493
Comprehensive financing cost:		
Interest expense	388,397	415,179
Interest income	(32,093)	(35,979)
Currency exchange fluctuations, Net	(15,501)	65,738
Monetary position gain	(143,925)	(135,742)
	196,878	309,196
Income before income tax	712,133	594,975

	2007	2006
Income tax expense	159,646	139,819
Income before equity in associated companies	552,487	455,156
Equity in associated companies	(351,922)	1,114
Consolidated net income for the year	200,565	456,270
Minority stockholders' net income	74,453	39,284
Majority stockholders' net income	<u>\$ 126,112</u>	<u>\$ 416,986</u>
Majority income per share (in pesos)	<u>\$ 0.2583</u>	<u>\$ 0.8387</u>
Majority diluted income per share (in pesos)	<u>\$ 0.2499</u>	<u>\$ 0.8121</u>
Weighted average number of shares outstanding	488,205,350	497,134,756

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power as of December 31, 2007)

	Capital stock				
	Historical	Contributions for future capital increases	Amount assigned for repurchase of shares	Shares in trust	Additional paid-in capital
Balances as of January 1, 2006	\$ 489,427	\$ 304,400	\$ 7,493	\$ (7,379)	\$ 139,808
Repurchase of shares, net and increase to the reserve for repurchase of shares	-	-	(4,848)	-	-
Dividends paid	-	-	-	-	-
Reimbursement of contributions for future capital increases, net	-	(171,094)	-	-	(7,829)
Reduction of minority interest	-	-	-	-	-
Restatement of convertible debt	-	2,557	-	-	(2,557)
Effect of valuation of derivative financial instruments	-	-	-	-	-
Net income for the year	-	-	-	-	-
Result from holding non monetary assets	-	-	-	-	-
Comprehensive income	-	-	-	-	-
Balances as of December 31, 2006	489,427	135,863	2,645	(7,379)	129,422
Repurchase of shares, net and increase to the reserve for repurchase of shares	-	-	137,982	-	-
Dividends paid	-	-	-	-	-
Reimbursement of convertible debt, net	-	5,167	-	-	(13,540)
Reduction of minority interest	-	-	-	-	-
Restatement of convertible debt	-	8,001	-	-	(8,001)
Shares in trust	-	-	-	4,057	-
Net income for the year	-	-	-	-	-
Result from holding non monetary assets	-	-	-	-	-
Comprehensive income	-	-	-	-	-
Balances as of December 31, 2007	\$ 489,427	\$ 149,031	\$ 140,627	\$ (3,322)	\$ 107,881

See accompanying notes to consolidated financial statements.

		Other capital						
Restatement for inflation	Reserve for Repurchase of shares	Retained earnings	Cumulative effect of restatement	Cumulative effect of deferred income tax	Minority interest	Total stockholders' equity		
\$ 1,819,041	\$ 161,897	\$ 3,179,134	\$ (765,988)	\$ (919,158)	\$ 1,244,911	\$ 5,653,586		
(15,998)	403,471	(451,133)	-	-	-	(68,508)		
-	-	(117,181)	-	-	-	(117,181)		
(9,535)	-	-	-	-	-	(188,458)		
-	-	-	-	-	(333,483)	(333,483)		
-	-	-	-	-	-	-		
-	-	(1,918)	-	-	-	(1,918)		
-	-	416,986	-	-	39,284	456,270		
-	-	-	(10,253)	-	-	(10,253)		
-	-	415,068	(10,253)	-	39,284	444,099		
1,793,508	565,368	3,025,888	(776,241)	(919,158)	950,712	5,390,055		
(19,493)	1,186,332	(1,396,599)	-	-	-	(91,778)		
-	-	(131,022)	-	-	-	(131,022)		
-	-	-	-	-	-	(8,373)		
-	-	-	-	-	(18,562)	(18,652)		
-	-	-	-	-	-	-		
-	-	-	-	-	-	4,057		
-	-	126,112	-	-	74,453	200,565		
-	-	-	(52,527)	-	-	(52,527)		
-	-	126,112	(52,527)	-	74,453	148,038		
\$ 1,774,015	\$ 1,751,700	\$ 1,624,379	\$ (828,768)	\$ (919,158)	\$ 1,006,603	\$ 5,292,415		

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power of December 31, 2007)

	2007	2006
Operating activities:		
Net consolidated income for the year	\$ 200,565	\$ 456,270
Add (less) items that did not require (generate) resources:		
Depreciation and amortization	430,962	442,064
Equity in associated companies	351,922	(1,114)
Deferred income tax	(97,461)	3,210
Long-term accrued liabilities	924	(37,116)
	<u>886,912</u>	<u>863,314</u>
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Investments in securities	42,041	(12,281)
Accounts and notes receivable, net	(751,237)	332,528
Inventories	7,114	(16,767)
Prepaid expenses	(2,039)	33,375
Real estate held for sale	(25,067)	5,059
Increase (decrease) in:		
Suppliers	50,317	(53,775)
Other accounts payable and accrued liabilities	490,079	(219,388)
Net resources generated by operating activities	<u>698,120</u>	<u>932,065</u>
Financing activities:		
Changes in financial debt at nominal value	252,176	184,463
Decrease in financial debt due to inflationary effects and currency exchange	(365,908)	(204,251)
Derivative financial instruments	(17,125)	19,949
Value-added tax payable	29,592	28,434
Repurchase of shares, net	(91,778)	(68,508)
Dividends paid	(131,022)	(117,181)
Reduction of minority interest	(18,562)	(333,483)
Convertible debt	(8,373)	(188,458)
Shares in trust	4,057	-
Effect of valuation of derivative financial instruments	-	(1,918)
Net resources used in financing activities	<u>(346,943)</u>	<u>(680,953)</u>
Investing activities:		
Long-term notes receivable	(20,660)	(219,402)
Vacation club units	7,951	(12,107)
Additions to property and equipment	(539,896)	(303,210)
Withdrawals and transfers of property and equipment	10,657	199,041
Investment in shares of associated companies	37,495	26,773
Other assets	(50,810)	(30,618)
Deferred credits, net	101,051	172,979
Net resources used in investing activities	<u>(454,212)</u>	<u>(166,544)</u>
Cash and cash equivalents:		
Net (decrease) increase	(103,035)	84,568
Balance at beginning of year	443,019	358,451
Balance at end of year	<u>\$ 339,984</u>	<u>\$ 443,019</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006

(In thousands of Mexican pesos of purchasing power as of December 31, 2007)

1. Nature of business and significant events

Nature of business - Grupo Posadas, S. A. B. de C. V. and subsidiaries (collectively the "Company") are primarily engaged in the business of operating hotels. As of December 31, 2007 and 2006, the Company operated a total of 102 hotels with 18,778 rooms and 95 hotels with 17,922 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 most recently in 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, 2007 and 2006, it had an equity interest of 50% or greater in 33 and 32 hotels, respectively and it had a leasehold interest in 21 and 22 hotels, respectively. The remaining hotels are those that the Company operated for unrelated third parties, which as of December 31, 2007 and 2006 were 48 and 41 hotels, respectively. For purposes of these consolidated financial statements, these hotels are referred to as the Company's "owned", "leased" and "managed" hotels, respectively.

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

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

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

Significant events -

- a. 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, 2007 and 2006 the Company maintains a 30.41% stake in Mexicana.

During June and September 2006, the Company sold 19% of the Mexicana capital stock, which generated a loss of \$6,000, included in other expenses, net, in the consolidated statements of income. Additionally in December of that year the Company received from Consorcio an adjustment to the purchase price payment for approximately US\$11 million, which was distributed between the stockholders in proportion to their stake in Mexicana.

During 2006, the Company concluded with the identification and allocation of the purchase cost price, for the acquired assets and assumed liabilities stated at fair value as of the acquisition date. As a result of this process the value of the acquired net assets, tangible and intangible assets, was the same of the purchase price paid. Intangible assets identified during this process corresponded to the Mexico City International Airport ("M.C.I.A.") runway usage rights and the "Mexicana" and "Click" brands.

- b. During 2006, the Company sold a hotel located in Baja California Sur and two hotels located in McAllen, Texas and its participation in the Fiesta Inn Oaxaca hotel. Income was \$79,698 and is shown in the consolidated statements of income in the other hotel operation income account for \$76,380 and in other businesses income for \$3,318.
- c. Due to the hurricanes that hit the Yucatan Peninsula in July and October 2005, the Company's owned hotels 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. During 2006, revenues of \$42,362, related to business interruption insurance were recorded in the results of the year.

2. Basis of presentation

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.

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

Entities in which the Company's ownership interest is greater than 50% and control is exercised over them are included in these consolidated financial statements. These are:

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

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

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

	2007		2006	
	Amount of elimination	Balance after elimination	Amount of elimination	Balance after elimination
Hotel operation:				
General expenses-				
Administrative	\$ 326,495	\$ 213,948	\$ 319,748	\$ 236,405
General expenses-				
Sales, advertising and promotion	\$ 173,921	\$ 150,906	\$ 150,246	\$ 206,565
Hotel management fees, brand and other:				
Revenues	\$ 500,416	\$ 788,694	\$ 469,994	\$ 570,475

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

Investments in associated companies and unconsolidated subsidiaries are accounted for using the equity method, since the Company holds a stake of less than 50% and therefore, does not exercise control over its administration.

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

The consolidated financial statements of 2006 are restated using a common factor applicable to the consolidated amounts, that is based on sales, inflation, and exchange rates of the foreign subsidiaries, which was 5.71%.

c. Comprehensive income - Represents changes in stockholders' equity during the year, for concepts others than distributions and activity in contributed common stock, and is comprised of the net consolidated income for the year, plus other comprehensive income (loss) items of the same period, which are presented directly in stockholders' equity without affecting the consolidated statements of income. In 2007 and 2006, other comprehensive income (loss) items are the result from holding nonmonetary assets and the effect of valuating derivative instruments.

d. Income from operations - Income from operations is the result of subtracting cost 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 income, 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 change - Beginning January 1, 2007, the Company adopted new NIF B-3, Statement of Income and NIF C-13, Related Parties.

i. Statement of income - NIF B-3, classifies revenues, costs and expenses into ordinary and non-ordinary. Ordinary items are derived from primary activities representing an entity's main source of revenues. Non-ordinary items are derived from activities other than those representing an entity's main source of revenues. Consequently, the classification of certain transactions as special and extraordinary was eliminated; these items are now part of other income and expenses and non-ordinary items, respectively. Statutory employee profit sharing ("PTU") should now be presented as an ordinary expense and no longer presented as a tax on income, but as other expenses.

ii. Related parties - NIF C-13, broadens the concept "related parties" to include, a) the overall business in which the reporting entity participates and b) close family members of key management or prominent executives. The NIF C-13 also requires the following disclosures: 1) that the terms and conditions of consideration paid or received in transactions carried out between related parties be equivalent to those of similar transactions carried out between independent parties and the reporting entity, only if sufficient evidence exists and 2) benefits granted to the entity's key management or prominent executives.

The adoption of these new NIFs did not have a material effect in the Company's consolidated financial statements' line items classification or disclosures.

b. Reclassifications - Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2006 have been reclassified to conform to the presentation of the 2007 consolidated financial statements. The most important reclassification was the investment in shares of associated companies which was presented in the consolidated balance sheet as a long-term intangible asset of \$598,465 and is now presented as part of the investment in shares of associated companies, also as long-term line item.

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

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

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

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

	2007	2006
Mexico	3.75	4.05
United States of America	4.08	2.54
Brazil	5.16	2.81
Argentina	8.47	9.84
Chile	7.82	2.57

- d. Cash and cash equivalents** - Consists 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.
- e. Investments in securities** - According to its intent, from the date of acquisition, the Company classifies investments in securities in any 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 classified neither as trading nor held-to-maturity. These investments are stated at fair value. Fair value is determined using prices quoted on recognized markets. If such securities are not traded, fair value is determined by applying recognized technical valuation models.

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.

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

As of December 2007 and 2006, 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** - These represent collection rights derived from the sale of Vacation Club memberships, which are assigned to a trust to guarantee lines of credit contracted by the Company to finance this operation. The amounts received under these credit lines are shown net with notes receivable in the consolidated balance 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. Cost of sales is restated using factors derived from NCPI.

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

Vacation Club units recorded as long-term 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, 2007, the budget for concluding this construction stage is approximately \$341 million pesos.

The remodeling of the Fiesta Americana Condesa Acapulco hotel to provide Vacation Club services was concluded during 2007, for a total cost of \$360 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 income.

Assets available for sale are primarily real 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** - Are initially recorded at acquisition cost and are restated using the NCPI. Depreciation is calculated using the straight-line method, based on the economic useful lives and residual values of 24% in the case of buildings determined by independent appraisers.

The Company follows the practice of capitalizing, in addition to the restated cost, comprehensive financing result incurred in hotels' major remodeling and in the construction stage of new hotels in which it has a majority equity interest. The capitalized amounts are restated annually based on NPCI factors and the related amortization is recorded in the income statement based on the useful lives of the assets. As of December 31, 2007 and 2006, 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 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** - Investment in shares where the Company has significant influence, are recorded under the equity method, recognizing the participation in the results and stockholders' equity of associated companies, considering the adjustment from the allocation of the purchase cost price of acquired assets and assumed liabilities at fair value at acquisition date. Investments in shares where the Company does not have significant influence, are valued at cost of acquisition, and are restated based on the NCPI, but not to exceed realizable value.

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

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

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

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

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

Foreign subsidiaries do not have significant employee benefit obligations.

- o. Other assets** - Costs incurred in the development phase that meet certain requirements and that the Company has determined will have future economic benefits are capitalized and amortized based on the straight-line method. Disbursements that do not meet such requirements, such as research costs, are recorded in results of the period in which they are incurred. Preoperating expenses incurred and capitalized up to December 31, 2002 are amortized using the straight-line method over ten years. The concession right referred to in Note 10 is amortized based on the straight-line method during the life of the respective contract (25 years).
- p. Provisions** - Are recognized for current obligations that result from a past event, are likely to result in the future use of economic resources, and can be reasonably estimated.
- q. Statutory employee profit sharing** - Statutory employee profit sharing ("PTU") is recorded in the results of the year in which it is incurred and presented under other expenses in the accompanying consolidated statements of income. Deferred PTU is derived from temporary differences between the accounting result and income for PTU purposes and is recognized only when it can be reasonably assumed that such difference will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

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

r. **Income taxes** - Income taxes ("ISR") are recorded in results of the year in which they are incurred. Beginning October 2007, based on its financial projections, the Company must determine whether it will incur regular ISR or the new Business Flat Tax ("IETU") and, accordingly, recognizes deferred taxes based on the tax it will pay. Deferred taxes are calculated by applying the corresponding tax rate to the applicable 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 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.

s. **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 consolidated balance sheet date. Exchange fluctuations are recorded as a component of net comprehensive financing cost in the consolidated statements of income, except those amounts capitalized as a component of construction cost. As of December 31, 2007 and 2006, no amounts were capitalized related to this concept.

t. **Revenue recognition** - The Company recognizes revenues derived from the following operations: (i) hotel investments (which include the operation of leased hotels); (ii) management fees, brand use fees, the 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. In case that actual cost estimation exceeds budgeted costs, the loss is recorded in that year.

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

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

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

4. Cash and cash equivalents

	2007	2006
Cash	\$ 170,856	\$ 170,224
Cash equivalents	169,128	272,795
	<u>\$ 339,984</u>	<u>\$ 443,019</u>

5. Accounts and notes receivable

	2007	2006
Clients and agencies	\$ 262,120	\$ 205,421
Real estate companies	84,528	71,439
Value-added tax	889,106	199,792
Refundable income and other taxes	93,522	122,876
Notes receivable, net	250,688	257,802
Credit cards	20,521	39,344
Other	233,551	147,965
	<u>1,834,036</u>	<u>1,044,639</u>
Less - Allowance for doubtful accounts	(56,585)	(18,425)
	<u>\$ 1,777,451</u>	<u>\$ 1,026,214</u>

6. Real estate held for sale

	2007	2006
Vacation Club units	\$ 174,909	\$ 148,229
Villas and residential lots	20,342	30,805
Land and buildings for sale	8,850	-
	<u>\$ 204,101</u>	<u>\$ 179,034</u>

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, 2007 are as follows:

Year due	Thousands of US dollars
2009	17,962
2010	15,124
2011 and thereafter	<u>28,065</u>
	<u>61,151</u>
Equivalent in thousands of Mexican pesos	\$ 664,479
Less- Allowance for doubtful accounts	<u>(89,235)</u>
	<u>\$ 575,244</u>

8. Property and equipment

	2007	2006
Buildings	\$ 9,090,790	\$ 8,771,222
Furniture and fixtures	2,244,899	2,153,231
Transportation equipment	46,354	43,402
Computer equipment	184,424	134,520
	<u>11,566,467</u>	<u>11,102,375</u>
Less- Accumulated depreciation	(4,349,619)	(4,007,632)
	<u>7,216,848</u>	<u>7,094,743</u>
Land	1,897,356	1,897,356
Construction in-progress	151,813	100,069
	<u>\$ 9,266,017</u>	<u>\$ 9,092,168</u>

9. Investment in shares of associated companies

	Participation percentage as of December 31, 2007	2007	2006
Associated -			
Grupo Mexicana de Aviación, S. A. de C. V.	30.41	\$ 210,751	\$ 598,465
Inmobiliaria Las Animas, S. A. de C. V.	25	15,534	17,719
Other-			
Inmobiliaria Hotelera de Yucatán, S. A. de C. V.	9.2	5,289	5,389
RioTur Empresa de Turismo do Municipio do Rio de Janeiro S/A	1.91	123	107
TurisRio Companhia de Turismo do Estado do Rio de Janeiro S/A	0.49	12	11
Other		3,155	2,590
		\$ 234,864	\$ 624,281

10. Other assets

	2007	2006
Preoperating expenses, net	\$ 22,849	\$ 90,979
Concession right	385,709	350,627
Prepaid interest and commissions	53,032	64,674
Vacation Club deferred charges	31,026	41,759
Lease right	-	10,223
Other	-	11,643
	\$ 492,616	\$ 569,905

11. Long-term debt

As of December 31, long-term debt is comprised as follows (variable interest rates as of December 31, 2007):

	2007	2006
US dollar denominated:		
Senior Notes at fixed interest rate of 8.75%	\$ 2,444,895	\$ 2,571,512
Syndicated loan at 6.67%	481,468	548,589
Mortgage loans at rates that range from 6.46% to 12.25%	418,112	471,825
Other loans at rates from 6.35% to 8.03%	37,848	49,434
Mexican peso denominated:		
Syndicated loan at 9.33%	319,023	365,334
Debt certificates programs at 11.85%250,000264,275	111,688	90,397
Mortgage loans at rates that range from 9.43% to 10.02%	184,600	-
Other loans at variable rates of 9.55%	-	-
	4,247,634	4,361,366
Less- current portion	(363,242)	(117,408)
Long-term debt	\$ 3,884,392	\$ 4,243,958

Long-term debt maturities as of December 31, 2007 are as follows:

Payable in	Denominated in	
	Mexican pesos	US dollars (thousands)
2009	\$ 546,526	22,562
2010	111,910	21,933
2011	5,499	226,000
2012 and thereafter	85,789	17,984
	<u>\$ 749,724</u>	<u>288,479</u>

Equivalent in thousands of Mexican pesos \$ 3,134,668

Total in thousands of Mexican pesos \$ 3,884,392

- a. The Company issued US\$225 million under a Senior Notes program due on October 4, 2011. The notes bear interest at the rate of 8.75% per year, which is payable semiannually. The aforementioned Senior Notes are guaranteed by the Company's main subsidiaries and impose the obligations and restrictions that are generally applicable to this type of instrument. A breakdown of the main financial items of the guarantor and non-guarantor subsidiaries is detailed below:

	Grupo Posadas, S.A.B. de C.V. and guarantor subsidiaries		Non-guarantor subsidiaries		Total consolidated	
	2007	2006	2007	2006	2007	2006
Total operating revenues	\$ 4,272,482	\$ 4,141,005	\$ 1,701,742	\$ 1,387,216	\$ 5,974,224	\$ 5,528,221
Depreciation, amortization and real estate leasing	\$ 450,472	\$ 450,044	\$ 214,320	\$ 210,487	\$ 664,792	\$ 660,531
Operating income	\$ 716,880	\$ 633,996	\$ 315,033	\$ 361,668	\$ 1,031,913	\$ 995,664
Net consolidated income	\$ (3,860)	\$ 403,727	\$ 204,425	\$ 52,543	\$ 200,565	\$ 456,270
Total assets	\$ 7,878,835	\$ 7,946,577	\$ 5,265,945	\$ 4,852,198	\$ 13,144,780	\$ 12,798,775
Total liabilities	\$ 6,604,878	\$ 6,514,576	\$ 833,838	\$ 571,546	\$ 7,428,716	\$ 7,086,122

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

Financial ratios	Restrictions
Current	Greater than 0.60
Onerous debt-to-equity	Less than 1.22
Interest coverage	Greater than 2.20
Net debt to EBITDA	Less than 4.75

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.

As of December 31, 2007 and 2006, these restrictions and covenants have been complied with.

- b. 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 subsequent paragraph d. 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. As of December 31, 2007 and 2006, a total equivalent to US73.7 million and US71.8 million, respectively has been disposed.
- c. As December 31, 2007, mortgage loans amount to \$529,800. The principal collateral consists of real state (hotels), whose book value amounts to \$1,335,941, as well as guarantees from certain subsidiaries.
- d. 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 December 2, 2004. Under this same program, certificate maturities of \$300,000 and \$250,000 were settled in February and July 2006, respectively; one issue of \$250,000 matures on May 6, 2009.
- e. 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 contributions for future capital increases in the consolidated statements of changes in stockholders' equity.
- f. The Company executed three revolving credit lines, with Bancomext and Banco Mercantil del Norte, S.A. ("Banorte") for up to an authorized amount of US29.2 million, US44 million and US47 million, respectively, through several disposals maturing on or before December 25, 2012, December 28, 2012, and January 28, 2012, respectively. Disposals under these credit lines bear variable interest rates and are guaranteed by notes receivable related to financing granted on Vacation Club sales. The collection rights on the sale of Vacation Club intervals, which are formalized in notes receivable, have been assigned to a trust fund that is located outside Mexico. Pursuant to collateral assignment contracts, the Company has transferred the collection rights assigned to the trust fund to Bancomext and Banorte. These credit lines establish mortgage guarantees on Vacation Club real property.

During 2007, US 7.6 million and \$143,000, were disposed with Banorte and US16.8 million with Bancomext.

As of December 31, 2007 and 2006, the outstanding balance of credit lines contracted with Bancomext is US29.2 million and US15 million; those contracted with Banorte are for the amounts of US29.8 million, \$143,040 Mexican pesos and US37.2 million, respectively, amounts that are shown net of the long-term notes receivable, on the consolidated balance sheets. Notes receivable assigned to the trust are US208.3 million and US155.6 million as of December 31, 2007 and 2006, respectively.

- g. During December 2005, the Company executed two loan agreements secured by a pledge with IXE Banco, S.A. and Inmobiliaria Rancho Santa Fé, S.A. for \$261,600 and \$118,008, respectively, maturing in 2006. The pledge consisted of shares representing 20.08% of the common stock of Mexicana, which, according to the stock brokerage services agreement signed with IXE Casa de Bolsa, S.A. de C.V., were taken on a firm basis by the brokerage house, and the resources obtained from the sale of those shares were applied to settle such debt. Consequently, this loan agreements were presented net with the investment in shares of Mexicana. These debts were settled in April and August 2006.

12. Derivative financial instruments

a. Exchange derivatives

The Company contracted exchange rate swaps of US\$26 million on principal of the "Senior Notes" program, which mature in October 2011, with a fixed exchange rate at maturity. The swap was classified as a fair value hedge; accordingly, exchange gains or losses derived from the swap are recorded in comprehensive financing cost to offset exchange gains or losses resulting from the hedged liability. As of December 31, 2007 and 2006, the notional amount is \$275,080, while the fair value is \$18,476 and \$30,359, respectively.

b. Interest rate derivatives

The Company contracted two interest rate swaps, paying amounts determined with fixed interest rates and receives amounts determined with variable interest rates. Both derivatives were designated as cash flow hedges. One swap is divided in two strips with equal's notional amounts. As of December 31, 2007 and 2006, the main interest rate swaps are as follows:

Notional amount	Beginning date	Maturity date	Rate received	Rate paid	Fair value 2007	Fair value 2006
\$ 216 million	June 2006	November 2010	9.31 % and 8.79%	10.14%	\$ 1,515	\$ 6,300

The swap that was classified as comprehensive income at the end of 2006, matured during 2007.

13. Long-term accrued liabilities

	2007	2006
Contingency reserve	\$ 22,657	\$ 19,949
Employee retirement obligations	22,240	23,510
Severance payments	9,016	9,530
	<u>\$ 53,913</u>	<u>\$ 52,989</u>

14. Employee retirement obligations

The net cost for the period for obligations resulting from the pension plan, seniority premiums and severance payments was \$20,314 and \$6,683 in 2007 and 2006, respectively. Other disclosures required under accounting provisions are not considered material.

15. Shares in trust

The Company holds in trust as of December 31, 2007 and 2006, 2,337,362 and 6,278,362 Series "A" shares, respectively, 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, 2007 and 2006, the cost of the shares held in trust is \$19,998 and \$47,054 (at nominal value) respectively.

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					
	2 0 0 7			2 0 0 6		
	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-						
Unsubscribe 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	(6,417,466)	(6,470,533)	(12,887,999)	(5,162,942)	(2,198,043)	(7,360,985)
Shares in trust	(2,404,962)	(1,017,600)	(3,422,562)	(6,343,962)	(1,017,600)	(7,361,562)
Shares in						
guarantee trust	(76,680,546)	-	(76,680,546)	(76,680,546)	-	(76,680,546)
	(85,502,974)	(7,488,133)	(92,991,107)	(88,187,450)	(3,215,643)	(91,403,093)
	<u>382,438,790</u>	<u>101,458,722</u>	<u>483,897,512</u>	<u>379,754,314</u>	<u>105,731,212</u>	<u>485,485,526</u>

- 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, 2007, the legal reserve amounts to \$97,886 (nominal value) and is equal to 20% of capital stock. This reserve may not be distributed to stockholders during the existence of the Company, except in the form of a stock dividend.
- e. Shares 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 canceled.
- f. The Stockholders' Ordinary General Meeting of August 2007 resolved that, the maximum amount of resources destined for the purchase of the Company's own shares, considering the limitations included in the Mexican Securities' Exchange Law, would be \$1,900,000, amount that does not exceed the retained earnings balance as of December 31, 2006. During December 2007, the provision for the repurchase of shares was increased by \$1,253,090 with charge to retained earnings.
- g. The Stockholders' Extraordinary General Meeting of April 2007 resolved to declare dividends of \$152,658, which were paid on June 1, 2007. In the consolidated statement of changes in stockholders' equity, these dividends are shown net of dividends of \$21,636 reimbursed from the release of shares in guarantee trust.
- h. The Stockholders' Extraordinary General Meeting of April 2006, resolved to declare dividends of \$137,523, which were paid on June 1, 2006. In the consolidated statement of changes in stockholders' equity, these dividends are shown net of dividends of \$20,342, reimbursed from the release of shares in guarantee trust.
- i. During December 2005, the Company received US\$16.5 million through a convertible financial instrument to be settled at the Company's discretion through a fixed number of its shares or those of any of its associated companies. Due to the nature of this instrument, it was classified in the consolidated statement of changes in stockholders' equity as contributions for future capital increases at that date. During 2006, due to unfavorable conversion conditions, this amount was refunded and shown as reimbursement of convertible debt.

- j. **Due to preferred stockholders of subsidiary** - During 2006, the Company, through a subsidiary, acquired 23,413,903 preferred shares of Promotora del Caribe, S. A. with a par value of US1.00 each which represent the conversion of Mexican public debt invested by its stockholders in a hotel in Mexico, at a price of \$296,671, which is included under the reduction of minority interest heading in the consolidated statements of changes in stockholders' equity.

17. Foreign currency position and transactions

As of December 31, the foreign currency position is:

	2007	2006
Thousands of US Dollars:Current-		
Assets	34,236	46,686
Liabilities	(48,054)	(45,342)
	<u>(13,818)</u>	<u>(1,344)</u>
Long-term-		
Assets	52,975	44,815
Liabilities	(290,885)	(294,511)
	<u>(237,910)</u>	<u>(249,696)</u>
Net foreign currency liability position	<u>(251,728)</u>	<u>(248,352)</u>
Equivalent in thousands of Mexican pesos	\$ (2,735,327)	\$ (2,698,643)
Thousands of Brazilian Reals:		
Assets	34,727	29,980
Liabilities	(23,934)	(24,376)
Net foreign currency asset position	<u>10,793</u>	<u>5,604</u>
Equivalent in thousands of Mexican pesos	\$ 66,211	\$ 34,378
Thousands of Argentinean Pesos:		
Assets	24,119	18,224
Liabilities	(11,548)	(9,321)
Net foreign currency asset position	<u>12,571</u>	<u>8,903</u>
Equivalent in thousands of Mexican pesos	\$ 43,365	\$ 30,712

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

	December 31, 2007	December 31, 2006	April 14, 2008
Mexican pesos per US dollar	\$ 10.8662	\$ 10.8116	\$ 10.7780
Mexican pesos per Brazilian real	\$ 6.1346	\$ 5.0569	\$ 6.3839
Mexican pesos per Argentinean peso	\$ 3.4496	\$ 3.5297	\$ 3.4118
Mexican pesos per Chilean peso	\$ 0.0218	\$ 0.0203	\$ 0.0247

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 2007 and 2006, the Company had the following transactions with Mexicana, which are presented in the consolidated statement of income as revenues in other related business:

	2007	2006
Financial advisory services	\$ 22,777	\$ 22,446
Reservation services	47,150	-
	<u>\$ 69,927</u>	<u>\$ 22,446</u>

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

	2007	2006
Short-and long-term direct benefits	\$ 48,343	\$ 41,674
Severance benefits	\$ 4,425	\$ 6,159

19. Other expenses

	2007	2006
Preoperating costs	\$ 48,792	\$ 33,659
Loan agreements' signing costs	20,743	21,805
PTU	20,772	-
Loss on sale of fixed assets, net	3,060	5,636
Loss on discontinued operations	3,782	9,665
Other	25,753	20,728
	<u>\$ 122,902</u>	<u>\$ 91,493</u>

20. Income taxes

The Company is subject to ISR, and through 2007, to IMPAC. ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on restated asset values, taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component, which is similar to the gain or loss from monetary position. As of 2007, the tax rate is 28% and in 2006 it was 29%. Due to changes in the tax legislation, effective January 1, 2007, taxpayers who file tax reports and meet certain requirements may obtain a tax credit equivalent to 0.5% or 0.25% of taxable income. For ISR purposes, effective in 2005, cost of sales is deducted instead of inventory purchases. Taxpayers had the option, in 2005, to ratably increase taxable income over a given period by the tax basis of inventories as of December 31, 2004, determined in conformity with the respective tax rules, and taking into account inventory turnover. As of 2007, PTU paid is fully deductible.

In 2007, IMPAC was calculated by applying 1.25% to the value of the assets of the year, without deducting any debt amounts. Through 2006, IMPAC was calculated by applying 1.8% on the net average of the majority of restated assets less certain liabilities, including liabilities payable to banks and foreign entities. IMPAC was payable only to the extent that it exceeded ISR payable for the same period.

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

On October 1, 2007, the Business Flat Tax Law ("LIETU") was enacted and went into effect on January 1, 2008. In addition, the Tax Benefits Decree and the Third Omnibus Tax Bill were published on November 5 and December 31, 2007, respectively, clarifying or expanding the transitory application of the law regarding transactions carried out in 2007 that will have an impact in 2008. IETU applies to the sale of goods, the provision of independent services and the granting of use or enjoyment of goods, according to the terms of the LIETU, less certain authorized deductions. IETU payable is calculated by subtracting certain tax credits from the tax determined. Revenues, as well as deductions and certain tax credits, are determined based on cash flows generated beginning January 1, 2008. LIETU establishes that the IETU rate will be 16.5% in 2008, 17% in 2009, and 17.5% as of 2010. IMPAC was repealed upon enactment of

LIETU; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid, may be refunded, 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.

Based on its financial projections, the Company determined that at consolidated level it will only pay ISR and some subsidiaries will pay IETU, therefore deferred ISR and IETU were determined.

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, 2007, the subsidiaries that operate in Brazil had tax loss carry forwards for income tax purposes of \$9,749. Likewise, these companies did not recognize deferred income tax effects due to the uncertainty of the recovery of the tax losses.

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

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

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

a. Income taxes are as follows:

	<u>2007</u>	<u>2006</u>
Current ISR	\$ 183,370	\$ 47,490
Deferred ISR	(69,359)	3,210
Current IMPAC	73,747	89,119
Deferred IETU	(28,102)	-
	<u>\$ 159,646</u>	<u>\$ 139,819</u>

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

	<u>2007</u>	<u>2006</u>
Notes receivable	\$ 361,489	\$ 311,020
Allowance for doubtful accounts	(3,322)	(1,680)
Inventories	(20,639)	(39,378)
Property and equipment	1,485,987	1,527,350
Other assets	(56,112)	17,887
Reserves	(300,839)	(254,820)
Tax loss carry forwards	(11,283)	(34,194)
Recoverable IMPAC	(69,360)	(87,475)
Allowance valuation for tax loss carry forwards and recoverable IMPAC	1,080	17,650
Deferred IETU asset	(28,102)	-
	<u>\$ 1,358,899</u>	<u>\$ 1,456,360</u>

c. At a consolidated level, as of December 31, 2007, there are no consolidated tax loss carry forwards and the recoverable IMPAC is \$69,360, for which a partial deferred ISR asset has been recognized, and can be recovered subject to certain conditions.

d. As of December 31, 2007, the main items comprising the asset balance of deferred IETU are:

Deferred revenue	\$ (25,956)
Property and equipment	33,821
Real estate held for sale	3,356
Reserves	(6,893)
Severance payments	(4,600)
Valuation allowance for severance payments	3,085
Revenue-other	350
Recoverable IMPAC	(56,678)
Valuation allowance for recoverable IMPAC	<u>25,413</u>
 Total assets	 <u>\$ (28,102)</u>

21. Earnings per share

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

	Income	2007 Number of shares	Mexican pesos per share
Net income attributable to common stock	\$ 126,112	488,205,350	\$ 0.2583
Convertible debt in common shares	-	16,329,114	-
	<u>\$ 126,112</u>	<u>504,534,464</u>	<u>\$ 0.2499</u>

	Income	2006 Number of shares	Mexican pesos per share
Net income attributable to common stock	\$ 416,986	497,134,756	\$ 0.8387
Convertible debt in common shares	-	16,329,114	-
	<u>\$ 416,986</u>	<u>513,463,870</u>	<u>\$ 0.8121</u>

22. Deferred credits

	2007	2006
Vacation Club deferred revenues, net of costs and expenses	\$ 294,854	\$ 231,526
Loyalty programs	117,455	82,521
Maintenance fees	7,289	6,648
Other deferred revenues	<u>4,051</u>	<u>1,903</u>
	<u>\$ 423,649</u>	<u>\$ 322,598</u>

23. Commitments

As of December 31, 2007 and 2006, the Company has operating leasing contracts for certain real estate it occupies, which typically have duration of 10 years. Rental payments were established at variable percentages between 12% and 25% of revenues from hotel operations generated by each property. For the years ended December 31, 2007 and 2006, lease expense was \$233,830 and \$218,467, respectively.

24. Contingencies

- a. As of December 31, 2007, the Company is involved in certain fiscal proceedings either as petitioner or defendant, whose eventual outcomes cannot be anticipated. Company's management and its external advisors consider that the Company has sound legal arguments to prevent such legal proceedings from significantly affecting its 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 2007 are:

	Mexico	South America	United States of America	Consolidated
Total operating revenues	\$ 5,265,866	\$ 654,259	\$ 54,099	\$ 5,974,224
Depreciation, amortization and real estate leasing	\$ 576,044	\$ 82,279	\$ 6,469	\$ 664,792
Operating income	\$ 1,006,858	\$ 56,971	\$ (31,916)	\$ 1,031,913
Net consolidated income	\$ 245,129	\$ (24,281)	\$ 20,283	\$ 200,565
Total assets	\$ 10,793,004	\$ 2,228,445	\$ 123,331	\$ 13,144,780
Total liabilities and deferred credits	\$ 7,638,184	\$ 195,546	\$ 18,635	\$ 7,852,365

The total assets and depreciation, amortization and real estate leasing, for business segments for the year ended December 31, 2007 are as follows:

	Hotel operation and corporate	Hotel management and brand	Other related businesses	Consolidated
Total assets	\$ 8,453,185	\$ 717,305	\$ 3,974,290	\$ 13,144,780
Depreciation, amortization and real estate leasing	\$ 633,505	\$ 1,404	\$ 29,883	\$ 664,792

The main financial captions by geographical area for 2006 are:

	Mexico	South America	United States of America	Consolidated
Total operating revenues	\$ 4,825,573	\$ 569,213	\$ 133,435	\$ 5,528,221
Depreciation, amortization and real estate leasing	\$ 577,844	\$ 76,334	\$ 6,353	\$ 660,531
Operating income	\$ 887,938	\$ 72,303	\$ 35,423	\$ 995,664
Net consolidated income	\$ 343,065	\$ 89,217	\$ 23,988	\$ 456,270
Total assets	\$ 10,555,634	\$ 2,090,538	\$ 152,603	\$ 12,798,775
Total liabilities and deferred credits	\$ 7,092,557	\$ 290,867	\$ 25,296	\$ 7,408,720

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

	Hotel operation and corporate	Hotel management and brand	Other related businesses	Consolidated
Total assets	\$ 9,003,157	\$ 638,744	\$ 3,156,874	\$ 12,798,775
Depreciation, amortization and real estate leasing	\$ 625,146	\$ 1,317	\$ 34,068	\$ 660,531

26. New accounting principles

In 2007, the Mexican Board for Research and Development of Financial Information Standards ("CINIF") issued the following NIFs and Interpretations of Financial Reporting Standards ("INIF"), which became effective for fiscal years beginning on January 1, 2008:

NIF B-2, Statement of Cash Flows

NIF B-10, Effects of Inflation

NIF B-15, Translation of Foreign Currencies

NIF D-3, Employee Benefits

NIF D-4, Income Taxes

INIF 5, Recognition of the Additional Consideration Agreed To at the Inception of a Derivative Financial Instrument to Adjust It to Fair Value

INIF 6, Timing of Formal Hedge Designation

INIF 7, Application of Comprehensive Income or Loss Resulting From a Cash Flow Hedge on a Forecasted Purchase of a Non-Financial Asset

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

- **NIF B-2, Statement of Cash Flows.** Establishes general rules for the presentation, structure and preparation of a cash flow statement, as well as the disclosures supplementing such statement, which replaces the statement of changes in financial position. Requires that the statement show an entity's cash inflows and outflows during the period. Line items should be preferably presented gross. Cash flows from financing activities are now presented below those from investing activities (a departure from the statement of changes in financial position). In addition, allows entities to determine and present their cash flows from operating activities using either the direct or the indirect method.

- **NIF B-10, Effects of Inflation.** Defines two economic environments: a) inflationary, when cumulative inflation of the three preceding years is 26% or more, in which case, the effects of inflation should be recognized using the comprehensive method; and b) non-inflationary, when cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in the financial statements. Additionally, NIF B-10 eliminates the replacement cost and specific indexation methods for inventories and fixed assets, respectively, and requires that the cumulative gain

or loss from holding non-monetary assets be reclassified to retained earnings, if such gain or loss is realized; the gain or loss that is not realized will be maintained in stockholders' equity and charged to current earnings of the period in which the originating item is realized.

- **NIF B-15, Translation of Foreign Currencies.** Eliminates classification of integrated foreign operations and foreign entities and incorporates the concepts of accounting currency, functional currency and reporting currency; establishes the procedures to translate the financial information of a foreign subsidiary: i) from the accounting to the functional currency; and ii) from the functional to the reporting currency, and allows entities to present their financial statements in a reporting currency other than their functional currency.

- **NIF D-3, Employee Benefits.** Includes current and deferred PTU. Deferred PTU should be calculated using the same methodology established in NIF D-4. It also includes the career salary concept and the amortization period of most items is reduced to five years, as follows:

- Beginning balance of the transition liability for severance and retirement benefits
- Beginning balance of past service cost and changes to the plan
- Beginning balance of gains and losses from severance benefits, according to actuarial calculations, should be amortized against the results of 2008
- Beginning balance of gains and losses from retirement benefits, according to actuarial calculations, should be amortized over a 5-year period (net of the transition liability), with the option to fully amortize such item against the results of 2008.

- **NIF D-4, Income Taxes.** Relocates accounting for current and deferred PTU to NIF D-3, eliminates the permanent difference concept, redefines and incorporates various definitions and requires that the cumulative ISR effect be reclassified to retained earnings, unless it is identified with some of the other comprehensive income items that have not been applied against current earnings.

- **INIF 5.** States that any additional consideration agreed to at the inception of a derivative financial instrument to adjust it to its fair value at that time should be part of the instrument's initial fair value and not subject to amortization as established by paragraph 90 of Bulletin C-10. INIF 5 also establishes that the effect of the change should be prospectively recognized, affecting results of the period in which this INIF becomes effective. If the effect of the change is material, it should be disclosed.

- **INIF 6.** States that hedge designations may be made as of the date a derivative financial instrument is contracted, or at a later date, provided its effects are prospectively recognized as of the date when formal conditions are met and the instrument qualifies as a hedging relationship. Paragraph 51.a) of Bulletin C-10 only considered the hedge designation at the inception of the transaction.

- **INIF 7.** States that the effect of a hedge reflected in other comprehensive income or loss resulting from a forecasted purchase of a non-financial asset should be capitalized within the cost of such asset, whose price is set through a hedge, rather than reclassifying the effect to the results of the period affected by the asset, as required by Paragraph 105 of Bulletin C-10. The effect of this change should be recognized by applying any amounts recorded in other comprehensive income or loss to the cost of the acquired asset, as of the effective date of this INIF.

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. Subsequent event

As part of a liability management program to reduce interest expenses and to increase the average life of its debt, at the issuance date of the accompanying financial statements, the Company received the results of the Tender Offer and Consent Solicitation to purchase 84.1% of the US dollar Senior Notes. To pay these notes the Company completed the following transactions: (1) on April 8, 2008 issued a \$1.5 billion peso note (Unsecured Debt Certificate) maturing in April 2013, with a variable interest coupon of TIIE (28 days) plus 180 basis points; (ii) increased by over twenty million US dollars its existing syndicated loan (Second Amended & Restated Credit Agreement) with ING Bank (Mexico) as leader, and (iii) expects to complete a new 5 year-term credit loan in the short-term.

28. Financial statements issuance authorization

These consolidated financial statements prepared by Management, were authorized by the Audit Committee on April 9, 2008, 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.

